AARP IN THE STATES

OVERVIEW: Illinois State Employees' Retirement System

The **Illinois State Employees' Retirement System (SRS)** provides a defined benefit (DB) pension for public employees. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

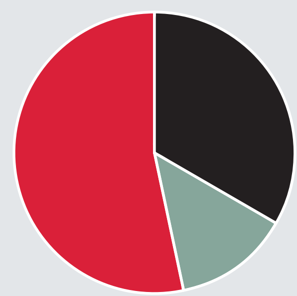
The spending from the pension checks of the 74,770 retired public employees helps support:

$31.6 billion
in economic output in Illinois.

179,144 jobs
paying $10.3 billion in wages supported by retirees' spending from public pensions in Illinois.

$4.7 billion
in federal, state, and local tax revenues based on spending of pension benefits in Illinois.

Pensions are a good deal for taxpayers:
Funding of public employee pensions is shared by employees and employers. New SRS employees contribute 4% or 8% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 33.34% of the cost of pension benefits in Illinois.



Key facts about the plan and its benefits:

62,026
Total active members of Illinois State Employees' Retirement System.

50.1%
After a 30-year career, a pension benefit from SRS will replace 50.1% of an employees' pre-retirement income.

$2,960
Average pension benefit paid to retired SRS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Illinois taxpayers (employers) in these plans supported $4.86 in total economic activity in the state.

$1.00 → **$4.86**

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

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AARP IN THE STATES

PRIMER: Illinois State Employees' Retirement System

The Illinois State Employees' Retirement System (SRS) provides benefits to qualified state employees.

The SRS Pension Works for Illinois Stakeholders

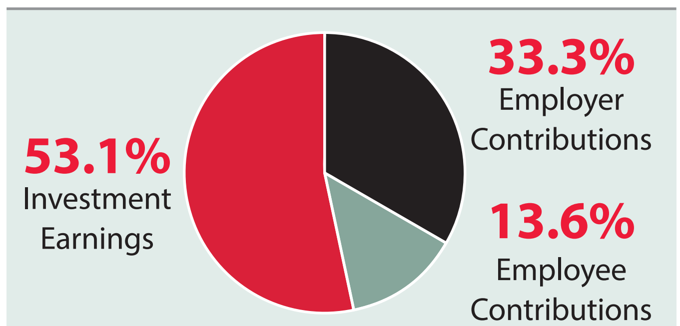
Defined benefit (DB) pensions help recruit and retain effective and experienced public employees, which is essential to delivering high quality service to citizens.

The spending by retired public employees from pension checks supports jobs, greater tax revenues and economic growth in our communities.

Pensions offer employees the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New SRS employees contribute 4% or 8% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 33.34% of the cost of benefits in Illinois.



Pensions Cost Half as Much as a 401(k) Plan

Pensions can provide the same benefit as a 401(k) retirement account at about half the cost because of the following key factors:

10% cost savings from pooling longevity risk + **11%** cost savings from optimal asset allocation + **27%** cost savings due to higher returns and lower fees = **48%** **total cost savings**

Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

SRS Key Facts

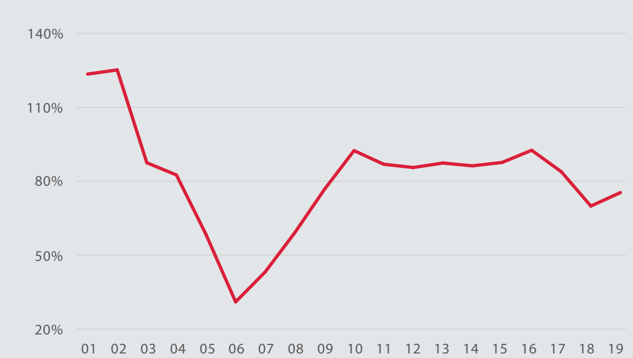
- Illinois SRS serves 62,026 active employees and 74,770 retired members and survivor beneficiaries.
- New employees contribute 4% or 8% of pay to SRS.
- Employers contribute 49.22% to the fund.
- The average monthly retirement benefit for members is $2,960.
- After a 30-year career, a pension benefit from SRS will replace 50.1% of an employee's final average salary.

Historical SRS Funding Experience

Illinois established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, SRS had $18.43 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Illinois Paid 81.35% of Weighted Average Percent of ADC from FY2001-FY2019 for SRS



Illinois Made Plan Changes to SRS in Recent Years

Following the global stock market crash in 2008-2009, Illinois policymakers proactively made changes to SRS to ensure long-term sustainability. These included:

- Each statewide system is directed to offer, from 1/1/18 until 6/30/21, a one-time, irrevocable "accelerated pension payment" to certain plan participants.
- For current active members, the threshold for salary increases used in the determination of final average salary was lowered from 6% to 3%.

