Speaker Turner: "Special Session #5 will come to order. Representative Currie moves that the Attendance Roll Call from Special Session #1 be adopted for Special Session #5. All those in favor should say 'aye'; all those opposed say 'no'. In the opinion of the Chair is the 'ayes' have it and the attendance (sic-Attendance Roll Call) for Special Session #1 is now the attendance (sic-Attendance Roll Call) for Special Session #5. Representative Currie moves that the House resolves into the Committee of the Whole. All those in favor should say 'aye'; all those opposed say 'no'. In the opinion of the Chair, the 'ayes' have it and then now the House moves into the Committee of the Whole. The Chair recognizes Represent… Representative Smith will be appointed the Chair of the Committee of the Whole. The Gentleman from Fulton, Representative Smith, will now be the Chair of the Committee of the Whole and the discussion today is TRS and JRS."

Chairman Smith: "Okay. The Committee of the Whole will come to order. We have before us today representatives of TRS, Mr. Jon Bauman and Andrew Bodewes. At Representative Mitchell's request, we have Kevin Huber, who is Executive Director of the Chicago Teachers Pension Fund. And Mr. Jim Ward, who is from the Retired Teachers Association of Chicago and a trustee of CTRS. So, I'd like to begin with Mr. Huber, if you would have a few opening remarks. And I believe Representative Eddy will be collecting names of Republicans who would like to… or Representative Mitchell. Okay. And

Representative Dugan on the Democratic side. Okay. Mr. Huber, proceed."

Kevin Huber: "Thank you."

Chairman Smith: "Excuse me, Mr… Mr. Huber. Representative Reboletti."

Reboletti: "Are we good? Okay."

Chairman Smith: "Yes. Proceed."

Reboletti: "Thank you… thank you, Mr. Chairman. Sorry. Thank you. A point of personal privilege. I had the honor of, prior to coming over to the chamber, to meet with two (2) constituents of mine who are retired teachers that spent their professional lives teaching the children of this state. I'd like to recognize them, I'm not sure if they are in the gallery at this time, I know they were stopping by is Candace Spade and Columbus Starting. They are retired TRS members. If you would please welcome them to Springfield."

Chairman Smith: "Thank you. Thank you. Mr. Huber, if you'd proceed, please."

Kevin Huber: "Good afternoon, Members of the House. My name is Kevin Huber. I'm executive director and chief investment officer of the Chicago Teachers Pension Fund. It's my privilege to be here before you today. It's my understanding that you've heard from my peer, Jon Bauman, over the last few days and so I would like to present, and hopefully you have in your hands, eight (8) slides to discuss the Chicago Teachers Pension Fund. The first slide I call TCPF Basics. We were established in 1895. We are the second oldest teacher pension system in the United

States. New York is older than us. Our membership, thirty-two thousand (32,000) contributors, twenty-two thousand (22,000) retirees. We have assets of twelve point six billion dollars ($12,600,000,000) and our funded ratio as of June 30, 2006 is 78 percent. When I meet with groups of individuals, I tell them the one method they need to focus on is the funded ratio. When push comes to shove and they get a tremendous volume of paperwork, I tell them just look at the funded ratio and currently, again, we're at 78 percent. But the trend for our funded ratio is problematic. The next page, titled Funded Ratio, Measure of Financial Health details how our funded ratio from 1996, 94 percent; 1997, 100 percent. It's currently in 2006, again, 78 percent. So, the membership asks me, Kevin, what's the problem? The problem could be three things: it could be investments, it could be contributions, or it could be benefits. The next page, Investment Rate of Return, details our investment rate of return from 1996, which is the comparable period where we were 100 percent funded, to today. As you can see, our investment rate of return over that eleven (11) -year period, nine (9) of the years was positive, eight (8) of those years were greater than the actuarial required rate of return of 8 percent. Clearly the problem does not lie in the investment rate of return. The next page is called the Contribution History in Millions. Our contributions are broken down between employee contributions, employer contributions, and State of Illinois contributions. As you can see, in column 1, employee contributions, they have grown from 97.7 million (97,700,000) in 1996 to 163.4 million (163,400,000) in 2006. The employees are contributing their fair share. The employer, primarily Chicago Public Schools, has contributed 10.5 million (10,500,000) in 1996 and their contribution has been very low and insignificant over the entire period of time. You will note in 2006 there's a 42.8 million dollar ($42,800,000) contribution and that is a result of a funding law that I will discuss briefly a little bit later on. The third column, the State of Illinois contributions, as you can see in 1996, sixty-two million (62,000,000), although, it's teetered between sixty-two million (62,000,000) and seventy-five million (75,000,000) over the last decade. A little bit more about the state appropriation and how the Chicago Teachers Pension Fund gets its money from the State of Illinois. As you can see, in fiscal year… in the early '90s, we received approximately 25 percent of what the downstate systems received. Ironically, in the CTPF law it says that the Legislature will make every effort to give Chicago 20 to 30 percent of what the downstate systems receive. Unfortunately, there's been a negative trend over the course of time and as TRS has received their additional funding, Chicago Teachers Pension Fund's funding has remained stable, again, between sixty and seventy million dollars ($60,000,000 and $70,000,000). The next slide is the Chicago Public Schools Required Contributions; they are the employer. The story behind the Chicago Public Schools and their required contributions, again, this slide looks a very, very, very substantial for the employer. However, it needs to be known that in 1995 or prior to 1995 the Chicago Teachers Pension Fund received a property tax levy from the city… from the City of Chicago. This property tax levy was between eighty to a hundred and twenty million dollars ($80,000,000 to $120,000,000) a year, again, this is pre-1995. Coincidentally, our funding ratio was around 100 percent at that point in time. In 1995, that property tax levy was redirected to the employer, Chicago Public Schools, for their operating budget, under the caveat that when the pension fund fell below 90 percent, they would have to start making an annual contribution. Well, now, this is the annual contribution that's required. Again, it's as a result of a 1995 law. So, although the numbers look substantial, please remember that they've had the benefit of a hundred million dollars ($100,000,000) plus or minus for the last decade. Our final slide is the Health Insurance History. And I like to start by thanking this Body for passing House Bill 1231. House Bill 1231 increased the allowable expenditure for health insurance from sixty-five million to seventy-five million (65,000,000 to 75,000,000). We are bound by law about how much we can spend for retiree health insurance. That amount has increased from ten million to twenty-five million to forty million to sixty-five million (10,000,000 to 25,000,000 to 40,000,000 to 65,000,000) over the course of the last two (2) decades. Again, House Bill 1231 passed by this Body increased it to seventy-five million (75,000,000). Unfortunately, that

House Bill stalled in the Senate and we're currently bound by sixty-five million (65,000,000). What's important to note on this… this chart, Health Insurance History, is the rebate percentage pay. Our rebate percentage is typically 85 percent and it's down to 70 percent for the last three (3) years. This is the amount of money we're allowed to rebate our individual retiree, not his family, not his spouse, but the individual retiree. We are capped at sixty-five million (65,000,000) and we do appreciate any consideration in the future for allowing us to raise that cap of sixty-five million (65,000,000). And my final page is CTPF Benefit Basics. I won't cover that page; it's for informational purposes only. I wanna thank this Body for letting me present and I'm open for any questions you may have."

Chairman Smith: "Thank you, Mr. Huber. Ladies and Gentlemen, could we have a little order. Some Members are having a difficult time hearing. Mr. Ward, did you have a few comments?"

