COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **HB 2643, as amended by SA #1** May 30, 2009

SPONSOR (S): Reboletti (Harmon)

SYSTEM(S): General Assembly Retirement System, Judges' Retirement System, State Employees' Retirement System, State Universities" Retirement System, Teachers' Retirement System

FISCAL IMPACT: The commission's actuary has not yet completed a cost study on HB 2643, as amended by SA #1. An updated impact note will be released when the cost study is complete.

SUBJECT MATTER: HB 2643, as amended by SA #1, amends the General Assembly, Judges', State Employees', State Universities', and Teachers' Articles of the Illinois Pension Code to increase the required retirement age and reduce total available retirement benefits for members beginning employment after January 1, 2010. In addition, the employee contribution rate for retirement benefits is reduced and the final average salary calculation is modified and limited. Retirees are offered a choice of several survivor annuity payment plans and are allowed to choose the one which best matches their individual circumstances. All of the above changes apply only to members beginning employment after January 1, 2010 and none of them apply to existing employees in any manner.

FISCAL IMPACT: The commission's actuary has not yet completed a cost study on HB 2643, as amended by SA #1. An updated impact note will be released when the cost study is complete.

COMMENTS: HB 2643, as amended by SA #1, will establish the normal retirement age at 67 years of age with 10 years of service credit, or at age 62 with 35 years of service credit. Employees retiring after age 62 with less than 35 years of service credit will lose ½ of 1% of their retirement benefits for every month the retiree is under age 67 at the time of retirement. HB 2643, as amended by SA #1, will establish the maximum creditable service for retirement benefits at 35 years.

HB 2643, as amended by SA #1, defines the final average salary, for pension calculation purposes, as equal to the highest average monthly salary for 96 consecutive months in the last 120 months of employment. If the employment period is less than 96 months, the final average salary will be equal to the average monthly salary for the entire employment period. However, the average salary of the last 12 months cannot exceed the overall average salary by 25%, Further, the final average monthly salary cannot exceed $12,500 or the Social Security covered wage base, whichever is less. The final average salary will not include mileage, food, lodging or any imputed value for life insurance.

The pension annuity will be equal to 2% of the final average salary for each year of service credit. Since the maximum creditable service will be 35 years, the maximum pension annuity will be 70% of the average final salary. After retirement, the pension annuity will increase each year by 3%, or ½ the Consumer Price Index, whichever is lower. There will be no compounding of these annual increases.

Retirees will be able to select from a number of different plans for survivor annuities. The first available choice will be the Joint and 50% Survivor Annuity. Under this plan, the member will receive a reduced annuity with a designated survivor receiving 50% of the annuity upon the retiree's death. The second available choice will be the Joint and 75% Survivor Annuity. Under this plan, the member will receive a reduced annuity with a designated survivor receiving 75% of the annuity upon the retiree's death. The third available choice will be the Joint and 100% Survivor Annuity. Under this plan, the member will receive a reduced annuity with a designated survivor receiving an unchanged amount upon the retiree's death. The final available choice will be a Single Life Annuity with 60, 120 or 180 months of guaranteed identical payments. Under this plan, the retiree or their survivor will receive the chosen number of identical monthly payments as long as either of them survives. In all of the above options, the system actuaries will calculate the appropriate reduced payment amounts such that there will be no significant increase in the system's unfunded actuarially accrued liabilities.

HB 2643, as amended by SA #1, will provide refunds to all contributing members that do not receive a pension. The refund will equal all contributions plus interest at 3% annually or ½ the Consumer Price Index, whichever is less. There will be no compounding of interest. Reentering the retirement program after taking a refund will require payment of the entire refund amount, plus interest at the actuarially accrued interest rate. Persons reentering service within 3 years of retirement will qualify to have their retirement annuity amount recalculated as though they never stopped working by repaying all retirement benefits received plus interest at the actuarially accrued interest rate,

All employees will contribute 7% of their salary toward pension benefits. There will be no contributions taken from annual salaries over $150,000, or the Social Security covered wage base, whichever is less.

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