Public School Teachers' Pension and Retirement Fund of Chicago

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PENSION NEWS

October 1991

REPORT FROM THE PRESIDENT OF THE BOARD OF TRUSTEES

Barbara Caldwell
President

My report to you on the status of the Pension Fund is optimistic! After much arm twisting and inveigling, all four of the current HMO plans have submitted bids to the Fund for maintaining teacher members in the HMO's after retirement. When the HMO plans were installed, every retiring teacher was compulsorily evicted from her/his HMO at retirement. The only medical coverage to retirees was the Blue Cross-Blue Shield indemnity plan . . . whether they liked it or not.

I am happy to say that starting January 1, 1992, all retiring teachers will have the option of staying in the HMO plans they presently have or taking the Blue Cross-Blue Shield pensioner group policy. The Pension Office staff is now working out the details incident to application procedures, enrollment forms, plan provision literature, and counseling new annuitants.

I personally extend my thanks to my fellow trustees, office staff and consultants for the perseverance and work required to see this problem solved. This project has been on my personal priority list since I first began campaigning for trustee of the pension board in 1989.

Challenges came in huge doses over the summer. For instance, we have been diligently trying to get our 14 proposals, which include better benefits for our pensioners, through the General Assembly. We were blocked at every turn by a few powerful lawmakers. In a defensive move, the Board of Trustees hired two lobbyists, Eugene Barnes and Raymond Ewell (who are former State Representatives) in an attempt to alleviate the blockage. This has eased our frustration and assured us that there will be professionals with our best interest at heart guarding against meetings and agreements made in the middle of the night and other such unorthodox procedures.

Pension Legislation was limited to non-cost items and resulted in a cutback of all proposals except pension credit for military service. While the pension bill did pass the House, no action was taken in the Senate and veterans will have to wait for the October override session to finalize passage of this bill.

Another bill was passed making whole those public employees who served in the Gulf War and returned to find their health insurance and other benefits cut.

The Minority Emerging Manager Search is underway under the direction of our consultant, Anita Andren (Mercer Asset Planning) assisted by Marx Cazenave, President of NIMA (National Investment Managers Association) in San Francisco. Mr. Cazenave is volunteering to give us the benefit of his expertise. The consultant received 100 applications. The task is now at hand to begin the interview process and select up to five qualified investment managers to manage either an Active Domestic Equity or an Active Domestic Fixed Income Portfolio. Seventy-five million dollars has been set aside from our four billion dollar fund to invest with these managers recommended by our consultant.

These new investment managers will further strengthen our Fund and help to ensure the retirement security of all of our participants.

The final challenge of the Summer was the four million dollar subsidy that the new Board of Education omitted from its budget for health care for our retirees. This will eventually result in higher premium calculations for Chicago teacher-pensioners and Municipal Employee pensioners.

Through fiscal year '91 the calculations of projected premiums were based on the Board of Education's underwriting four million dollars of the total premium for the Municipal and Teacher pensioners. With this abatement, we expect the total premium calculations to increase by approximately 10% or more for these groups. The trustees will be seeking means to improve this situation in whatever ways possible.

We are rapidly, yet prudently and carefully, moving ahead with professional guidance and control. Through your advice and encouragement, we will continue to move forward making your fund grow as it has done in the past from 3.5 billion dollars to 4 billion dollars since this administration began its tour of duty. This was done with the cooperation of trustees, staff, custodian bank, lawyer, actuary, accountants, and consultants forming a team and working together to serve the pensioners and retirees who have placed confidence in them. Continue to have faith in us. We're a fine team!

HEALTH INSURANCE REIMBURSEMENT

The annual health insurance rebate checks will be mailed from the Pension Office in December. Pensioners retiring after September 1990 will receive their checks in January. Please contact the Pension Office if you haven't received your check in December or January, whichever applies.

REPORTING AND DISCLOSURE AWARD 2ND YEAR IN A ROW

Recently the following press release was received in the pension office.

"(Chicago) — The Certificate of Achievement for Excellence in Financial Reporting has been awarded to: PUBLIC SCHOOL TEACHERS' PENSION AND RETIREMENT FUND OF CHICAGO by the Government Finance Officers Association of the United States and Canada (GFOA) for its comprehensive annual financial report (CAFR) for year-end August 31, 1990. The Certificate of Achievement is the highest form of recognition in the area of public employee retirement system (PERS) accounting and financial reporting, and its attainment represents a significant accomplishment.

