COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 3427** March 14, 2011

SPONSOR (S): Harris, D. - Kay

SYSTEM(S): General Provisions Article

FISCAL IMPACT: HB 3427 would have a positive fiscal impact on all affected systems to the extent that salary increases in excess of six percent in the final average salary period would not be pensionable. Likewise, the prohibition on applying lump sum payments towards the calculation of retirement annuities would also have a positive fiscal impact. The impact of HB 3427 on the State-funded systems would be mitigated somewhat by the 6% cap implemented in 2005 by P.A. 94-0004 for members of TRS and SURS.

SUBJECT MATTER: HB 3427 amends the General Provisions Article of the Pension Code to stipulate that all pension funds governed under the Pension Code must exclude the following items when calculating retirement annuities: lump sum payments for severance, sick or vacation time, and any increase in compensation greater than six percent.

FISCAL IMPACT: HB 3427 would have a positive fiscal impact on all affected systems to the extent that salary increases in excess of six percent in the final average salary period would not be pensionable. Likewise, the prohibition on applying lump sum payments towards the calculation of retirement annuities would also have a positive fiscal impact. The impact of HB 3427 on the State-funded systems would be mitigated somewhat by the 6% cap implemented in 2005 by P.A. 94-0004 for members of TRS and SURS.

COMMENT: P.A. 94-0004 placed a cap on earnings in excess of 6% during the final average salary period for members of SURS and TRS. The Act required the employer (the school district or the university) to pay to TRS or SURS the increase in the present value of the retirement annuity for any salary increase over 6% granted during the employee's final average salary period. P.A. 94-1057, which took effect in 2006, provided limited exemptions to the cap for salary increases tied to certain activities or circumstances, such as school mergers or consolidations. HB 3427 would prohibit any retirement system governed under the Pension Code from considering any pay increase in excess of 6% when calculating a retirement annuity. In addition, lump sum payments for retirement, severance, and sick or vacation time would be excluded from the calculation of retirement annuities.

DH:dkb
LRB097 08984 JDS 49117 b