



# Commission on Government Forecasting and Accountability

802 Stratton Ofc. Bldg., Springfield, IL 62706

**MONTHLY BRIEFING FOR THE MONTH ENDED: NOVEMBER 2021**

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## SPECIAL PENSION BRIEFING

### STATE RETIREMENT SYSTEMS OVERVIEW

Julie Bae, Pension Analyst

The Commission has reviewed the State-funded retirement systems' FY 2021 preliminary actuarial reports, which were issued prior to November 1st, pursuant to P.A. 97-0694, the State Actuary Law. Under the State Actuary Law, the systems must annually submit a proposed certification for the following fiscal year prior to November 1st of the current calendar year. The State Actuary then must issue a preliminary report concerning the systems' proposed certification by January 1st. The State Actuary's report must identify any recommended changes in actuarial assumptions based upon the review of the retirement systems' actuarial assumptions.

*Please note that Appendix A on Page 17 of this briefing contains a letter from the Commission's actuary, Segal Consulting, on the appropriateness of the 90% funding target of P.A. 88-593. Letters from the State Systems and the Governor's Office of Management and Budget also appear in Appendix A. These letters are presented in this briefing to fulfill the Commission's obligation to report on the appropriateness of the 90% funding target of P.A. 88-593, pursuant to 40 ILCS 1-103.3.*

Using the actuarial (smoothed) value of assets, the total unfunded liabilities of the State systems totaled \$139.9 billion on June 30, 2021, led by the Teachers' Retirement System (TRS), whose unfunded liabilities amounted to \$79.9 billion. As the largest of the State systems, TRS accounts for approximately 57.1% of the total assets and liabilities of the

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State Retirement Systems Overview

five State systems combined. The State Employees' Retirement System (SERS) had unfunded liabilities of \$30.5 billion, approximately 21.8% of the total unfunded liabilities of the five systems, followed by the State Universities Retirement System (SURS) with unfunded liabilities of \$27.5 billion, which represents 19.6% of the total unfunded liabilities. Table 1 below provides a summary of the financial condition of each of the five State retirement systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios.

**TABLE 1**

<b>Summary of Financial Condition FY 2021</b>				
<b>State Retirement Systems Combined</b>				
<b>Assets at Actuarial Value / With Asset Smoothing (P.A. 96-0043)</b>				
<b>(\$ in Millions)</b>				
<u>System</u>	<u>Accrued Liability</u>	<u>Actuarial Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
TRS	\$138,914.3	\$58,979.9	\$79,934.4	42.5 %
SERS	\$51,828.5	\$21,323.6	\$30,504.8	41.1 %
SURS	\$48,898.5	\$21,421.9	\$27,476.6	43.8 %
JRS	\$2,920.6	\$1,227.4	\$1,693.2	42.0 %
GARS	\$373.7	\$72.2	\$301.5	19.3 %
<b>TOTAL</b>	<b>\$242,935.6</b>	<b>\$103,025.0</b>	<b>\$139,910.5</b>	<b>42.4%</b>

A more realistic valuation of the true financial position of the State retirement systems would be based upon the market value of the assets, as shown in Table 2 below. Based upon the market value of assets, the combined unfunded liabilities of the State systems totaled \$130.0 billion on June 30, 2021. TRS, whose unfunded liabilities amounted to \$74.7 billion, represents approximately 57.5% of the combined total unfunded balance. Table 2 provides a summary of the financial condition of each of the five State retirement systems, showing their respective liabilities and assets as well as their accumulated unfunded liabilities and funded ratios.

**TABLE 2**

<b>Summary of Financial Condition FY 2021</b>				
<b>State Retirement Systems Combined</b>				
<b>Assets at Market Value / Without Asset Smoothing (P.A. 96-0043)</b>				
<b>(\$ in Millions)</b>				
<u>System</u>	<u>Accrued Liability</u>	<u>Market Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
TRS	\$138,914.3	\$64,212.5	\$74,701.8	46.2 %
SERS	\$51,828.5	\$23,825.0	\$28,003.5	46.0 %
SURS	\$48,898.5	\$23,453.9	\$25,444.6	48.0 %
JRS	\$2,920.6	\$1,377.1	\$1,543.5	47.1 %
GARS	\$373.7	\$79.6	\$294.1	21.3 %
<b>TOTAL</b>	<b>\$242,935.6</b>	<b>\$112,948.1</b>	<b>\$129,987.5</b>	<b>46.5%</b>

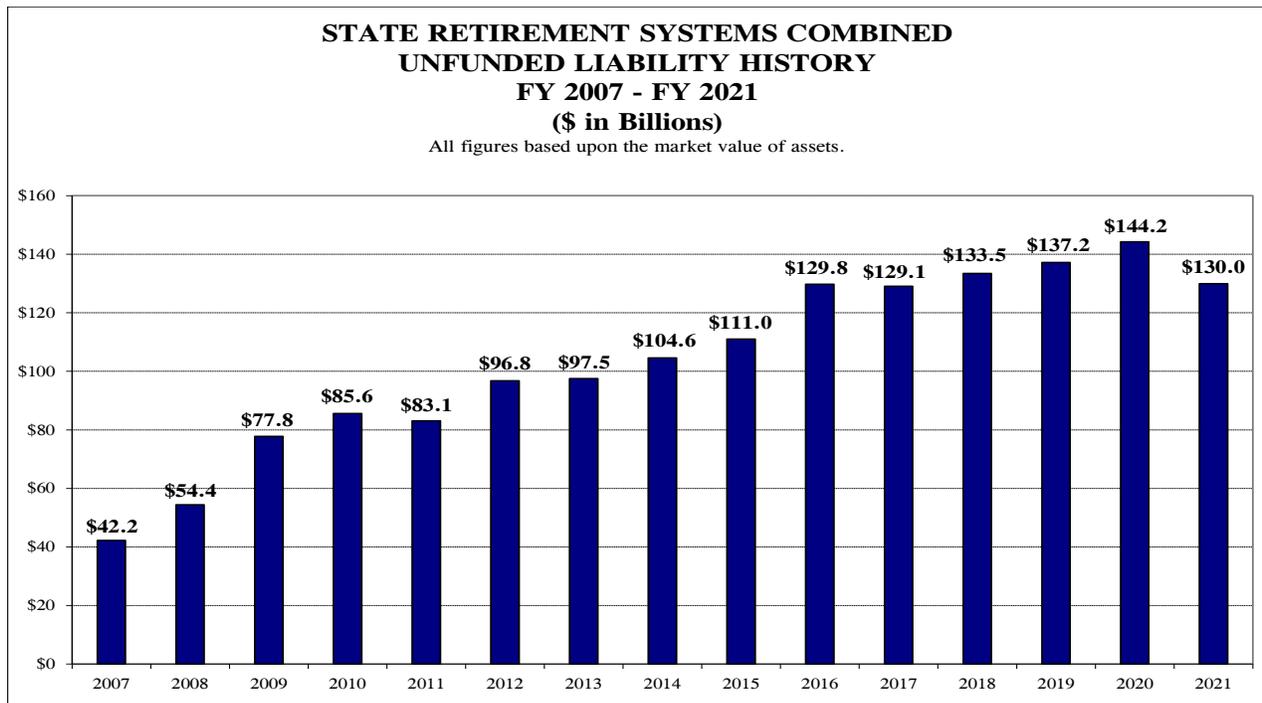
The funded ratios of the respective systems may be compared to the aggregate funded ratio. The combined funded ratios based on the actuarial and market value of assets for FY 2021 were 42.4% and 46.5%, respectively, as shown in Tables 1 and 2 on the previous page (the 15-year history of the systems' cumulative funded ratio is shown in Chart 6). While GARS had the poorest funded ratio, the funded ratios of the other four pension systems were in the low 40% range based on the actuarial value and in the high 40% range based on the market value of assets.

Chart 1 below shows a 15-year history of the cumulative unfunded State pension liability and is based upon calculations performed by the retirement systems' actuaries using the *market value* of assets for all years, including FY 2021. Overall, the aggregate unfunded liability has grown significantly over the past 15 years from \$42.2 billion in FY 2007 to \$130.0 billion in FY 2021.

The primary driver behind the growth in the combined unfunded liability has been actuarially insufficient State contributions determined by the current pension funding policy under P.A. 88-0593. As the actuaries for the State retirement systems have noted in their respective annual actuarial valuation reports, the funding plan under P.A. 88-0593 produces employer (State) contributions that are actuarially insufficient, meaning if all other actuarial assumptions are met, unfunded liabilities will still increase due to the State contributing an amount that is not sufficient to stop the growth in the unfunded liability. Hence, there is a distinction between contributions that are statutorily sufficient and contributions that are considered actuarially sufficient (the annual reports of the State Actuary have noted this distinction as well).

Further details on the main factors affecting the unfunded liability can be found in Charts 4 and 5.

