Public School Teachers' Pension and Retirement Fund of Chicago

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PENSION NEWS

October 1989

Robert T. Wilkie

REPORT FROM THE PRESIDENT OF THE BOARD OF TRUSTEES

Greetings to all members. I am proud and privileged to have a few lines to remind all Fund members of their legal and historical relationship with the General Assembly, the Board of Education, the taxpayers/voters of Chicago and Illinois, and most importantly, the Board of Trustees. In this and future issues of this newsletter, the Director and I hope to cover the salient aspects of membership and membership rights which are guaranteed by the Illinois Constitution.

Your Pension Fund, the oldest Teachers' Pension Fund in the nation, was created by state statute in 1895. To this day, it remains a strong and independent organization unfettered by linkages that might compromise the integrity of the Fund and more specifically the fiduciary role of the Trustees.

A great number of people with a great variety of interests and skills have served the Fund well throughout its history, a history that has seen its assets grow to 3.4 billion dollars, an all time high.

The Trustees, your Trustees — elected teachers, elected retirees, and appointed Board of Education members — serve without compensation and are charged with the awesome responsibility of managing this financial institution. The task would be impossible without the professional services of many: investment advisors, actuaries, attorneys, professional administrators. All must work in harmony and mutual trust if the standards of excellence and fiduciary obligations are to be met.

From inception, your Board of Trustees, through its administrator, has emphasized service to you, the beneficiaries of the trust. Service rendered promptly, accurately, and with civility has been the hallmark of the Fund's operation.

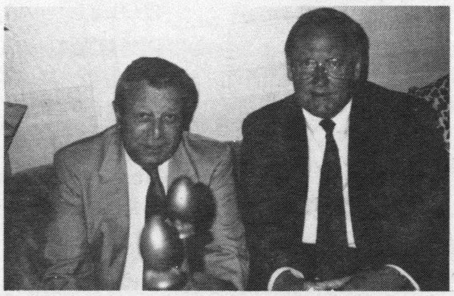
To restate: The charge and major concern of your Trustees is the protection of the integrity and assets of your Fund — your future.

Robert T. Wilkie
President

TRUSTEES' LEGISLATIVE PROGRAM RESULTS IN SUCCESS

The efforts of your Trustees, the Chicago Teachers Union, the Retired Teachers' Association, members and many others throughout the state have resulted in the passage of needed pension legislation. By any measure, the gains made in the last legislative session are impressive but there are still other issues which will be addressed by your Trustees in future sessions.

A major change comes in the area of inflation protection and affects existing annuitants as well as everyone retiring in the future. Currently, the Automatic Annual Increase (AAI) of 3% is computed on the original pension amount. With the passage of S.B. 95 the AAI will be compounded. Over the life span of an average retiree this results in additional payments between eleven to eighteen thousand dollars.



President Wilkie discussing legislation with Governor.

Governor signing pension legislation.

S.B. 95 also provides for AAI payments to be made to survivors and children. Never before have we provided automatic inflation protection to this vulnerable group.

Additionally, S.B. 95 increases the number of days a retiree may work as a substitute from 75 to 100 without suspension of pension.

H.B. 332 allows the purchase of up to 12 months service for maternity leave taken prior to September 1, 1979, (a gain for working mothers.)

Finally H.B. 322 extends the "buy-out" privilege to June 30, 1995. This allows a member age 55 to 60 to make a one-time contribution to the Fund to avoid the early retirement reduction.

If you have questions about specific details of any of the benefit improvements please do not hestitate to call the Fund office.

Thanks should be given to all those legislators who supported these bills. Particular thanks go to the sponsors of our bills, Senators Marovitz, and Brookins and Representatives, Hoffman, Keane, LeFlore, Martinez, Rice and Wolf.

MEET YOUR BOARD OF TRUSTEES

JUDY CHERIS teacher since 1957. Currently counselor, Coonley School. Trustee since 1978. Served as Chairperson, Committees on Claims and Service Credits, Finance and currently the Committee on Investments. CTU: House of Delegates member and District Supervisor, Legislative Coordinator; Professional Problems Committee Subcommittee Chairperson.

