

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98th GENERAL ASSEMBLY

BILL NO: **HB 2228**

February 20, 2013

SPONSOR(S): Kay

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

FISCAL IMPACT: HB 2228 is word-for-word identical to the 97th GA's SB 1673, as amended by HA 10.

Although HA 9 to SB 1673 (97th GA) had a full cost study, HA 10 to SB 1673 (97th GA) differs from HA 9 in the following ways:

- Removal of the proposed Cash-Balance Plan;
- Removal of the proposed Cost-Shift to school districts and universities;
- Removal of the proposed Retirement Age Increase;
- Extension of the COLA freeze. HA 9: Sooner of 5 years or age 67; HA 10: Later of January 1, 2020 or age 67
- SURS' SMP remains open to new members

Due to the aforementioned changes, the actuarial data reflected in the Commission's impact note for HB 2228 will have to be revised. An updated impact note will be issued when a revised study becomes available from the retirement systems' actuaries.

SUBJECT MATTER: HB 2228 amends GARS, SERS, SURS, and TRS by changing employee contributions and COLA amounts for Tier 1 members and retirees. This bill also amends the funding schedule for the above-mentioned systems.

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 until January 1, 2020, *whichever comes later*;
- Employee contributions increased by:
 - 1% of salary during FY 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, the participant's salary, or to the extent of a signed contract that is in effect on the effective date of this Amendatory Act.

Reforms for Tier 2 Members

- 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 2228: 3% of the original annuity or ½ the CPI-U, whichever is less

State Contributions

- 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 to make the annual required pension contributions;
- HB 2228 explicitly 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. As well, these payments will be explicitly in addition to pension payments, not in lieu of.

MD:dkb

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