COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO:	**SB 0001**	January 31, 2013
SPONSOR(S):	Cullerton	
SYSTEM(S):	General Assembly Retirement System (GARS), State Employees Retirement System (SERS), State University Retirement System (SURS), Teachers' Retirement System (TRS), Judges Retirement System (JRS)	

FISCAL IMPACT: The actuaries of the individual State Retirement Systems are performing cost studies on SB 1, and COGFA will update this impact note when the cost studies become available.

SUBJECT MATTER: SB 0001 contains two sections: Part A, which is intended by the General Assembly as a stand-alone reform of GARS, SERS, SURS, and TRS that takes effect upon becoming law; and Part B, which is intended to provide alternative provisions that take effect only if and when a corresponding portion of Part A is determined to be unconstitutional or otherwise invalid or unenforceable. Part A caps pensionable salary, temporarily suspends and reduces the amount of COLA's, requires the systems to be 100% funded by 2043, and increases employee contributions. Part B requires persons to make an election either to accept reductions in the amount of, as well as delays in eligibility for, automatic annual increases or to forgo certain healthcare benefits and future increases in pensionable income.

COMMENT: SB 0001 is essentially two unique bills joined by a conditional clause. The first bill ("Part A") goes into effect as soon as SB 0001 is signed into law. The second bill ("Part B") includes a number of contingency plans that individually go into effect if the corresponding provisions in Part A are deemed unconstitutional or otherwise invalid by an appropriate authority.

Part A: The following provisions go into effect as soon as SB 0001 is signed into law.

Employers: Part A of SB 0001 includes numerous provisions that directly affect the involvement of the retirement systems and/or the employers, including:

- Establishing individual funding goals for each retirement system. GARS, SERS, SURS, and TRS will each adopt a goal of being 100% funded.
- GARS, SERS, SURS, and TRS will adopt full ARC funding protocol including being 100% funded by the end of a 30-year, actuarially-accredited, amortization schedule.

- All five State retirement systems will accept proceeds from Budget Stabilization Payments, and all payments will be in addition to, not in lieu of, regular pension payments from the State.
- Creating a funding guarantee that permits GARS, SERS, SURS, and TRS to file a mandamus suit to force pension payments and that allows the court to establish a schedule by which the State must make pension payments without significantly imperiling the public health, safety, or welfare.

Employees: Part A of SB 0001 includes a variety of adjustments pertaining to the participation within GARS, SERS, SURS, or TRS by a member, including:

- Explicitly defining a "Tier 1 Participant/Member" and a "Tier 1 Retiree."
- Capping pensionable salary at the Social Security wage base for all Tier 1 members.
  - An employee currently under contract may make their entire salary pensionable for the duration of the contract.
  - For employees who had a salary in excess of the SS wage base in the previous year, their pensionable salary cap will now be set to that previous year's salary.
- Adjusting COLA's for all Tier 1 Retirees.
  - No COLA's until January 1, 2017.
  - No COLA's until the age of 67.
  - The COLA for any given year will be a compounding 3%, up to $750.
    - For employees coordinated with SS, up to $600.
  - GARS only: all Tier 2 annuitants will receive a COLA in line with the other State systems, i.e. the lesser of 3% or half the CPI-U of the original annuity.
- Increase employee contribution rates for Tier 1 members.
  - A total of 1% of salary for the period July 1, 2013 to June 30, 2014.
  - A total of 2% of salary thereafter.
- Narrowed definition of a 'teacher' in TRS and an 'employer' in SURS.
- Travel vouchers are no longer pensionable in SERS, and new hires in TRS may not count sick leave towards their pension calculations.

Part B: The following mutually exclusive provisions go into law as soon as a corresponding provision in Part A of SB 0001 is ruled unconstitutional. Each retirement system is severable from one another; however, changes to the COLA, contributions (employee or employer), funding guarantee, or salary are inseverable from one another *within a particular retirement system.*

Employers: Everything in Part B refers to either GARS, SERS, SURS, or TRS. JRS is not amended. These provisions include:

- Establishing individual funding goals for each retirement system. GARS, SERS, SURS, and TRS will each adopt a goal dependent on the outcome of employees' response to "The Deal."
  - Within each retirement system, Tier 1 participants will elect to either accept or deny "The Deal." If 50% or more participants of a given retirement system accept "The Deal," then that system will establish a 100% funding goal based on ARC funding principles. If less than 50% accept, then the system will resume its current funding schedule.
- Allowing SERS, SURS, and TRS to compel payment to their respective funds via mandamus action.

<u>Employees</u>: Once again, everything in Part B refers only to GARS, SERS, SURS, and TRS. Members in those systems will be subject to the following provisions:

- Explicitly defining a "Tier 1 Participant/Member" and a "Tier 1 Retiree."
- Explicitly defining a "Future Increase in Income"
- The Deal
  - Accepting The Deal allows a member to make all Future Increases in Income pensionable; however, their COLA will be equal to the Tier 2 COLA, and it will be delayed until the sooner of 5 years or the age of 67.
  - Denying The Deal allows a member to keep their Tier 1 COLA, but their pensionable salary is capped at this year's salary.
- Optional Cash Balance Plan
  - For an additional 2% of salary, Tier 1 members of SERS, SURS, and TRS may participate in the Optional Cash Balance Plan.
- Early Retirement Option (TRS only)
  - Tier 1 teachers who accepted the Deal may forego having their retirement annuity reduced by .5% per month too young by making a one-time contribution to the system equal to half the cost of this benefit.
    - Employers may limit participation in this program to no less than 10% of those otherwise eligible, with priority to seniority.

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