

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: SB 3537, as amended by HA # 1 & HA #2 May 26, 2010
SPONSOR(S): Raoul – Kotowski (McCarthy – May, et al.)
SYSTEM(S): General Assembly Retirement System, Judges’ Retirement System

FISCAL IMPACT: The Commission’s actuary estimated that P.A. 96-0889 would reduce State contributions to JRS by approximately \$2.1 billion between FY 2011 – FY 2045. Over the same time period, the actuary estimated that State contributions to GARS would be reduced by \$77.3 million. SB 3537, as amended by HA #1, changes the minimum vesting period for members of JRS and GARS who begin service on or after January 1, 2011 from 8 years to 10 years. The impact of this change will be largely negligible, but slightly positive. Also, the bill reduces the annual COLA for new hires to 3% or one-half the change in the CPI, whichever is less (currently the lesser of 3% or the annual change in the CPI). The actuary notes that this change should yield a greater cost savings than the vesting change, however the fiscal impact has not yet been calculated.

SB 3537, as amended by HA #2, eliminates compounded annual increases for retirement and survivor annuities for members beginning services on or after January 1, 2011 and changes the wage base for calculating the highest salary for annuity purposes. These changes will have a positive fiscal impact, but the exact fiscal impact has not yet been calculated.

SUBJECT MATTER: SB 3537, as amended by HA #1, amends the General Assembly Article and the Judges’ Article of the Illinois Pension Code to raise the minimum vesting period from 8 years to 10 years of service for members beginning service on or after January 1, 2011, in accordance with P.A. 96-0889. The bill also changes the COLA amount for new hires in both systems to 3% or one-half the annual change in the Consumer Price Index (currently 3% or the annual change in the CPI). In addition, SB 3537, as amended by HA #2, changes the wage base for calculating the highest salary for annuity purposes and eliminates compounded annual increases for retirement and survivor annuities.

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COMMENT:

Highest Salary for Annuity Purposes in GARS

For a participant who first becomes a participant of GARS on or after January 1, 2011 (the effective date of Public Act 96-0889), final average salary is the average monthly salary obtained by dividing the total salary of the participant during the 96 consecutive months of service with the last 120 months of service in which the total compensation was the highest by the number of months of service in that period. SB 3537, as amended by HA #1 and #2, provides that the highest salary for annuity purposes may not exceed the Social Security Covered Wage Base for 2010, as automatically increased by the lesser of 3% or one-half of the annual increase in the Consumer Price Index during the preceding 12-month calendar year.

Conditions for Eligibility for Retirement Annuity for GARS

Public Act 96-0889, which takes effect on January 1, 2011, raised the retirement age in the General Assembly Retirement System from 55 to 67 years of age. The Act specified that a member must serve 8 years to become vested in GARS. SB 3537, as amended by HA #1 and #2, raises the minimum vesting requirement to age 67 with 10 years of service for members who begin service on or after January 1, 2011.

Elimination of Compounded Annual Increases for Retirement and Survivor Annuities in GARS

SB 3537, as amended by HA #1 and HA #2, provides that a participant who first becomes a participant on or after January 1, 2011 (the effective date of Public Act 96-0889) will, in January or July next following the first anniversary of retirement, whichever occurs first, and in the same month of each year after, have the amount of the retirement annuity increased by 3% or one-half the annual change in the Consumer Price Index, whichever is less, of the originally granted retirement annuity. This increase in retirement annuity will not begin for any participant until they reach age 67.

Highest Salary for Annuity Purposes in JRS

For a participant who first serves as a judge on or after January 1, 2011 (the effective date of Public Act 96-0889), final average salary is 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. SB 3537, as amended by HA #1 and #2, provides that the final average salary must not exceed the Social Security Covered Wage Base of 2010, as automatically increased by the lesser of 3% or one-half of the annual increase in the Consumer Price Index during the preceding 12-month calendar year.

Conditions for Eligibility for Retirement Annuities for JRS

Public Act 96-0889, which takes effect on January 1, 2011, raised the retirement age in the Judges' Retirement System from 55 to 67 years of age. The Act specified that a member must serve 8 years to become vested in JRS. SB 3537, as amended by HA #1 and #2, raises the minimum vesting requirement to age 67 with 10 years of service for members who begin service on or after January 1, 2011.

Elimination of Compounded Annual Increases for Retirement and Survivor Annuities in JRS

SB 3537, as amended by HA #1 and HA #2, provides that a retirement annuity for a participant who first serves as a judge on or after January 1, 2011 (the effective date of Public Act 96-0889) will be increased in January of the year next following the year in which the first anniversary of retirement occurs, and in January of each year thereafter. This increase will be an amount equal to 3% or one-half the annual change in the Consumer Price Index, whichever is less, of the originally granted retirement annuity.

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