### CHART 1



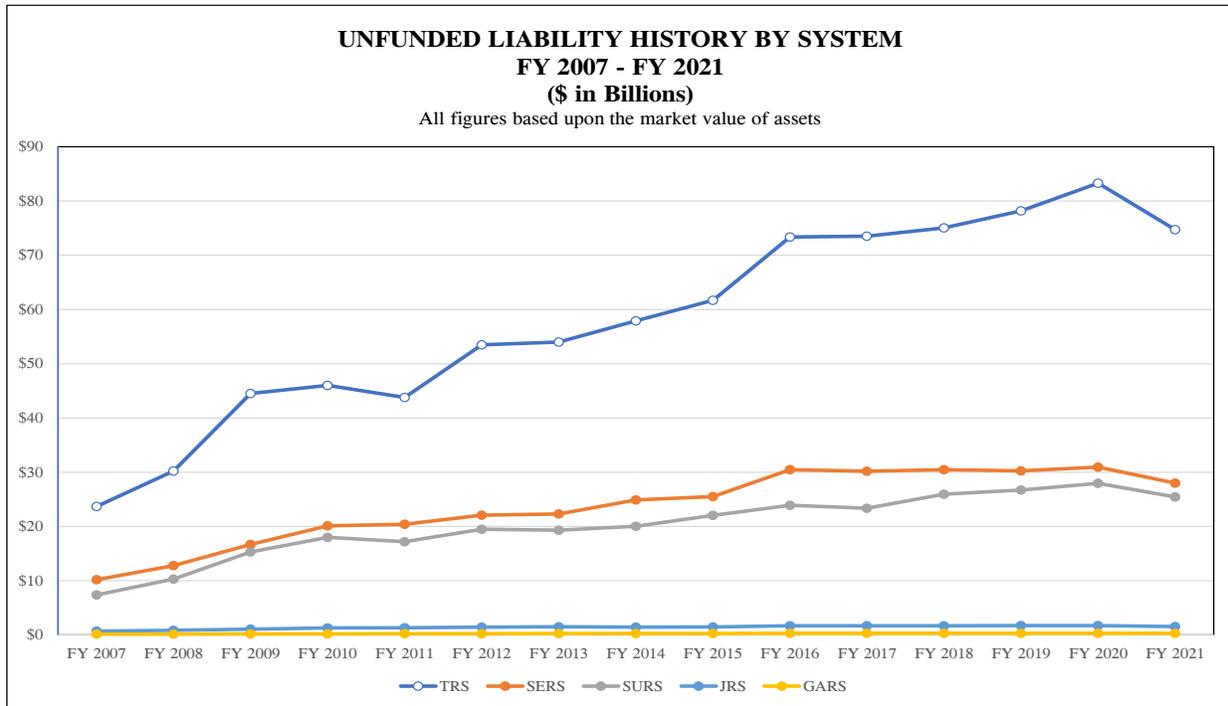
When taking a closer look at the unfunded liability during the last 5 years, it continued to rise and hit its highest level of \$144.2 billion in FY 2020, until a significant improvement was made in FY 2021. Again, actuarially insufficient state contributions under the statutory funding plan were the main cause of the upward pressure on the unfunded liability, while each fiscal year had some other contributing factors that led to the deterioration of the financial condition of the pension systems.

For example, a small uptick in FY 2018 was partially affected by a reduction in SURS' investment return assumption and the five systems' unfavorable actuarial experiences from demographic and other factors.

For FY 2019 and 2020 the five systems did not meet their respective actuarially assumed rates of investment return. The five systems experienced poorer investment performances in FY 2020, due to the national and global economic turmoil associated with the COVID-19 pandemic.

However, a significant drop in unfunded liability was recorded in FY 2021, largely thanks to exceptionally strong investment performances by all the five systems. This allowed the combined unfunded liability to decrease by \$14.3 billion, a 9.9% decline from the previous year, to \$130.0 billion. During the recent 15-year period, there were only three times that the unfunded liability decreased from the previous year: in FY 2011 (-2.9%), FY 2017 (-0.5%) and FY 2021. Details on the factors affecting the unfunded liability in FY 2021 can be found in Chart 4.

**CHART 2**



Similar to Chart 1, Chart 2 above presents the unfunded liability history of the five systems over the last 15 years but provides a more detailed picture of how the unfunded liability of the respective systems has changed during the same time period. As shown, the three biggest systems, TRS, SERS, and SURS, make up the majority of the aggregate unfunded liability. Due in part to TRS having the largest portfolio of the “Big 3” systems, TRS’ changes in unfunded liability tend to be greater in nominal terms than the other Big 3 systems, whether in an upward or downward direction. One of the steepest rises in the TRS trend line can be seen between FY 2008 and FY 2009, which can be explained by unprecedented investment losses that occurred during the Great Recession. TRS was especially hard hit and suffered investment losses of more than 20% in FY 2009. In addition, TRS experienced one of its largest hikes in the unfunded liability in FY 2012 and FY 2016 as TRS reduced its assumed investment rate by 0.5% in each year.

Table 3 on the following page shows the historical changes in the investment return assumptions for each of the five State systems. Only one system, SURS, reduced its assumed rate of return to 6.50% from 6.75% in FY 2021 while the other four systems kept the respective investment rates assumption the same.

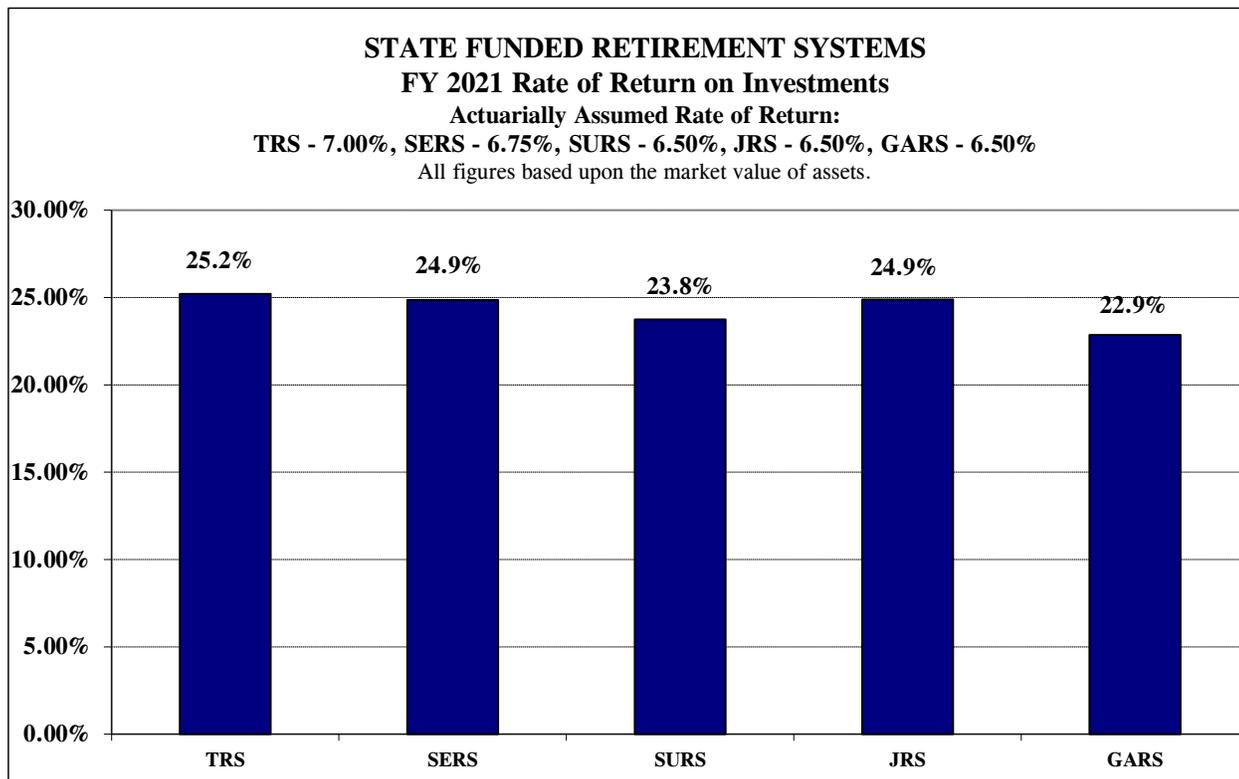
**TABLE 3**

Historical Change in Investment Rate Assumptions											
System	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
TRS	8.50%	8.00%		7.50%		7.00%					
SERS	7.75%			7.25%		7.00%			6.75%		
SURS	7.75%			7.25%				6.75%			6.50%
JARS	7.00%					6.75%			6.50%		
GARS	7.00%					6.75%			6.50%		

NOTE: The years associated with investment rate assumption changes above reflect the actuarial valuation year, not the fiscal year in which the State contribution was calculated using the new rate.

