COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 4666, as amended by H.A. 001** April 24, 2012

SPONSOR (S): K. Burke – M. Davis, et al. (Raoul-Lightford)

SYSTEM(S): General Assembly Retirement System (GARS) and Judges' Retirement System (JRS)

FISCAL IMPACT: The retirement systems' actuary has estimated that changing from compounded to simple annual automatic increases for Tier 2 members would reduce the total normal cost for JRS by 0.40% of payroll. Likewise, the same change in GARS would reduce the total normal cost for Tier 2 employees by 0.42% of payroll. JRS' Tier 2 normal cost is approximately 11% of payroll, while GARS Tier 2 normal cost is approximately 12% of payroll. For both systems, the actuary notes that the compounded COLA by itself carries a cost of approximately 2% of payroll, so the changes made by HB 4666 represent a roughly 20% reduction in the cost of the Tier 2 COLA going forward.

SUBJECT MATTER: HB 4666, as amended by H.A. 001, amends the Illinois Pension Code for GARS and JRS to modify the calculation of pension annuities earned for employees beginning service on or after the effective date.

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COMMENTS: HB 4666, as amended by H.A. 001, makes a number of changes in the Illinois Pension Code for GARS and JRS. 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 within the final 120 months of employment and cannot exceed the salary limitation determined for that year by the Public Pension Division of the Department of Insurance. The applicable retirement annuity for new employees will be increased each year by 3% or ½ the increase in the Consumer Price Index for all Urban Consumers, whichever is less, with no compounding of interest. The Public Pension Section of the Department of Insurance will calculate all annual increases in the Consumer Price Index for Urban Consumers. Finally, all survivors' annuities for new employees will equal 66 2/3 % of the participant's annuity at the time of their death. Subsequent annual increases in the survivor's annual annuity will be calculated in a manner identical to the method used to calculate annual increases for the original annuitant.

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