

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: SB 1946, as amended by House Amendment #4 March 24, 2010

SPONSOR (S): Cullerton – Martinez, et al. (Madigan – McCarthy, et al.)

SYSTEM(S): State Employees' Retirement System, State Universities Retirement System, Teachers' Retirement System, Judges' Retirement System, General Assembly Retirement System, Illinois Municipal Retirement Fund, Chicago Municipal Employees' Pension Fund, Chicago Laborers' Pension Fund, Chicago Park Employees' Pension Fund, Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District Retirement Fund, Cook County Employees' Pension Fund, Cook County Forest Preserve Employees' Pension Fund

FISCAL IMPACT: The commission's actuary completed an earlier similar analysis of this retirement age change together with a maximum pension salary of \$150,000 which determined total savings of \$43.86 Billion and a net present value reduction of \$9.75 Billion for the State systems only. In addition, an earlier analysis of the COLA change contained in SB 1946, as amended by House Amendment #4, determined an additional savings of \$12.31 Billion. The savings associated with the COLA change is likely to be less than this amount as the actuary's cost study assumed the COLA change without change the current retirement age.

The following tables display the financial impact of SB 1946, as amended by House Amendment #4, changes on GARS and JRS. The other changes contained in SB 1946, as amended by House Amendment #4, are being reviewed by the various Systems' actuaries. An updated impact note will be issued when the actuarial studies are totally completed.

SUBJECT MATTER: SB 1946, as amended by House Amendment #4, amends the Illinois Pension Code to modify the calculation of pension annuities earned for employees beginning service on or after the effective date.

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amended by House Amendment #4, determined an additional savings of \$12.31 Billion. The savings associated with the COLA change is likely to be less than this amount as the actuary's cost study assumed the COLA change without change the current retirement age.

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COMMENTS: SB 1946, as amended by House Amendment #4, makes a number of changes in the Pension Code for the State Employees' Retirement System, State Universities Retirement System, Teachers' Retirement System, General Assembly Retirement System, Illinois Municipal Retirement Fund, Chicago Municipal Employees' Pension Fund, Chicago Laborers' Pension Fund, Chicago Park Employees' Pension Fund, Chicago Teachers' Pension Fund, Metropolitan Water Reclamation District Retirement Fund, Cook County Employees' Pension Fund, Cook County Forest Preserve Employees' Pension Fund sections. These changes apply to all new employees hired on or after the effective date. First, new employees' Final Average Salary for pension calculation purposes will equal the highest average salary earned during 96 consecutive months during the final 120 months of employment and cannot exceed \$106,800 annually. Further, an age of 67 years with at least 10 years of service will be required for new employees to receive full retirement benefits. Reduced pension benefits will also be available to new employees retiring with at least 10 years of service and at least 62 years of age. These new employees retiring before full retirement age will have their full pension benefits reduced by $\frac{1}{2}$ of 1% for each month they retire prior to reaching age 67. The applicable retirement annuity for new employees will be increased each year by 3% or $\frac{1}{2}$ of the increase in the Consumer Price Index, whichever is less, with no compounding of interest. All survivors' annuities for new employees will equal $66 \frac{2}{3}$ % of the participants' annuity at the time of their death. In addition, SB 1946, as amended by House Amendment #4, restricts SERS alternative formula retirement benefits to only (1) State policemen, (2) Firefighters working for any fire district, and (3) Security officers employed by the Department of Corrections or the Department of Juvenile Justice. Finally, new employees will have the option to choose a self managed pension plan instead of the defined benefit plan.

SB 1946, as amended by House Amendment #4, also establishes a new funding plan for the Chicago Teachers Pension Fund. Public Act 89-0015 established a funding plan for the Chicago Teachers' Pension Fund under which the Chicago Board of Education is required to make a minimum annual contribution to the fund in an amount that will bring the funded ratio up to 90% by the end of Fiscal Year 2045. For fiscal years 1999 through 2010, the Board's contribution is to be increased in equal annual increments so that by Fiscal Year 2011, the Board of Education is making contributions as a level percentage of payrolls each year through FY 2045. Public Act 90-0548 revised the funding plan to stipulate that the Chicago Board of Education need not make pension contributions unless the funded ratio drops below 90%.