Chart 3 below presents market investment return rates experienced by each of the systems in FY 2021. As mentioned previously, all the five systems experienced exceptional investment returns of more than 20%, which exceeded their actuarially assumed rates of return more than threefold, and thus significant actuarial gains occurred due to much higher-than-assumed investment returns.

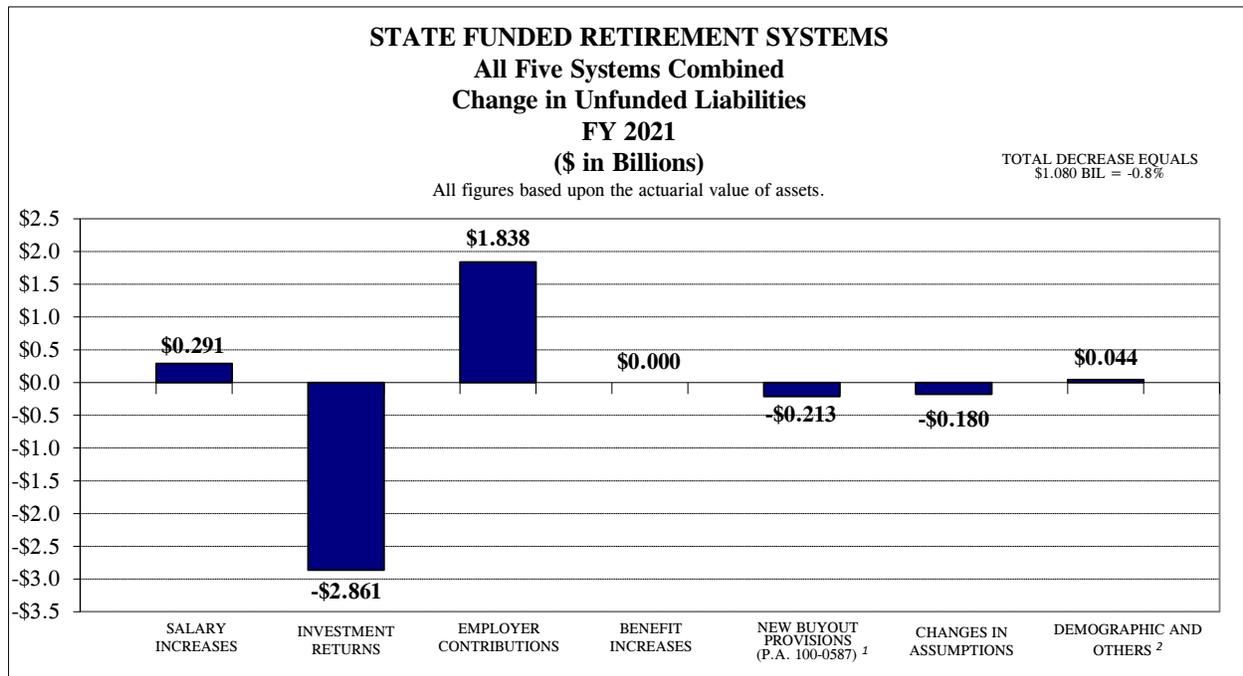
**CHART 3**



It is common to see fluctuations in investment performance of the systems from year-to-year which would also affect the State contributions. To reduce the impact of volatile investment performance from year-to-year, asset smoothing was implemented beginning with the FY 2009 actuarial valuation reports of the state systems with the adoption of P.A. 96-0043, which took effect on July 15, 2009. Asset smoothing is a technique that averages the annual fluctuation in investment performance over a period of five years. Also, actuarial assumption smoothing was implemented pursuant to P.A. 100-0023, effective July 6, 2017. Actuarial assumption smoothing aims to “smooth out” the annual variation in the required State contribution due to any actuarial assumptions over a five-year period in equal annual amounts, beginning in the fiscal year in which the change first applies to the required State contribution.

Chart 4 below outlines the factors that have caused the unfunded liability to change for FY 2021 only.

### CHART 4



<sup>1</sup> P.A. 100-0587, effective June 4, 2018, created the two voluntary Accelerated Pension Benefit Payment Programs (the pension buyout programs) for TRS, SERS, and SURS. Then, P.A. 101-0010, effective June 5, 2019, extended the buyout programs by 3 more years to June 30<sup>th</sup>, 2024. TRS reported a favorable buyout experience in FY 2021 that generated an actuarial gain of \$195.5 million. Also, SURS estimated that the liability would be reduced by \$17.9 million due to the buyout programs in FY 2021.

<sup>2</sup> This figure includes a \$2.5 million increase in the SERS' liability due to the effect of P.A. 101-0610.

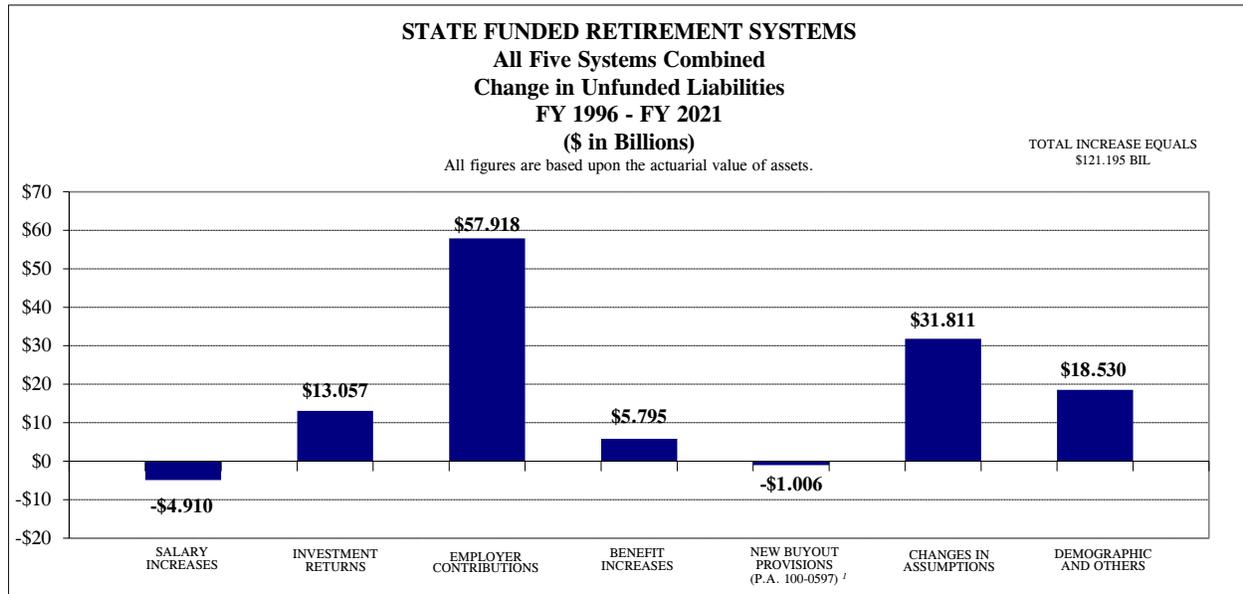
At the end of FY 2020, the aggregate unfunded liability based on the actuarial value of assets was \$140.991 billion. A year later, it stood at \$139.911 billion as of FY 2021. This means the combined unfunded liability dropped by \$1.080 billion during FY 2021, a 0.8% decrease, compared to FY 2020. As shown in Chart 4, the primary contributor to this improvement was significantly strong investment returns by all the five systems, which improved the aggregate unfunded liability by \$2.861 billion. This gain alone was more than enough to offset an actuarial loss of \$1.838 billion from the actuarially insufficient State contributions and a \$291 million loss from higher-than-assumed salary increases as well as the net effect of demographic/other factors, which resulted in a \$44 million loss.

There were two other small gains that also helped reduce the aggregate unfunded liability: buyout programs and assumption changes. These two small actuarial gains decreased the unfunded liability by \$392.9 million. Of this amount, a \$213.4 million gain came from the effect of the buyout programs by TRS and SURS. In FY 2021, TRS reported a favorable buyout experience of \$195.5 million and SURS estimated a reduction of \$17.9 million in the liability due to the buyout programs.

The remaining gain of \$179.5 million resulted from the net effect of assumption changes by the Big 3 systems, TRS, SERS, and SURS. Actuarial gains from assumption changes by TRS and SERS outweighed an actuarial loss from SURS' assumption changes, including a reduction of SURS' assumed rate of return.

Chart 5 on the next page shows the change in the unfunded liability since the enactment of P.A. 88-0593 in FY 1996, which created the 50-year funding policy that governs annual State contributions to the five State systems.