James Ward: "Yes. Thank you. My name is James Ward and I'm a retired teacher. I worked in the system forty-five (45) years. I was a teacher for seven (7) years and I was director of the pension fund for thirty (30) years. I'm also a past president of the Retired Teachers Association of Chicago and I'm here today to speak for the twenty-two thousand (22,000) retired Chicago teachers. We are a political organization just as is every pension… public pension plan in the country. And the benefit package that we had promised to our members is the result of political action, which you have done over the last hundred (100) years, you and your predecessors. Before you take any action on changing the very important allocation you make to assist us with our health insurance, you should be aware of this: how it came to be. Since 1895, the pension fund had a statutory promise saying that if you worked twenty-seven (27) years or thirty (30) years in the system, you could retire with half your salary. Well, that was a fine idea for fifty (50) years or seventy (70) years, but then health care costs started growing. And the board of trustees, the governing body of our pension fund, saw this in the mid-'80s and petitioned you for some help to allow us to spend some of the money on the health insurance subsidy. You started us out with three million (3,000,000), then you changed it to six (6,000,000) and you changed it to nine (9,000,000) and then to fifteen (15,000,000), then to twenty-five (25,000,000) and now it's sixty-five (65,000,000). When we started we only had eleven thousand (11,000) pensioners, now we have twenty-two thousand (22,000). It's a critical aspect of the entire package that the Chicago Retired Teachers have. So, without taking too much time of your valuable time I would urge you to be very cautious in upsetting what is a long-established practice as passed by you and your predecessors in this House and the Senate. With my forty-five (45) years of experience, I can tell you our system is working, we've had local control and we've met the needs of our retirees. Please be careful in not doing anything disruptive that might throw them out of the health care market abruptly. Thank you."

Chairman Smith: "Thank you, Mr. Ward. We'll now move to questions and we'll start on the Republican side, if you have questions for either Mr. Huber, Mr. Ward or for TRS. Representative Mitchell, you're recognized for 10 minutes."

Mitchell, J.: "Thank you, Mr. Chairman. Gentlemen, I appreciate you being here. There was several questions that… that came up when Director Bauman was here alone and we felt maybe if… if we could get Director Huber here that we could do some comparisons. You've answered a lot of my questions, Kevin, as you gave your opening remarks. Certainly the size of the systems is… is… there's a tremendous difference and the downstate TRS system is… is much bigger than the Chicago Pension Fund. Can you give us a little history on how we wound up with… with two systems versus a merged system and has that ever been discussed before that teachers would be in a retirement system rather than have one for Chicago and one for everyone else? Not that I wanna do that. I just was curious as to how we wound up with this type of… I don't believe other states have dual systems for… for teachers."

James Ward: "May I answer that one? I think it'd be… it's essentially a question of convention and political precedent. Our pension fund was started before women had the vote. It goes all the way back to 1895 and we have a perfect record of never missing a payment. I think the downstate teachers got started in the '30s and therefore, there was a distinct demographic, political workforce differentiation and the… and they are… and their laws grew separately to meet the needs of the individual groups. The question of merging has been covered many times, but the political conventions in existence tended to mitigate against it. Is it possible? Certainly. Would there be savings? I, personally, don't think so, but it would be perhaps very upsetting for the current beneficiary groups to somehow be merged."

Mitchell, J.: "And why would that be, Sir? Why would it be upsetting as long as we continue to pay the payments, continue to make sure that retirees got their pensions?"

James Ward: "Well, it's been done before. There have been some merges in the State of Illinois, but when the Illinois… the university system took our university teachers in from the junior colleges, they did have a fail-safe device that would prevent them from losing any benefits, but it was still a cumbersome operation administratively."

Mitchell, J.: "So, it… Jon and Kevin, I don't know whether you wanna weigh in on this or not. Can you see any… any benefits of merging the systems or savings that could happen if we did so?"

Kevin Huber: "There clearly would be savings from an investment point of view. Whenever… whenever you can merge assets together, speaking from an investment point of view, there will be savings just because of the fee structure involved in investments. However, our trustees have taken the position against a merger for the sole fact of the differing bargaining agreements that former Executive Director Ward talked about. Chicago has such a vast pool… has such a vastly different contractual structure that they don't feel that the State of Illinois: one, should merge or two, would even wanna take on the Chicago Teachers Pension Fund as a merger candidate. Again, why take on another 20… or 32 percent unfunded liability on the books of the State of Illinois. So, I know our trustees have been adamantly opposed against a merger, but there would be efficiencies from an investment point of view, no question about it."

Mitchell, J.: "In investment strategies, do you two talk and compare notes?"

Jon Bauman: "Periodically. To your previous question about the merger, I might not be as optimistic as Kevin about the potential for savin' money from investments, because in the public markets stocks and bonds, those fees tend to be in tiers, the more you invest the lower the fee and we're already on the lowest tier of fees with a number of our managers and to pick up additional assets from wherever might not lower the fee. So, that, yeah, that may or may not come to pass and there's a cost whenever you merge two (2) pools of assets known as the transition costs and that runs about 1 percent of the assets being merged. And so, that takes awhile to recover in savings and I think that's important to keep in mind whenever you look at these things. To your previous question as far as are there other places that have more than one teacher pension system in a state, there are several. Minnesota has a statewide system, but

St. Paul, Minneapolis, and Duluth each have their own. New York has a statewide system; New York City has their own. So, there's a handful."

Mitchell, J.: "Okay. Thank you. I… I think those that have been in this Body for some time can remember that we've merged departments in hopes of saving money and quite frankly, we haven't seen that yet either. So, I'm not enamored with that idea, I just wanted to get your opinion. I'm really interested in how Chicago Teachers Pension Fund is able to use assets to give retired teachers health insurance when we used to do that with the downstate system and the IRS step… stepped in and said, 'you can't do that because of the unfunded liability.' We were under the assumption that we had to get above 90 percent before we could do that. Mr. Bauman has told us that no, we're gonna have to get 100 percent before we can do that. How does Chicago Teachers Pension Fund use the assets to… to afford insurance for retired teachers differently than downstate?"

Kevin Huber: "We have a separate dedicated revenue source being the State of Illinois to pay for health insurance. The reason we can do that is the appropriation from the state is not specific. It doesn't say sixty-five million (65,000,000) for pension benefits. Remember, we receive 9 percent of contributions from our members. Those are strictly dedicated to pensions. The 9 percent is retirement, survivor, automatic annual increase. Those funds cannot be used. The sixty-five million (65,000,000) can be used and that's why it's critical that we continue to monitor the sixty-five (65,000,000) and increase it. We also have a separate dedicated account. When the sixty-five million (65,000,000) comes in, it is not comingled with the pension fund assets. For investment purposes it is, but if you look at our bank statements from Northern Trust, you'll see health insurance fund, you'll see pension fund and it's critical from the IRS point of view that you don't comingle assets. And finally, there's a requirement… there's many different ways in the IRS. There's a what's called a VEBA trust. There's a grantor trust. There's a 401H. Many of these convections allow you to use pension assets when you're not… underfunded not over the 125 percent or 100 percent requirement to pay for pension or to pay for health insurance out of a pension fund. So, those are… those are the ways that we've established our structure."

Mitchell, J.: "So, basically, it's pretty much the same, because I think Director Bauman said to me before or to someone in this Body that if we were to use funding that comes for that source but is not run through the pension system, then that's okay. Once it's in the system itself, you can't… you can't use any of the dividends or those kinds of assets to back-load the health insurance because of exactly what you said, Kevin. So, there isn't that much difference in the two. The State of Illinois basically is… is still supplying health insurance with a major contribution from the retirees themselves, pretty much the same in both groups. The… the contributions of the two different groups, is it… is it pretty close to the same? I think, Director, you said yours was 9 percent? The Teachers…"

Jon Bauman: "Yeah. Ours was 9.4."

Mitchell, J.: "9.4."

Kevin Huber: "Yeah. Ours are 9 percent."

Mitchell, J.: "Okay. And are those established by law?"

Kevin Huber: "Yes."

Mitchell, J.: "Well, gentlemen, I appreciate you answering my questions and I really appreciate receiving the documents from… from both sides. I appreciate you coming down. It's a wonderful drive. We're making it just about every day now and I hope you enjoyed it. Thank you, Mr. Chairman."