An award of Financial Reporting Achievement has been awarded to the individual designated as primarily responsible for preparing the award-winning CAFR. This has been presented to: James F. Ward, Executive Director.

The CAFR has been judged by an impartial panel to meet the high standards of the program including demonstrating a constructive "spirit of full disclosure" to clearly communicate its financial story and motivate potential users and user groups to read the CAFR.

The GFOA is a non-profit professional association serving 12,300 government finance professionals with offices in Chicago, Illinois and Washington, D.C."

COMMENTS FROM THE INVESTMENT CONSULTANT

Pension Fund Performance

Significant progress toward the long-term policy for the investment program has been made. By June 30, 1991, the investment managers had received the initial planned funding amounts to bring the Fund's asset allocation to the following positions: 42.3% equities, 41.1% fixed income and 16.6% cash equivalent securities. The Fund's equity portfolio is better diversified at this point than has historically been the case.

The investment return of the Pension Fund during the second quarter was 0.6%, reflecting a lackluster capital market environment in that period. Relative to the Fund's benchmarks, performance was ahead of the average public pension fund and ahead of the composite market index. The return of the equity portion of the Fund was in line with the Standard & Poor's 500 Stock Index, as was the return of the fixed income portion of the Fund with the Lehman Brothers Government/Corporate Bond Index. While it is still very early in the program, all of the investment managers are performing according to expectations.

Looking forward, we are continuing our evaluation of qualified, emerging minority investment managers. We will also continue to prudently move toward the long-term asset allocation policy targets.

ELECTION OF TRUSTEES

Elections will be held to fill the expiring terms of teacher-trustees. On October 25, 1991, active teachers will elect two trustees to fill seats currently held by Board members, Marshall F. Knox (filling the vacancy of Al Korach) and Margaret Olson.

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 24. Teacher trustees serve three-year terms.

Pensioners will elect two trustees to fill the seats currently held by Robert Konen (filling the vacancy of Edna C. Fanning) and Arthur Lehne.

Ballots will be mailed to pensioners on or about October 24. Pensioner ballots must be returned to the Pension Office by Friday, November 1. Ballots for the election of pensioner-trustee will be counted on Monday, November 4. Pensioner trustees serve two-year terms.

Elected Trustees will assume office at the regular meeting of the Board of Trustees on November 19.

ACTUARY'S REPORT

Sandor Goldstein

The Fund's fiscal year (August 31) has just ended and I will shortly be starting work on the August 31, 1991 actuarial valuation. Although I am not yet able to comment on the financial condition of the fund as of August 31, 1991, I did want to comment in general terms on the purpose of the actuarial valuation and the nature of results that will be produced by the valuation.

The purpose of the actuarial valuation is to determine the financial condition of the pension fund as of August 31, 1991 and the contribution requirements of the fund for the year beginning September 1, 1991. In order to determine the fund's financial condition, we will first determine the accrued liability of the fund as of August 31, 1991. The accrued liability represents the value of the retirement benefits earned to date by all the active and retired members of the fund. By comparing the accrued liability with the assets of the fund as of August 31, 1991, we will determine the fund's unfunded liability. The unfunded liability represents that portion of the accrued liability for which funds have not been provided to date. We will compare the 1991 unfunded liability with the 1990 unfunded liability and explain the reasons for the change in the unfunded liability.

In order to determine the employer's contribution requirement for the year beginning September 1, 1991, we will first determine the employer's normal cost for the year. This represents the employer's share of the cost of benefits that can be expected to be earned by active members during the year. We will then determine an annual payment on account of the unfunded liability. This will consist of either an amount needed to pay off the unfunded liability, or an amount needed to keep the unfunded liability from increasing. The total employer contribution requirement will then consist of the employer's normal cost in addition to the annual payment on account of the unfunded liability. We will compare the total employer contribution requirement with the expected employer contribution in order to determine the extent to which the employer contributions can be expected to cover the actuarially determined costs of the fund.

I hope to report on the actual results of the August 31, 1991 actuarial valuation in a future issue of Pension News.

September 26, 1991

The Honorable Jim Edgar
Governor of Illinois
201 State House
Springfield, IL 62706

Dear Governor Edgar:

I am Barbara Caldwell, President of the Board of Trustees of the Chicago Teachers' Pension Fund, an institution that has been providing retirement, survivor, disability, and death benefits for Chicago teachers for nearly a century. Our 50,000 members will see this letter.

We have a problem with skyrocketing health care costs for our retirees, costs so high that many of our retirees will have to pay the Fund each month so that the Fund can pay their monthly premiums. These premiums were once deducted from the pension check. Now they are additions.

