COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 5557** February 25, 2014

SPONSOR(S): Morrison

SYSTEM(S): General Assembly Retirement System (GARS), State Employees'

Retirement System (SERS), State Universities' Retirement System (SURS), Teachers' Retirement System (TRS), Judges' Retirement

System (JRS)

FISCAL IMPACT: CGFA's actuary performed a cost study on a proposal that is substantially similar to HB 5557 on the State Systems <u>before the enactment of P.A. 98-0599</u>. That cost study showed a long-term reduction in State contributions for TRS only (through FY 2045) of \$71.4 billion, and a reduction in FY 2014 unfunded liability of \$27.4 billion. However, this cost study assumed no deviation from the pre-P.A. 98-0599 statutory funding target of amassing assets that are equal to 90% of DB liabilities by FY 2045. HB 5557 changes this target to 100% by FY 2047, and it specifies a level-dollar amortization approach. A revised actuarial study would be required to compare the savings of this proposal against the new funding baseline as a result of P.A. 98-0599 (SB 1).

SUBJECT MATTER: HB 5557 amends the GARS, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code by closing each system's traditional defined benefit package to new hires and freezing each member's ability to accrue service credit. The traditional benefit package will be substituted for a defined contribution style, self-directed plan. Each system will adopt a new funding schedule with a goal of 100% funding by FY 2047 via level-dollar contributions.

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<u>COMMENT:</u> HB 5557 has major provisions affecting the 5 State-funded systems as a whole as well as the employees participating in the systems.

State Retirement Systems:

- Closed DB package to new-hires (on or after the date this bill is signed into law)
- Shall establish a DC self-directed plan for all active members and new hires.
 - o Retirement age: equal to Social Security's requirement
 - o DC pensionable salary capped at \$110,100
 - Starting annually on January 1, 2017: Pensionable salary cap increased by 3% or ½ CPI-U
 - o Employee contribution rates
 - SURS, TRS, JRS, SERS (non-covered): 8%
 - SERS (covered): 3%
 - GARS: up to the federal limit
 - o Employer Contribution/Match rates
 - SURS, TRS, JRS, SERS (non-covered): 7%
 - SERS (covered): 3%
 - GARS: 0%
- Funding goal: 100% by 2047 with level-dollar contributions beginning 2016
 - Once a system has reached 100% funded, contributions only need be sufficient enough to maintain a 90% funded ratio.

Current Members/Annuitants:

- Closure of DB plan includes:
 - o Frozen service credit accrual
 - o Frozen pensionable salary at current level
 - o Frozen annuity (no more COLA's)
 - For anyone currently ineligible to retire: The DOI will produce a calendar that takes into account current service credit and age to provide delayed retirement ages.
 - Minimum retirement age for those affected: at least age 59

Application of P.A. 98-0599:

• The provisions of P.A. 98-0599 that affect the 5 State-funded retirement systems will be repealed, and this bill's proposals shall then take effect.

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