Chairman Smith: "Thank you, Representative Mitchell. Next, we have Representative Mulligan. You're recognized for 5 minutes."

Mulligan: "Thank you, Mr. Chairman. I wanted to talk a little bit about the teachers' insurance program. Is that appropriate for you or is it not?"

Jon Bauman: "That would be mine."

James Ward: "Which one? Downstate or Chicago?"

Mulligan: "TRIP."

Jon Bauman: "That's mine."

Mulligan: "I was informed that there would be a problem with the amount of money that would be owed for the coming year and some of our local teachers were quite concerned about that. And I'm the Minority Spokesman for Human Service Appropriations, so we felt that I should contact Director Maram and ask for an opinion. And so we sent him a letter on May 2 that basically says as a follow-up to the FY '00 (sic- '08) Department of Healthcare and Family Services budget hearing, 'I'm renewing my request for the financial status of the Teachers Retirement Insurance Program. As you know, in 2004 the General Assembly approved Public Act 93-679, which required school districts, active teachers, the state, and the Retired Teachers to contribute to support the Teachers Retirement Insurance Program or TRIP. The legislation specified the annual increases for fiscal years 2005 through 2007 for the four (4) groups supporting the program. Beyond FY 2007, the contribution rates would increase equally among the contributors. The contributions, however, cannot be increased by more than 5 percent annually. Recently, your department informed the four (4) contributing parties that the maximum 5 percent increase would be needed in FY 2008 to keep the insurance fund solvent. Please consider this letter a request for all financial information pertaining to TRP since FY 2005 as well as the fiscal projections beyond FY 2008. It is critical that we maintain the financial integrity as well as the benefit package of the TRIP program for retired teachers. Any trends indicating potential shortfalls in the program now and the future must be identified and resolved to establish reliable and affordable health care for retired teachers.' Now, that letter was sent on May 2, today is July what, 11 and we have not received an answer. Basically, we sent the letter off anticipating the potential a real closing of the budget by May 31 and trying to know what the potential was for the liabilities for state and what we needed to appropriate, but we have not had that response. We were hearing a great sum of money that would be a shortfall for the coming FY '08 from our local people and many of us were concerned about that and we still have not had that answer. Would you have any idea of what's going on with that or what they have told any of you about the liabilities for that?"

Jon Bauman: "There hasn't been any official communication between that department and the retirement system. I can make one observation. If you'll recall how the TRIP funding changed starting in FY '05, I believe, maybe a couple years before… no, it was before that… the state's share went from just a percentage of payroll to that percentage plus an extra thirteen million dollars ($13,000,000) to cover some differential benefits that were agreed to by the teacher groups and the administration. And those have been appropriated uneventfully for a number of years. In all the budget documents I've seen this year, including, I believe and I could be wrong, the temporary budget that thirteen million dollars ($13,000,000) seems to have fallen off the charts."

Mulligan: "The thirteen million dollars ($13,000,000), that's the extra amount of money that was put in."

Jon Bauman: "Yes. And it doesn't seem to be present in any of the '08."

Mulligan: "Well, I'm just wondering if that's because if it was part of the legislation that ended as the FY '07 budget and now we're going into FY '08. But we don't have… as I once said to a director of one of the agencies… if you don't tell us about the problem how the heck can we solve it for you. You know, I mean, so when you write them a direct letter asking, what's the liability? Our retired teachers are hearing bad things about how much money that's gonna be in it then of course, it causes a problem if you have no answer and it's one other unfunded liability that might wanna be added to the overall deficit that we're looking at for the coming budget year. I thought perhaps in your position you would have better information than we have."

Jon Bauman: "Unfortunately, no."

Mulligan: "All right. Then I'm trying to get a picture on this and sometimes it's hard. When the money comes out of a teacher's salary for the pension, tell me where it goes after that."

Jon Bauman: "It goes… Well, if you wanna start at the most elemental, it goes to a lockbox at the Northern Trust Bank and then it's transferred to a account at TRS and is usually either spent on current benefits or used for investment."

Mulligan: "All right. So, you're… the retired teachers' actual dollar that's coming out of their pay that you earned in the portion of your pay is going in directly to a fund or to pay liabilities."

Jon Bauman: "Correct."

Mulligan: "And then what other parts are missing that are not going into the fund?"

Jon Bauman: "There aren't any parts that are missing?"

Mulligan: "All right. So, then what's the underfunding? The underfunding is the administrative part or parts that the state is not paying a share of?."

Jon Bauman: "The parts… Yeah. The underfunding comes completely from the state."

Mulligan: "All right. So, in coming years and, hopefully, I'm old enough that when this crisis hits the fan I won't be the responder, but on the outside chance that I may want to either write a letter to somebody or talk to a colleague about it. If someone says to you, why should we pay those pensions for state employees… just as like 11 percent of my salary goes into a pension system, if you work for a company, and I think this is the rub with the public, a lot of companies who people paid into their pensions absconded with them but constitutionally were not allowed to do that and retired teachers are certainly worried about the money they put in; who's gonna pay for the pension benefits if we don't continue to make our share? What's a good answer to the public? I mean, it'll prob… it's an obligation that we made contractually or school districts made contractually that we backed up with the faith of the system from the state and we're not covering our share. What's the answer to the public about what we're not doing?"

Jon Bauman: "I think the best answer may have been found in part of your question that they're guaranteed by the Constitution."

Mulligan: "All right. So, twenty (20) years from now, we hit the crisis, may be sooner, who knows. It's hard to tell if things get back. So, the current Legislature decides they wanna get reelected and rather than raise income tax a couple points because the state's going bankrupt and we can't pay our pensioneers, they put a Constitutional Amendment question on the ballot that says, 'should the State of Illinois continue to be obligated constitutionally to pay pensions?' Ya know, my feeling is the public, who may or may not have had the ability to have their pensions covered or as one gentleman from my district where United was located for awhile and United right near us said, 'maybe they ought to talk to the United employees about what happened to their pension.' They may equally vote to say, no, take it off, we don't wanna cover it. And I think retired teachers in my district have been very concerned about that, as I think all state employees should be, but particularly when part of that is your own money that's coming out of your pay and that's a negotiation that you made with a contribution then we're obligated to pay it and so we're not meeting our obligation by not actually funding it the way we should. Is that a fair assumption of…"

James Ward: "May I answer that?"

Mulligan: "Sure. That's just my little small…"

James Ward: "Well, I think the… the question applies to public pensions across the board, but it also applies to all fringe benefits in… which include public and private pension promises. The most ideal thing you could do in the private sector would be to pay a third party, like a large insurance company, a portion of your pension each year for thirty (30) years, then you wouldn't have to worry about the company paying it, the insurance company would pay it. Essentially, a third party that we regulate and make sure that it's going to be there when the time comes to pay it. That's what we do through our laws. In a public plan, we have one more risk and that the governing body won't put in the employer contributions promptly as I just described in the private sector, but that's always going to be with us and we… we must rely on your ethics and sense of responsibility over the long term. The law we wrote in… that you wrote in 1995 was a good one because it was the first time in the history of Illinois where pensions plans were put on a firm actuarial funding basis instead of arbitrary pay-as-you-go appropriations. Whether or not we'll be able to hew to that rigorous restriction and constraint, the 90 percent by 2045, might have… might have to bend a bit. But the fact is, you've done the right thing and it'll be us… up to you and us, as taxpayers and citizens, to see that we pay our obligations, pay the fringe benefits that we promised, which are really part of the service cost in the years that the service cost is incurred. So, that's why we've always argued for full funding. We should be putting away the reserves in the year that the service is provided, that way we don't punish one group of… one cohort of taxpayers at the expense of another."