## CHART 5

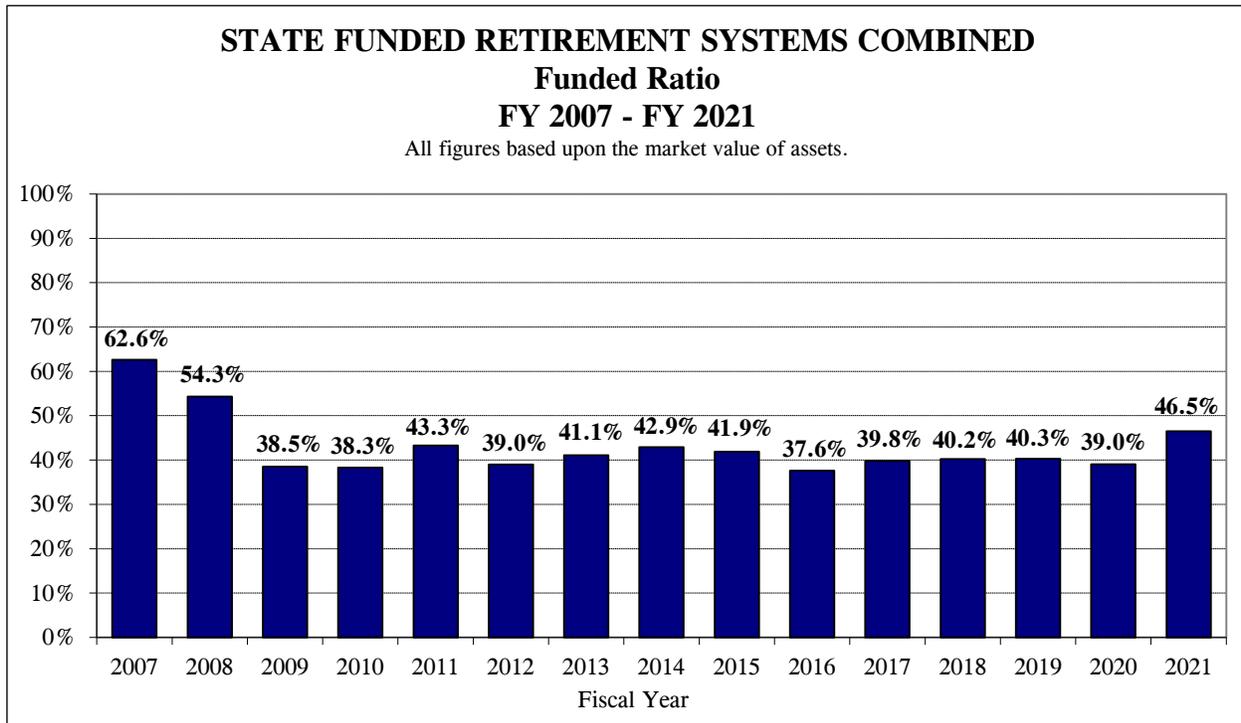


<sup>1</sup> P.A. 100-0587, effective June 4, 2018, created the two voluntary Accelerated Pension Benefit Payment Programs (the pension buyout programs) for TRS, SERS, and SURS. Then, P.A. 101-0010, effective June 5, 2019, extended the buyout programs by 3 more years to June 30<sup>th</sup>, 2024. As of the end of FY 2021, a \$1 billion decrease in the liability came from all the Big 3 systems, TRS (\$576.4 million), SERS (\$404.7 million), and SURS (\$24.8 million).

From FY 1996 through FY 2021, the unfunded liability increased by \$121.195 billion to \$139.911 billion. Actuarially insufficient State contributions contributed the most to the increase in unfunded liability, accounting for approximately 47.8% of the total increase. Assumption changes caused a \$31.811 billion increase, 26.2% of the total increase. “Demographic and other factors” and investment returns that did not meet assumed rates were the next factors that served to worsen the unfunded liability over time.

Chart 6 on the following page shows the systems’ funded ratio based on the market value of assets, without the asset smoothing method. The funded ratio at any single point in time is less important than the trend over time. While both the unfunded liability (Chart 1) and funded ratio (Chart 6) illustrate the financial condition of the pension systems, the two are negatively correlated by nature. (i.e., when one rises, the other falls.)

## CHART 6



In FY 2004, the State sold \$10 billion in pension obligation bonds and used part of the proceeds to pay all the contributions for FY 2004. The bond sale generated \$7.3 billion to reduce unfunded liabilities of the state-funded retirement systems. In the wake of the bond sale, although not shown in Chart 6, the aggregate funded ratio remained relatively stable at a low 60% level from FY 2004 through FY 2007. In FY 2008 and 2009, the funded ratio fell significantly due to much lower-than-expected investment returns during the 2007-2009 recession. While exceptionally strong investment returns helped improve the funded ratio to 43.3% in FY 2011, these gains were largely erased by poor investment returns in the following year. Since then, the combined funded ratio of the five systems has been hovering around 40% over the past decade.

Finally, in FY 2021, the aggregate funded ratio hit its highest level of 46.5% since FY 2008, mainly due to exceptional investment returns of more than 20% by all the five systems, as mentioned earlier.

Table 4 on the next page shows the FY 2023 employer normal cost for the five State systems. The normal cost is the cost of the benefit accrued in any given year. If the respective systems were 100% funded, the State of Illinois would be obligated to pay the employer normal cost only, meaning there would be no amortization payments of the unfunded liability. The FY 2023 employer normal cost accounts for approximately 20%-25% of the FY 2023 State contributions to TRS, SERS, SURS, and JRS. For GARS, the employer normal cost represents 6% of the State contributions.



**TABLE 4**

<b>FY 2023 Employer Normal Cost</b>					
<b>(\$ in Millions)</b>					
<b>TRS</b>	<b>SERS</b>	<b>SURS</b>	<b>JRS</b>	<b>GARS</b>	<b>Total</b>
\$1,225.2	\$630.2	\$468.9	\$33.0	\$1.7	\$2,359.1

Table 5 below compares FY 2023 Actuarially Determined Contributions (ADC) and FY 2023 State contributions under P.A. 88-0593. While the Statutory contributions are determined by the current funding policy under the Illinois Pension Code, ADCs are calculated by each respective systems' actuary pursuant to the Governmental Accounting Standards Board Statements 67 and 68.

**TABLE 5**

<b>Comparison of FY 2023 Actuarially Determined Contribution (ADC)</b>						
<b>and FY 2023 State Contributions under P.A. 88-0593</b>						
<b>(\$ in Millions)</b>						
<b>System</b>	<b>TRS</b>	<b>SERS**</b>	<b>SURS</b>	<b>JRS</b>	<b>GARS</b>	<b>Total</b>
<b>ADC*</b>	\$9,101.6	\$3,045.9	\$2,529.6	\$174.9	\$35.2	\$14,887.2
<b>State Contributions</b>	\$5,894.0	\$2,593.8	\$2,125.3	\$142.7	\$27.2	\$10,783.0
<b>Difference</b>	\$3,207.6	\$452.1	\$404.3	\$32.2	\$8.0	\$4,104.2

\*ADCs under the respective systems' funding policy that meets requirements of GASB Statements 67 and 68 may be calculated differently by each system, i.e., the amortization periods in which the unfunded liability is amortized may differ. For example, TRS uses a closed 20-year period, SERS uses a 25-year closed period, and SURS uses a 30-year closed period.

\*\*The FY 2023 State contribution to SERS includes a FY 2003 POB debt service payment of \$109.2 million. Without the debt service payment, the FY 2023 State contribution would be \$2,484.6 million.

Table 6 on the following page shows the FY 2022 State contributions based on the five systems' final certification letters for FY 2022 and the FY 2023 estimated State contributions based on the systems' preliminary certification letters for FY 2023. FY 2023 estimated State contributions were certified by the Boards of trustees of the five systems. FY 2022 State contributions to the five systems were \$10.6 billion. The FY 2022 State contributions are estimated to be \$10.8 billion, an increase of \$232.5 million or 2.2% over FY 2022.

**TABLE 6**

**FY 2022 Pension Appropriation by Fund <sup>1</sup>**

(\$ in Millions)

<b>System</b>	<b>General Funds</b>	<b>Other State Funds</b>	<b>Total</b>
TRS	\$5,694.1	\$0.0	\$5,694.1
SURS	\$1,883.3	\$218.0	\$2,101.3
SERS	\$1,673.6	\$901.2	\$2,574.8
GARS	\$27.8	\$0.0	\$27.8
JRS	\$152.4	\$0.0	\$152.4
<b>Total</b>	<b>\$9,431.3</b>	<b>\$1,119.2</b>	<b>\$10,550.4</b>

<sup>1</sup> The certified FY 2022 State contributions on the final certification letters of the five pension systems may not be identical to State contributions appropriated by P.A. 102-0017 (FY 2022 appropriation bill). If the appropriated contributions are lower than the final certified contributions, the pension systems could receive the remaining portion via the Continuing Appropriation Act (40 ILCS 15).

