



Chicago Teachers' Pension Fund

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

April 6, 2009

Dear CTPF Member:

Many of our members have become alarmed by recent media reports that the Chicago Public Schools (CPS) may seek legislative budget relief through a "pension holiday."

While we understand CPS faces a difficult financial situation, these difficulties do not justify neglecting the basic commitments made to Chicago's teachers and pensioners. The trustees and supporters of the Chicago Teachers' Pension Fund (CTPF) believe that reducing payments to CTPF through a "pension holiday" will create additional long-term financial issues for CPS and could jeopardize future pension security.

I write to you today to inform you of the current situation, and to ask you to write, call, e-mail, or visit your Illinois lawmakers to demonstrate your support for CTPF funding.

Pension Holiday – a Painful History Lesson

Prior to 1995, CTPF received a portion of the City of Chicago's tax levy to fund teacher's pensions. In 1995, CPS faced financial difficulties and sought budget relief through the Illinois legislature. At that time, CPS convinced lawmakers to redirect CTPF's portion of the tax levy to the CPS operating budget.

From 1995 until 2005, CPS received more than \$1.4 billion from the tax designated to fund Chicago teacher's pensions. During this 10-year "pension holiday" period, CPS made NO employer contributions to CTPF. Without employer contributions, CTPF relied on employee contributions, strong investment returns, and state contributions to fund pensions.

Solid investment returns and prudent management allowed CTPF to maintain a strong financial position for many years, but without revenue from the tax levy, our financial position weakened. Changing membership demographics and the recent economic turmoil caused our funded ratio to drop (in accounting terms) from 100% in 1999 to 79% in 2008. Our funded ratio, a measure of financial health, compares the money we have in the bank with the money we owe members. Had we received the \$1.4 billion from the tax levy, our current funded ratio would be close to 90%.

Fortunately, the 1995 law has a safety net. It states that when CTPF's funding ratio falls below 90%, CPS must resume employer contributions to the fund. Since 2006, CPS has been required to make contributions to CTPF to bring our funded ratio to 90% by 2045. In 2010, CPS will owe CTPF members and pensioners more than \$300 million. This amount will grow to more than \$500 million in 2011.

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The Trustees of the Chicago Teachers' Pension Fund, along with Marilyn Stewart, President, Chicago Teachers Union; Robert F. Bures, Executive Director, Retired Teachers Association of Chicago; and Clarice Berry, President, Chicago Principals and Administrators Association, wrote to Governor Quinn, state legislative leaders, and Chicago's Mayor Daley to ask that CPS be required to uphold its financial obligations to CTPF. In addition, our trustees and supporters have made it clear that CPS should negotiate in a transparent and open manner if it seeks budgetary relief from the legislature.

Increase State Funding

While the state faces difficult funding choices and the CPS system has well-documented budget issues, we believe that funding pensions makes long-term financial sense for Illinois. Pensions offer an efficient vehicle for providing post-retirement income and ensure that legions of retirees can lead independent and productive lives.

The most appropriate method of providing budget relief to CPS and securing Chicago teachers' future pensions is to increase state funding to CTPF. Increased state funding would reduce required contributions from CPS. Since 1988, CTPF has received approximately \$65 million annually in state funding. In 1988, that funding equaled approximately \$1,666 per member and represented 26% of the state funding provided to the other major retirement plan, Teachers Retirement System in Springfield (TRS). Adjusting for inflation, the state's \$65 million contribution should have increased to \$118 million in 2008. Instead, CTPF received \$65 million in 2008, approximately \$1,095 per member or 6% of the funding allocated for TRS.

The state must make difficult financial decisions, but we believe the state should continue to appropriate a minimum \$65 million to CTPF for 2009. In addition, if the legislature passes an income tax increase, state support for CTPF should also increase. Our members will bear the burden of a tax increase and should benefit from new tax revenue. Additional state contributions would reduce CPS's future funding requirement and establish a more equitable distribution of state funds to CTPF.

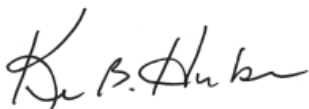
Conclusion

In 2008, the average CTPF pension was approximately \$36,000 – the sole source of post-retirement income for many of our retirees since we do NOT contribute to or receive Social Security benefits. We believe that now, more than ever, CPS must continue to make additional contributions to CTPF, and the state must do its part to secure retirements for Chicago's teachers.

Please offer your support for CTPF by contacting Mayor Daley (if you live in Chicago) and/or your state legislators. Many legislators will return to their hometowns from April 6-20, and we encourage you to send postcards, call, e-mail, or visit local offices. You can locate contact information for your state legislators through a link at www.ctpf.org.

We hope we can count on your support during this critical period to ensure that CPS and the State of Illinois uphold their financial obligations to the teachers of Chicago.

Sincerely,



Kevin B. Huber, executive director
Chicago Teachers' Pension Fund