Mulligan: "I tend to agree with you and though the questions are elemental, ya know, I come from a family that was all in insurance, which they don't always approve of everything I do in the General Assembly, but anyway, the goal of putting money into a fund is so that it earns for the future. The state really has, in its own way, borrowed that money and then borrowed money on top of that to try and pay it and borrowed and borrowed so that the money, the original money, is not securely there earning enough to pay the liabilities off. At what point do we stop doing that and I think your term 'unethical' is what we have characterized what's happened over the last several years. And when some of my colleagues chose to vote not to fund the pension, but to take pork and to do things that they needed to do to go around their obligations, perhaps they thought it was ethical because it was the procedure of years gone passed. But it was when we found out with one recent Governor who did some things that he thought were okay because that had been the status quo, the unethical part of it came home to roost as I think they will with this administration. Unfortunately, we have not gotten the unethical part of it and if it turned out that it was our money, which ours is the worst underfunded, I think we would be equally unhappy. But my feeling is we are not doing what we are supposed to be doing ethically for the people whose money we're taking in and trying to guarantee a pension. And I don't feel that as a Legislator I think I'm elected from my district to have a fiduciary responsibility to the people I represent and that includes the people who pay in their pensions that are state employees. Thank you."

Chairman Smith: "Thank you, Representative Mulligan. Representative Fortner, you're next for 5 minutes."

Fortner: "Thank you, Mr. Chair and thank you very much members of the panel for being here, particularly Mr. Bauman. I know this is your…"

Jon Bauman: "Thank you."

Fortner: "…I think, third visit here before us and I appreciate that because I didn't get to my questions before you on Sunday before we had to adjourn that day. I'd like to start out, I guess, with a question for Mr. Huber. And as you're walking through your slides, one of the things that stood out for me was how even though the contribution levels seem to be going up in the period, say, from 2003 through 2006, there was a significant decrease over that period of time in the funded ratio in the pension plan. The 2001-2002 pretty understandable given the negative rate of return on investments, but that wasn't the case in the four (4) years that followed that. Could you elaborate a little bit more on what was causing the downturn, even though the contribution numbers seemed to be going up at roughly the same rate they were going up in the late 1990s when you're holding at or near 100 percent funded?"

Kevin Huber: "Certainly. The contribution levels I assume we're talking about the employee contribution levels rising."

Fortner: "I was actually looking at the sum of all three (3)."

Kevin Huber: "Okay, okay. Most of that increase would be the employee contributions."

Fortner: "Yes."

Kevin Huber: "The reason that the funding level you don't see a corresponding increase as well is when we calculate a funding level or the actuary performs his calculation, we… it's performed on what's called a smoothing basis, so those losses in the investment markets in, I believe, it's '01-'02 when the investment markets were significantly down, in lieu of taking those losses that year you spread them out over a four (4)-year period. Conceptually, with investment gains, is you do the same. So, you will see some residual increases up to four (4) years following investment losses but then they're off the books and then you see the investment gains coming on the books. So, that's the reason why you don't see the…"

Fortner: "Sure. Now, has the Chicago Teachers Pension Fund, has that ever had this sort of pension obligation bond money thrown in one big lump like we've done with the state pension systems? Is there any experience there with that?"

Kevin Huber: "No. Unfortunately, we've never had the… the benefit of having a lump sum contribution. The closest thing that we had was the property tax levy from the city that I referred to prior to '95 and we receive about eighty to a hundred million dollars ($80,000,000 to $100,000,000) a year from the city as an employer contribution which really set us on sound funding basis."

Fortner: "And with the current actuarial contributions that are anticipated in the five (5) years of your slide there, what's the goal for the funding level that you're looking at for that fund in terms of funding ratio?"

Kevin Huber: "Yes, the goal for Chicago Teachers is the exact same goal is it is for the state systems and that is 90 percent funded by 2045. The… the difficult part of that goal is for the years up to 2011 it's quite a steep hurdle for the state's as well as our employer the Chicago Public Schools to get to a level basis by 2011 and then to extrapolate to 2045. But it's the same basis, 90 percent."

Fortner: "And… and is… was there any particular rationale other than lines of discussion that we had on Sunday with Mr. Bauman was… is 90 percent really the right number? We were given some information that maybe that was an agreed to number back in 1995, what's the best number giving… given the demographics of the current… people who are paying into the system who'll be future annuitants of the system?"

Kevin Huber: "Ya know, and again the 90 percent number can be debated, extensively, pros and cons, some people say 100 percent. Most articles that I read in periodicals will say that a 80 percent funding level is stable, doesn't make it ideal, makes it stable; 2045, again, is an arbitrary date. The impact of changing 2045 to 2050 though, I believe, is very miniscule. It doesn't get you a big bang for your dollar. So, in essence, when you're looking at all these moving pieces that the actuary uses, an actuarial rate of return, he's assuming 8 percent. If you look at our rate as rates of return, we don't 8 percent, we'll hit 16 percent, we'll hit 4, but at the end of the day, these are all… the 2045, the 90 percent, the 8 percent rate of return, these are all metrics put together to come up with 90 percent by 2045 that was passed again in '95."

Fortner: "Thank you. Mr. Bauman, if I…"

Jon Bauman: "Yes, Sir."

Fortner: "Well, you've answered most of the questions I had at the end of Sunday over the intervening time. But the question I wanted to make sure I really understand is, when we've had these pension obligation bonds and have put money in which require then a debt service on the part of the state. Now, as I understand it, the debt service is actually still with the general… with the General Fund or is that with the Pension Fund?"

Jon Bauman: "The debt service on the 2003 pension bonds is paid by the state, but the contributions to the pension funds are reduced by that amount so that the state is essentially held harmless or breaking even on the bonds."

Fortner: "But if we were… wouldn't we want to both be paying the debt service as well as current contribution levels to maintain a given funding ratio, since we still have to be putting current contributions in as well as the debt service since we did not put enough bonding money in to bring us over 100 percent, which is the only time I can imagine not needing current contributions?"

Jon Bauman: "I would tell you that the design of this pension bond, wherein the pension funds are essentially paying the back principal and interest, is unusual. And in our case, it served to aggravate our negative cash flow to the tune of another three hundred million dollars ($300,000,000) a year."

Fortner: "So, is… are you agreeing with me that if we were to not have that negative cash flow aggravation, we should have been both dealing with the… the service on the bonds as well as current contributions?"

Jon Bauman: "Yes."

Fortner: "So… and the one last bit if the Chair will give me the time to ask one last question, thank you. If I just look at the proposal for the sixteen billion (16,000,000,000) bond taking on its face that the House voted against the lottery sale, but we have not taken any position officially on that. As I understand it, about 55 percent of that you might anticipate going to TRS, that'd be about eight point eight billion dollars ($8,800,000,000), my calculations that would bring you up to about a 79-80 percent funded ratio. So, even if we were to do that, we… if we were not to get into a negative cash flow situation, we would have to not merely have allocated for the bond service but in fact also to make sure there was an allocation for current contributions or else we'd be right back to where we were in 2004."

Jon Bauman: "That's correct."

Fortner: "Okay. Thank you very much."

Jon Bauman: "Thank you."

Chairman Smith: "Next we have Representative Pritchard for 5 minutes."

Pritchard: "Thank you, Mr. Chairman. Gentlemen, good afternoon. Mr. Huber, if you could give us a little bit more detail into the operations of the Chicago teacher system. I notice that your rate of return is variable and has been somewhat below some of the other funds. Is there a reason for that?"

Kevin Huber: "Our rate of return is based upon our asset allocation. Our trustees' position has been somewhat conservative over the past… since I've been involved with the Pension Fund, quite honestly. The reason you have a conservative position, however, is because you have a corpus. And the number one obligation of a pension fund, who again is 70 or 100 percent funded, is to preserve the assets. When you're a pension fund that's 60 percent funded, you have a different obligation. The obligation is to try to, not only preserve, but to grow. So, our rate of return really is kinda functional on trying to preserve the assets or the corpus and it's a very… it's a conservative asset allocation, it's… but it's reasonable."