ADELA CORONADE-GREELEY first and third grade teacher since 1978. Cofounder of Inter-American Magnet School. Founder of Parents United for Responsible Education.*

EDNA C. FANNING began teaching in 1942. Appointed principal, Franklin School, 1953. Director, Bureau of Teacher Personnel, 1962. Executive Secretary, Public School Teachers' Pension and Retirement Fund of Chicago 1971–1977. Elected pensioner-trustee, 1981. Chairperson, Committee on Finance, 1982. Currently Chairperson, Committee on Claims and Service Credits.

DR. MAE M. HUNTER teacher since 1949. Currently, Shoesmith School. Trustee since 1977. Served as Chairperson, Committees on Pension Law and Rules and Investments 1977-1980. Presently Financial Secretary, Board of Trustees. CTU: Member, National Delegate AFT, 1977-1989; State Delegate IFT, 1975–1989; Member, Pension Insurance Committee.

MARSHALL F. KNOX teacher since 1961. Currently, Dunbar Vocational High School. Trustee since 1975. Presently Vice-President, Board of Trustees. Old House of Representatives; Member and former Chairperson, P.A.V.E. Committee; High School functional Vice-President; Chair: High School Steering Comm., Elected V.P., IFT, Chairperson, Vocational Education Comm.

ALBERT KORACH teacher since 1953. Currently, P.E. teacher at Rogers School. Trustee since 1978. Presently Chairperson, Committee on Pension Law and Rules. CTU: Chairperson, Rules and Election Committee; member Executive Board, Pension and Insurance Committee, Social Committee.

DR. ARTHUR LEHNE began teaching in 1946. Appointed principal, Ericsson School, 1953. Appointed Director, Bureau of Educational Expenditures, 1956. Assistant Superintendent, 1963–1984. Elected pensioner-trustee in 1987. Presently Chairperson, Committee on Finance.

MARGARET A. OLSON teacher since 1961. Currently, math teacher at Morgan Park High School. Trustee since 1973. Served as Chairperson, Claims and Service Credits Committee. Presently Recording Secretary, Board of Trustees; CTU: Member Government House of Delegates; Political Action Committee; Member, Pension Insurance Committee.

JANIS A. SHARPE, Minister. Executive Director, St. Mark A.M.E. daycare and after-school program. Teaches speech, art, drama and music to children.*

ROBERT T. WILKIE began teaching in 1946. Currently, Coordinator, Bureau of Health and Recreation. Trustee since 1971. Presently the President, Board of Trustees. Served as Chairperson, Pension Law and Rules Committee; CTU: Chairperson, Pension-Insurance Committee.

*(As of the printing of this newsletter this member has not been sworn into office.)

COMPARATIVE STATISTICS

COMPARATIVE INVESTMENT PERFORMANCE OF CHICAGO PENSION FUNDS

CHICAGO TEACHERS:	
(source—Gabriel Roeder Smith & Co., Actuaries & Consultants)	
5 years ending 12/1/87	12.8%
***CHICAGO FIRE**	
5 years ending 12/31/87	8.45%
***MUNICIPAL EMPLOYEES**	
5 years ending 12/31/87	10.95%
***CHICAGO POLICE**	
5 years ending 12/31/87	8.11%
***CHICAGO LABORS**	
5 years ending 12/31/87	12.86%

*Source: Published Annual Reports

COMPARATIVE EFFICIENCY DATA
Chicago Public Funds

	Admin. Expense Per $1,000 of Assets	Admin. Expense Per Member	Investment Expense per $1,000 of Assets	Investment Expense Per Member	Investment Earnings Growth in Last 10 yrs.
CHICAGO TEACHERS:					
8/31/87	$0.39	$ 26.38	$0.19	$ 12.72	597%
CHICAGO POLICE:					
12/31/87	$0.88	$ 48.75	$1.78	$ 99.18	267%
MUNICIPAL EMPLOYEES:					
12/31/87	$1.67	$ 52.25	$4.06	$126.84	293%
FIREMEN:*					
12/31/87	$2.36	$124.85	$3.26	$172.89	201%
LABORERS:					
12/31/87	$1.44	$ 84.20	$2.82	$164.71	475%

