

be reduced by \$1.16 billion, the majority of which can be attributed to active members transferring into the Self-Managed Plan. A revised cost study would also be required to determine the effect of implementing an identical Self-Managed Plan as well as the adjusted employee contribution rates within GARS, SURS, TRS, and JRS. An additional cost study would be required to determine the effect of shifting the long-term, actuarially-based funding schedule goal from 90% up to 100%.

COMMENT:

Changes to All Five State Systems: Under current law, all five State Retirement Systems abide by a long-term, actuarially-based funding schedule with a goal of obtaining a 90% funded ratio by FY 2045. HB 2365 proposes to improve the funding goal to 100% within the same time frame. Additionally, this bill proposes to establish the State as a fiduciary and trustee in the pension-funding process. To this extent, any State Retirement System receiving less than the amount certified by the Board of the respective System for that fiscal year is entitled to bring a Mandamus action against the State. In the event the particular System fails to bring action against the State, this bill empowers members to bring a Mandamus action against the System.

HB 2365 seeks to combat end-of-career salary spikes to all five State Retirement Systems. After the effective date of this bill, employment contracts that guarantee future increases in income in return for an expected date of retirement will *not* factor into the calculation of that contract signee’s retirement annuity.

Under current law, only SURS offers a Self-Managed Plan in addition to the traditional retirement and survivors’ annuities that all five State Retirement Systems offer to their members. HB 2365 proposes to expand SURS’ Self-Managed Plan and establish identical Self-Managed Plans for members of GARS, SERS, TRS, and JRS. In doing so, the bill explicitly defines the “traditional benefit package” as entitlement to the retirement annuity, survivors’ annuities, and the option for contribution refunds. Conversely, the bill defines a “Self-Managed Plan” as having none of the aspects of the aforementioned traditional benefit package.

HB 2365 proposes a change in employee contribution for members entitled to the traditional benefit package. The proposed employee contribution rates will be the greater of half the normal cost or 6% of the member’s salary. According to a 2012 cost estimate performed by CGFA’s actuary, the change will be as indicated in the graphic below:

Retirement System	Employee Contribution as a Percent of Payroll					
	Current Law:	All Members	Proposed:	Tier 1	Tier 2	
GARS		11.50%		18.24%	6.29%	
JRS		11.00%		18.43%	6.00%	
SERS		8.00%		8.12%	6.00%	
TRS		9.40%		9.47%	6.00%	
SURS		8.00%		9.08%	6.00%	

Additionally, HB 2365 empowers the Boards of each State Retirement System to recalculate the normal cost of each plan offered by the System as a percentage of salary at least every three years. After the recalculation of normal cost, employee contribution rates will adjust accordingly.

Self-Managed Plan: Enrollment in the Self-Managed Plan for all five Retirement Systems happens in one of two ways. The first enrollment option involves making an irrevocable election to opt-out of the traditional benefit package and transfer all past employee contributions along with accrued interest into a Self-Managed Plan. By taking this route, the member forfeits all past employer contributions along with the interest on those contributions. The second manner of enrolling into a Self-Managed Plan automatically applies to members whose salaries are in excess of the Tier 2 pensionable-salary cap or that specific member's earnings for the 365 days prior to the enactment of this bill, whichever is greater. *However*, members enrolled in this manner are only enrolled to the extent in which their salary is in excess of the before-stated limit.

Contributions into the Self-Managed Plan are only dictated by a member's salary level as well. Employee contribution rates for the portion of a salary up to and including the limit are set at 8%, and 6% for any portion exceeding the limit. Employer contribution rates for the portion of a salary up to and including the limit are set at 7.1%, and 3% for any portion exceeding the limit. All contributions into a Self-Managed Plan are made by pre-tax dollars.

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