**FY 2023 Estimated Pension Appropriation by Fund <sup>2</sup>**

(\$ in Millions)

<b>System</b>	<b>General Funds</b>	<b>Other State Funds</b>	<b>Total <sup>3</sup></b>
TRS	\$5,894.0	\$0.0	\$5,894.0
SURS	\$1,907.3	\$218.0	\$2,125.3
SERS	\$1,711.9	\$881.9	\$2,593.8
GARS	\$27.2	\$0.0	\$27.2
JRS	\$142.7	\$0.0	\$142.7
<b>Total</b>	<b>\$9,683.1</b>	<b>\$1,099.9</b>	<b>\$10,783.0</b>

<sup>2</sup> This chart is meant to be an estimate only insofar as the FY 2023 appropriation by fund is concerned. The amounts in this chart reflect the State systems' preliminary FY 2023 certification. Also, pursuant to P.A. 97-0694, the State Actuary Law, the State Actuary is required to conduct a review of the systems' actuarial assumptions/methods that are used to perform actuarial valuations and to determine the State contributions. Then, the State Actuary is required to recommend changes in the assumptions/methods before the State systems finalize certifications of the annual State contributions.

<sup>3</sup> The SURS "Other State Funds" amount assumes that SURS will receive a FY 2023 appropriation from the State Pension Fund in the same amount that SURS is expected to receive from the State Pension Fund in FY 2022. SURS' historical appropriation from the State Pension Fund varies from year to year.

SERS' FY 2023 appropriation includes a total of \$109.2 million in 2003 POB debt service. Of this amount, according to SERS, \$72.1 million comes from the General Revenue Fund (GRF) and \$37.1 million comes from the other state funds. The SERS appropriation breakdown is based upon a SERS' assumption that 66% of the SERS appropriation will come from GRF, while 34% will come from other state funds. In the past, SERS' historical assumption was that 65% of the SERS appropriation would come from GRF and 35% would come from other state funds.

**Total FY 2022 Pension Appropriation: \$10,550.4 Million**

**Total FY 2023 Pension Appropriation: \$10,783.0 Million**

**Total Increase, FY 2023 over FY 2022: \$232.5 Million**

**Total GF Increase, FY 2023 over FY 2022: \$251.8 Million**

The following pages include pension funding projections for the five State retirement systems based on the respective retirement systems' FY 2021 preliminary actuarial valuations. These projections were generated by the retirement systems' respective actuaries.

<b>FUNDING PROJECTIONS FOR THE STATE RETIREMENT SYSTEMS</b> <b>All Five Systems Combined</b> <b>Projections Based on the Retirement Systems' FY 2021 Preliminary Actuarial Valuations</b> <b>(\$ in Millions)</b>								
Fiscal Year	Annual Payroll	Total State Contribution*	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$21,342.5	\$10,550.4	49.4%	\$1,614.4	\$249,011.0	\$111,138.7	\$137,872.2	44.6%
<b>2023</b>	<b>\$21,712.2</b>	<b>\$10,783.0</b>	<b>49.7%</b>	<b>\$1,637.4</b>	<b>\$254,987.3</b>	<b>\$119,082.6</b>	<b>\$135,904.7</b>	<b>46.7%</b>
2024	\$22,192.5	\$10,793.5	48.6%	\$1,669.7	\$260,822.5	\$127,242.5	\$133,580.0	48.8%
2025	\$22,675.6	\$10,876.7	48.0%	\$1,701.9	\$266,618.1	\$136,274.6	\$130,343.5	51.1%
2026	\$23,169.3	\$10,964.0	47.3%	\$1,735.0	\$272,229.1	\$141,998.9	\$130,230.1	52.2%
2027	\$23,655.5	\$10,972.6	46.4%	\$1,766.9	\$277,636.6	\$147,576.5	\$130,060.1	53.2%
2028	\$24,143.9	\$11,179.8	46.3%	\$1,798.8	\$282,819.6	\$153,199.6	\$129,620.0	54.2%
2029	\$24,629.9	\$11,388.4	46.2%	\$1,830.4	\$287,757.6	\$158,870.6	\$128,886.9	55.2%
2030	\$25,126.8	\$11,585.5	46.1%	\$1,863.0	\$292,431.5	\$164,578.6	\$127,852.9	56.3%
2031	\$25,629.5	\$11,788.3	46.0%	\$1,895.7	\$296,817.2	\$170,330.3	\$126,486.9	57.4%
2032	\$26,144.7	\$12,022.7	46.0%	\$1,929.3	\$300,910.5	\$176,180.6	\$124,729.9	58.5%
2033	\$26,662.5	\$12,280.2	46.1%	\$1,962.5	\$304,682.8	\$182,154.8	\$122,527.9	59.8%
2034	\$27,181.3	\$13,238.5	48.7%	\$1,995.4	\$308,115.8	\$188,992.7	\$119,123.1	61.3%
2035	\$27,704.6	\$13,491.1	48.7%	\$2,028.3	\$311,184.1	\$196,026.9	\$115,157.2	63.0%
2036	\$28,236.3	\$13,748.1	48.7%	\$2,061.4	\$313,873.7	\$203,288.3	\$110,585.4	64.8%
2037	\$28,781.0	\$14,011.7	48.7%	\$2,095.2	\$316,258.3	\$210,899.9	\$105,358.4	66.7%
2038	\$29,347.3	\$14,285.5	48.7%	\$2,130.6	\$318,252.9	\$218,833.1	\$99,419.7	68.8%
2039	\$29,926.9	\$14,566.6	48.7%	\$2,166.7	\$319,848.5	\$227,142.0	\$92,706.5	71.0%
2040	\$30,523.1	\$14,855.4	48.7%	\$2,203.6	\$321,038.5	\$235,882.6	\$85,155.9	73.5%
2041	\$31,153.1	\$15,160.1	48.7%	\$2,243.2	\$321,841.7	\$245,147.6	\$76,694.1	76.2%
2042	\$31,814.8	\$15,481.1	48.7%	\$2,285.2	\$322,303.7	\$255,056.4	\$67,247.3	79.1%
2043	\$32,512.0	\$15,819.7	48.7%	\$2,330.1	\$322,445.2	\$265,709.3	\$56,735.9	82.4%
2044	\$33,247.3	\$16,178.2	48.7%	\$2,377.9	\$322,326.3	\$277,245.9	\$45,080.4	86.0%
2045	\$34,021.7	\$16,555.9	48.7%	\$2,428.9	\$322,001.7	\$289,805.0	\$32,196.8	90.0%

**FUNDING PROJECTIONS FOR THE TEACHERS' RETIREMENT SYSTEM**  
**Projections Based on the Retirement System's FY 2021 Preliminary Actuarial Valuation**  
**Actuarially Assumed Rate of Return: 7.00%**  
**(\$ in Millions)**

Fiscal Year	Annual Payroll	Total State Contribution*	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$11,470.4	\$5,694.1	49.6%	\$1,032.3	\$142,798.1	\$63,626.8	\$79,171.3	44.6%
<b>2023</b>	<b>\$11,682.6</b>	<b>\$5,894.0</b>	<b>50.5%</b>	<b>\$1,051.4</b>	<b>\$146,693.7</b>	<b>\$68,332.4</b>	<b>\$78,361.3</b>	<b>46.6%</b>
2024	\$11,981.7	\$5,979.5	49.9%	\$1,078.4	\$150,589.1	\$73,314.9	\$77,274.3	48.7%
2025	\$12,272.6	\$6,084.0	49.6%	\$1,104.5	\$154,603.7	\$79,076.6	\$75,527.1	51.1%
2026	\$12,561.9	\$6,184.1	49.2%	\$1,130.6	\$158,601.0	\$83,042.8	\$75,558.2	52.4%
2027	\$12,835.6	\$6,218.8	48.5%	\$1,155.2	\$162,566.5	\$87,027.1	\$75,539.5	53.5%
2028	\$13,102.2	\$6,334.0	48.3%	\$1,179.2	\$166,475.5	\$91,098.8	\$75,376.7	54.7%
2029	\$13,353.5	\$6,443.3	48.3%	\$1,201.8	\$170,305.2	\$95,244.6	\$75,060.5	55.9%
2030	\$13,607.9	\$6,541.8	48.1%	\$1,224.7	\$174,039.0	\$99,452.3	\$74,586.7	57.1%
2031	\$13,859.9	\$6,642.0	47.9%	\$1,247.4	\$177,656.4	\$103,717.7	\$73,938.6	58.4%
2032	\$14,115.9	\$6,762.1	47.9%	\$1,270.4	\$181,139.9	\$108,061.3	\$73,078.6	59.7%
2033	\$14,363.5	\$6,894.9	48.0%	\$1,292.7	\$184,457.8	\$112,485.4	\$71,972.4	61.0%
2034	\$14,601.9	\$7,534.2	51.6%	\$1,314.2	\$187,582.8	\$117,509.9	\$70,072.9	62.6%
2035	\$14,837.0	\$7,655.5	51.6%	\$1,335.3	\$190,487.8	\$122,631.9	\$67,855.9	64.4%
2036	\$15,076.3	\$7,779.0	51.6%	\$1,356.9	\$193,156.3	\$127,862.2	\$65,294.1	66.2%
2037	\$15,320.1	\$7,904.8	51.6%	\$1,378.8	\$195,572.2	\$133,213.2	\$62,359.0	68.1%
2038	\$15,574.7	\$8,036.2	51.6%	\$1,401.7	\$197,712.2	\$138,698.3	\$59,013.9	70.2%
2039	\$15,832.9	\$8,169.4	51.6%	\$1,425.0	\$199,552.0	\$144,332.7	\$55,219.2	72.3%
2040	\$16,095.3	\$8,304.8	51.6%	\$1,448.6	\$201,065.4	\$150,132.1	\$50,933.3	74.7%
2041	\$16,376.7	\$8,450.0	51.6%	\$1,473.9	\$202,247.4	\$156,139.9	\$46,107.5	77.2%
2042	\$16,677.9	\$8,605.4	51.6%	\$1,501.0	\$203,119.3	\$162,426.8	\$40,692.5	80.0%
2043	\$17,003.6	\$8,773.5	51.6%	\$1,530.3	\$203,681.7	\$169,043.3	\$34,638.3	83.0%
2044	\$17,358.8	\$8,956.7	51.6%	\$1,562.3	\$203,973.4	\$176,080.9	\$27,892.5	86.3%
2045	\$17,745.3	\$9,156.2	51.6%	\$1,597.1	\$204,032.8	\$183,629.5	\$20,403.3	90.0%
2046	\$18,175.8	\$1,384.3	7.6%	\$1,635.8	\$203,924.6	\$183,532.1	\$20,392.5	90.0%

