Public School Teachers' Pension and Retirement Fund of Chicago

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PENSION NEWS

® 278 October 1990

REPORT FROM THE PRESIDENT OF THE BOARD OF TRUSTEES

Judy Cheris
President

As a contributor and trustee of this Fund, I am proud of the work accomplished by the Pension Board since the beginning of my presidency in January. We met several times a month, and often several times a week until 8 or 9:00 in the evening to complete an investment policy plan and hire managers to implement this plan. Since our June newsletter, with the advice of our consultant Wm. M. Mercer Asset Planning Inc., we interviewed over thirty finalists, and selected six equity managers (two small cap, two value and two growth), five bond managers, and two international managers. These companies were all recommended by our consultant, and include minority owned companies and companies with high percentages of minority and female management participation.

Our attorney and consultant should complete contract negotiations with these new managers by the middle of October. Over the next six month period we will move the monies, stocks and bonds to the new managers, price averaging into the markets. It has taken other state funds up to two years to accomplish what we have done in eight months.

During this period I was the only trustee assigned to the Pension Fund Office for any time, and my assignment was only for May and part of June. The other teacher trustees and I have been and continue to be assigned to other full time jobs in the schools.

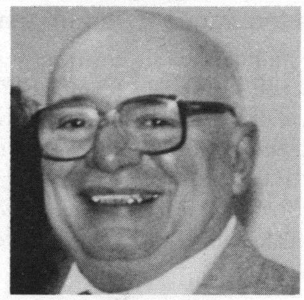
Recently the Pension Fund came under criticism from the City Treasurer. Part of the criticism was the same criticism that Mr. Korach and I had made over the past several years. We needed to diversify our managers to reduce risk and maximize returns. A year ago, when Mr. Korach and I represented only two votes for a change in investment policy, Kup was the only columnist to report on our attempts to improve the investment strategies. It is ironic that this September we were criticized in the press after the new policies were already in place and about to be implemented.

However, we believe there is another agenda, a political agenda not reported by the press. In the Spring session the General Assembly failed to pass a bill that would have given the City Treasurer a vote on our Board. At a legislative committee hearing in September the City Treasurer's Deputy, Jim Stack, put forth the City Treasurer's proposal again, that she be given a voting seat on our Board. We have no need for such a seat.

The Trustees are rapidly, yet prudently, moving ahead with the guidance of our pension consultant. The new investment managers and asset diversification will further strengthen our Fund and help to ensure the retirement security of all our participants.

NEW AUDITORS

The trustees recently retained a new CPA firm to perform the year-end August 1990 audit. This rotation to KPMG Peat Marwick also included a stipulation that 20% of the work be subcontracted to the minority firm of Hill Taylor. After completion of the annual audit work, Peat Marwick will be assisting the fund staff in further computerization of accounting functions. The computerization is slated for completion by August, 1991, with new systems that handle multiple investment manager accounting in place and working.



ALBERT KORACH RETIRES

Vice-President Albert Korach retired as of October 7, 1990. He served as a trustee since April, 1978, and made many contributions to the successful operation of the Pension Fund over the years. Mr. Korach was effective in promoting the changes currently being implemented. He will be missed. The vacancy will be filled by the Board of Trustees under applicable law.

TAX MONEY WITHHELD — PENSION BOARD FILES SUIT

The Comptroller's Office of the Board of Education advised the pension office that tax collections usually received by the Fund for the employers contribution were being held by the Board of Education in a separate interest bearing account subject to final disposition of Senate Bill 1591 in Springfield in November.

President Cheris referred the matter to the pension board attorney to take steps to recover the funds. At the trustee meeting that week, the pension board voted unanimously to direct the attorney to recover our money through legal action. Suit was filed October 1, 1990. As of October 1, the Board of Education had withheld over $33 million.

PENSIONERS HEALTH INSURANCE

Rate Changes

Pensioners are alerted to rate changes effective November 1, 1990 and they are as follows:

	Medicare Eligible	Medicare Ineligible
Single	$ 84.19	$289.08
Family	$168.56	$498.37

Current rates are subject to review and adjustment December 31, 1990, April 1, 1991, and July 1, 1991.

Health Insurance Reimbursement

The annual health insurance rebate checks will be mailed from the Pension Office in December. Pensioners retiring after September 1989 will receive their checks in January. Please contact the Pension Office if you haven't received your check in December or January, whichever applies.

If you retired after 1988 . . .

Your health insurance with the Chicago Board of Education under the "COBRA" provisions of Federal law is limited to a period of 18 months. On the statement you receive from the Insurance Department is information regarding your last month of eligibility for coverage with the Board of Education.

If you plan to join the Pension Fund's Blue Cross-Blue Shield plan after your COBRA coverage ends, write to the Pension Office at least 2 months prior to end of your coverage and request a Group Health Insurance Application. The Group Health Insurance Application must be returned to the Pension Office at least 30 days prior to your first month of coverage with the Pension Fund's Group. To avoid any gap in your coverage, or double coverage, be sure to specify the month you wish your coverage to start.

Remember, you may join the Pension Fund's Blue Cross-Blue Shield plan at any time, provided you have had continuous health insurance coverage from your date of retirement.

