



Chicago Teachers' Pension Fund

203 North La Salle Street, suite 2600 | Chicago, Illinois 60601-1231

April 19, 2010

Governor Quinn signed Senate Bill 1946, now Public Act 96-0889, into law on April 14, 2010.

This law creates a second tier of benefits for Chicago Teachers' Pension Fund (CTPF) members who join covered employment on or after January 1, 2011. The law also dramatically cuts the Chicago Public Schools' required pension contributions to CTPF.

Our office has received many calls from concerned members worried about the impact of this law. I want to address these concerns, clarify CTPF's position on pension funding, and outline some steps you can take to protect your pension.

Public Act 96-0889

Two-Tier System: Public Act 96-0889 outlines a two-tier pension system that offers a different set of benefits for anyone hired on or after January 1, 2011. **The law does not change benefits for current CTPF members.**

Pension Funding Cuts: Public Act 96-0889 cuts critical pension funding for the Chicago Teachers' Pension Fund (CTPF) by more than \$1.2 billion over the next 3 years, while increasing the Chicago Public Schools (CPS) long-term pension indebtedness by more than \$12 billion.

Why does CPS owe so much to CTPF?

Our pension is currently underfunded due to two main factors. CPS sought and received budget relief from the Illinois legislature in 1995. This costly measure redirected more than \$2 billion in pension funding directly into the CPS operating budget. Lawmakers in 1995 understood the potential danger posed by underfunded pensions, so they added two measures designed to ensure long-term pension stability. The law required CPS to make pension contributions when pension funding fell below 90%, and the state declared its intent to provide Chicago's teachers with 20-30% of funds allocated to the downstate system.

Unfortunately, the safety measures designed to protect pensions failed. CPS did not contribute to the pension fund for a decade, nor did it adequately plan for future pension obligations. State funding for Chicago teacher pensions has actually declined since 1995. Chicago teachers received a state contribution of \$37.5 million in 2009, less than 2% of the \$2 billion awarded to the downstate Teachers Retirement System (TRS).

The combination of inadequate CPS contributions and a lack of state funding has caused the funded ratio for CTPF to drop from 100% in 1995 to 73% in 2009. The budget cuts outlined in Public Act 96-0889 will further reduce CTPF's funded ratio to dangerously low levels.

State of Illinois law requires CPS to make contributions to CTPF when our funded ratio falls below 90%. CPS must pay our fund approximately \$307 million dollars by June 2010. The amount would have increased to \$587 million by June 2011. Public Act 96-0889 lowered the CPS contribution to \$187 million for 2011, \$192 million in 2012, and \$196 million in 2013.

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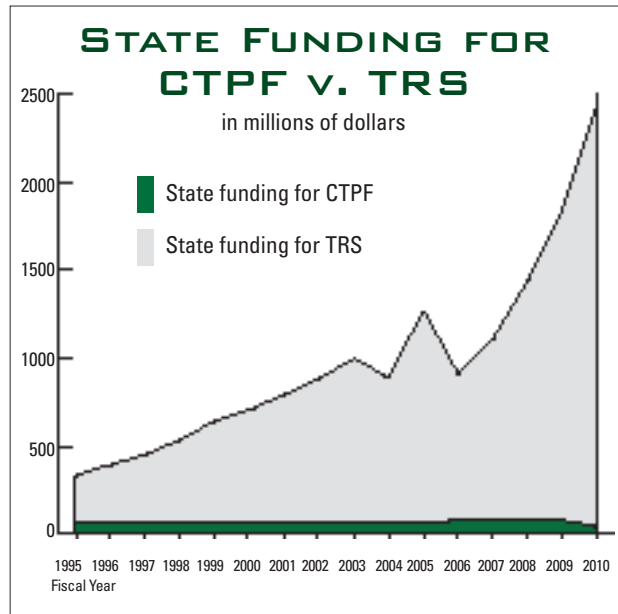
Kevin B. Huber
executive director

How can we fix pension funding?

The most appropriate way to secure pensions and to provide budget relief for CPS is to increase the funding CTPF receives from the State of Illinois. CTPF recently fought for the passage of Illinois House Bill 4582. This bill mandated that the state fulfill its obligation and make annual contributions to CTPF of an amount equal to 20% of the amount of the annual state contribution to TRS. The House defeated this legislation (71 to 42) on March 18.

CTPF will continue to lobby for legislation that provides fair funding for Chicago's teachers. An increase in state funding would stabilize future pension funding, reduce the amount that the employer, CPS, is required to pay, and more equitably distribute state funds to Illinois teachers.

Finally, we will continue to ask legislators to correct the inadequate funding caused by Public Act 96-0889 and to reestablish reasonable contributions from CPS. These contributions must be based on amounts agreed upon by both parties, not arbitrary figures.



Protect Retiree Health Insurance

Each year CTPF strives to rebate 70% of retirees' health insurance premium costs. Illinois law limits the amount CTPF can spend for this purpose to \$65 million annually (plus any amount not previously spent).

A bill currently in the Illinois House of Representatives, HB 4826, increases the maximum amount CTPF can spend on retiree health insurance premium subsidies from \$65 to \$100 million. This measure does not ask the legislature for new funds, but allows CTPF to spend more of its budget.

The health insurance premium subsidy was capped at \$65 million in 2003-2004 when CTPF supported about 18,500 pensioners. Today, the number has grown to more than 24,000. CTPF will be forced to reduce the 70% subsidy without this measure.

Three ways you can help

The Chicago Teachers' Pension Fund is governed by laws set by the State of Illinois. Changes to CTPF operations and funding come through legislation. You can help fight the current funding challenges by contacting your local legislators and state legislative leaders.

1. Stay up-to-date on pension issues. Introduce yourself to your state legislators and educate them on fair funding, the need for CPS pension contributions, and CTPF health insurance funding.
2. Visit www.ctpf.org and register for e-mail updates. As issues arise, CTPF will post current information and send e-mail alerts to subscribers.
3. Call Speaker of the House Michael Madigan, 217.782.5350 or 773.581.8000; and Senate President John J. Cullerton, 217.782.2728 or 773.883.0770. Voice your anger over the funding cuts in Public Act 96-0889, and share your support for HB 4826.

Pushing pension debt into the future only exacerbates a difficult situation. We need leadership willing to make difficult, but sound decisions during these challenging times. We cannot continue to balance budgets for CPS and the state by mortgaging retirement pensions. We need your help to make sure our leadership in Springfield understands this message.

Sincerely,

Kevin B. Huber, executive director