Current rate increases for over 2,000 annuitants of this Fund will double their monthly costs to over $500 per month. Health care costs that rise 15 to 20% every year cannot be tolerated in our society and it is particularly damaging and a hardship for our older citizens who no longer have access to the kinds of salary increases available to the working force.

I write to you today because this problem has grown to such proportions that I see it as one that is not the province of the Board of Trustees or the Board of Education to alleviate. The cost of health care for public employees needs to receive a much higher priority in the minds and agenda of our policy makers at both the state and local levels.

We need your help now before the problem becomes one that may prove fatal to our long established retirement plans for public employees in Chicago, Illinois, and the nation.

Sincerely yours,
Barbara Caldwell, President
Board of Trustees

Take Time . . .

Take time to live, it is the secret of success.

Take time to think, it is the source of power.

Take time to play, it is the secret of youth.

Take time to read, it is the foundation of knowledge.

Take time for friendship, it is the source of happiness.

Take time for God, it is life's only lasting investment.

HOW CAN I HELP?

The Tax-Aide program is growing, and volunteers are needed in many locations. There are three volunteer positions essential to Tax-Aide's success:

■ *Counselors* — to provide direct, one-on-one help to older taxpayers.

■ *Instructors* — to train the counselors about income tax information and tax return preparation.

■ *Coordinators* — to supervise and direct Tax-Aide program activities at the local level.

TAX-AIDE PROGRAM NEEDS VOLUNTEERS TO HELP SENIORS

Just like the U.S. Marines, the American Association of Retired Persons (AARP) is looking for a few good men (and women) to do income tax returns for senior citizens.

AARP is now accepting applications from adult volunteers of all ages interested in helping senior citizens with their income tax returns. AARP membership is not required. The AARP Tax-Aide program is co-sponsored by the Internal Revenue Service.

Starting in January, there will be a five-day training course for the Tax-Aide counselors, under IRS supervision. The volunteers are required to pass an exam before they are authorized to be counselors. Volunteers are reimbursed for necessary out-of-pocket expenses such as mileage, parking, meals, postage and basic supplies.

In return for the training, and after being certified by the IRS, volunteers spend four hours (or more) each week from February 1 through April 15 assisting senior taxpayers at an assigned convenient site such as a local bank, library, or senior center. There is no charge or gratuity for preparing tax returns. Last year, more than 1.5 million persons were aided with their income tax returns by more than 27,000 Tax-Aide volunteers in the United States.

The IRS reports that about half of the older persons who complete their own tax returns overpay, because they aren't aware of the benefits and exclusions they're entitled to. If the IRS doesn't know they're entitled to those benefits and exclusions, the overpayment isn't refunded.

Persons wishing to volunteer for the Tax-Aide program may do so by calling or writing Henry Ahrndt (District Coordinator) at: 6211 Lake Park Lane, Willowbrook, IL 60514, (708) 789-1955

September 9, 1991

President Clinton Bristow, Jr.
Board of Education
1819 West Pershing Road 6 E (N)
Chicago, IL 60609

Dear President Bristow

It was with shock and dismay that I read newspaper accounts of how the Board of Education plans to cut off the last vestige of financial connection with the retired teachers' (and municipal employees') health insurance.

As you know, for many years teachers and pensioners were rated together for health insurance premium calculations. Then, as Board of Education finances became strained, the pensioners were CAST OFF into their own group, separately rated, with corresponding increases in their premiums. But at least they were granted a capped yearly relief of $4,000,000 (for both teachers and municipal employees).

Now I read that this long established obligation is to be ceased without consulting or advising the Pension Board Trustees. I am sure I speak for the entire trustee board in conveying to you our bristling disappointment in Mr. Kimbrough's proposal to end the retirees' health premium assistance!

This is particularly so when only a few months ago the Pension Fund's resources were used to bail out the Board of Education for a three year period at a cost of $200,000,000 to the Fund.

What can I tell our pensioners?

Most cordially,
Barbara Caldwell, President
Board of Trustees

cc: Supt. Kimbrough
Trustees
Chicago newspapers

The trustees of the Pension Fund are urging our readers to write letters to the Board of Education protesting the cessation of funds for our pensioners for health insurance premiums. It is urgent that the Board of Education Members realize how detrimental this move by the Finance Authority will be to our retirees.

