COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97th GENERAL ASSEMBLY

BILL NO: **HB 6258** January 3, 2013

SPONSOR(S): Nekritz - Biss, et al.

SYSTEM(S): General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS), and Teachers' Retirement System (TRS)

FISCAL IMPACT: A recent cost study by SERS' actuary projects the State to save $326 million in contributions in FY 2014 and over $27 billion in contributions through FY 2045 by adopting the benefit changes in HB 6258.

Effect of HB 6258 on SERS (in Millions)	
Reduction in FY 2014 State Contribution	$326
Reduction in Cumulative 2014-2045 Contributions	$27,730

SURS' actuary projects the State will save $333 million in contributions for FY 2014 and approximately $18.8 billion in contributions through FY 2045 by adopting the benefit changes in HB 6258.

Effect of HB 6258 on SURS (in Millions)	
Reduction in FY 2014 State Contribution	$333
Reduction in Cumulative 2014-2045 Contributions	$18,888

TRS' actuary projects that the State will be able to reduce contributions in FY 2014 by $1.22 billion by adopting this bill. Additionally, the State is projected to save $114.17 billion in contributions through FY 2043. TRS's actuary did not provide data for FY 2044 and 2045

Effect of HB 6258 on TRS (in Millions)	
Reduction in FY 2014 State Contribution	$1,220
Reduction in Cumulative 2014-2043 Contributions	$114,170

SUBJECT MATTER: HB 6258 amends GARS, SERS, SURS, and TRS by changing the retirement age, employee contributions, and COLA amounts for Tier 1 members and retirees. This bill also establishes a cash balance plan for new-hires of SURS and TRS. This bill includes a cost-shift to local school districts and universities.

COMMENT:

Reforms for Tier 1 Members (employees hired before 2011)

- COLAs will be applied to the first *$25,000* of the employees' pension (meaning that COLAs will effectively be capped at $750 annually)
  - COLAs for Social Security-eligible employees will be reduced to the first *$20,000* (an effective cap of $600 annually)
- COLAs will be delayed until the employee turns 67 or five years after retirement, whichever comes first;
- Retirement age is increased by:
  - For employees age 45 and older: no increase
  - For employees age 40 to 44: 1 year
  - For employees age 35 to 39: 3 years
  - For employees age 34 and younger: 5 years
- Employee contributions increased by:
  - 1% of salary during the first year the legislation is in effect (not before Fiscal Year 2014)
  - 2% of salary thereafter
- Pensionable salary - the amount of salary used to calculate an employee's pension is limited to the higher of the Social Security wage base or the participant's salary on the effective date of this Amendatory Act.

Reforms for Tier 2 Members

- All employees hired after the effective date in TRS and SURS are automatically enrolled in a cash balance plan;
- TRS and SURS employees hired before the effective date can choose to remain in the Tier 2 DB plan or enroll in the cash balance plan;
- The COLA for members of GARS will match those of Tier 2 members in the other four State systems:
  - Current Law: a compounded 3% or CPI-U, whichever is less;
  - HB 6258: 3% of the original annuity or ½ the CPI-U, whichever is less

State/Local Contributions

- Employers under TRS and SURS (school districts and colleges/universities) will assume employer costs at a rate of 0.5 percent of payroll per year; the State will retain responsibility for funding existing accrued liabilities;

- State contributions will be made according to a 30-year funding plan with a goal of achieving a 100 percent funded status by 2043;

- The retirement systems will be empowered to seek writs of mandamus to compel the State and school districts/universities to make their annual required pension contributions;

- HB 6258 directs revenue currently being used to pay debt service on pension obligation bonds/notes towards payment of the unfunded liabilities of the State systems after the pension bonds have been retired.

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