COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 2746** February 22, 2013

SPONSOR(S): Sandack

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

FISCAL IMPACT: HB 2746 is substantively similar to the original Biss-Nekritz proposal of the 97th GA. The fiscal impact of that bill is as follows: SERS' actuary projects the State to save $326 million in contributions in FY 2014 and over $27 billion in contributions through FY 2045 by adopting the benefit changes in HB 2746. SURS' actuary projects the State will save $333 million in contributions for FY 2014 and approximately $18.9 billion in contributions through FY 2045 by adopting the benefit changes in this bill. TRS' actuary projects that the State will be able to reduce contributions in FY 2014 by $1.22 billion by adopting this bill. Additionally, the State is projected to save $114.17 billion in contributions to TRS through FY 2043. TRS's actuary did not provide data for FY 2044 and 2045.

Projected Savings in Annual State Contributions ($ in Millions)				
System*	FY 14 Current Law	FY 2014 Savings	FY 2014 Revised	Savings Thru 2045
SERS	$1,663.0	$326.0	$1,337.0	$27,730.0
SURS	$1,504.0	$333.0	$1,171.0	$18,884.0
TRS	$3,440.0	$1,220.0	$2,220.0	$114,170.0
Total	**$6,607.0**	**$1,879.0**	**$4,728.0**	**$160,784.0**

** SURS figures do not include SMP contributions and debt service. SERS figures do not include $81.2 million in debt service that was reflected in the FY 2014 certification letter.*

Source: Retirement System Actuaries

SUBJECT MATTER: HB 2746 amends GARS, SERS, SURS, and TRS by changing the retirement age, employee contributions, and COLA amounts for Tier 1 members and retirees. This bill also establishes a cash balance plan for new-hires of SURS and

TRS. This bill includes a "cost-shift" of the employer's normal cost to local school districts and universities.

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 five years after retirement, whichever comes first;
- Retirement age is increased by:
  - For employees age 45 and older: no increase
  - For employees age 40 to 44: 1 year
  - For employees age 35 to 39: 3 years
  - For employees age 34 and younger: 5 years
- Employee contributions increased by:
  - 1% of salary during the first year the legislation is in effect (not before Fiscal Year 2014)
  - 2% of salary thereafter
- Pensionable salary - the amount of salary used to calculate an employee's pension is limited to the Social Security wage base for the applicable year.

Reforms for Tier 2 Members

- All employees hired after the effective date in TRS and SURS are automatically enrolled in a cash balance plan;
- TRS and SURS employees hired before the effective date can choose to remain in the Tier 2 DB plan or enroll in the cash balance plan;
- 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 2746: 3% of the original annuity or ½ the CPI-U, whichever is less

State/Local Contributions

- Employers under TRS and SURS (school districts and colleges/universities) will assume employer costs at a rate of 0.5 percent of payroll per year; the State will retain responsibility for funding existing accrued liabilities;
- 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 and school districts/universities to make their annual required pension contributions;
- HB 2746 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.

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