COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 6210** August 17, 2012

SPONSOR(S): Nekritz

SYSTEM(S): Illinois Municipal Retirement Fund (IMRF), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

FISCAL IMPACT: The chart below outlines the immediate reduction in accrued liabilities as well as the projected savings in contributions over the period FY 2014 – 2045. SERS' actuary calculated these amounts over three different scenarios of SERS members accepting The Deal: 0% of members, the youngest 50% of active members and the lowest-earning 50% of retirees, and all members.

SURS	Savings in:	1) FY 2014 Acc. Liability	2) Total Contributions Thru FY 2045
Members taking The Deal			
0%		$1.879 Billion	$9.348 BIllion
50%		$2.487 Billion	$10.001 Billion
100%		$6.169 Billion	$20.863 Billion

A comparison of State contributions to SURS under this proposal vs. current law can be seen in the chart enclosed under Appendix A.

SUBJECT MATTER: HB 6210 amends the Pension Code by creating an irrevocable election for active and retired members of SURS and TRS. This bill outlines consequences for each individual active or retired member and, depending on the elections of active members, establishes a long-term, actuarially-based funding schedule for each retirement system. This bill establishes and provides rules for the implementation of a Cash-Balance Plan. This bill also creates an early retirement option for TRS members and eliminates the option of participating in SURS' self-managed plan.

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COMMENT:

Active Members & Retirees: Under current law, Tier I members of SURS and TRS are entitled to a defined-benefit pension plan with a retirement annuity calculated on their respective final average salaries. This Tier 1 retirement annuity includes automatic compounded annual increases (COLA) of 3%. Members who have met the requisite service requirements under the State Employees Group Insurance Act are additionally entitled to a retiree healthcare subsidy.

HB 6210 establishes an irrevocable election for Tier I active and retired members in SURS and TRS. Current members have from January 1, 2013 until May 31, 2013 to choose amongst the following options:

i) Current members, both active and retired, may elect to maintain eligibility for the retiree healthcare subsidy. By selecting this option, the member reduces their COLA to the lesser of 3% or ½ of the CPI-U of the previous year of the originally-granted annuity and may have to make required contributions towards the healthcare subsidy. Additionally, the active member, upon retirement, may not receive any COLA until either the age of 67 or the January after the fifth anniversary of first receiving the retirement annuity, whichever occurs sooner.
   a. Retired members making this election may not receive a COLA until the earlier of either the age of 67 or the January after the fifth anniversary of first receiving the *original* retirement annuity. Additionally, the revised Tier-1 COLA will be calculated upon the member's original pension; however, any applicable prior years' COLA's remain in force.

ii) Current members, both active and retired, may elect to maintain the 3% compounded COLA. By selecting this option, the member forfeits the retiree healthcare subsidy. Additionally, the member's final average salary will not take into account any future increases in income received after July 1, 2013.

HB 6210 also provides more narrow definitions of an employee under IMRF, SURS, and TRS by excluding employees of certain organizations that operate outside the auspices of school districts, municipalities, and universities. This bill also prohibits new members of TRS to claim pensionable service credit for unused sick time. These provisions only apply to new hires and *not* to any existing employees of these organizations.

This bill disallows any member of SURS from receiving service credit for a leave of absence for service with a teacher organization occurring after the effective date of this bill.

<u>Employer Contributions:</u> In enacting Public Act 88-593, the General Assembly declared a funded ratio of 90% by FY 2045 to be an adequate goal for all five State-funded Retirement Systems and decreed that the Commission on Government Forecasting and Accountability should draft a report on the appropriateness of this 90% funded-ratio goal every five years.

HB 6210 amends this provision to eliminate the language regarding a specific funded-ratio goal across all State Retirement Systems. Additionally, this bill changes CoGFA's report to discuss the appropriateness of each of the five State-funded Retirement Systems' individual funded-ratio goals.