The Economic Impact of Illinois Pensions:

$31.6 billion

in economic output generated by retirees' spending from public pensions in Illinois.

179,144 jobs

paying $10.3 billion in wages supported by retirees spending from public pensions in Illinois.

$4.7 billion

in federal, state, and local tax revenues generated by retiree benefits and spending in Illinois.

All data come from retirement system financial reports, Public Plans Database, or the National Institute on Retirement Security.

AARP IN THE STATES

OVERVIEW: Teachers' Retirement System of the State of Illinois

The **Teachers' Retirement System of the State of Illinois (TRS)** provides a defined benefit (DB) pension for teachers. It offers a modest but stable monthly income over a retiree's life. DB pensions help to recruit and retain experienced employees.

The spending from the pension checks of the 122,895 retired public employees helps support:

$31.6 billion
in economic output in Illinois.

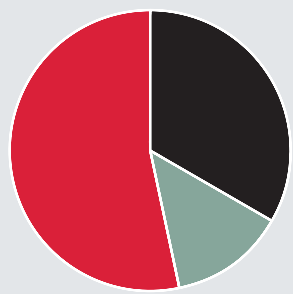
179,144 jobs
paying $10.3 billion in wages supported by retirees' spending from public pensions in Illinois.

$4.7 billion
in federal, state, and local tax revenues based on spending of public pension benefits in Illinois.

Pensions are a good deal for taxpayers:

Funding of teacher pensions is shared by employees and employers. New TRS employees contribute 9% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers (via employer contributions) paid only 33.34% of the cost of pension benefits in Illinois.

53.1% Investment Earnings



33.3% Employer Contributions

13.6% Employee Contributions

Key facts about the plan and its benefits:

160,752
Total active members of Teachers' Retirement System of the State of Illinois.

66%
After a 30-year career, a pension benefit from TRS will replace 66% of an employee's pre-retirement income.

$4,503
Average pension benefit paid to retired TRS members each month.

Pension benefits are a good deal for the economy too:

Each dollar "invested" by Illinois taxpayers (employers) in these plans supported $4.86 in total economic activity in the state.

$1.00 → **$4.86**

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PRIMER: Teachers' Retirement System of the State of Illinois

The Teachers' Retirement System of the State of Illinois (TRS) provides benefits to qualified public school educators.

The TRS Pension Works for Illinois Stakeholders

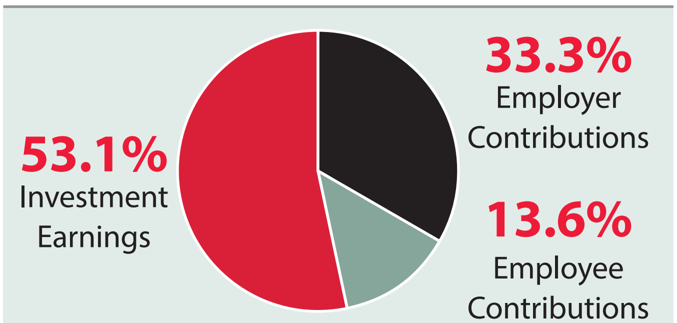
Effective teachers are the cornerstone of education quality, but teachers are underpaid. Pensions help schools keep teachers and compensate for low pay.

Retaining experienced midcareer teachers boosts student performance. Pensions help keep effective midcareer teachers in the classroom, increasing education quality.

Pensions offer teachers the best path to retirement security. They are cost-effective and provide modest lifetime income that will not run out.

Taxpayers Only Pay a Small Part of Pension Costs

The funding of public employee pensions is shared by employees and employers. New TRS employees contribute 9% of their pay into the fund. Over time, investment income earned by the fund does most of the work. In fact, between 1993 and 2018, taxpayers paid only 33.34% of the cost of benefits in Illinois.



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Pensions Disproportionately Benefit Rural Areas

Rural counties have the largest percentage of their population receiving a public pension benefit, as 4.3% of residents in rural areas received benefits in 2018. Excluding counties that are home to a state capitol, public pension benefits in rural and small town counties accounted for a larger share of total personal income than in denser metropolitan counties.

TRS Key Facts

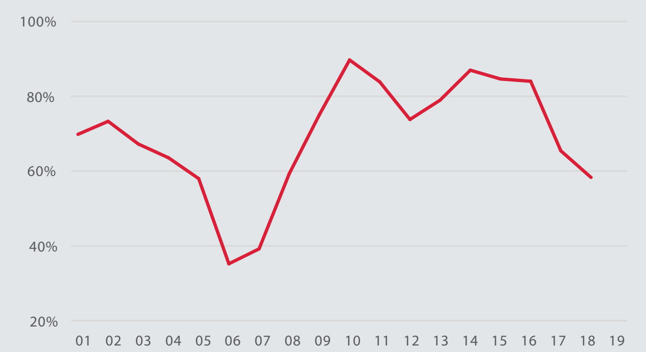
- TRS serves 160,752 active employees and 122,895 retired members and survivor beneficiaries.
- New employees contribute 9% to TRS.
- Employers contribute 33.70% to the fund for employees.
- The average monthly retirement benefit for members is $4,503.
- After a 30-year career, a pension benefit from TRS will replace 66% of final average salary.