SB 1946, as amended by House Amendment #4, sets the Chicago Board of Education contributions for Fiscal Years 2011 through FY 2013 in statute (see the table below), and

provides that for Fiscal Years 2014 through 2059, the minimum contribution shall be an amount determined by the board to reach a 90% funding ratio by the end of FY 2059.

Chicago Teachers' Pension Fund Annual Required Contributions by Chicago Board of Education Current Law vs SB 1946 HA 4 (\$ in Millions)			
Fiscal Year	Current Law	SB 1946 HA4	Funding Reduction
2011	\$598.0	\$187.0	\$411.0
2012	514.5	192.0	422.5
2013	631.5	196.0	435.5

SB 1946, as amended by House Amendment #4, provides that for a participant who first becomes a participant of GARS on or after July 1, 2010, the “highest salary for annuity purposes” means the average monthly salary obtained by dividing the total salary of the participant during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months of service in that period, so long as it does not exceed the Social Security Covered Wage Base for 2010. This salary for annuity purposes will automatically be increased or decreased, as applicable, by a percentage equal to the percentage change in the consumer price index during the preceding 12-month calendar year.

SB 1946, as amended by House Amendment #4, provides that for an individual who first becomes a participant of GARS on or after July 1, 2010, he or she must attain age 67 and have at least 8 years of service credit before being eligible for a retirement annuity. Additionally under SB 1946, as amended by House Amendment 4, a participant who first becomes a participant of GARS on or after July 1, 2010 who has attained age 62 and has at least 8 years of service credit may elect to receive a lower retirement annuity if they so choose.

SB 1946, as amended by House Amendment #4, provides that for a participant who first becomes a participant in GARS on or after July 1, 2010, the annual retirement annuity will be 3% of the participant’s highest salary for annuity purposes for each year of service. The maximum retirement annuity payable will be 60% of the participant’s highest salary for annuity purposes. Additionally, for a participant who first becomes a participant on or after July 1, 2010 and who is retiring after reaching age 62 with at least 8 years of service credit, the retirement annuity will be reduced by one-half of 1% for each month that the member’s age is under age 67.

SB 1946, as amended by House Amendment #4, provides that a participant who first becomes a participant of GARS on or after July 1, 2010, may have the amount of the retirement annuity then being paid increased by 3% or the annual change in the Consumer Price Index for All

Urban Consumers, whichever is less. This increase may begin in either January or July (whichever occurs first) next following the participant's anniversary of retirement, and will continue in the same month of each following year. Additionally, this increase is not allowed until the participant reaches age 67.

SB 1946, as amended by House Amendment #4, provides that the initial survivor's annuity of a survivor of a participant who first becomes a participant of GARS on or after July 1, 2010 will be in the amount of 66 2/3% of the amount of the retirement annuity that the participant or annuitant was entitled to on the date of his or her death. This annuity will be increased on each January 1 occurring on or after the commencement of the annuity if the deceased member died while receiving a retirement annuity, or otherwise on each January 1 occurring on or after the first anniversary of the commencement of the annuity by any amount equal to 3% or the annual change in the Consumer Price Index for All Urban Consumers, whichever is less, of the survivor's annuity already being paid.