SENATE BILL 1591

Originally, Senate Bill 1591 included the Chicago Teachers' Pension Fund with five other state pension funds. The bill permitted early retirement without penalty by lowering the minimum retirement age to fifty-five with at least twenty years of service.

The bill also required the State to amortize our unfunded accrued liability over a forty year period and to support the Fund with sufficient State payments to meet this obligation. Other state funds already had this support.

A third provision affecting our Pension Fund enabled the Board of Education, at its discretion, to utilize the proceeds of tax levies to meet contractual obligations over the next three years, instead of contributing the employer's share to the pension fund for this three year period.

On June 30th, the House and Senate passed Bill 1591. This bill was not part of the pension board's program. It was a "shell" bill passed by the legislature on the closing day. In August, the governor amendatorily vetoed the bill. The veto took out the positive provisions for our Fund, and left the transfer of the tax levy.

Our attorney, Joe Burns, has advised the trustees that the bill, as amendatorily vetoed by the Governor, presents problems to fiduciaries who must act, by law, for the exclusive benefit of plan participants. In October the Trustees will consider various options and determine the appropriate action to take prior to the November legislative session.

The degree to which a pension fund has accumulated sufficient assets to pay benefits when due is frequently measured by the funded ratio. The funded ratio is the ratio of the net assets available to pay benefits to the accrued pension benefit obligation.

According to our actuary, Sandor Goldstein, as of August 31, 1989, the date of the last actuarial valuation for the Chicago Teachers' Pension Fund, the net assets available to pay benefits were $3,225 million. The accrued pension benefit obligation was $4,624 million, and the funded ratio was 69.7%.

The funded ratio for the Chicago Teachers' Pension Fund compares favorably with the funded ratio of other similar funds. The funded ratio for the State Teachers' Retirement System as of June 30, 1989 was 61.0%.

If Senate Bill 1591, as amendatorily vetoed by the Governor, is enacted into law this would result in a decrease in the funded ratio from its 1989 level of 69.7% to 68.9% by 1993 when the employer resumes its contributions to the Pension Fund. This does not jeopardize the Fund's actuarial soundness or impair the Fund's ability to meet its obligations on a long-term basis.

1/8/91

OMNIBUS PENSION BILL

The following is a brief itemization of the general provisions of Senate Bill 1951, which is also pending in the State legislature:

1. Eliminates use of vacation time in pension formula calculation.
2. Eliminates discount with 30 years of service, effective 12/31/90.
3. Accelerates AAI for survivors/children's pension to January 1 following death of deceased teacher.
4. Increases death benefit to $10,000.
5. Increases minimum death benefit (retiree) to $5,000.
6. Adds paternity leave.
7. Increases sick days to 244 from 170 to compute pension.
8. Increases allotment for retirees health care rebate to $15,000,000.

FROM THE EXECUTIVE DIRECTOR

JAMES F. WARD

Short-term Market Fluctuations

Iraq invaded Kuwait on August 2, 1990. The Stock market declined approximately 10% since then and the Pension Fund stock portfolio mirrored this downturn. All pension funds with investments in the stock market shared in the market decline. They will all share in future upturns. Over the last sixty years stocks have out performed any other investments, and are, therefore, appropriate for such long-term investors as pension funds.

Teachers and pensioners are assured that fluctuations in the securities markets, such as has occurred in the last two months, do not jeopardize plan benefits and annuities. Under Illinois law (and the Illinois Constitution), benefits paid by the Fund are fixed, are based on service years and salary, and do not change with short-term movements of stock prices. Actually, the Chicago Teachers' Fund has a smaller percentage in stocks than do most major pension plans and therefore experienced a smaller loss than most large pension plans. This is shown in internal rate of return figures which outpaced the Standard and Poor 500 Index by nearly 800 basis points (one basis point is 1/100 of 1%) in the year ending August 31, 1990, using South Africa Free portfolios.

The following list of paper decline in various large public pension plans recently was submitted to the Board of Trustees by their index manager, American National Bank Investment Management and Trust Company. It shows the small relative loss of the Chicago Teachers' Fund compared to the other public employee groups.

ESTIMATED LOSSES DUE TO
JULY AND AUGUST DECLINE OF 1990

SOURCE: PENSION & INVESTMENT AGE, JANUARY 22, 1990

	#1 9/30/89 %%% STOCKS	#2 9/30/89 PENSION STOCKS $$$$	#3 LAST 2 MONTHS 7/90 & 8/90 −9.0% ESTIMATED PAPER DECLINE
New York Teachers	56.5	$15,892,000,000	$1,430,280,000
California Teachers	43.4	13,044,000,000	1,173,960,000
Minnesota State Board	40.8	11,890,000,000	1,070,100,000
Texas Teachers	30.6	7,191,000,000	647,190,000
Michigan Employees	39.2	7,035,000,000	633,150,000
Ohio Teachers	30.0	5,418,000,000	487,620,000
Wisconsin State Board	29.8	3,773,000,000	339,570,000
Los Angeles Fire & Police	66.3	2,305,000,000	207,450,000
Illinois State University	59.0	2,268,000,000	204,120,000
Iowa Public Employees	39.0	1,911,000,000	171,990,000
Ill. State Board of Inv.	44.0	1,396,000,000	125,640,000
Kansas Public Employees	31.7	1,170,000,000	105,300,000
Kentucky Teachers	29.0	1,003,000,000	90,270,000
Los Angeles City Employees	38.7	955,000,000	85,950,000
CHICAGO TEACHERS	28.6	$1,006,000,000	$90,540,000