Source: Public Financial Statements
*Book Assets

COMPARATIVE EFFICIENCY DATA
Illinois Public Retirement Funds

	Adm. Expense Per $1,000 of Assets	Admin. Expense Per Member	Investment Expense per $1,000 of Assets	Investment Expense Per Member	Investment Earnings Growth in Last 10 yrs.
CHICAGO TEACHERS:					
1988	$0.37	$27.98	$0.19	$14.32	452%
ILLINOIS MUNICIPAL:					
1988	$1.80	$40.12	$2.76	$61.35	220%
ILLINOIS UNIVERSITY:					
1988	$0.79	$32.05	$2.22	$89.48	247%
ILLINOIS STATE EMPLOYEES:					
1988	$1.39	$44.06	$2.35	$74.77	83%
ILLINOIS TEACHERS:					
1988	$0.74	$28.83	$1.20	$46.76	183%

Note: Unless indicated all tabulations were made from information found in latest financial reports. Perfect comparability may be affected by differing fiscal years.

TAX TREATMENT OF YOUR CONTRIBUTIONS

After-tax contributions are the portion of your total pension contributions on which Federal Income Taxes have been paid (see your annual statement). As you recover these amounts through pension payments, they will be exempt from Federal Income Tax.

The Tax Reform Act of 1986 changed the way members were permitted to recover after-tax contributions made to the Fund. Prior to the Tax Reform Act, in most cases, your after-tax contributions were considered as being paid to you in the first few years on pension under the "3 year recovery rule".

Under Tax Reform the refund of your after-tax contributions is spread out over a longer period of time. The amount of time is now computed by using the newly introduced Internal Revenue Service "safe-harbor" method. Under the safe-harbor method, the number of monthly benefit payments expected to be received is based on your age at the pension starting date. Your after-tax contributions are divided by the number of expected payments and the result is the tax free portion of your monthly pension payments. After the tax free portion of your monthly payments equals your after-tax contributions, your pension becomes fully taxable.

To compute the exempt amount of your monthly pension payment, divide the after-tax contributions by the expected number of payments as provided by the Internal Revenue Service. The number of payments expected is set forth in the following table:

Age of Recipient	Number of Payments
55 and under	300
56 - 60	260
61 - 65	240
66 - 70	170
71 and over	120

FUND AT ALL TIME HIGH

Fiscal 1989 was a banner year for the Pension Fund as asset values and earnings records were set:

Total market value was up $600 million over 20% to $3.5 billion.

Estimated annual income increased $50 million or 25% to $250 million.

Garbriel Roeder and Smith, an independent consultant, reported that the stock portion of the assets recorded an annual return of 15% over the last 15 years. This rate of return is about 50% better than that achieved by common stocks over the last 50 years and substantially better than pension funds return for that period.

Even though historical results strongly suggest that this rate is not sustainable, especially during periods of market weakness, the quality of the portfolio, the cushion produced by recent gains, and a continuing policy of preservation of principal keeps the fund in a strong position to ride out periods of turbulence.

Not only is the portfolio at a record high, but changes in the asset mix have reduced risk. This has been accomplished by increasing high quality buying reserves that earn close to 9% and have no downside risk. Eighty percent of the bond portfolio is AAA rated, the highest quality rating. Another important point is that the majority of the fixed income issues have strong call protection, assuring the right to retain high yielding issues.

New Format for Newsletter

The format of this newsletter is different from the usual "pink" sheets. It comes about due to the urgings of members to broaden the area of communications. We hope you like it. Let us know.

From The Executive Director

JAMES F. WARD

Fund Staff Earns Respect of Members

The Fund staff of 25 handles, among other tasks, accounting, calculations, correspondence, benefit payments, and personal counseling for 40,000 members and retirees. That's the same size staff that existed in 1959 even though complexities and responsibilities have grown.