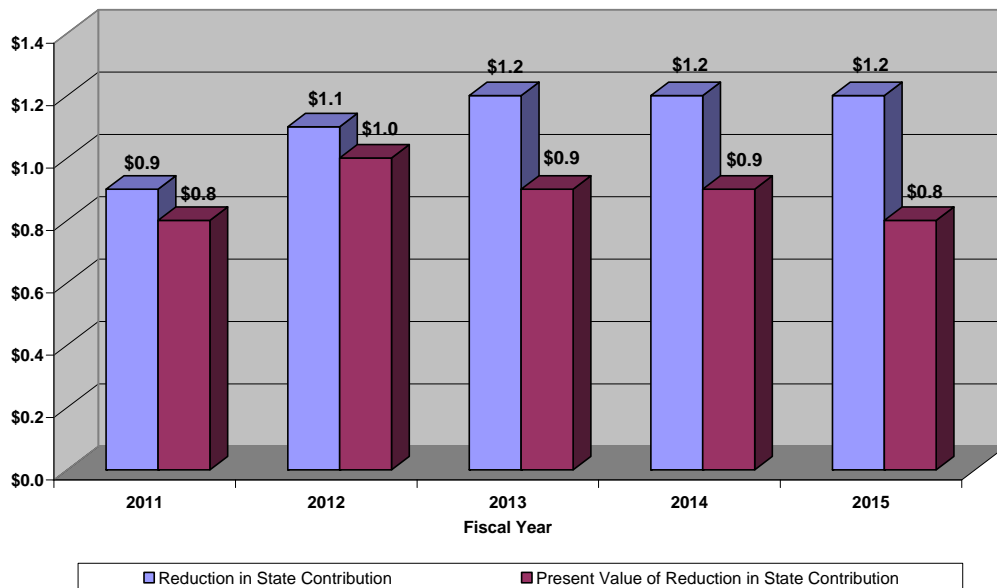
SB 1946, as amended by House Amendment #4, provides that for a participant who first serves as a judge on or after July 1, 2010, he or she must attain age 67 and have at least 8 years of service credit before being eligible for a retirement annuity. Additionally under SB 1946, as amended by House Amendment #4, a participant who first serves as a judge on or after July 1, 2010 who has attained age 62 and has at least 8 years of service credit may elect to receive a lower retirement annuity if they so chose.

SB 1946, as amended by House Amendment #4, provides that for a participant who first serves as a judge on or after July 1, 2010, the annual retirement annuity will be 3% of the participant's final average salary for each year of service. The maximum retirement annuity payable will be 60% of the participant's final average salary. SB 1946, as amended by House Amendment #4, clarifies that final average salary will be the average monthly salary obtained by dividing the total salary of the judge during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period; however, the final average salary may not exceed the Social Security Covered Wage Base for 2010, and will automatically be increased or decreased, as applicable, by a percentage equal to the percentage change in the consumer price index during the preceding 12-month calendar year. The new amount resulting from each annual adjustment will be determined by the Public Pension Division of the Department of Insurance and will then be made available to the Board. Additionally, for a participant who first serves as a judge on or after July 1, 2010 and who is retiring after reaching age 62, the retirement annuity will be reduced by one-half of 1% for each month that the member's age is under age 67 at the time the annuity commences.

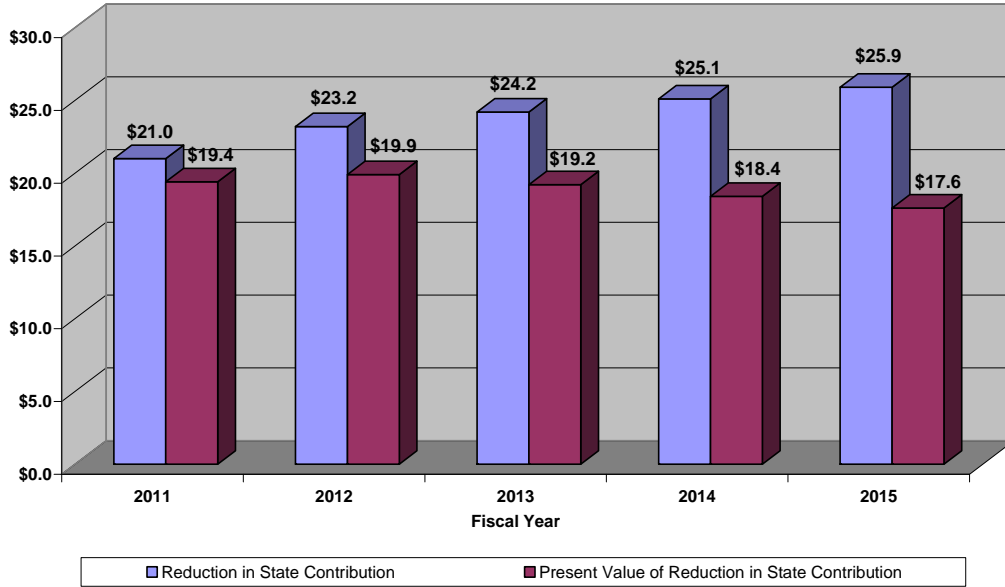
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SB 1946, as amended by House Amendment #4, provides that the initial survivor’s annuity of a survivor of a participant who first serves as a judge on or after July 1, 2010 will be in the amount of 66 2/3% of the amount of the retirement annuity that the participant or annuitant was entitled to on the date of his or her death. This annuity will be increased on each January 1 occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity, or otherwise on each January 1 occurring on or after the first anniversary of the commencement of the annuity by any amount equal to 3% or the annual change in the Consumer Price Index for All Urban Consumers, whichever is less, of the survivor’s annuity already being paid.