\* Total State Contributions for FY 2022 and FY 2023 include the minimum benefit reimbursements of \$400,000 and \$300,000, respectively.

**FUNDING PROJECTIONS FOR THE STATE EMPLOYEES' RETIREMENT SYSTEM**  
**Projections Based on the Retirement System's FY 2021 Preliminary Actuarial Valuation**  
**Actuarially Assumed Rate of Return: 6.75%**  
**(\$ in Millions)**

Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$4,798.9	\$2,574.8	53.7%	\$270.6	\$53,175.0	\$23,411.0	\$29,764.0	44.0%
<b>2023</b>	<b>\$4,870.3</b>	<b>\$2,593.8</b>	<b>53.3%</b>	<b>\$272.7</b>	<b>\$54,449.0</b>	<b>\$25,320.0</b>	<b>\$29,129.0</b>	<b>46.5%</b>
2024	\$4,948.4	\$2,462.0	49.8%	\$275.2	\$55,656.0	\$27,172.0	\$28,484.0	48.8%
2025	\$5,027.9	\$2,440.0	48.5%	\$277.6	\$56,786.0	\$29,025.0	\$27,761.0	51.1%
2026	\$5,114.1	\$2,427.0	47.5%	\$280.6	\$57,830.0	\$30,103.0	\$27,727.0	52.1%
2027	\$5,203.2	\$2,410.0	46.3%	\$283.6	\$58,784.0	\$31,092.0	\$27,692.0	52.9%
2028	\$5,296.9	\$2,448.0	46.2%	\$286.9	\$59,651.0	\$32,051.0	\$27,600.0	53.7%
2029	\$5,398.4	\$2,491.0	46.1%	\$290.8	\$60,432.0	\$32,988.0	\$27,444.0	54.6%
2030	\$5,504.1	\$2,532.0	46.0%	\$295.1	\$61,132.0	\$33,906.0	\$27,226.0	55.5%
2031	\$5,615.7	\$2,577.0	45.9%	\$299.8	\$61,750.0	\$34,814.0	\$26,936.0	56.4%
2032	\$5,730.9	\$2,630.0	45.9%	\$304.5	\$62,293.0	\$35,731.0	\$26,562.0	57.4%
2033	\$5,849.3	\$2,689.0	46.0%	\$309.1	\$62,757.0	\$36,663.0	\$26,094.0	58.4%
2034	\$5,973.4	\$2,941.0	49.2%	\$314.1	\$63,147.0	\$37,819.0	\$25,328.0	59.9%
2035	\$6,101.8	\$3,004.0	49.2%	\$319.3	\$63,463.0	\$39,025.0	\$24,438.0	61.5%
2036	\$6,231.9	\$3,068.0	49.2%	\$324.4	\$63,704.0	\$40,289.0	\$23,415.0	63.2%
2037	\$6,366.3	\$3,134.0	49.2%	\$329.6	\$63,877.0	\$41,628.0	\$22,249.0	65.2%
2038	\$6,507.0	\$3,203.0	49.2%	\$335.2	\$63,989.0	\$43,059.0	\$20,930.0	67.3%
2039	\$6,652.5	\$3,275.0	49.2%	\$340.9	\$64,046.0	\$44,600.0	\$19,446.0	69.6%
2040	\$6,804.8	\$3,350.0	49.2%	\$347.0	\$64,060.0	\$46,273.0	\$17,787.0	72.2%
2041	\$6,964.1	\$3,428.0	49.2%	\$353.6	\$64,042.0	\$48,102.0	\$15,940.0	75.1%
2042	\$7,130.5	\$3,510.0	49.2%	\$360.5	\$64,003.0	\$50,111.0	\$13,892.0	78.3%
2043	\$7,303.0	\$3,595.0	49.2%	\$367.8	\$63,951.0	\$52,325.0	\$11,626.0	81.8%
2044	\$7,480.5	\$3,683.0	49.2%	\$375.4	\$63,896.0	\$54,768.0	\$9,128.0	85.7%
2045	\$7,661.6	\$3,772.0	49.2%	\$383.0	\$63,844.0	\$57,463.0	\$6,381.0	90.0%

Note: Pursuant to P.A. 93-0589, State contributions for FY 2022 and FY 2023 include \$104.517 million and \$109.242 million, respectively for debt service for the 2003 Pension Obligation Bonds authorized by P.A. 93-0002. State contribution amounts shown for FY 2024 - 2045 do not include debt service as these amounts are not known until the annual SERS preliminary certification letters are issued pursuant to P.A. 97-0694 (State Actuary Law).

**FUNDING PROJECTIONS FOR THE STATE UNIVERSITIES RETIREMENT SYSTEM**  
**Projections Based on the Retirement System's FY 2021 Preliminary Actuarial Valuation**  
**Actuarially Assumed Rate of Return: 6.50%**  
**(\$ in Millions)**

Fiscal Year	Annual Payroll*	Total State Contribution**	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$4,906.8	\$2,101.3	42.8%	\$296.4	\$49,699.4	\$22,687.8	\$27,011.6	45.7%
<b>2023</b>	<b>\$4,994.3</b>	<b>\$2,125.3</b>	<b>42.6%</b>	<b>\$298.3</b>	<b>\$50,469.6</b>	<b>\$23,919.4</b>	<b>\$26,550.2</b>	<b>47.4%</b>
2024	\$5,097.8	\$2,184.6	42.9%	\$301.1	\$51,174.3	\$25,153.9	\$26,020.5	49.2%
2025	\$5,210.6	\$2,187.7	42.0%	\$304.6	\$51,806.0	\$26,483.3	\$25,322.6	51.1%
2026	\$5,328.8	\$2,191.0	41.1%	\$308.7	\$52,364.6	\$27,126.5	\$25,238.1	51.8%
2027	\$5,452.0	\$2,185.4	40.1%	\$313.1	\$52,851.0	\$27,703.5	\$25,147.5	52.4%
2028	\$5,579.9	\$2,239.4	40.1%	\$317.8	\$53,264.1	\$28,273.6	\$24,990.6	53.1%
2029	\$5,712.1	\$2,295.0	40.2%	\$322.8	\$53,605.4	\$28,843.6	\$24,761.8	53.8%
2030	\$5,847.9	\$2,352.0	40.2%	\$328.0	\$53,866.9	\$29,411.6	\$24,455.3	54.6%
2031	\$5,985.6	\$2,408.6	40.2%	\$333.2	\$54,045.4	\$29,978.5	\$24,066.9	55.5%
2032	\$6,128.2	\$2,469.0	40.3%	\$338.6	\$54,147.4	\$30,559.3	\$23,588.1	56.4%
2033	\$6,278.3	\$2,533.2	40.3%	\$344.4	\$54,179.1	\$31,169.4	\$23,009.7	57.5%
2034	\$6,432.7	\$2,598.2	40.4%	\$350.3	\$54,143.8	\$31,818.2	\$22,325.5	58.8%
2035	\$6,590.2	\$2,664.6	40.4%	\$356.2	\$54,042.2	\$32,514.4	\$21,527.8	60.2%
2036	\$6,749.9	\$2,731.9	40.5%	\$362.3	\$53,877.2	\$33,268.8	\$20,608.4	61.7%
2037	\$6,913.7	\$2,801.1	40.5%	\$368.4	\$53,731.2	\$34,173.6	\$19,557.5	63.6%
2038	\$7,081.7	\$2,872.1	40.6%	\$374.6	\$53,534.5	\$35,169.1	\$18,365.4	65.7%
2039	\$7,254.5	\$2,945.1	40.6%	\$381.1	\$53,296.0	\$36,274.3	\$17,021.7	68.1%
2040	\$7,432.7	\$3,020.4	40.6%	\$387.9	\$53,022.0	\$37,506.1	\$15,515.9	70.7%
2041	\$7,618.4	\$3,098.7	40.7%	\$395.0	\$52,724.5	\$38,888.1	\$13,836.4	73.8%
2042	\$7,808.7	\$3,178.9	40.7%	\$402.5	\$52,416.3	\$40,443.6	\$11,972.7	77.2%
2043	\$8,003.8	\$3,261.0	40.7%	\$410.2	\$52,108.6	\$42,195.8	\$9,912.7	81.0%
2044	\$8,202.5	\$3,344.5	40.8%	\$418.0	\$51,811.9	\$44,167.6	\$7,644.3	85.2%
2045	\$8,405.0	\$3,429.6	40.8%	\$426.0	\$51,536.3	\$46,382.6	\$5,153.6	90.0%

