Public School Teachers' Pension and Retirement Fund of Chicago

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PENSION NEWS

June 1991

REPORT FROM THE PRESIDENT OF THE BOARD OF TRUSTEES

Barbara Caldwell
President

I am grateful to you for my special leave to work full-time at the office of the Public School Teachers' Pension and Retirement Fund of Chicago. I was assigned in April, 1991. The challenge before me was and is awesome but yet inviting. It gives me an opportunity to give you optimum service, and I will not let you down!

The fund is in the process of initiating an Emerging Manager Search which is a search for well-qualified women and minority-owned managers who will compete to manage a small portion of the fund in the areas of domestic stocks and bonds. The application deadline for this search will end on June 30, 1991. The interview period will begin immediately after that and continue throughout the summer months. We trustees are facing a "long, hot summer!"

Meeting you personally has been one of my objectives, so I have been accompanying Mr. Lawrence Martens and Mr. James Ward as they accept invitations to visit with your faculties to impart information you should know concerning your pension. It's important to me to become acquainted with you and to hear your suggestions so that the Board of Trustees can be of better service to you. Your acceptance has been supportive and I thank you for your positive words of encouragement. We are in the process of formulating a video presentation that will succinctly explain your pension facts which we will soon be using in these presentations.

Springfield, Illinois has been my destination for several trips during the past few months. The purpose of these trips has been to lobby for pension proposals being introduced to the General Assembly. I have testified before Senator Emil Jones' Pension Committee and feel optimistic about the results which will provide us with improved pension legislation. It's absolutely necessary that these legislators get letters from you expressing your concerns. This will give credence to my appeal as I enter each legislative office voicing pension concerns.

During the 12 year term in which my dad served as a legislator, I had occasion to form personal friendships with a broad cross-section of the legislators many of whom are currently holding key positions. I plan to take advantage of these relationships and with your help, we'll have pension victories in the future.

Finally, I encourage you to use me! I can be reached at the pension office 641-4464. As the President of this Fund and as a contributor to it, I have a vested interest in its solvency. I will work vigorously to ensure that it operates properly and provides dignity and financial security for our retirement years. Thank you for having faith in me.

REPORT OF THE ATTORNEY

Joseph Burns

The Trustees recently settled the 1990 property tax litigation against the Board of Education. Based on legislation passed by the General Assembly in June and November, 1990, and January, 1991, the Board of Education did not forward to the Pension Fund the property tax levy which was collected in August and September, 1990. The Pension Fund sued for the August-September tax receipts because the Trustees believed that the June, 1990 legislation technically did not become effective until after the taxes were collected. In court, the Board of Education contended that the legislation passed after the lawsuit was filed specifically permitted the escrowed tax receipts to be used by the Board of Education.

The Trustees, as fiduciaries, determined that settling the litigation was in the best interest of all participants. The Trustees knew that litigation involved a risk of losing on the merits. The $18 million, plus interest of 8½%, paid to the Pension Fund in two installments was guaranteed by the settlement. The litigation, or a change in legislation, could have prevented the Fund from receiving any monies from the August-September 1990 tax levy.

The Retired Teachers' Association of Chicago (RTA) recently filed a request with the Circuit Court to participate in the litigation if the Pension Fund is ever compelled to re-open the lawsuit to enforce the terms of the settlement. The RTA stated in court that it accepted "the settlement as a good faith compromise of a dispute." The Trustees are committed to working with the RTA to protect the interests of all participants in receiving the maximum funding for our pension plan.

ACTUARILY SPEAKING

Financial Condition of the Chicago Teachers' Pension Fund

What is the present financial condition of the pension fund? What is likely to be the financial condition of the pension fund in future years? These questions are frequently asked by the members of the fund.

Present Financial Condition of the Fund.

The net assets, accrued liability, unfunded liability, and funded ratio are the most commonly used measures of funding status. The degree to which a pension fund has accumulated sufficient assets to pay benefits when due is frequently measured by the funded ratio (net assets divided by the accrued liability). The higher the funded ratio, the greater the likelihood that assets will be sufficient to pay benefit when due.