GENERAL ASSEMBLY RETIREMENT SYSTEM
Projected Reduction and Present Value of Reduction in State Contributions
Reduced Benefits for Members Starting Participation on/after July 1, 2010
FY 2011 - FY 2015
(\$ in Millions)



JUDGES' RETIREMENT SYSTEM
Projected Reduction and Present Value of Reduction in State Contributions
Reduced Benefits for Members Starting Participation on/after July 1, 2010
FY 2011 - FY 2015
(\$ in Millions)



FUNDING PROJECTIONS FOR THE GENERAL ASSEMBLY RETIREMENT SYSTEM Reduced Benefits for Members Starting Participation on/after July 1, 2010								
Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio
2009					\$245.20	\$71.60	\$245.20	29.20%
2010	\$14.60	\$10.50	71.50%	\$1.70	248.5	66.8	181.7	26.90%
2011	15.2	11.2	73.60%	1.7	251.9	62.2	189.7	24.70%
2012	15.7	11.3	71.60%	1.8	255	56.9	198.1	22.30%
2013	16.4	11.8	72.20%	1.9	258.2	51.5	206.7	20.00%
2014	16.9	12.3	72.70%	1.9	261.4	50	211.4	19.10%
2015	17.4	12.7	73.20%	2	264.6	48.4	216.3	18.30%
2016	18.1	13.4	73.80%	2.1	267.9	46.8	221.1	17.50%
2017	18.8	13.8	73.80%	2.2	271.2	44.7	226.5	16.50%
2018	19.5	14.4	73.90%	2.2	274.6	43	231.6	15.70%
2019	20.3	15	73.90%	2.3	278.1	41.6	236.5	15.00%
2020	21.1	15.5	73.70%	2.4	281.7	40.6	241.1	14.40%
2021	21.7	15.9	73.30%	2.5	285.3	39.6	245.7	13.90%
2022	22.5	16.5	73.20%	2.6	288.8	38.9	249.9	13.50%
2023	23.3	17	73.00%	2.7	292	38.3	253.8	13.10%
2024	24.2	17.6	72.70%	2.8	295.3	38	257.3	12.90%
2025	24.9	18	72.20%	2.9	298.3	37.7	260.5	12.60%
2026	25.9	18.8	72.40%	3	301.1	38	263.1	12.60%
2027	26.9	19.5	72.60%	3.1	303.8	38.7	265.1	12.70%
2028	28	20.3	72.60%	3.2	306.5	40.2	266.3	13.10%
2029	28.8	20.9	72.40%	3.3	308.9	41.9	267	13.60%
2030	30	21.7	72.20%	3.5	311.3	44.5	266.8	14.30%
2031	31.1	22.4	72.00%	3.6	313.7	47.8	265.8	15.20%
2032	32.4	23.4	72.30%	3.7	316.2	52.5	263.7	16.60%
2033	33.7	24.5	72.80%	3.9	318.9	58.7	260.3	18.40%
2034	35	26.7	76.20%	4	322	67.8	254.3	21.00%
2035	36.4	27.7	76.20%	4.2	325.5	78.8	246.7	24.20%
2036	37.8	28.8	76.20%	4.3	329.4	91.9	237.5	27.90%
2037	39.3	29.9	76.20%	4.5	333.8	107.5	226.3	32.20%
2038	40.9	31.2	76.20%	4.7	338.9	126	212.9	37.20%
2039	42.5	32.4	76.20%	4.9	344.7	147.4	197.3	42.80%
2040	44.2	33.7	76.20%	5.1	351.3	172.2	179.1	49.00%
2041	45.9	35	76.20%	5.3	358.6	200.5	158.1	55.90%
2042	47.8	36.4	76.20%	5.5	366.8	232.8	134	63.50%
2043	49.6	37.8	76.20%	5.7	375.9	269.4	106.5	71.70%
2044	51.5	39.3	76.20%	5.9	385.9	310.6	75.3	80.50%
2045	53.6	40.9	76.20%	6.2	396.9	357.2	39.7	90.00%