All members should know that the large size, the portfolio make-up, and the professional management of the Chicago Teachers' Fund will continue to work to effectively withstand market gyrations due to such occurrences as international war scares. Through war and peace, through boom or bust, through bear markets or bull markets, the pension fund has weathered them all for ninety-five years, a record that will continue.

ELECTION OF TRUSTEES

Elections will be held to fill the expiring terms of teacher-trustees. On October 26, 1990, active teachers will elect two trustees to fill seats currently held by current Board President, Judy Cheris and Board member, Marshall F. Knox.

Contributors may vote at schools with six or more teachers, District Offices, the Central Office or by mail. Mailed ballots must be received by the Pension Office no later than October 25. Teacher trustees serve three-year terms.

Pensioners will elect a trustee to fill the seat currently held by Paul Ryan.

Ballots will be mailed to pensioners on October 22. Pensioner ballots must be returned to the Pension Office by Friday, November 2. Ballots for the election of pensioner-trustee will be counted on Monday, November 5. Pensioner trustees serve two-year terms.

Elected Trustees will assume office at the regular meeting of the Board of Trustees on November 20.

MERCER

During the quarter ending June 30 equity allocation increased to almost 34%, while the fixed income allocation decreased to approximately 37%, and the cash reserves decreased to approximately 29%. This cash position is significantly higher relative to other public funds, while the equity allocation is somewhat lower than other public funds, on average.

Relative to the CDA public fund universe and Mercer 50% equity/50% fixed income universe, the Chicago Teachers' Pension Fund total Fund had a below median result for the year ending June 30, 1990. Results relative to the Mercer 25% equity/75% fixed income universe were above median.

HMO'S FOR RETIREES

At the suggestion of retired trustee Paul Ryan, representatives of four HMO firms and members of the Board of Trustees and staff met to determine cost and feasibility of having HMO's available to retirees. Martin E. Segal & Co., consultant to the Municipal Fund and the Chicago Teachers' Fund, will collect rate and coverage information for consideration and future action (implementation) by the Teacher and Municipal Retirement Board. The target date for any new programs is tentatively set at September, 1991.

QUESTION BOX

ACTIVE TEACHERS

Q. I will be eligible for Social Security benefits based upon my earnings in private employment. How will the Social Security benefit I earned be affected by my receiving a pension from this Fund?

A. Your Social Security benefits may be affected by the Windfall Benefit Elimination Provisions, a law established by the Federal Government.

The Windfall Benefit Elimination Provisions reduce your Social Security benefits if you are first eligible after 1985 for both a Social Security benefit based on your own earnings and a pension from this Fund. Social Security will use a different formula to figure your Social Security benefit amount, resulting in a lower benefit.

According to the provisions of this federal law:

You will not have to use this different formula if, BEFORE 1986:

- You reached 62; or
- You became disabled and remained entitled to a Social Security disability benefit in any of the 12 months before you reached 62, even if you reached 62 after 1985; or
- You received, or were first eligible to receive, your pension from this Fund

Minimum eligibility for a pension from this Fund are:

Years of Service Credit	Age
5	62
20	55

You will not have to use the different formula if you meet the minimum requirements for a pension from this Fund BEFORE 1986, even if you continue working.

Members who have 30 or more years of coverage under Social Security are exempt from this benefit reduction.

Questions regarding your Social Security benefits should be addressed to that agency. Letters giving your date of eligibility for a pension from this Fund, to be used when you apply for Social Security benefits, can be obtained from the pension office.

More questions and answers about Social Security and Medicare will be featured in a later issue of PENSION NEWS.

ANNUITANTS

Q. Should the Fund be notified when I become 65?

A. Yes, if you are eligible for Medicare Part A (hospital), this will entitle you to a reduced premium for Blue Cross-Blue Shield.

Q. When is the next Blue Cross-Blue Shield enrollment?

A. Open enrollment will occur in October 1990 and the coverage will become effective on January 1, 1991.

Q. Is it necessary to let the Fund know if I'm moving?

A. Yes, please notify the Fund in writing prior to the 15th of the month in order to receive your next pension check at your new address. All address changes must be signed by the pensioner or guardian.

FOR YOUR INFORMATION

Q. What is Social Security's toll-free number?

A. The toll-free number is 1-800-234-5-SSA. Some people prefer to use numbers rather than letters - using numbers only, it is 1-800-234-5772.

Q. At what time of the day will my call be answered?

A. Monday-Friday, between the hours of 7:00 a.m. and 7:00 p.m. your call will be answered. Slack calling times are from 7:00 a.m. to 9:00 a.m. and from 5:00 p.m. to 7:00 p.m. The busiest day to call is Monday.

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