LEGAL NOTICE

The Equal Employment Opportunity Commission (''EEOC'') is the agency of the federal government responsible for administering the federal antidiscrimination in employment laws, including the Age Discrimination in Employment Act of 1967 (''ADEA''). The ADEA makes it unlawful for an employer to discriminate against employees 40 years of age or older on account of their age.

On March 22, 1988 the EEOC filed a lawsuit against the State of Illinois alleging that an Illinois statute concerning public school teachers violated the ADEA. The Illinois law in question stated that ''Contractual continued service shall cease at the end of the school term following the 70th birthday of any teacher, and any subsequent employment of such a teacher shall be on an annual basis.'' Ill. Rev. Stat. Ch. 122, Para 24-11 (1987).

As a part of its lawsuit it is necessary for the EEOC to locate all teachers who were employed in the State of Illinois to whom this law was applied.

Therefore, if you were: (1) employed as a teacher in the State of Illinois between January 1, 1987 and January 1, 1989; and (2) reached your seventieth birthday during that time period; and (3) were denied tenure during that time period, please call either Frances Smith (312/886-7492) or Gwen Smidt (312/353-7696). Your call must be received by the EEOC no later than November 25, 1991.

EXECUTIVE DIRECTOR

James F. Ward

Politics and Long-term Finance

In the last two years we have seen the local manifestation of what some have described as a national trend to underfund pension plans because of current public budget deficits.

Pension and Investments magazine, (July 1991), described how across the country ''structural changes under consideration raise issues of fiduciary responsibility and benefit security that are likely to transform the way public funds operate.'' In California, a coalition of employee groups filed suit in August to stop the governor from taking $1.6 billion from the pension system. According to the New York Times (July, 1991), eighteen states and several cities have tapped public pension funds to meet temporary budget shortfalls.

In Illinois a law was passed in 1989 requiring proper funding for public plans, but it excluded Chicago Teachers. This law, which requires amortization of Illinois public pension liabilities over forty years, has been ignored. It should be followed. Furthermore, it should include Chicago.

This is particularly so when, despite the Illinois Constitution's ''home rule'' provisions, pension funding and benefits are directly controlled by the state legislature. It is a state law that is diverting $200 million of pension fund revenues for the current three-year contract. If public plans were rated the same way private insurance companies are rated, this tax revenue loss would result in a lower rating.

If you're a baby boomer looking to the long term strength of the Fund to provide your pension benefits, or if you're newly retired, you will want to stay informed of such developments in our nation and make your voice heard by lawmakers in Springfield and Washington. Tell them not to use your pension funds for non-pension purposes. Period.

REPORT OF THE ATTORNEY

As part of your retirement planning, do you have a will? Are you already retired but think that you do not need a will?

The Teachers' Pension Fund provides you with retirement benefits and a health insurance subsidy but a pension and insurance are only a part of sound retirement planning. Every adult should have an up-to-date will. While most of us know that, studies show 75% of adults do not have a will. Dying "intestate" — without a will — is not always a tragedy, but it is frequently a serious mistake. Here are some of the excuses people often have for not making a will:

EXCUSE NO. 1: *I don't need one or I don't own very much.*

You may own more than you realize. Listing the current value of homes, cars, furniture, jewelry, life insurance, death benefits, pensions, etc. can be an eye opener. But even if you own relatively little, somebody is going to get that property or family heirlooms when you die. Why shouldn't you decide who? If you don't decide who you want to oversee your estate, a court will have to appoint someone.

If you have minor children, the most important reason for making a will is to select a guardian should you and your spouse, if any, be killed at the same time or within a short period of time. Surely most of us have preferences among family or friends as to who could care best for our children. Can you trust a judge to reach the right decision? Do you want to risk a guardianship fight that may hurt your children?

EXCUSE NO. 2: *My spouse will get everything anyway.*

Not so, if you have children or grandchildren. Your spouse, by law, will receive only part of your estate.

If you never had children, your spouse will inherit your property. But what happens if you are both in an accident? Can it be established who died first? Which spouse's family is entitled to the joint estates? Wills frequently provide that a spouse will not be considered as a surviving spouse unless the spouse lives for a specified period, e.g. 30 days, after the other spouse's death. This provision solves many practical problems.

EXCUSE NO. 3: *We own everything jointly.*

While it is common for married couples to own houses and bank accounts in joint tenancy, other property like household goods or family heirlooms are not owned in joint tenancy. You may have remarried and want to protect your spouse, but also provide for your children or grandchildren. But if your spouse survived you and then died, your estate would go to the spouse's heirs, and not your children or grandchildren. Non-married teachers or retirees may not have any of their property in joint tenancy. It is very important that property be passed on to those you want to inherit your assets.