HB 6210 stipulates that SURS and TRS will each evaluate the election results within each system.

i) If more than 50% of active members retain their healthcare subsidy and reduce their COLA, then each system will adopt a new, 30-year actuarially-required contribution (ARC) funding schedule starting in FY 2014 and going through FY 2043. Such a contribution shall be calculated as a level percentage of payroll and shall be deteremined under the Projected Unit Credit (PUC) actuarial cost method.

ii) If less than 50% of the active members of either system individually elect to take the lesser COLA and secure their retiree healthcare subsidy, then that retirement system will still adopt a new actuarially-based long-term funding schedule with the goal of being 100% funded by FY 2045 (for more details, see below).

Regardless of the election results, each system will make the following changes:

i) Each individual employer, university, community college, school district, etc, will begin to provide SURS or TRS, respectively, with the employer contribution while the State makes supplemental contributions on behalf of the employers.
   a. Each *employer* will make an employer contribution to their appropriate system of an amount equal to the sum of 1) the normal cost for that fiscal year for employees hired *before* July 1, 2013 on a ramped-up, percentage-of-payroll basis, plus 2) the normal cost for employees hired *after* July 1, 2013, plus 3) an amount sufficient to amortize any unfunded liabilities accrued *after* July 1, 2013 on a 30-year rolling amortization schedule.
      i. SURS: The portion of the employer contribution accounting for employees hired *before* July 1, 2013 will start at .6% of payroll in FY 2014, increasing at .6% of payroll each year through FY 2024, and then only increasing at .5% of payroll each following

fiscal year until the employer contributes 100% of the normal cost for these employees.

ii. TRS: The portion of the employer contribution accounting for employees hired *before* July 1, 2013 will start at .5% of payroll in FY 2014, increasing at .5% of payroll each following fiscal year until the employer contributes 100% of the normal cost for these employees.

ii) From FY 2014 through the end of the funding schedule, the State shall make a contribution equal to the sum of 1) an amount sufficient to amortize all liabilities accrued before July 1, 2013, plus 2) the normal cost for any employees whom the State directly employs, plus 3) an amount to complement the employer contribution of the normal cost of employees hired *before* July 1, 2013, such that, between the State and the employer, 100% of the normal cost is paid each fiscal year.

a. Once the State has amortized 100% of the total liabilities accrued by July 1, 2013, the State will no longer contribute on behalf of the employers.

Cash-Balance Plan: HB 6210 also creates a Cash-Balance Plan and an Optional Cash Balance Plan. Within SURS and TRS, members joining on or after July, 1st, 2013 will be enrolled in the Cash-Balance Plan, while any Tier II members have the exclusive option to opt in as well. This Cash-Balance pension benefit will replace the Tier II pension the members would normally receive upon retirement. These participants will make the same employee contribution as they would under their original retirement system, and the employer will match 4.4% of salary for SURS participants and 3.4% of salary for TRS participants. Interest on all accounts will be referred to as the "assumed treasury rate," a rate equal to the average annual yield of the 30-year U.S. Treasury Bond of the previous year, and will be charged at a credit of between 4% and 10%. For any given year, an account may earn no less than 4% interest; however, it will only make 2/3 of the investment returns over 4% *on the condition* that the last 5 year average assumed treasury rate is not less than 4% as well. The retirement annuity, including any subsequent 3% COLA's calculated on the originally-granted pension, will be calculated under the assumption that the retiree's notional account will reach $0 by their actuarially assumed date of death or by the death of their eligible survivor.

The Optional Cash-Balance Plan, as proposed by this bill, is available to all Tier-1 SURS and TRS members who opted for the revised COLA as well as all participants of the Cash-Balance Plan. Participation in the Optional Cash-Balance Plan is in addition to, not in lieu of, any other pension benefit. Participation consists of employee contributions of an additional 2% of salary. These employee contributions, along with any interest credited in the same fashion as the Cash-Balance Plan, are the sole source of income for notional account holders. No employer contribution to the Optional Cash-Balance Plan is required. Annuities will be paid out in the same fashion as annuities under the Cash-Balance Plan.

