COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 1165, as amended by HA 1** February 27, 2013

SPONSOR (S): Madigan

SYSTEM(S): GARS, SERS, SURS, TRS

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FISCAL IMPACT: The Commission's actuary had previously performed a cost study on applying the Tier 2 retirement age to Tier 1 active employees. The actuary estimated that making this change would reduce State contributions to the four systems by an estimated $81.6 billion through FY 2045. The table below shows a detailed breakout of the contribution savings by system:

Retirement System	Savings Through FY 2045
TRS	61,491,900,000
SURS	10,041,200,000
SERS	10,001,000,000
GARS	95,400,000
Total All Systems	$81,629,500,000

The fiscal impact of eliminating the Early Retirement Option (ERO) in TRS has not been calculated; however under P.A. 94-0004, the ERO is slated to sunset on June 30th of this year unless renewed by the General Assembly in accordance with CGFA's actuarial recommendations. On January 10th, CGFA recommended that member ERO contributions be adjusted upwards to 14.4% (currently 11.5%) and that school district ERO contributions be adjusted upwards to 29.3% (currently 23.5%). These revised contribution rates were developed by TRS' actuary, Buck Consultants, and were reviewed by CGFA's actuary and found to be sufficient to fund 100% of the ERO benefit.

Note – HB 2900 (Nekritz), which was introduced on Feb. 26th, would extend the ERO in accordance with CGFA's recommendation.

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SUBJECT MATTER: HB 1165, as amended by HA 1, amends the GARS, SURS, TRS, and SURS articles of the Pension Code. The bill imposes a minimum retirement age of 67 on Tier 1 members. The bill also eliminates the Early Retirement Option in TRS.

COMMENT: Under current law, Tier 1 members of TRS, SURS, SERS, and GARS can retire at varying ages. For TRS, Tier 1 members can retire at age 62 with 5 years of service, or age 60 with 10 years of service. Under SERS, Tier 1 members can retire under the "Rule of 85" – when a member's age plus years of service equals 85 – and also at age 60 with 8 years of service credit. SERS members covered by the alternative formula can retire at age 55 with 20 years of service or at age 50 with 25 years of service. SURS members can retire at age 62 with 5 years of service, or at 60 with 8 years of service. Also, SURS Tier 1 members can retire at any age with 30 years of service. Members of JRS can retire at age 60 with 10 years of service, and GARS members can retire at age 55 with 8 years of service.

HB 1165, as amended by HA 1, imposes a retirement age of 67 on Tier 1 members, but provides for early retirement at age 62 with a reduction of one-half of 1% for each month that a member retires prior to age 67.

HB 1165, as amended by HA 1, also eliminates the Early Retirement Option in TRS. By utilizing ERO, teachers who are between the ages of 55 and 60 who have at least 20 but less than 35 years of service may retire without a discounted annuity by paying a specified amount to TRS. School district contributions are also required for a member to retire under ERO. P.A. 94-0004, which became effective on July 1, 2005, set the member ERO contribution rate at 11.5% and the school district ERO contribution rate at 23.5%. P.A. 94-0004 also required CGFA to make a recommendation to the General Assembly by February 1, 2013 on any proportional adjustments to member and employer contribution rates. In accordance with TRS' experience study by Buck Consultants, CGFA's actuary, Sandor Goldstein, conducted a review of Buck's recommended revision to member and employer ERO contribution rates. Mr. Goldstein found the revised rates (14.4% for members and 29.3% for employers) to be sufficient to fund 100% of the ERO benefit. CGFA's recommendation was transmitted to the General Assembly on January 10th. The letter is available at CGFA's website at the following address:

http://www.ilga.gov/commission/cgfa2006/Upload/TRSeROactuarialRecommendation01102013.pdf

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