FUNDING PROJECTIONS FOR THE JUDGES' RETIREMENT SYSTEM Reduced Benefits for Members Starting Participation on/after July 1, 2010								
Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Employee Contribution	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio
2009					\$1,548.50	\$616.80	\$931.70	39.80%
2010	\$161.80	\$78.80	78.70%	\$17.80	1,618.70	623.9	994.8	38.50%
2011	169.2	69.3	41.00%	18.6	1,689.30	618.2	1,071.10	36.60%
2012	176.5	70.4	39.90%	19.4	1,759.50	609.6	1,149.90	34.60%
2013	183.6	73.8	40.20%	20.2	1,829.20	600	1,229.20	32.80%
2014	190.4	77	40.50%	20.9	1,897.10	621.9	1,275.20	32.80%
2015	169.9	80.2	40.70%	18.7	1,963.60	641.9	1,321.70	32.70%
2016	204.8	83.9	41.00%	22.5	2,027.10	659.9	1,367.20	32.60%
2017	213	87.3	41.00%	23.4	2,087.70	674.1	1,413.50	32.30%
2018	221.5	90.9	41.00%	24.4	2,144.50	686.7	1,457.80	32.00%
2019	230.4	94.6	41.10%	25.3	2,197.70	697.6	1,500.00	31.70%
2020	239.6	98.1	40.90%	26.4	2,246.10	706.3	1,539.80	31.40%
2021	249.2	101.8	40.90%	27.4	2,290.10	712.9	1,577.20	31.10%
2022	259.1	105.7	40.80%	28.5	2,328.90	717.5	1,611.40	30.80%
2023	269.5	109.9	40.80%	29.6	2,362.90	720.4	1,642.40	30.50%
2024	280.3	113.8	40.60%	30.8	2,391.50	721.3	1,670.20	30.20%
2025	291.5	117.9	40.50%	32.1	2,414.80	720.6	1,694.20	29.80%
2026	303.1	122.9	40.60%	33.3	2,432.50	719	1,713.50	29.60%
2027	315.3	128.1	40.60%	34.7	2,445.10	717.5	1,727.70	29.30%
2028	327.9	133.2	40.60%	36.1	2,452.20	715.8	1,736.40	29.20%
2029	341	138.5	40.60%	37.5	2,454.70	715.2	1,739.60	29.10%
2030	354.6	143.6	40.50%	39	2,453.10	716.2	1,736.90	29.20%
2031	368.8	149.1	40.40%	40.6	2,447.90	720.2	1,727.80	29.40%
2032	383.6	155.5	40.50%	42.2	2,439.50	728.5	1,711.00	29.90%
2033	398.9	162.7	40.80%	43.9	2,428.50	743.3	1,685.20	30.60%
2034	414.9	174.4	42.00%	45.6	2,415.70	770.6	1,645.10	31.90%
2035	431.5	181.4	42.00%	47.5	2,401.70	807	1,594.70	33.60%
2036	448.7	188.6	42.00%	49.4	2,387.10	854.3	1,532.80	35.80%
2037	466.7	196.2	42.00%	51.3	2,372.40	913.9	1,458.50	38.50%
2038	485.3	204	42.00%	53.4	2,358.20	987.9	1,370.30	41.90%
2039	504.8	212.2	42.00%	55.5	2,345.20	1,078.30	1,267.00	46.00%
2040	524.9	220.7	42.00%	57.7	2,333.90	1,187.00	1,146.90	50.90%
2041	545.9	229.5	42.00%	60	2,325.00	1,316.40	1,008.60	56.60%
2042	567.8	238.7	42.00%	62.5	2,318.90	1,468.80	850.2	63.30%
2043	590.5	248.2	42.00%	65	2,316.60	1,646.90	669.6	71.10%
2044	614.1	258.2	42.00%	67.6	2,318.50	1,853.60	464.9	79.90%
2045	638.7	268.5	42.00%	70.3	2,325.40	2,092.80	232.5	90.00%

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