Pritchard: "So, as we've heard from some of the other retirement systems, their rate of return is more in the 15 to 17 percent range. Is that just the difference in management and philosophy of that?"

Kevin Huber: "I would say it's just based upon the asset allocation. Our pension fund… their pension funds most likely will have more, we heard the term private equity, our pension fund has more fixed income. I will note, however, that because our funding level has decreased we have taken a more aggressive position, the more private equity…'

Pritchard: "Mmm mmm."

Kevin Huber: "…more international investments, but that, I think, your answer or your question with the answer's appropriate that it's asset allocation."

Pritchard: "So, would it make sense, though, to have a unified system to go with the investors that are gonna get the better rate of return?"

Kevin Huber: "Well, again, it's… I don't know if I'm gonna say it's a better rate of return. Our rate of return is in the top 50 percent if you look at all pension funds throughout the country. The rates of return if you look at spectrums over a period of time you're gonna get a different rate of return. I will challenge anybody's rate of return for the period up to 2001. When the markets went down, we were clearly superior. Now, we've had a run in the market since 2002, that has been unprecedented. And so, I would expect to see riskier pension funds have a much higher rate of return. I don't believe that justifies a merger decision or a merger of assets, however. Again, Chicago Teachers at 78 and 79 percent, our number one goal is to protect that 79 percent. I think the rates of return presented are solid rates of return. I would… I would clearly challenge most pension funds throughout the country with those rates of return."

Pritchard: "Looking at the level of funding, the funding ratio, you've certainly been at the 100 percent level over the last ten (10), fifteen (15) years. Now, it seems to be in a downward trend. Could you, again, explain the reason for that?"

Kevin Huber: "Sure. The funding ratio for Chicago Teachers was up to 100 percent as late as 1999. Up through 1995, we received a property tax levy from the City of Chicago in addition to employee contributions and in addition to the State of Illinois contributions. We received another eighty to a hundred and twenty million (80,000,000 to 120,000,000) from the City of Chicago. That money came into the pension fund was invested. That's how we got up to a hundred mill… 100 percent. Unfortunately, in '95 that revenue source was diverted to the Chicago Public Schools for their operating budget, so no employer contributions… or minimal employer contributions came to the pension fund starting in '95. Therefore, our funding level, based upon investment rates of return, based upon contribution levels and based upon benefits, we just lost a significant portion of our contribution filler and that, quite honestly, is what has caused all of the decline in our funding level is the lack of a contribution. However, I think on one of the pages in the slides, the contributions for Chicago Public Schools become now significant and I would expect that our funding level is gonna be 78 and start the trend back up because of that significant contribution."

Pritchard: "We've had some discussions about selling or leasing of the lottery and about bonding to help the pension systems and part of the argument is we're shifting from a soft debt to a hard debt. Do you have a… a position on whether you feel that that's a good change of philosophy for the state?"

Kevin Huber: "Since we have not been able to participate in the upside of any pension obligation bonds or selling of the lottery, I would probably prefer not to take the position on the soft or hard cost arrangement. Again, you leave that to the investment bankers to figure out cash flow, does six hundred million (600,000,000) equal ten billion (10,000,000,000)? Boy, if somebody's willing to pay me ten billion (10,000,000,000), I… I have an argument that that might be worth more than ten billion (10,000,000,000), who knows. I think there's men much smarter than me out there who can quantify hard and soft costs."

Pritchard: "Finally, do you have an answer that I can give the teachers in my district who seem to not understand why the state went off the Social Security system and went just to the state retirement systems and are always grousing about the fact they may have to contribute to Social Security if they've had other jobs in their career and yet, aren't able to ever draw from that system. Could you elaborate a little bit on the wisdom of that decision and also upon how we might respond to our retired teachers?"

Jon Bauman: "Yeah. I think I can cover that one and maybe… maybe Mr. Ward, who might have been around at the time…"

James Ward: "If I heard… if I heard your question right, you're question is, why did we leave Social Security for our own plan?"

Pritchard: "Yes."

James Ward: "We were here first. That's why they excluded us in 1935…"

Pritchard: "No. This is… this is more probably a question…"

James Ward: "…when they passed the Social Security law."

Pritchard: "…to the downstate than it is Chicago."

Jon Bauman: "And I… I thought we talked about this a little bit the other night, so I apologize if I am saying anything in redundant, but the way the process…"

Pritchard: "You said we made a choice…"

Jon Bauman: "Yes, we did."

Pritchard: "…the state made a choice, but why? And is that irrevocable?"

Jon Bauman: "Yes, it's irrevocable and I believe the choice was made based on that the TRS pension standing alone was a lower cost, better benefit option than a smaller state pension plus Social Security. It's certainly less costly for the member."

Pritchard: "Okay. Thank you very much. Thank you, Mr. Chairman."

Chairman Smith: "Representative Sacia. No? No questions. Okay. That concludes the questions on the Republican side, then we'll move to the Democratic side. Representative Miller, you're recognized for 4 minutes."

Miller: "Thank you, Mr. Speaker. Just a few questions dealing with procurement and as it relates to some of the problems that we're having with the pension system. As you know, Representative Acevedo and myself chair a pension procurement committee and so it's sort of not totally on point in dealing with the crisis of the pension system, but I want comments from each of the pension systems dealing with the diversification of… of access to some of the underrepresented groups that have not been able to participate on a professional levels and even if the pension system is made whole, how can we either expand that, develop it, grow it and to make sure that a diverse group has an opportunity in professional services?"

Kevin Huber: "I think the key… the key to the question is access and the Chicago Teachers Pension Fund, I think we've been recognized probably throughout the state as being a leader, the leader of a very poor… poor performance but still the leader nonetheless. Some numbers to throw out: 12 percent of our assets in 1999-2000 were managed by minority/female-owned enterprises. That number today is now up to 28 percent, so it's been quite a jump. What our trustees have learned over the course of time to get to that level is you need to put the goal in place and hold management accountable. They… they put the goal of 25 percent in place last year for us and again, it's all… the best is to beat the goal, 28 percent. But I think one of the best things we've ever done is implement what's called a First Friday Program for access. And that First Friday Program entails, the first of every month, the First Friday, anybody… anybody can come see myself and the investment consultant and now we have three (3) or four (4) trustees who also sit in on those meetings. We have met at least four (4) managers in the last two (2) years, five (5) managers now, that we have… we have filtered through that system that have become… become procured, for lack of a better word, and become part of our stable of managers. So, again, I go back to the word access and I think we have done a good job now of increasing the access and I think our numbers have increased as well. Can they get better? Absolutely."

Jon Bauman: "I would have to commend the Chicago Teachers on coming up with that innovative idea. Frankly, I wish I'd thought of it. But at Illinois Teachers I would agree that access is key. You have to get to know folks before you can be in there to get hired. We have a current minority and female participation of about four and a half billon dollars ($4,500,000). That's a number that can continue to grow over time. Some of the things we have done is to establish an emerging managers program where people can come into our program at additional allocations of twenty-five to fifty million dollars ($25,000,000 to $50,000,000) and then move up into full allocations of money from the fund. We started three (3) years ago… I know, Representative, I think you've been to at least one of them, the annual opportunity forums where we bring all of our investment managers together in Chicago with the opportunity to meet local brokers and establish business relationships and that's another way that we try to facilitate access on the brokerage side. We just,in the past couple weeks hired an excellently qualified gentleman who will be full-time in charge of the emerging manager program, which we haven't had before. I think that will help us get more firms through our process and hopefully hired. And that's some of the things we're doing."

Miller: "Can I… can I… Okay. Did you wanna comment on that, too? Yeah."

James Ward: "I don't think I have anything to add to… with the… for the Chicago Teachers Pension Fund. I will just reiterate that we were probably the first to have an extensive program, I believe it was twenty (20) years ago when I was director, and we initiated that and we're continuing it and we're very proud of it."

Miller: "And as far as the… may I, Mr. Speaker, continue with a follow-up?"

