COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **SB 0512, as amended by HA 2** November 8, 2011

SPONSOR (S): Cullerton (Cross – Madigan, et al.)

SYSTEM(S): State Employees Retirement System, State Universities Retirement System, Teachers Retirement System, General Assembly Retirement System, Cook County Employees Pension Fund, Cook County Forest Preserve Retirement Fund, Laborers Annuity and Benefit Fund of Chicago, Municipal Employees Annuity and Benefit Fund of Chicago, Park Employees Annuity and Benefit Fund of Chicago, Public School Teachers Pension and Retirement Fund of Chicago, Retirement Systems Reciprocal Act

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FISCAL IMPACT: The precise fiscal impact of SB 0512, as amended by H.A. 002, has not yet been determined as the actuarial review is incomplete at this time. The actuarial cost study contained in the Pension Impact Note for HA 1 is not directly applicable to HA 2 as the FY 2013 contributions are explicitly set forth in HA 2 (see Page 3), and the new level-percent-of-revenue funding mechanism prescribed by HA 2 does not take effect until FY 2014. However, the actuary notes that the long-term savings shown in the Impact Note for HA 1 will remain substantially the same under HA 2. Near-term increases in State contributions for the first 7-10 years can still be expected under HA 2, with a substantially higher State contribution in year one. A revised note will be issued after the actuary completes a cost study that reflects the changes contained in HA 2 to SB 512.

A cost of approximately $200,000 will be required to complete each independent actuarial review overseen by the Commission on Government Forecasting & Accountability. A supplemental appropriation will be required for these costs.

SUBJECT MATTER: SB 0512, as amended by H.A. 002, amends the Illinois Pension Code to allow all employee participants to select their own plan from a menu of various available pension plans. Participants beginning employment before January 1, 2011 may select one of the following plans: (1) The traditional defined benefit plan in effect prior to Public Act 96-0889, (2) A revised defined benefit plan placed into effect by Public Act 96-0889 and Public Act 96-1490, (3) A new defined contribution plan established by SB 0512, as amended by H.A. 001. Participants beginning employment on or after January 1, 2011 may select one to the following plans: (1) A revised defined contribution plan placed into effect by Public Act

96-0889 and Public Act 96-1490, (2) A new defined contribution plan established by SB 0512, as amended by H.A. 002. Applicable initial member balances, plan selection dates, employer/employee costs and other procedures are established by SB 0512, as amended by H.A. 001.

FISCAL IMPACT: The precise fiscal impact of SB 0512, as amended by H.A. 002, has not yet been determined as the actuarial review is incomplete at this time. The actuarial cost study contained in the Pension Impact Note for HA 1 is not directly applicable to HA 2 as the FY 2013 contributions are explicitly set forth in HA 2 (see Page 3), and the new level-percent-of-revenue funding mechanism prescribed by HA 2 does not take effect until FY 2014. However, the actuary notes that the long-term savings shown in the Impact Note for HA 1 will remain substantially the same under HA 2. Near-term increases in State contributions for the first 7-10 years can still be expected under HA 2, with a substantially higher State contribution in year one. A revised note will be issued after the actuary completes a cost study that reflects the changes contained in HA 2 to SB 512.

A cost of approximately $200,000 will be required to complete each independent actuarial review overseen by the Commission on Government Forecasting & Accountability. A supplemental appropriation will be required for these costs.

COMMENTS: Under SB 0512, as amended by H.A. 002, current employees are permitted to choose their pension plan from the following options: (1) The traditional defined benefit plan in effect prior to Public Act 0889, (2) A revised defined benefit plan established by Public Act 96-0889 and Public Act 96-1490, or (3) A defined contribution plan established by SB 0512, as amended by H.A. 002. Participants beginning employment on or after January 1, 2011 may not choose the traditional defined benefit plan. All of the foregoing retirement choices will impact benefit accruals beginning on an after January 9, 2013.

SB 0512, as amended by H.A. 002, establishes Tier 1 defined benefit employee pension contributions for Fiscal Years 2014 – 2017 based upon the retirement system and the plan selected. The defined benefit plan in effect prior to Public Act 0889 will cost regular SERS employees covered by Social Security 9.29%, and similar employees not covered by Social Security will pay 18.91%. SERS alternative plan employees covered by Social Security will pay 16.65% for this plan. TRS employees choosing this plan will pay 13.77%, SURS employees will pay 15.31%, and GARS employees will pay 24.89%. Employees opting for the Tier 2 DB plan and the Self-Managed Plan will contribute 6% of pay.

SB 512, as amended by HA 2, sets the State contribution rate for FY 2013. The system-by-system State contribution amounts are shown in the table on the following page, as are the amounts required under current law pursuant to P.A. 88-593. All amounts shown in the column labeled "Current Law" are official FY 2013 certified amounts, with the exception of SURS. COGFA staff has not yet received SURS' FY 2013 certification letter. The amount shown for SURS under "Current Law" reflects the FY 2013 projected contribution based on the system's FY 2010 actuarial valuation.

SB 512, as amended by HA 2, maintains the requirement that the State systems attain a funded ratio of 90% by Fiscal Year 2045, however the mechanism for attaining that goal is changed from a level percentage of payroll to a level percentage of revenue provided by the individual income tax, sales tax, and corporate income tax, assuming a 2.3% average annual growth rate in these revenues based on the most recent COGFA revenue forecast. HA 2 institutes a "miniramp" for State contributions in Fiscal Years 2014-2016, wherein contributions will be increased in equal annual increments, and starting in FY 2017, State contributions will be made as a level percentage of the aforementioned revenue sources.

FY 2013 State Pension Contributions
SB 512 vs. Current Law
($ in Millions)

	SB 512	Current Law
GARS	$14.5	$14.2
SERS	$1,697.4	$1,660.0
SURS*	$1,434.8	$1,057.7
TRS	$2,765.1	$2,703.5
JRS	*$88.2*	*$88.2*
Total	$6,000.0	$5,523.6

Note - SB 512 does not amend the Judges Article of the Pension Code, but the FY 2013 State contribution to JRS is shown here for purposes of obtaining the total all-funds State pension contribtuion for FY 2013

* SURS FY 2013 amount shown based on current law does not reflect the FY 2013 certified amount. COGFA has not yet obtained SURS' FY 2013 certification letter. The amount shown reflects the projected FY 2013 State contribution based on SURS' FY 2010 actuarial report. All other amounts shown under the column labeled "Current Law" reflect official FY 2013 certified amounts.

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