As of August 31, 1990, for the Chicago Teachers' Pension Fund, the net assets was $3,764.8 million, the accrued liability was, $5,012.5 million, and the unfunded liability was $1,247.7 million. The funded ratio was 75.1%. Examining the funded ratio over a period of time can help determine whether the fund is becoming financially stronger or weaker. Over the 10 year period 1981 through 1990, the funded ratio of the pension fund has increased from 51.1% to 75.1%. Therefore, the fund's financial strength has increased significantly over this period.

The financial condition of the Chicago Teachers' Pension Fund compares favorably with that of other public pension funds in Illinois. According to a report prepared by the Illinois Economic and Fiscal Commission in November of 1990, the funded ratio of the Chicago Teacher's Pension Fund was the 6th highest among the 17 public retirement systems in Illinois.

Future Financial Condition of the Fund

The future financial condition of the Fund will depend on various factors, including the level of employer and state contributions, investment performance, and benefit levels.

The Trustees believe pension benefits must be increased so that our members can afford to retire. The Trustees are committed to improving the pension formula, increasing minimum benefits, and providing for higher cost of living increases so that our present retirees will receive an adequate pension to live on. There is, of course, an actuarial cost for benefit improvements. This additional cost should be paid by employer and State contributions.

Under current law, employer contributions from the Pension Fund's tax levy are diverted to the Board of Education for a three year period ending August 31, 1993. This temporary transfer of the tax levy does not have an immediate, significant affect on the Fund's financial condition. However, if the tax levy is not restored, and if the State does not change its pattern of contributing the same amount each year and increase its contribution to the Fund, the Fund's funded ratio will drop significantly in the years to come. As the funded ratio drops, it will be increasingly difficult to convince the legislature to improve benefits. Improved benefits cause additional actuarial cost and a drop in the funded ratio. The Pension Fund's ranking as one of the most financially secure public funds in Illinois will eventually be jeopardized if the total of employer and State contributions remain at present levels.

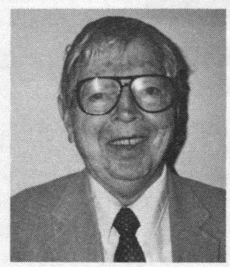
Teachers earn pension benefits just as they do wages and health insurance. Our members have earned the right to retire with a decent pension. The State's present unwillingness to abide by its obligation to fund our members' pensions, and the Board of Education's failure to make its employer contributions, jeopardize our vested rights to adequate pensions. The Trustees need everyone's support in our efforts to protect the fiscal integrity of the Fund.

FORMER TRUSTEES HONORED

Former Trustees Adela Coronado-Greeley, Albert Korach, Paul C. Ryan, and Rev. Janis A. Sharpe will be honored at a recognition dinner sponsored by The Northern Trust Co. for their outstanding service as Board members. The dinner will be held on Thursday, June 20, 1991 at The Eccentric Restaurant.

Albert Korach
1978-90

Adela Coronado-Greeley
1989-90



Paul C. Ryan
1989-90

Janis A. Sharpe
1989-90

PRE-RETIREMENT SEMINAR

If you are considering retirement in the fall of 1991 or during 1992, you may want to attend one of two Pre-Retirement Seminars being held Wednesday, July 10, 1991 at 9:30 a.m. and 1:30 p.m. in the Second Floor Auditorium, 205 West Wacker Drive (in the Pension Office building, corner of Wells & Wacker).

Pension benefits and procedures will be explained by Pension Fund personnel, representatives from the Board of Education's Personnel Department and Blue Cross-Blue Shield. Speakers from the Chicago Teachers Union's Retired Functional Group and the Retired Teachers' Association of Chicago will also participate. Other interesting speakers will discuss general concerns you may have about retirement. The program will be the same at both seminars.

SPACE IS LIMITED. Reserve your attendance at one of these meetings by phoning the Pension Office at 641-4464, ask for Ms. Davis.