Early Retirement: As of current law, retiring members of TRS will have their retirement annuity reduced by .5% for each month that the member is less than 60 years old, with some exceptions. HB 6210 proposes language allowing a member under the age of 60 to retire without such a reduction. To achieve a full annuity, the member would pay 50% of the benefit, as determined by the System, to which the employer would match. In calculating benefits, TRS will exclude any year in which the salary rate for the member increased by 20% or more from the previous year. Every employer may set the maximum percentage of employees that may exercise this option at no less than 10%.

Miscellaneous: HB 6210 includes language allowing the Board of Trustees of SURS or TRS to commence a Mandamus action against the State to compel payment if the State fails to make the statutorily-required contribution.

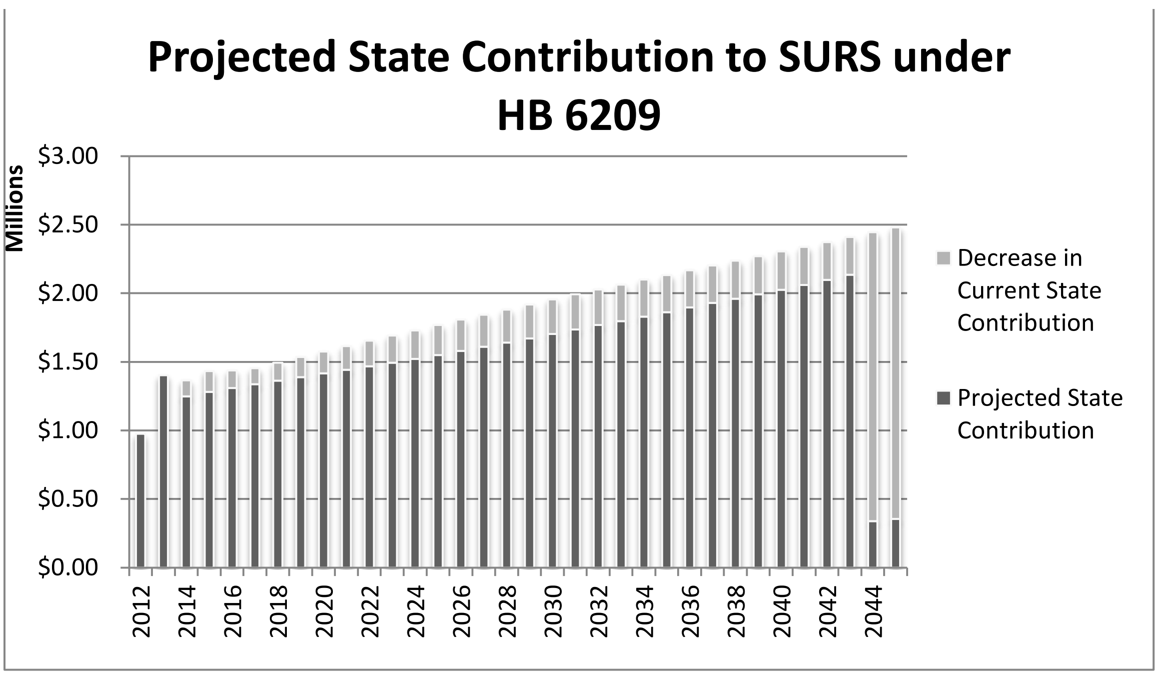
In the event of a delinquent payment to SURS on behalf of the employers, HB 6210 authorizes the System to circumvent funds from both the State Comptroller and from the county to receive due payment. This bill also authorizes the System to audit the employer in question in order to determine the value of the due payment.

As of current law, SURS allows members to make an irrevocable election into a self-managed plan or a portable benefit package. HB 6210 grandfathers in any members who previously made this election but disallows any more participants into these plans.

HB 6210 realigns the Board of Trustees for both SURS and TRS by creating 2 new board members in each, among other changes.

This bill also makes practical changes towards SURS, TRS, and JRS's compliance with the State Actuary.

Appendix A: CGFA's actuary found that between FY 2014 – 2045, HB 6210, will reduce State contributions to SURS by $10.9 billion.



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