COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **SB 0029** February 10, 2011

SPONSOR (S): Lauzen - Murphy

SYSTEM(S): All State Systems

FISCAL IMPACT: The fiscal impact of SB 0029 has not yet been calculated, but the savings to the State would be significant. The Commission's actuary estimated that the two-tier changes implemented by P.A. 96-0889 would reduce State contributions by approximately $70.0 billion between FY 2011 and FY 2045, provided the State adheres to the funding schedule as set forth by P.A. 88-593 (for an in-depth analysis of the two-tier changes in P.A. 96-0889, see the Commission's FY 2011 Budget Summary). To the extent that this bill extends many of the Tier 2 benefit changes made by P.A. 96-0889 to current employees for benefit accruals after July 1, 2011, the immediate and long-term fiscal impact would be significant.

<u>SUBJECT MATTER</u>: SB 0029 amends the State Systems articles of the Illinois Pension Code. The bill makes significant benefit modifications for both new employees and current employees. In essence, the bill extends many of the Tier 2 reforms contained in P.A. 96-0889 to current employees for benefit accruals occurring on or after July 1, 2011. One significant way in which SB 0029 goes beyond the Tier 2 reforms of P.A. 96-0889 is a reduced retirement multiplier for current and future employees. The bill also raises the retirement age and modifies the cost-of-living adjustment for new members of GARS and JRS. The changes are summarized in the Comments section below.

<u>FISCAL IMPACT</u>: The fiscal impact of SB 0029 has not yet been calculated, but the savings to the State would be significant. The Commission's actuary estimated that the two-tier changes implemented by P.A. 96-0889 would reduce State contributions by approximately $70.0 billion between FY 2011 and FY 2045, provided the State adheres to the funding schedule as set forth by P.A. 88-593 (for an in-depth analysis of the two-tier changes in P.A. 96-0889, see the Commission's FY 2011 Budget Summary). To the extent that this bill extends many of the Tier 2 benefit changes made by P.A. 96-0889 to current employees for benefit accruals after July 1, 2011, the immediate and long-term fiscal impact would be significant.

COMMENTS:

Pension Benefits for "Later Entrants"

SB 0029 makes pension benefit changes for "later entrants," defined as members who begin employment in a State system after July 1, 2011. The changes are summarized below:

- Members in all State systems may only accrue a maximum of 35 years of creditable service.
- GARS and JRS: normal retirement age of 67 with 10 years of service
- GARS and JRS: the member's pension will be based on the highest 96 consecutive months out of the final 120 months of service.
- GARS and JRS: Final average salary for pension purposes shall not exceed $106.8 thousand, indexed for inflation.
- Retirement formula:
    - GARS: 2% of final average salary for each year of service.
    - SERS: 1.5% for employees covered by Social Security, 2.0% for non-covered employees
    - SURS: 2% of final average salary for each year of service.
    - TRS: 2% of final average salary for each year of service.
- GARS and JRS: survivor's annuities will be 66 2/3% of the member's earned retirement annuity at the date of death.
- GARS and JRS: the annual COLA will be the lesser of 3% or one-half the percentage increase in the Consumer Price Index-U. The COLA will be payable after one year of retirement, but not before the retiree attains the Social Security retirement age.

Statement of Legislative Intent

SB 0029 contains a statement of legislative intent that Article XIII, Section 5 of the Illinois Constitution protects pension benefits that have already been earned. The bill makes changes to benefit levels going forward for current employees, and the legislative intent section states that the goal in making these changes is the preservation of benefits already accrued.

Prospective Pension Benefits for Current Employees

SB 0029 makes the following changes pension benefits for current employees for pension accruals on or after July 1, 2011:

- Retirement Formula:
    - GARS: 2% of final average salary.
    - SERS: 2% of final average salary for employees covered by Social Security, 1.5% of final average salary for non-covered employees.
    - SURS: 2% of final average salary.

    - TRS: 2% of final average salary.
    - JRS: 2% of final average salary.

- Final average salary of 96 months out of the final 120 months in which the total salary was highest.
- Final average salary for pension purposes cannot exceed $106.8 thousand, indexed for inflation.
- The portion of any annuity earned after July 1, 2011 shall be reduced by one-half of 1% for each month that the member's retirement age is under the full Social Security retirement age.
- Maximum amount of creditable service of 35 years.
- Annual COLA equal to the lesser of 3% of one-half of the percentage increase in the CPI-U.
- Survivor's annuity of 66 2/3% of the participant's earned annuity, increased by the lesser of 3% or one-half the percentage increase in the CPI-U.

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