TRUSTEE ELECTED RECORDING SECRETARY

Florence B. Cox

The Board of Trustees, at their regular meeting on April 30, 1991, elected by acclamation Florence B. Cox (Board of Education-appointed trustee) Recording Secretary of the Fund.

THE CONSULTANT PERFORMANCE REPORT

According to Anita Andren, consultant for Mercer Asset Planning, the Fund's investment program undertook major changes during the first quarter 1991 as the twelve new investment managers retained by the Board during the latter part of 1990 were initially funded. This move has resulted in a significantly more diversified portfolio and an increased commitment to equities. The new managers' portfolios are expected to be fully funded over a period of six months (from January through June). During the first quarter, the Fund produced an overall return of 6.3%, with the total equity portion of the Fund returning 16.6%, outperforming the Standard & Poor's 500 Stock Index return of 14.6%, and the total fixed income portion of the Fund returning 2.4%, just slightly below the Lehman Brothers Government/Corporate Bond Index return of 2.7%. All of the new managers will be making presentations to the Board during the course of the year to advise the Trustees on their progress.

Three of the Fund's new managers which have already been funded are minority firms: NCM Capital Management, Cisneros Asset Management and Amerindo Investment Advisors. In its last meeting, the Board voted to conduct a search for additional emerging minority investment managers to manage a small portion of the Fund's assets. The Board believes that it is important to identify and support emerging minority organizations who are well-qualified to successfully manage a portfolio on behalf of the Teachers' Fund. This project will most likely be completed by September of this year.

COMPUTER UPDATE

Computer hum is increasing in the pension office where continued progress is being made on the computerization of the pension office accounting procedures and routines. The pension payroll has been converted from printed ledgers to instant-access video screen retrieval mode. Further changes and proposals are currently being reviewed by the Fund's data processing and accounting staff. Important choices to be made include operating system languages and the possibility of utilizing substantially discounted pricing in the current computer software market. Part of the new investment accounting computer system will include the ability to ascertain conformance with non-traditional criteria such as country-of-origin restrictions, minority and female representation, labor disputes, and other social responsibility measures.

In accordance with the recommendations by the Fund's independent certified public accountant, KPMG Peat Marwick, the Fund is developing a formal data processing plan to address areas of data processing that need updating. This will also include integration of the Fund's application procedures and, to the extent possible, the consolidation of the Fund's hardware and machine systems.

Also recommended and currently in process is the Fund's purchase and implementation of a PC-based general ledger package. This software package will interface with the Fund's total system. The first steps are current requirement definition and software evaluation and selection. The end result will mean not only improved efficiency in overall operation, but the availability of improved service to all teachers and pensioners. One example the integrated systems will provide is an instantly available printout of benefits earned to date, with the eventual potential of printing such information on members annual statements.

WRITE YOUR LEGISLATORS AND THE GOVERNOR NOW TO URGE THEM TO ADDRESS THESE EMBARRASSINGLY LOW BENEFITS!

GOVERNOR:	STATE SENATOR:	STATE REPRESENTATIVE:
The Honorable Jim Edgar Governor of Illinois 201 State House Springfield, IL 62706	Senator — State of Illinois State House Springfield, IL 62706	Representative — State of Illinois Stratton Building Springfield, IL 62706

EXECUTIVE DIRECTOR

James F. Ward

Financing Better Benefits

If we can afford to give up our local pension tax to help support the school system, we can ask for a modest increase in the pension formula. You have been seeing exhortations to make your voices heard by our state lawmakers. I would like to add my endorsement to this advice. As an accountant and financial manager who has been observing the progress of our Fund over many years, I can say without reservation that, after twenty one years since the last formula change, the time is right to modestly increase the formula.

Under the law as it stands a Chicago teacher must stay in the classroom thirty eight years to reach the maximum salary replacement percentage of 75% of final 4 year average salary. When I left the classroom to work for the Fund in 1967, the average service of Chicago teachers at retirement was over 34 years. Today it is less than 30. Few teachers stay for 38 years anymore. And it is only fair to allow new young teachers the chance to continue the excellent record established by our veteran teacher corps. New blood is always good for any system. There is a clear need now.