Chairman Smith: "Yes. Continue on Mr… Representative Miller."

Miller: "And as far as with the infusion of correcting any of the pension problems that we have, how are we planning on, for the developing of the diversity base, with that? My… my goal or my thoughts are twofold: one is it's to ensure that that access that you mentioned is available and expanded upon. But two, that it is very clear that the fiduciary responsibility of all the funds are not compromised using any… any particular minority, women-owned or majority firms for professional services that… that'll be able to remove them in addition to trying to get those firms in."

Jon Bauman: "In terms of any additional assets we might acquire under the Governor's program or something like it, those assets would be treated just like the money we already have and the same procedures would be followed. So, no corners would be cut or procedures changed in order to invest money quicker, they would be… and anybody hired under those programs would be held to the same fiduciary standards as everybody that works for us now."

Miller: "And last question, I don't wanna belabor. If you could provide me with the number of African-American, Latino and women-owned firms, broken down into those categories, the amount of money that they are managing currently and have in the past and in comparison to the other amount of funds that the majority companies are managing for professional services. And I'll close. Thank you."

Chairman Smith: "Okay. Representative McCarthy, you're recognized for 5 minutes. You moved on us."

McCarthy: "I did. Thank you, Mr. Chairman. The first question is a follow-up on Representative Miller's. Mr. Huber had said 28 percent of their assets, you said four billion dollars ($4,000,000,000). Is that 10 percent of assets?"

Jon Bauman: "That's about 12."

McCarthy: "About 12 percent of assets. Okay. Mr. Huber, the… on your membership it says thirty-two thousand (32,000) contributors and twenty-two thousand (22,000) retirees, members who aren't currently contributing but waiting until they turn 62, are they included in that thirty-two thousand (32,000)?"

Kevin Huber: "Yes, Sir."

McCarthy: "Okay. 'Cause I'm one of 'em, so continue with the fine work. The other thing is, as far as the upgrade on the contribution by the Chicago Public Schools. It almost doubles this year from '06 to '07. It goes up about another 55 percent in '08. Have you had discussions with the city or with the, I guess, with the Chicago Public Schools? I'm sure they're aware of this, but are they… do they stand ready to fulfill those obligations?"

Kevin Huber: "Sure. To their credit, the Chicago Public Schools last June were able to wire transfer thirty million dollar ($30,000,000) in… thirty million dollars ($30,000,000) into our account June '06. This year, again, June 29, wire transfer eighty million dollars ($80,000,000). With their budget problems, I think, ya know, that's something to be acknowledged. I don't know where they're going to get the money. I will note, however, that any incremental dollar given to the pension fund by the State of Illinois does relieve them of some of this burden. So, if we received additional money from the state, an additional twenty-five, thirty million dollars ($25,000,000-$30,000,000), that substantially helps them out in the future."

McCarthy: "Okay. And I think your answers today have shown the fairness of that contribution being made to your system. The forty million dollars ($40,000,000), though, an increase in '07, was that funded entirely by property taxes or other taxes as well?"

Kevin Huber: "I don't know how Chicago Public Schools came up with that, that eighty million dollars ($80,000,000). I don't know the funding source for that contribution to us."

McCarthy: "Okay. And the last question is that you'd… you had mentioned that you'd love to have a problem like this. But Mr. Bauman, the other day when you were in here, two (2) days I believe, both days people talked to you about the fact that the stock market is at an all-time high right now. And people kept telling you that this is a terrible time to invest, that, ya know, when things were at the all-time high, I mean, I don't know if you're near my age… I think you're close… but you were around when the all-time high was two thousand (2,000) on the stock market, when it turned ten thousand (10,000) on the Dow Jones everybody went crazy, it can't go any higher. Now, it's at fourteen thousand (14,000) and people are saying to you, this is such a bad time, you probably don't even want that cash. If I was successful on the pension obligation bond or if we're able to bring the lottery bond back, and I was successful in asking the Speaker to become the Chief Sponsor of that so I could amend it, would you appreciate if I could say the TRS will not be put with this burden that they're gonna have to accept this large amount of cash in order to invest it, because they don't feel that their money manager at a point where they can reach their eight and a half percent over the thirty (30) years? You said that out of the sixteen billion dollars ($16,000,000,000) if we sold that in pension obligation bonds, which some of us believe in, that your usual cut is about 55 percent, I think you said 8.8 billion dollars ($8,800,000,000), would you think that your board or you as the director would say, cut us out with this, give that to… I mean, I'd be happy to send it to GARS, to tell ya my personal opinion, because that's the one that I'm most interested in, although I have a daughter in your system. But the, I mean, people that keep talkin' about this. Do you have no faith in your money managers that over the thirty (30) years, I don't expect you to say they're gonna get 16 percent or 14 percent like they've been able to do in the last, ya know, couple cycles. But what would you say if the Governor's people came to you and said, 'We'll get Representative McCarthy to amend the Bill so that you will not be included in the payout and you'll just go on as the way you are today.' Would that be advisable for TRS?"

Jon Bauman: "Well, first of all, I don't think the lottery… the lottery issue appeared to die a few days ago, so I…"

McCarthy: "Nothing is ever dead completely in here."

Jon Bauman: "Well, that's true."

McCarthy: "Ya know, we resurrect things on a daily basis. We don't even wait for the Easter holidays to do that, but… so, it could come back. Well, let's say the pension obligation bond. We'll just talk about that sixteen billion (16,000,000,000) that you'd get about 8.8 billion (8,800,000,000) out of it. Are you so afraid that your money managers couldn't… I mean, you're not gonna grade them over a one (1)-year cycle, are you? Aren't you gonna look at the grades of your return of your investment? Isn't it on like a thirty (30)-year cycle, kinda like the bonds would be for the pension obligation?"

Jon Bauman: "I'm not gonna grade 'em over a one (1)-year cycle, but a lot of other people will."

McCarthy: "Right."

Jon Bauman: "Especially if the one (1) year is negative."

McCarthy: "Well, we look back, I mean, we see the returns from the Chicago Teachers Pension Fund today, ya know, and they were very honest about there were some years they were down and there was one (1) year they were up, but in the overall investment of these bonds, you have to say, how does it do over a ten (10)-, twenty (20)-, thirty (30)-year plan and especially in a bonding type thing?"

Jon Bauman: "Mmm mmm, yes."

McCarthy: "So, would you have faith that your money investors would be able to handle an investment of that 8.8 billion (8,800,000,000) and get a significant return to justify that?"

Jon Bauman: "I don't think my issue is with meeting the eight and a half percent return. My issue is with paying debt service on 8.8 billion (8,800,000,000) and the impact it has on TRS's cash flow in state contributions."

McCarthy: "Well, as far as the bonded indebtedness, ya know, the unfunded liability of your system, I would think if… speaking just for myself if I was on the board of TRS… and I was told that the executive director said he would turn down this infusion of cash of the 8.8 billion dollars ($8,800,000,000), I would have some serious, serious questions for my executive director. So, I know that the stock market's at the high, but I think that I'm gonna live long enough to see it be higher. We're gonna have corrections and then we're gonna have ascendancies again. But this notion that you get to a point and you say, let's get out of here. I mean, Sunday afternoon I thought we should have all ran out of here, if we had any mutual funds, take them out immediately and sell them into, ya know, some kind of bonds or something or just savings accounts and protect ourselves. I mean, I think we can have faith in the market. The market has gone up over my lifetime, I think it's gonna continue to go up and if you grade your money managers correctly, I think you'd be able to invest that money, get a significant return and just the money, the unfunded liability, the increase in that, I think it would be a, ya know, a worthwhile investment for you guys to take on and lower the money… of course, we have to pay on the debt on that unfunded liability to the different systems, so… Thank you."

Chairman Smith: "Thank you. Representative Monique Davis."

