

## Illinois Public Employee Retirement Systems

**\*UPDATED August 11, 2011\***

The five public employee retirement systems in Illinois are the: State Employees' Retirement System ('SERS'), Teachers' Retirement System ('TRS'), State Universities Retirement System ('SURS'), Judges' Retirement System ('JRS') and General Assembly Retirement System ('GARS'). Three primary sources of contributions finance Illinois' State retirement systems: employee contributions, employer contributions and returns on investments. Each chart is a representation of Illinois public employees and retirees within the five state funded retirement systems.

### SURS in Brief<sup>1</sup>

**Who are the people who participate in SURS?**

- SURS serves a diverse group of employees with occupations ranging from professors and clerical workers to building service workers and ground keepers.
- The average gross salary of a SURS participant is \$45,988.
- Each participant contributes annually 8 percent of their gross salary to their pension fund.

**Who is the typical SURS retiree?**

- A typical SURS retiree is 62 years old and has served an Illinois University or community college for 20 years.

**What sort of benefits do SURS retirees receive?**

- The typical SURS retiree receives a monthly benefit of \$2,478.50.

**SURS participants do not receive social security. SURS is the sole source of retirement income for participants.**

### TRS in Brief<sup>2</sup>

**Who are the people who participate in TRS?**

- TRS provides retirement, disability and survivor benefits to teachers, administrators and public school personnel employed outside of the city of Chicago.
- The average gross salary of a TRS participant is \$64,285.
- Each participant contributes annually 9.4 percent of their gross salary to their pension fund.

**Who is the typical TRS retiree?**

- A typical TRS retiree is 69 years old and has served Illinois public schools for 28 years.

**What sort of benefits do TRS retirees receive?**

- The typical TRS retiree receives a monthly benefit of \$3,737.00.

**TRS participants do not receive social security. TRS is the sole source of retirement income for participants.**

### SERS in Brief<sup>3</sup>

**Who are the people who participate in SERS?**

- SERS participants are comprised of all state employees.
- The average gross salary of a SERS participant is \$64,222.
- Participants covered by Social Security contribute annually 4 percent of their gross salary to their pension fund, while participants not covered contribute 8 percent.

**Who is a typical SERS retiree?**

- A typical SERS retiree is 69 years old and has served Illinois for 25 to 30 years.

**What sort of benefits do SERS retirees receive?**

- The typical SERS retiree who is not coordinated with Social Security receives a monthly benefit of \$2,053.35.
- The typical SERS retiree who is coordinated with Social Security receives a monthly benefit of \$1,982.54.

**With the exception of police and firefighters, virtually all SERS participants contribute to social security.**

### GARS in Brief<sup>4</sup>

**Who are the people who participate in GARS?**

- GARS participants are comprised of members of the General Assembly and certain state officials within Illinois.
- The average gross salary of a GARS participant is \$81,181.
- Each participant contributes annually 11.5 percent of their gross salary to their pension fund.

**Who is a typical GARS retiree?**

- A typical GARS retiree is 60 years old and has served the Illinois General Assembly or state of Illinois for 14 years.

**What sorts of benefits do GARS retirees receive?**

- The typical GARS retiree receives a monthly benefit of \$4,149.00.

**GARS participants do not receive social security.**

### JRS in Brief<sup>5</sup>

**Who are the people who participate in JRS?**

- JRS participants are comprised of judges serving within the Illinois court system.
- The average gross salary of a JRS participant is \$166,836.
- Each participant contributes annually 11 percent of their gross salary to their pension fund.

**Who is a typical JRS retiree?**

- A typical JRS retiree is a 62 year old attorney who has served as an Illinois judge for 17 years.

**What sort of benefits do JRS retirees receive?**

- The typical JRS retiree receives a monthly benefit of \$9,379.

**JRS participants do not receive social security.**

The following figures provide some facts about Illinois which will allow you to place these numbers into perspective;