EXCUSE NO. 4: *We can't decide on a guardian.*

This can be a tough decision. Each of the possibilities may have strengths and weaknesses. You must consider the guardian's age and health, financial resources, character and values, family structure, etc. It could be one of the most important decisions you'll ever make. It could create some friction among your relatives. But shouldn't *you* decide instead of a judge? You know your children and your relatives better than a stranger.

EXCUSE NO. 5: *We've decided on guardians or an executor but need to check with them first.*

This sounds good, but how long have you been meaning to check with them? You say you meant to last year at Christmas but there wasn't a "right time". You want to discuss it in person but don't know when you'll see them next because they're a thousand miles away? This is too important to delay. Act now.

EXCUSE NO. 6: *Things are about to change. I'm about to: (get married, get divorced, have a child, buy a house . . .).*

A big change in life might very well affect your will. It is a good idea to review your will after every major change in your life situation to see if the written will still expresses your current wishes. You shouldn't let an impending change stop you from making a will. You can change your will anytime you want, but you can't write one after you die.

EXCUSE NO. 7: *I can't decide whether my children will need a trust when they reach 18.*

The safe course is to provide for a trust now. You can always change your will if you later decide that your 18 year old can be trusted with large amounts of money. Unless you have a will and provide otherwise, your child probably will be entitled to his share of your estate, in cash, when he turns 18. A trustee can be a friend or a relative. Someone you trust is there to help your children.

EXCUSE NO. 8: *I don't want the witnesses to know my personal business.*

A witness does not have to read any part of the will. A witness only signs at specified places to acknowledge that you (and the other witnesses) signed the will in their presence and while competent. A witness does not get a copy of your will.

EXCUSE NO. 9: *I don't know how much a will costs.*

The cost varies depending on the complexity of your estate. Simple wills can cost less than $100. The peace of mind is worth the cost.

EXCUSE NO. 10: *I don't know a lawyer.*
If you don't know a lawyer, ask a friend or relative for someone they have used and liked. Call the Chicago Bar Association or your County Bar Association. There are many fine lawyers in neighborhoods who can serve you.

If you choose not to make a will, at least check your Designation of Beneficiary on file at the Pension Fund. Take a few minutes to keep it current so that your benefits are paid to the person(s) you choose.

QUESTION BOX

ACTIVE TEACHERS

Q. I have been an assigned teacher for 26 years and I am now 60 years old. I do not plan to retire until age 65 but I am interested in keeping track of my pension benefits. Is there a way I can estimate my pension myself?

A. You can estimate your own pension. The formula is:

AVERAGE OF 4 HIGHEST YEARS OF SALARY × PENSION PERCENTAGE = ANNUAL PENSION

COMPUTE YOUR 4 HIGHEST YEARS

First calculate the total salary for the 4 highest consecutive years during the last 10. In most cases, this is the last 4 years. Optional employment (such as overtime, summer school, etc., where no pension deductions are taken) is not included in the calculation. Divide this total by 4 to determine the average salary. For all assigned teachers and most other teachers, the Board of Education pays pension contribution of 7% of the base salary (the pension pick-up) that is included as pensionable salary. To calculate your pensionable salary add 7% to the amount you determined as your average salary. For example, if your 4 last years of salary as reported to you on your Form W-2 averaged $40,000 per year, your pensionable salary would be 42,800 per year (40,000 + 7%).

COMPUTE YOUR PENSION PERCENTAGE

Your pension percentage is determined by the amount of service credit you have. Your service credit is reported on the contributor's Annual Statement as of August 31 of each year. To this total add additional credit earned and anticipated. A maximum of 244 unused accumulated sick days may be used for additional service credit. Twenty days equal one month.

Calculate your pension percentage by using this chart:

		Example of 26 years.
Multiply first 10 years or portion by	1.67% × 10 =	16.7
Multiply next 10 years or portion by	1.90% × 10 =	19.0
Multiply next 10 years or portion by	2.10% × 6 =	12.6
Multiply next 10 years or portion by	2.30%	
	Pension Percentage Total =	48.3% (Maximum 75%)

COMPUTE YOUR ANNUAL PENSION

AVERAGE OF 4 HIGHEST YEARS OF SALARY × PENSION PERCENTAGE = ANNUAL PENSION

Example: $42,800 × 48.3% = $20,672.40

Further information regarding estimating your pension is available at the pension office. If you are approaching retirement you may call or write to the pension office and request an estimated print-out.