\* The Self-Manged Plan (SMP) has been renamed the Retirement Savings Plan (RSP), effective September 1, 2020. Payroll projections include RSP payroll. 45% of academic and 25% of non-academic new SURS members are assumed to enter RSP.

\*\* Includes RSP Contributions.

**FUNDING PROJECTIONS FOR THE JUDGES' RETIREMENT SYSTEM**  
**Projections Based on the Retirement System's FY 2021 Preliminary Actuarial Valuation**  
**Actuarially Assumed Rate of Return: 6.50%**  
**(\$ in Millions)**

Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$156.6	\$152.4	97.3%	\$14.0	\$2,966.7	\$1,333.3	\$1,633.4	44.9%
<b>2023</b>	<b>\$155.2</b>	<b>\$142.7</b>	<b>91.9%</b>	<b>\$13.9</b>	<b>\$3,005.6</b>	<b>\$1,424.0</b>	<b>\$1,581.7</b>	<b>47.4%</b>
2024	\$155.1	\$141.2	91.0%	\$14.0	\$3,037.1	\$1,509.0	\$1,528.1	49.7%
2025	\$155.1	\$139.6	90.0%	\$14.0	\$3,060.6	\$1,591.8	\$1,468.8	52.0%
2026	\$155.3	\$137.2	88.3%	\$14.2	\$3,076.2	\$1,626.3	\$1,449.9	52.9%
2027	\$155.7	\$134.2	86.2%	\$14.0	\$3,083.1	\$1,652.1	\$1,431.1	53.6%
2028	\$156.0	\$134.5	86.2%	\$13.9	\$3,082.8	\$1,672.9	\$1,409.9	54.3%
2029	\$157.0	\$135.4	86.2%	\$13.9	\$3,075.1	\$1,689.8	\$1,385.3	55.0%
2030	\$158.2	\$136.4	86.2%	\$14.2	\$3,060.5	\$1,703.2	\$1,357.3	55.7%
2031	\$159.5	\$137.5	86.2%	\$14.3	\$3,039.5	\$1,713.7	\$1,325.8	50.3%
2032	\$161.1	\$138.9	86.2%	\$14.8	\$3,011.8	\$1,722.0	\$1,289.8	57.2%
2033	\$162.8	\$140.3	86.2%	\$15.3	\$2,978.4	\$1,729.0	\$1,249.4	58.1%
2034	\$164.7	\$142.0	86.2%	\$15.9	\$2,939.9	\$1,736.0	\$1,203.9	59.0%
2035	\$167.0	\$143.9	86.2%	\$16.4	\$2,897.1	\$1,744.0	\$1,153.1	60.2%
2036	\$169.5	\$146.1	86.2%	\$17.0	\$2,850.6	\$1,754.2	\$1,096.5	61.5%
2037	\$172.2	\$148.5	86.2%	\$17.5	\$2,801.0	\$1,767.4	\$1,033.6	63.1%
2038	\$175.1	\$150.9	86.2%	\$18.1	\$2,748.8	\$1,784.9	\$963.9	64.9%
2039	\$178.1	\$153.6	86.2%	\$18.6	\$2,694.8	\$1,807.9	\$887.0	67.1%
2040	\$181.4	\$156.4	86.2%	\$19.1	\$2,639.8	\$1,837.7	\$802.1	69.6%
2041	\$184.9	\$159.4	86.2%	\$19.6	\$2,584.9	\$1,875.9	\$709.0	72.6%
2042	\$188.5	\$162.5	86.2%	\$20.2	\$2,530.4	\$1,923.8	\$606.6	76.0%
2043	\$192.3	\$165.7	86.2%	\$20.7	\$2,477.2	\$1,982.7	\$494.5	80.0%
2044	\$196.2	\$169.1	86.2%	\$21.2	\$2,425.7	\$2,053.9	\$371.8	84.7%
2045	\$200.3	\$172.6	86.2%	\$21.7	\$2,376.6	\$2,138.9	\$237.7	90.0%

**FUNDING PROJECTIONS FOR THE GENERAL ASSEMBLY RETIREMENT SYSTEM**  
**Projections Based on the Retirement System's FY 2021 Preliminary Actuarial Valuation**  
**Actuarially Assumed Rate of Return: 6.50%**  
**(\$ in Millions)**

Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Actuarial Value of Assets	Unfunded Liabilities	Funded Ratio
2022	\$9.7	\$27.8	285.9%	\$1.1	\$371.8	\$79.9	\$292.0	21.5%
<b>2023</b>	<b>\$9.8</b>	<b>\$27.2</b>	<b>278.7%</b>	<b>\$1.1</b>	<b>\$369.3</b>	<b>\$86.9</b>	<b>\$282.5</b>	<b>23.5%</b>
2024	\$9.6	\$26.3	274.9%	\$1.1	\$366.0	\$92.8	\$273.2	25.4%
2025	\$9.3	\$25.4	271.8%	\$1.1	\$361.9	\$97.9	\$264.0	27.1%
2026	\$9.2	\$24.8	269.2%	\$1.1	\$357.2	\$100.3	\$256.9	28.1%
2027	\$9.1	\$24.1	266.1%	\$1.0	\$352.0	\$101.9	\$250.1	29.0%
2028	\$9.0	\$24.0	266.2%	\$1.0	\$346.2	\$103.4	\$242.8	29.9%
2029	\$8.9	\$23.8	266.2%	\$1.0	\$339.9	\$104.6	\$235.3	30.8%
2030	\$8.8	\$23.3	266.1%	\$1.0	\$333.0	\$105.4	\$227.6	31.7%
2031	\$8.8	\$23.2	264.3%	\$1.0	\$325.9	\$106.3	\$219.6	32.6%
2032	\$8.7	\$22.8	262.7%	\$1.0	\$318.3	\$107.0	\$211.3	33.6%
2033	\$8.7	\$22.8	263.2%	\$1.0	\$310.5	\$108.0	\$202.5	34.8%
2034	\$8.7	\$23.1	266.2%	\$1.0	\$302.4	\$109.6	\$192.8	36.2%
2035	\$8.7	\$23.1	266.1%	\$1.0	\$294.0	\$111.6	\$182.4	38.0%
2036	\$8.7	\$23.0	266.1%	\$1.0	\$285.6	\$114.1	\$171.4	40.0%
2037	\$8.8	\$23.3	266.2%	\$1.0	\$277.0	\$117.6	\$159.4	42.5%
2038	\$8.7	\$23.3	266.2%	\$1.0	\$268.3	\$121.8	\$146.6	45.4%
2039	\$8.8	\$23.5	266.3%	\$1.0	\$259.8	\$127.1	\$132.6	48.9%
2040	\$8.9	\$23.8	266.2%	\$1.0	\$251.2	\$133.7	\$117.5	53.2%
2041	\$9.0	\$24.1	266.2%	\$1.0	\$242.9	\$141.7	\$101.2	58.3%
2042	\$9.1	\$24.3	266.1%	\$1.1	\$234.7	\$151.3	\$83.5	64.4%
2043	\$9.2	\$24.6	266.0%	\$1.1	\$226.9	\$162.5	\$64.4	71.6%
2044	\$9.3	\$24.8	266.2%	\$1.1	\$219.3	\$175.5	\$43.8	80.0%
2045	\$9.6	\$25.5	266.1%	\$1.1	\$212.1	\$190.9	\$21.2	90.0%



## Appendix A



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November 15, 2021

### Via Email

Clayton Klenke  
Executive Director  
Commission on Government Forecasting and Accountability  
703 Stratton Office Bldg.  
Springfield, IL 62706

### Re: Opinion on 90% Funding Target under Illinois Pension Code

Dear Clayton:

As required by ILCS Sec. 1-103.3(c), we are writing to provide our opinion as to whether the 90% funding ratio under the Illinois Pension Code statutory funding policy represents an appropriate goal for State-funded retirement systems in Illinois. We believe that the 90% funding ratio goal, along with the actuarial methods used to determine the statutory funding contributions, is **not** an appropriate goal and recommend that a funding policy be adopted to provide for adequate funding of the Illinois plans that currently receive funding based on this 90% target.