## Illinois

- According to the Illinois State Comptroller, pension benefits paid to regular state employees in Illinois are low relative to benefits provided by other states. Illinois ranks in the bottom one fifth of all states for retirement benefits paid to an average state worker.<sup>1</sup>
- The total of all participants in the state's pension plans represent only 5.3% of Illinois' total population. In fact, Illinois ranks dead last in the nation, in number of employees per capita.<sup>2</sup> At the end of the fiscal year 2007 there were 72,312 state employees. This was 11,275, or 13.5% less than at the end of fiscal year 1998.<sup>3</sup>
- Funded ratio is the ratio of the assets of a pension plan to its liabilities.<sup>4</sup> The ratio is determined by dividing the market value of assets by the actuarial accrued liability.<sup>5</sup> In June 2008, Illinois' funded ratio was 54.3%, far below the 2008 national average funded ratio of 84% found by Wilshire Associates.<sup>6</sup>
- After decades of underfunding its employer contribution to each of the five state retirement systems, Illinois now has the greatest unfunded liability in the nation, an astounding \$85.6 billion. This leaves the entire state retirement system 38.3% funded.<sup>7</sup>
- Adopting a statutory payment plan for the state pension systems was deemed necessary by lawmakers. However, the 50-year funding plan, also known as the "Pension Ramp," was structurally unaffordable from the moment it was enacted. It did not reduce principle until 2034 or pay the annual interest cost; in addition, it incorporated a ramp-up period of 15 years that increased contributions over an arbitrary starting level.<sup>8</sup> This resulted in deferring the entire 1995 unfunded liability of \$19.5 billion almost 40 years, while allowing this deferral to grow at a set rate of 8.5% annually.<sup>9</sup>
- Unfortunately, under state law, any funding shortfall must be paid back with interest, compounded at each retirement system's target rate of return, currently pegged at 8.0% to 8.5% per year.<sup>10</sup>
- Normal cost is the current total contribution required to fund the promised benefit upon retirement, based on actuarial tables.<sup>11</sup> It is typically expressed as the percentage of current payroll needed to fund future benefits. The 'normal cost' across all five Illinois' pension systems, as a percentage of active members' payroll averages 9.13%.<sup>12</sup> The national average for state and local government is 12.5%, placing the normal cost of Illinois' current defined benefit program far below the national average.<sup>13</sup>
- Actuaries have reported that in order to keep the unfunded pension liability from growing, the funding should cover "Normal Cost plus Interest." Meaning, the actuarially – determined amount to cover the growth in liability during this year, plus interest on the unfunded balance. That amount in FY2009 is approximately \$5.9 billion.<sup>14</sup>
- In fact, for Fiscal Year 2006, the normal cost was \$1.33 billion. However, the FY06 required pension payment was \$2.1 billion, meaning if Illinois had no unfunded pension liability, it would have an additional \$770 million for public services like education, public safety and transportation.<sup>15</sup>
- A common misconception is that taxpayers shoulder most of the cost of funding public pension systems. To the contrary, investment income accounts for the majority of Illinois state retirement funding. Unfortunately, the ongoing struggles in financial and capital markets continue to have a negative impact on investment returns for the state's five retirement systems. In fiscal year 2009, investment returns of the Teachers' Retirement System were down 25.5%, and those of the State Universities Retirement System declined 26.7%. The remaining three systems' investment returns dropped by 20.9%.<sup>16</sup>
- At least one retirement system appears to be on the road to recovery. The Teachers' Retirement System reported preliminary investment returns of 24% for fiscal year 2011, continuing a strong recovery from the difficult years of 2008-2009. Over the last 30 years, the TRS investment rate of return is 9.3 percent, which exceeds the current target rate of 8.5 percent.<sup>17</sup>
- Moreover, Chicago's overall cost of living is about 66% above the national average, with the typical Chicago apartment renting for just over \$1,000 a month with utilities costing an average of \$86.
- According to the U.S. Department of Health and Human Services the poverty level for a family of two is \$14,570 annually or \$1,214.17 a month. Only \$583.95 less than the average SERS retiree who is coordinated with Social Security.<sup>18</sup>

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Figure1 State Universities Retirement System Financial Report for Fiscal Year ended June 30, 2010

Figure2 Teachers' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010

Figure3 State Employees' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2010

Figure4 General Assembly Retirement System Comprehensive Annual Financial Report for Fiscal Year ended on June 30, 2010

Figure5 Judges' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended on June 30, 2010

<sup>1</sup> State of Illinois FY08 Budget Book.

<sup>2</sup> Id

<sup>3</sup> Illinois State Comptroller, *Fiscal Focus*, January 2008.

<sup>4</sup> Public Pensions and You: *Glossary of Key Investment Terms and Acronyms*. National Conference on Public Employee Retirement Systems (NCPERS) 2006.

<sup>5</sup> Id

<sup>6</sup> 2009 Wilshire Report on State Government Retirement Systems: Funding Levels and Asset Allocation.

<sup>7</sup> Commission on Government Forecasting and Accountability. A Report on the Financial Condition of the Illinois State Retirement Systems. Financial Condition as of June 30, 2010.

<sup>8</sup> Illinois State Budget Fiscal Year 2010.

<sup>9</sup> Id

<sup>10</sup> Each system's Comprehensive Annual Financial Report lists their actuarial interest rate in the Actuarial Section.

<sup>11</sup> Analysis of the Governor's Fiscal Year 2010 Illinois General Fund Budget Proposal, Center for Tax and Budget Accountability, March 2009.

<sup>12</sup> Based on 2006 U.S. Census Data.

<sup>13</sup> Norman Jones and Paul Zorn, Harvard Law School, Pensions and Capital Stewardship Project Conference, October 2005.

<sup>14</sup> The "Normal Cost Plus Interest" amount is determined by adding the estimated FY2009 Normal Cost (\$1.4 billion) to the "Interest" on the Unfunded Liability at the end of FY2008 (.085 X \$54 billion).

<sup>15</sup> Calculations based on the Commission on Government Forecasting and Accountability Monthly Briefing, November 2006 and Retirement Systems 2006 Annual Reports.

<sup>16</sup> Analysis of the Governor's Fiscal Year 2010 Illinois General Fund Budget Proposal, Center for Tax and Budget Accountability, March 2009.

<sup>17</sup> Urbanek, Dave. TRS Reports Investment Returns of 24 Percent for FY 2011. Press Release. Teachers' Retirement System of Illinois. August 5, 2011.

<sup>18</sup> United States Department of Health and Human Services, Federal Poverty Guidelines, 2009.