The Fund can afford to pay a bigger formula now. When the legislature considers a change in our pension laws, they would be remiss not to consider the ability of the system to pay the higher benefit. In January it was their judgment that the Fund's finances were strong enough to lose the local tax levy for three years. And why not, when the Fund's ratio of assets to liabilities increased from 35% in 1971 to 75% in 1991.

If pension fund resources can be used to pay current expenses of the B. of ED., certainly the legislature can grant Chicago teachers the reasonable formula increase afforded by House Bill 424 and similar bills now before the legislature. It would give 2.2% of final average salary for each year of service, already the law for other Illinois employees.

Send your comments to the House and Senate Pension Committee members in Springfield. Do it now! If the downstate or university teachers obtain this increase, we don't want to be left out. It's up to you.

QUESTION BOX

ACTIVE TEACHERS

Q. I am 62 years old and have 7 years of service credit with the Chicago Teachers' Pension Fund. I am also eligible to receive a Social Security benefit. Can I avoid a reduction in my Social Security by withdrawing my contributions to the Fund rather than accepting a pension?

A. The Social Security Administration has ruled that withdrawal of a Chicago Teachers' Pension Fund member's account will be subject to the "windfall elimination" (modified benefit formula) provision of Social Security law if the member was eligible for a Chicago Teachers' Pension Fund retirement benefit at the time of withdrawal.

The windfall elimination reduction of Social Security benefits applies to Social Security benefits paid based on the member's own earned Social Security credits.

A second concern is the Social Security Government Pension Offset (sometimes called the spousal offset). It applies to Social Security benefits paid based on a spouse's earned Social Security credit. Unlike the windfall elimination provision, the spousal offset may not apply to a withdrawal of a Chicago Teachers' Pension Fund member's account.

Neither provision will reduce a Chicago Teachers' Pension Fund benefit.

The windfall elimination provision does not apply if:

- the member was age 62 prior to January 1, 1986; or
- the member was eligible to retire with the Chicago Teachers' Pension Fund prior to January 1, 1986 (a minimum age 55 with 10 years of service on that date); or
- the member has 30 or more years of Social Security coverage.

Questions concerning the details of both provisions should be directed to a representative of the Social Security Administration.

ANNUITANTS

Q. When will 1990-91 health insurance rebate applications be mailed?

A. Applications will be mailed in August 1991 to all pensioners who are not members of the Board of Education sponsored Blue Cross-Blue Shield plan. If Blue Cross-Blue Shield was deducted from your checks for the 12 month period from September 1990 to August 1991 the Fund will automatically calculate the rebate.

Q. When should I apply for Medicare?

A. Medicare is administered through the Social Security Administration. All pensioners under 65 should apply to the nearest Social Security Administration office at least three months before reaching age 65.

Q. What is the amount of the single-sum death benefit?

A. Effective January 14, 1991 a pensioner's beneficiary(ies) or estate shall receive 6 times the last month's salary or $10,000, whichever is less, on death during the first year on pension minus one-fifth for each year on pension after the first full year to a minimum of $5,000.

First year on pension	$10,000
Second year on pension	$ 8,000
Third year on pension	$ 6,000
Fourth year on pension and thereafter	$ 5,000

HMO'S FOR PENSIONERS

The Trustees are proceeding with their collection of proposals from four firms currently providing Health Maintenance Organization (HMO) plans to Chicago teachers. Word from each firm at presstime is that their respective bids will be in the hands of the Trustees' consultants within two weeks so that the Trustees will be able to select the best offers in the summer break. The four bidding firms are Rush St. Lukes Health Plans, Inc., Chicago HMO Ltd., Michael Reese Plan, and Blue Cross-Blues Shield Plan. At present, teachers retiring must switch from HMO plans to regular Blue Cross-Blue Shield hospital/medical health insurance to have the benefit of group rated premiums deducted from regular pension checks.

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