Davis, M.: "Thank you very much, Mr. Chairman. First, I'd like to say to Mr. Ward, we thank you for your number of years of service… how many has it been? You were…"

James Ward: "I've been around forty-five (45) years."

Davis, M.: "Forty-five (45) years. Yeah, we… we remember those years. You've done an excellent job and we thank you for that. You probably have answered this, both of you, but I'd like each group to tell me what percentage that each group makes. For example, Chicago Teachers, do they pay 8 or 9 percent into their fund?"

Kevin Huber: "Chicago Teachers pays 9 percent into their fund."

Davis, M.: "They pay 9."

Kevin Huber: "Yes, Ma'am."

Davis, M.: "And your downstate teachers pay?"

Jon Bauman: "9.4 plus…"

Davis, M.: "Oh, they've went up since the last time we talked."

Jon Bauman: "No."

Davis, M.: "No."

Jon Bauman: "They went up about two (2) years ago."

Davis, M.: "And they're 9.4?"

Jon Bauman: "Plus about eighty-four-hundredths for health insurance."

Davis, M.: "Okay. And with the Chicago Public School, the maximum number of years, for example, a teacher has to teach how many years to get 75 percent?"

Jon Bauman: "Thirty-four (34) years."

Davis, M.: "A minimum of thirty-four (34) and they will get 75 percent? And what about TRS?"

Jon Bauman: "Thirty-four (34)."

Davis, M.: "Thirty-four (34) and they get 75 percent."

Jon Bauman: "Yes."

Davis, M.: "Health insurance, you said the premium for CPS had increased. Is that correct? The premiums have increased."

Kevin Huber: "The premiums for our retired teachers have increased dramatically and our rebate percentage has decreased. Again, the rebate being the percentage we pay of that premium has decreased from 85 percent to 70 percent while the premiums…"

Davis, M.: "Oh, I… Okay."

Kevin Huber: "…the premiums actually have increased."

Davis, M.: "Has the coverage increased?"

James Ward: "By no means."

Kevin Huber: "Now, the coverages have been diminished, as well."

Davis, M.: "The coverages have been diminished but the cost has increased. Thank you."

Kevin Huber: "Yes, Ma'am."

Davis, M.: "I'd also like to know about the state contributions to each of you. I know since, what, 1895 for Chicago… I don't think they started getting… What are the contributions from the state for each group?"

Kevin Huber: "Sure…"

Davis, M.: "And the purpose."

Kevin Huber: "Sure. I can talk to… the late '80s, I saw… I went to the financials the other day… and it was sixty-two million (62,000,000) in the late '80s, sixty-two million (62,000,000) from the State of Illinois."

Davis, M.: "Okay."

Kevin Huber: "That money, again, was a general appropriation and at that point in time, it was used for pension purposes. Subsequently, when the State of Illinois gave the authorization for us to administer the pension fund, a health insurance program, that money or a portion of the sixty-two million (62,000,000), whatever if it was five (5) or ten (10) or whatever the maximum was, was allocated to health insurance. Currently, the entire city… again, we receive sixty-five million (65,000,000) from the State of Illinois, that entire amount's allocated for health insurance. We receive an additional ten million (10,000,000) from the State of Illinois for the 2.2 law that was put in place in 1998. So, we've received… we've receive seventy-five million (75,000,000) in the past year. We received sixty-two million (62,000,000) in the late '80s, so that's the argument. The funding has not gone up… up from the State of Illinois to the Chicago Teachers Pension Fund."

Davis, M.: "Thank you. TRS."

Jon Bauman: "In fiscal year '08, the board of trustees certified a appropriation request of about one billion, forty-one million (1,041,000,000) with an additional certified amount of roughly eighty-one million dollars ($81,000,000) for health insurance. And of course, the large amount was for pensions."

Davis, M.: "Okay. So, you get the majority of your funds from Chicago… I mean, from the state? Yeah."

Jon Bauman: "Not exactly. Our annual revenues are about over three billion dollars ($3,000,000,000), so in a good year when we get a full state contribution… excuse me… the state appropriation…"

Davis, M.: "Could you talk a little louder?"

Jon Bauman: "Sure. I know…"

Davis, M.: "There are so many conversations around me, it's very difficult to hear you."

Jon Bauman: "Yeah. I'm sorry. In a normal year the state contribution is about 20 percent of our revenues, the member contributions are about 20, and investment income is about 60."

Davis, M.: "And our investment income, from the CPS?"

Kevin Huber: "The state contribution is probably about 7 percent of our revenues, member contributions are approximately 11 percent, and the rest is made up by investment rate of return. We do not get a substantial amount of state funding. We will begin to receive Chicago Public Schools funding, however, that will change that employer contribution percentage slightly."

Davis, M.: "So, in Chicago, we pay property taxes that are diverted to our pension funds. Is that correct? A portion of it?"

Kevin Huber: "We… we receive no property tax revenue from the City of Chicago."

Davis, M.: "It goes straight to the schools instructional program?"

Kevin Huber: "Yes, Ma'am, in the city schools."

Davis, M.: "Okay. Oh, okay. How about your group, do you get any property tax income?"

Jon Bauman: "We receive a small amount of employer contributions and I don't know what the source of that would be, but they do come from the school districts."

Davis, M.: "Okay. Okay. Let me just share with you perhaps why you were both invited and you invited back. I have raised the question of why should we lease the lottery and then use portions of those dollars to pay down the pension debt when the majority of those lottery dollars will be coming from Chicago because that's who really plays the lottery the majority of the time. So, some of us felt that it was just a bit unfair to expect the leased lottery to be able to advertise to the Chicago, ya know, people as much as they probably will and get a lot of dollars to pay the pension funds for people all over the state. So, Jerry Mitchell, a very good legislative friend of mine, thought it would be very informative if both groups sat before this Body as a whole, the Committee on… as a Whole… on the Whole, to answer our questions and I really think you've done a superb job. I believe that I feel more securely that the pension should not… I'm sorry… that the lottery should not be leased for that purpose. And I still feel that Chicago gets a bit shortchanged when it comes to getting state dollars for its pension to teachers. But I think the job that Mr. Ward and the other gentleman, Mr. Kevin, do… I think the job that they do is really superb and we thank you for that. Thank both of you ver… all of you. Thank you."

Kevin Huber: "Thank you…"

Jon Bauman: "Thank you."

Chairman Smith: "Representative Molaro, you're recognized for 5 minutes."

Molaro: "Thank you. I'll only need 30 seconds. I just wanted to say hello to the four (4) gentlemen that are up there. Hope you enjoy Springfield. And are you staying the next few days down here with us, in case we need ya for the budget? 'Cause I was talking to, I don't know if it was the Speaker or someone from staff, but I think they're gonna ask you to stay here every night until we get the budget done and I, not that I speak for you four (4), but I thought that you would agree to that. You don't have any problems staying if we… if we made need you? Well, Andrew said yes, that's good enough."

Jon Bauman: "We… we live here, so that's not a problem."

Molaro: "So, you guys will be here. All right. Thank you."

Chairman Smith: "Representative Flowers, you're recognized for 2 minutes."

Flowers: "Thank you, Mr. Chairman. Mr. Ward, I'm trying to understand this pension situation. And earlier on you had mentioned about how much money is spent on the health insurance and just trying to imagine how we could ever get the pension fund debt down when the costs for the health care insurance keeps going up. Do you have any suggestions as to how we could tackle that situation?"

James Ward: "Well, I have some good news. Our latest increase, January 1, 2007, was only 3 percent. So, with… our plan may be maturing. We also went through a benefit decrease to make the plan as lean as it can be and more comparative to industrial plants around the country, so…"

Flowers: "So, when you talk about the benefit decrease, is that less benefits for the pensioneers?"

James Ward: "Yes. Some of the re… deductibles were increased, some of the prescription drug deductibles were increased. They weren't unbearable, but they were benefit decreases because we increased their cost slightly, their out-of-pocket costs."