The ability to do more with the same number of people can be particularly, but not totally, attributed to developmnets in data processing equipment. The answer to most of the achievement is found in the skill, dedication, and longevity of the staff. The average service for our full-time staff is 11 years. For example, Carl Snively, our Office Manager has been with the Fund for 37 years. In future newsletters we'll introduce members of the staff.

The staff's dedication to delivering accurate information in a timely and courteous manner is due in great part to their own participation in the Fund. Someday they will be pensioners too. If you have not yet had the occasion or opportunity to use the services of the Fund, call or write us about your problem or concerns. You will be pleased with the results.

In this short note, the staff asked that I state the following:

Sometimes misinformation may result because of various reasons.

1. Members may anticipate proposed law changes that are not enacted by the Legislature.

2. In discussing benefits, the benefit schedules of other Illinois plans may be confused with the Chicago law.

3. Assumption is made that Fund benefits are the same or connected to Social Security.

4. Simple rumors, politically inspired or otherwise.

For accurate pension information, please call the Pension Office.

FUND HELPS PAY FOR HEALTH COSTS

1. The Illinois Pension Code (Sec. 17-142.1) was amended, effective December, 1987 to provide a partial reimbursement of health insurance costs. The reimbursement applies to those receiving service, disability or survivors pensions. The total reimbursement is limited to $8,000,000.

   For each individual this represented about 65% of a single coverage premium. The Trustees are presently determining the specific amount to be reimbursed for fiscal year 1989.
2. The Board of Trustees, at the April 17, 1989 meeting, passed a resolution allowing any recipient of a pension to join the Pension Fund's Blue Cross-Blue Shield plan at any time, provided they show evidence of health insurance coverage continuously from the date of retirement. This means that recipients who pay for their own health insurance coverage or pay the Board of Education under the COBRA provisions, may join the Pension Fund's Blue Cross-Blue Shield plan at any time.

AN INTERESTING TURN (a-bout)

In June of 1969 the Fund's Director, Zygmunt Sokolnicki, resigned to join an internationally known employee benefits consulting firm. In 1989, after working with other pension plans in both the public and private sector, as well as teaching in the Chicago Public Schools for five years in addition to his earlier service, he returned to fill the open position of Assistant Director to Mr. Ward, who in 1969 was the Assistant. Mr. Sokolnicki's knowledge of the Chicago school system and his expertise in employee benefits vastly improves the management of the Pension Office.

QUESTION BOX

Q. ***WHEN WILL I BE ELIGIBLE FOR MY FIRST AUTOMATIC ANNUAL INCREASE?***

A. The automatic annual increase is added beginning in January after the first anniversary of pension or 61st birth date, whichever is later. The retirement annuity is increased by 3% each year.

Q. ***WILL A HEALTH INSURANCE REBATE BE ISSUED THIS YEAR AND WHO QUALIFIES FOR THIS BENEFIT?***

A. Each recipient of a service retirement, disability retirement or survivor's pension are eligible for a partial reimbursement of the cost of the recipient's health insurance coverage. By law the reimbursement is limited to $8,000,000. The Trustees, at their September meeting have determined that the maximum amount allowed shall be pro-rated among all recipients.

Q. ***CAN I BORROW ANY OF MY CONTRIBUTIONS TO THE PENSION FUND?***

A. No, there is no provision in the Illinois Pension Code that would allow a member to borrow any portion of their contributions to the Fund for any purpose.

Q. ***DO I NEED TO FILE A DESIGNATION OF BENEFICIARY FORM WITH THE PENSION OFFICE?***

A. If you wish to decide who is going to receive the death benefits paid by the Fund you must file a Designation of Beneficiary.

In the event of your death without having filed a Designation of Beneficiary, the death benefits will be paid according to the probate laws of Illinois. This will lead to delay and expense for the beneficiaries.

Q. ***HOW MUCH MONEY AND/OR YEARS OF SERVICE DO I HAVE IN THE PENSION FUND?***

A. Members may call or write to the Pension Office concerning their personal accounts. Upon request a statement of your account will be mailed to you.

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