Historical TRS Funding Experience

Illinois established long-term funding policies to provide for the cost of public pension benefits. The employee contribution is set by law and the actuary calculates the employers' contributions each year. As of the end of its 2019 year, TRS had $53.39 billion in assets in the fund.

The Actuarially Determined Contribution (ADC) is the amount needed to fund benefits earned in the year and to pay down the plans' unfunded actuarial accrued liability. Paying the full ADC each year is important to ensure that the fund is financially sound over time.

Illinois Paid 70.01% of Weighted Average Percent of ADC from FY2001-FY2019 for TRS



Illinois Made Plan Changes to TRS in Recent Years

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AARP IN THE STATES

Why Pensions Work
for Illinois and Teachers

Pensions Help Deliver Quality Education in Illinois

There are important policy reasons to continue offering teachers defined benefit (DB) pensions. DB pensions give schools an effective tool to retain high-quality, experienced teachers. These teachers are the most important school-based element that provides positive educational outcomes for our children.

Pension benefits provide teachers an incentive to continue delivering quality education to K-12 students. This incentive becomes all the more important over a teaching career as the erosion of teachers' wages, when compared to the wages of similar college-educated workers, widens for more experienced teachers.

Because pensions help attract and retain workers, Illinois can keep skilled teachers in the classroom and empower students to achieve their highest potential. The nationwide teacher shortage is impacting Illinois, as enrollment in traditional teacher preparation programs has *declined by 62%* between 2009-2010 and 2017-2018.

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Pensions Help to Bridge the Teacher Wage Gap

A national study of K-12 public school teachers' wages identified a 19 percent pay gap relative to comparable private sector workers in 2019. At the same time, teachers' benefits, including pensions, help bridge that gap and allow states to attract and retain highly qualified educators by reducing that overall gap in compensation to 10 percent. In Illinois, teachers experience a 18.7% wage gap when compared to other college graduates in the workforce.[2]

19% teacher wage gap **offset by...** 9% teacher benefit advantage **reduces... the teacher compensation gap to 10%**

Americans understand that teacher pensions play an important role in retaining quality teachers and in offsetting the impact of their lower salaries.

83% 83 percent of Americans say pensions are a good way to recruit and retain qualified teachers.

74% 74 percent of Americans agree that teachers deserve pensions to compensate for lower pay.[3]

Pensions Reduce Teacher Turnover and Save Money

Experienced teachers are better teachers. DB pensions help to retain highly productive teachers longer, as compared with individual defined contribution (DC) accounts. Moreover, the cost of teacher turnover is quite high, both in terms of financial cost and loss of productivity to the school district.[4]

5.2%

Percentage of Illinois teachers who leave education.

992

The number of Illinois teachers retained each year due to the DB pension.

$5.2M to $11.4M

Savings created by the DB system through reduced teacher turnover costs in school districts across Illinois.

TRS Key Facts

- TRS serves 160,752 active employees and 122,895 retired members and survivor beneficiaries.
- New employees contribute 9% to the fund.
- Employers contribute 33.70% to the fund.
- The average monthly retirement benefit for members is $4,503.
- TRS has $53.4 billion in assets and $78.1 billion in unfunded actuarial accrued liability.[5]

The Economic Impact of Illinois Pensions

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in economic output generated by retirees' spending from public pensions in Illinois.

179,144 jobs

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$4.7 billion

in federal, state, and local tax revenues based on spending of pension benefits in Illinois.[6]

[1] Weller, C. 2017. "Win-Win: Pensions Effectively Serve American Schools and Teachers." Washington, DC. National Institute of Retirement Security (NIRS).
[2] Allegretto, S. A. and Mishel, L. 2020. "Teacher pay penalty dips but persists in 2019." Washington, DC. Economic Policy Institute.
[3] Oakley, D. and Kenneally, K. 2019. "Retirement Insecurity 2019: Americans' Views of the Retirement Crisis." Washington, DC. NIRS.
[4] Boivie, I. 2017. "Revisiting the Three Rs of Teacher Retirement Systems: Recruitment, Retention, and Retirement." Washington, DC. NIRS.
[5] All data, unless otherwise noted, as of fiscal year ended 2019.
[6] Boivie, I. 2021. "Pensionomics 2021: Measuring the Economic Impact of DB Pension Expenditures." Washington, DC. NIRS.

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