### Funding Adequacy

The employer contribution rates are determined in accordance with the funding policy specified under the Illinois Pension Code. The employer contributions are determined such that, together with the member contributions, the plans are projected to achieve 90% funding by 2045. We strongly recommend an actuarial funding method that targets 100% funding of the **existing** Unfunded Actuarial Accrued Liability (UAAL) over a time horizon not to exceed 25 years and preferably less than or equal to 20 years. Generally, this implies payments that will ultimately cover normal cost, interest on the unfunded actuarial accrued liability, and the principal balance. Furthermore, we recommend that the funding method be changed such that the contribution is equal to the Normal Cost of **current** active members plus the amortization of the **existing** UAAL. Under the current funding method, contributions are determined based on a **projection** of liabilities and assets to 2045 that includes **future hypothetical** Tier 2 members with lower Normal Cost.

The State's Actuary, Cheiron, has also recommended that the funding target be modified to 100% and we concur with their recommendation.

### Funding Policy

A funding policy outlines the parameters for calculating an actuarially determined contribution rate and ensures the systematic funding of future benefit payments. An actuarially determined contribution is comprised of the Normal Cost and an amortization of the Unfunded Actuarial Accrued Liability. These amounts are determined by the three funding policy components:

- *Actuarial Cost Method*: The Actuarial Cost Method allocates the total present value of future benefits to each year (Normal Cost) including all past years (Actuarial Accrued Liability or AAL)
- *Asset Smoothing Method*: The techniques that spread the recognition of investment gains or losses over a period of time for the purposes of determining the Actuarial Value of Assets used in the actuarial valuation
- *Amortization Policy*: The method on how, in terms of duration and pattern, to fund the Unfunded Actuarial Accrued Liability

### Historical Underfunding by the State

The Illinois Pension Code sets the parameters for funding the Illinois plans. The employer contributions are determined such that, together with the member contributions, the systems are projected to achieve 90% funding by 2045. The 2045 funding objective of 90% was set in 1994 as a 50-year objective.

The State has historically underfunded the systems by the use of funding policies that do not provide for adequate funding and include:

- Establishing a 50 year period in 1994, over which to amortize the Unfunded Actuarial Accrued Liability
- Back loading the 50 year period by requiring a 15-year period to ramp up contributions
- Setting a funding target of 90% of the actuarial accrued liability (as opposed to 100%)
- Requiring the use of the projected unit cost method, which further back loads the contributions as compared to the entry age cost method, which is a level cost funding method
- Imposing a maximum contribution based upon Pension Obligation Bond (POB) debt payments
- Reducing contributions for fiscal years ended June 30, 2006 and 2007
- Modifying the asset valuation method to reduce contributions for the fiscal year ended June 30, 2011; further reducing FY 2011 contributions by requiring the systems to recertify the 2009 valuation to assume that Tier 2 had been in effect in 2009
- Requiring that the Tier 2 benefit provisions be fully reflected in the determination of the contribution before the reduction in benefit payments occurs, resulting in reduced contributions
- Reducing contributions by phasing in the effect of increased liabilities as a result of assumption changes

**Summary**

We strongly believe that the 90% funding ratio goal, along with the actuarial methods used to determine the statutory funding contributions for the Illinois pension plans, is **not** an appropriate goal. We recommend that a funding policy be adopted that will provide for adequate funding of the Illinois plans.

Please let us know if you have any questions.

Sincerely,



Matthew A. Strom, FSA, MAAA, EA  
Senior Vice President and Actuary

cc: Mr. Dan Hankiewicz  
Ms. Kim Nicholl  
Mr. David Nickerson



October 27, 2021

Clayton Klenke, Executive Director  
Commission on Government Forecasting and Accountability  
802 Stratton Office Building  
Springfield, IL 62706

Director Klenke:

Effective August 22, 1994, Public Act 88-0593 ("the Act") established a targeted funding ratio of 90% of assets to liabilities for each of the state funded retirement systems by June 30, 2045 and required annual maintenance of this funding ratio beginning on July 1, 2045. The Act also called for the targeted funding ratio to be reviewed every five years in consultation with the systems and the Governor's Office of Management and Budget.

We continue to strongly recommend raising the targeted funded ratio to 100% of assets to liabilities. The 1994 law established a targeted funding ratio of 90% because it was the average funded ratio for public retirement systems at the time. However, the actuarially-determined funding goal for those retirement systems was 100% at that time, as it is today. The Illinois retirement systems stand in agreement with the public sector retirement community and the actuarial profession when we urge full funding of all of the benefits our members have earned.

We note that public sector retirement funding standards have become more stringent since 1994. For example, amortization periods shorter than 30 years are recommended for eliminating unfunded liabilities. Earlier funding, in addition to a targeted funding ratio of 100%, would make the retirement systems more secure and would substantially reduce financing costs due to interest accruing on the unfunded liability, the primary driver of state contribution requirements.

Beginning in 2012, pursuant to 30 ILCS 5/2-8.1, the state actuary has reviewed and commented on the work performed by the actuaries of the state-funded pension systems. In every instance, they have found the assumptions used by our actuaries in their calculations to be reasonable. The state actuary also agrees that the required state contribution calculated each year complies with Illinois statutes. More significantly than these positive findings, the state actuary has noted annually that Illinois funding law mandates inadequate funding and that its provisions do not follow Actuarial Standards of Practice. They, along with us, strongly urge that the law be changed to require funding of 100% of the accrued liability based on generally accepted actuarial principles each and every year.

We would be happy to discuss these issues with you or your staff at any time.

Very truly yours,

Suzanne Mayer  
Interim Executive Director  
State Universities Retirement System

Timothy B. Blair  
Executive Secretary  
State Retirement Systems

R. Stanley Rupnik  
Executive Director/Chief Investment Officer  
Teachers' Retirement System

cc: Clayton Klenke, Commission on Government Forecasting and Accountability  
Frank J. Mautino, Auditor General  
Mike Noble, Cheiron



STATE OF ILLINOIS  
EXECUTIVE OFFICE OF THE GOVERNOR  
**GOVERNOR'S OFFICE OF MANAGEMENT AND BUDGET**  
SPRINGFIELD 62706

**JB PRITZKER**  
GOVERNOR

**ALEXIS STURM**  
DIRECTOR

Senator David Koehler  
Co-Chair, CGFA  
323B Capitol Building  
Springfield, IL 62706

Representative C.D. Davidsmeyer  
Co-Chair, CGFA  
202-N Stratton Office Building  
Springfield, IL 62706

Dear Senator Koehler and Representative Davidsmeyer:

When signed into law in 1994, Public Act 88-593 created for the five state funded retirement systems a pension funding schedule paid over 50 years - starting in 1995 and culminating with a goal of 90 percent funded in 2045. The plan included a 15-year phase-in period that lasted until 2010, with relatively low contributions that have resulted in an increase in the unfunded liability for the state's pension systems. Additionally, significant changes in the retirement systems' actuarial assumptions have shifted up the cost curve of the contributions and increased the estimates of the unfunded liability for the systems.

Illinois is over halfway through the 50-year funding plan. The State has steadily honored its commitments to make contributions to the systems, while addressing the cost pressures through the enactment of the Tier 2 benefit package, providing some cash buyouts and shifting investment portfolios to less volatile combinations.

Consideration of any changes to the funding ratio goal of 90 percent needs to be reviewed carefully within the context of the impact on the state's budget. A decrease in the goal would result in slightly lower payments than the current ones - ones that the state is able to presently maintain - but would translate into a higher unfunded liability in 2045 and higher interest costs over the long-term to the state's taxpayers. It would also impact Illinois' credit worthiness. An increase in the goal would result in higher payments, but eventually lead to a reduction in the unfunded liabilities in the systems. Given the current fiscal pressures facing the state, this too is inadvisable to consider until Illinois can eliminate the unpaid bill backlog, borrowings undertaken to pay off the debts remaining from the budget impasse and the COVID-driven recession and address the underlying structural deficit.

Therefore, at this time, the 90 percent funding ratio continues to be a reasonable and achievable goal for the State of Illinois pensions systems.

Sincerely,

*Alexis Sturm*

Alexis Sturm  
Director, Governor's Office of Management and Budget