Flowers: "So, that's not… that may be good for our… their pension, but it's not really good for the pensioneer."

James Ward: "No."

Flowers: "And when you take into consideration that the new hires are getting reduced benefits and it doesn't have…

their retirement doesn't have anything to do with their years of service but how much they make. So, can you imagine years from now for teachers who are not making as much as teachers are now and they will be getting much less benefits with higher premium and less services when they really need it the most. So, how is that a win-win situation?"

James Ward: "I'm not sure if we're going to see a substantial decrease in salaries because salaries tend to be sticky upwards. So, probably, if salaries level off, which is probably not gonna happen, but even if they leveled off, they would still be getting the same benefits the current generation is receiving. The only problem is that the health care costs in general tend to rise. We feel real good this year because we only had a 3 percent rise. We had been experiencing double digits in previous years…"

Flowers: "Had the pensioneers have a double digit increase in their pension?"

James Ward: "The premiums, the premium… No. They get 3 percent a year."

Flowers: "So, they have only gotten a 3 percent increase in their paycheck."

James Ward: "Yes, but don't forget the… the premium is only a portion of that."

Flowers: "But… but the insurance premium has gone up double digit?"

James Ward: "It had been and the last year it only went up 3 percent. So, it looks as if things are currently very hopeful."

Flowers: "But in the meantime, you say it may be hopeful, but yet their… their benefit has diminished. Their benefit has diminished and…"

James Ward: "Health benefit."

Flowers: "…and their health benefits…"

James Ward: "Not their pension benefit. Yes."

Flowers: "Their health benefits has diminished and their copay has gone up."

James Ward: "Well, that's the same thing, yeah."

Flowers: "…their prescription drug amount has gone up. Again, when I look at it, it just appears to me when the whole piece of pie that the pensioners, their benefit portion is getting much smaller but the part for the insurance premiums have gotten… have gotten a lot bigger and what they get in return is less."

James Ward: "I don't think that's the case. I think that because of some… many enhancements in the formula granted by the Board of Education, I would think that the salary… the pension benefits are generally higher and more than enough to offset the increased premiums if the pensioner were paying them all, but he's not. That's the plan we have where we subsidize 70 percent. And that's why we would need further help within a couple of years, because the 65 that we're using to offset the 70, which makes it manageable for the pensioner, will probably start running out and when it does run out, that rebate percentage goes down. It has happened in the past. We run out of money that you allow us to spend and the rebate has to go down. And one (1) year it was quite a pinch, it was gonna go to zero, but we were able to do some financial manipulations and keep 'em at 50 percent, but then the General Assembly came through and helped us. I think that was two (2) years ago. Was it '04? Three (3) years ago."

Flowers: "One final question. So, you don't foresee the health care budget going back up to the double digits any time soon?"

James Ward: "Well, there's… it's very difficult to project that. I think it's… it's been a problem for the whole country. Everybody in all walks of life have… has been seeing the increases in health care costs and we're all struggling with it. We thought HMOs were gonna be the answer; we had five (5) HMOs, three (3) of 'em went out of business. But we're struggling and I think we're solving the problems as we go along with your help."

Flowers: "Thank you."

Chairman Smith: "Thank you. Representative Froehlich. No. He withdraws…"

Froehlich: "They answered my questions."

Chairman Smith: "Okay. I… I have a couple questions. Gentlemen, just for summation, if we could. For both systems, I'd just kinda like to run down the statistics, some basic numbers for us. Let's start with TRS, Mr. Bauman. Could you tell us how many members you have?"

Jon Bauman: "Three hundred and twenty-five thousand (325,000)."

Chairman Smith: "Three twenty-five (325,000)."

Jon Bauman: "Mmm mmm."

Chairman Smith: "And your total assets."

Jon Bauman: "At June 30, 2007, forty-one billion (41,000,000,000)."

Chairman Smith: "Forty-one billion (41,000,000,000). Okay. And your current funding ratio… funded ratio?"

Jon Bauman: "Estimated at June 30, '07 is 66 percent."

Chairman Smith: "And what is the employee contribution for your system?"

Jon Bauman: "9.4 percent."

Chairman Smith: "And there's a health care contribution as well, right?"

Jon Bauman: "Yes. Eighty-five hundredths… eighty-four hundredths, excuse me."

Chairman Smith: "Eighty-four hundredths. Okay."

Jon Bauman: "Mmm mmm."

Chairman Smith: "Okay. And the state contribution you said was one billion… or your request."

Jon Bauman: "One billion, forty-one million (1,041,000,000)."

Chairman Smith: "One billion, forty-one million (1,041,000,000). Okay. And if you could go through, I think you did with Representative Davis here, percentage of revenue. State contribution is what percentage of your total revenues?"

Jon Bauman: "Would you like historically or current?"

Chairman Smith: "Currently."

Jon Bauman: "For FY '06, it was 75 percent investments…"

Chairman Smith: "Okay."

Jon Bauman: "…14 percent member and 10 percent state and 1 percent school district."

Chairman Smith: "So, 1 percent is the local contribution?"

Jon Bauman: "Correct."

Chairman Smith: "Okay. Okay, thank you. Mr. Huber…"

Kevin Huber: "Yes, Sir."

Chairman Smith: "…if we could go through that same litany for you."

Kevin Huber: "Sure."

Chairman Smith: "Your number of members."

Kevin Huber: "Active members are thirty-two thousand (32,000), retired members are twenty-two thousand (22,000), approximately."

Chairman Smith: "Okay. Your assets."

Kevin Huber: "12.6 billion (12,600,000,000)."

Chairman Smith: "Your current funded ratio."

Kevin Huber: "78 percent."

Chairman Smith: "Employee contribution."

Kevin Huber: "9 percent."

Chairman Smith: "And do you have a health care contribution, as well?"

Kevin Huber: "We do not."

Chairman Smith: "Okay. And state contribution."

Kevin Huber: "State contribution is currently seventy-five million (75,000,000)."

Chairman Smith: "And could you go through that percentage of revenues, also?"

Kevin Huber: "Sure. I gave a bad percentage, previously. The state contribution is less than 1 percent of our revenues. Employee contributions are approximately 2 percent and the remainder is investment return."

Chairman Smith: "So, that's less than 1 percent from the state, 2 percent from members and that'd be 97 percent then from investments?"

Kevin Huber: "Yeah, yeah. Give or take, it's all dependent upon the investment return for the year."

Chairman Smith: "Okay. Mr. Bauman, how many retired members do you have, annuitants?"

Jon Bauman: "Eighty-two thousand, five seventy-five (82,575)."

Chairman Smith: "Okay. Very good."

Jon Bauman: "Unless somebody died today."

Chairman Smith: "All right. Yes."

Kevin Huber: "The quick numbers, again, percentage of revenues are… I was correct in my first calculation."

Chairman Smith: "Okay."

Kevin Huber: "And that is, we have 20 percent come from the member, 7 percent come from the state and remainder come from investment earnings."

Chairman Smith: "Okay, thank you. Gentlemen, thank you very much. Mr. Bauman, Mr. Bodewes, I know you've been here several days. Mr. Huber, thank you for coming. Mr. Ward, it's a pleasure to see you again. Thank you for being here. That concludes this portion of the Committee of the Whole. Back to Representative Turner."

Speaker Turner: "Thank you, Representative Smith. The Lady from Cook, Representative Currie, for what reason do you rise?"

Currie: "I move that the Committee of the Whole do rise."

Speaker Turner: "You've heard the Lady's Motion. All those in favor say 'aye'; all those opposed say 'no'. In the opinion of the Chair is the 'ayes' have it. And the committee arise. Representative Currie moves that the Fifth Special Session now stands adjourned 'til Thursday, July 12, to the hour of 1 p.m. All those in favor say 'aye'; all those opposed say 'no'. In the opinion of the Chair, the 'ayes' have it and the committee… the House is adjourned… Special Session 5 is adjourned."