

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

REVISED

BILL NO: SB 2404, as engrossed June 14, 2013

SPONSOR(S): Cullerton – Holmes, et al. (Hoffman – Franks, et al.)

SYSTEM(S): General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), State Employees’ Retirement System (SERS), State Universities’ Retirement System (SURS), Teachers’ Retirement System (TRS)

FISCAL IMPACT: SB 2404, as engrossed, will immediately reduce unfunded liabilities and cumulative State contributions for the three large State retirement systems as described in the following table. The following savings pertain only to pensions and do not take into account possible healthcare costs/savings.

					<u>SB 2404 as Engrossed All Systems</u>	<u>SB 2404 as Engrossed SERS (50%)</u>	<u>SB 2404 as Engrossed SURS (50%)</u>	<u>SB 2404 as Engrossed TRS (50%)</u>
<u>Reduction in Projections (\$ in millions)</u>								
	Reduction in FY 2013 Accrued Liabilities:				\$5,485.7	\$1,223.9	\$1,091.8	\$3,170.0
	Reduction in FY 2015 State Contribution:				\$550.5	\$131.0	\$109.5	\$320.0
	Reduction in FY 2013 - FY 2045 Regular Contributions:				\$30,856.7	\$6,558.0	\$4,968.7	\$19,330.0
	Reduction in FY 2013 - FY 2045 w/ Supplemental Payments:				\$47,004.6	\$10,253.0	\$8,821.6	\$27,930.0

The Retirement Systems’ actuaries provided the above data. Please note that the SERS and SURS liability numbers are based on FY 13 projections, while TRS’ liability number was based on FY 2012. The projected reduction in accrued liabilities and cumulative State contributions are based on the younger 50% of active population choosing 3% simple COLA with additional 2 year delay; Older 50% of active population choosing 3% compound COLA with additional 3 year delay and 2% increase in employee contributions; 50% of retirees with lower benefits choosing 3% compound COLA with a staggered 2 year freeze; 50% of retirees with higher benefits choosing 3% compound COLA.

SUBJECT MATTER: SB 2404, as engrossed, amends the GARS, SERS, SURS, and TRS articles of the Illinois Pension Code by establishing an election for active and retired members of these systems. This bill also creates a Tier II task force among other provisions. The details of the election are explained in the Comment section below:

COMMENT: Provisions of The Deal:

- For active members:
 - Choice A: *Lower COLA, Maintain Healthcare Access*
 - Forego 2 COLA's over a 4-year span, accept 3% non-compounding COLA from then on, but be eligible for Optional Cash Balance Plan.
 - Future increases in income are pensionable.
 - TRS members making this option will retain eligibility for an extended Early Retirement Option as well.
 - Choice B Option 1: *Keep COLA, Forfeit Healthcare Access*
 - A member chooses to retain the compounded 3% COLA, but that member's future increases in income will not count toward their pension.
 - Choice B Option 2: *Keep COLA, Increase Contribution, Maintain Healthcare Access*
 - This choice allows a member to retain the 3% compounded COLA, but must forego 3 COLA's, and make extra employee contributions until retirement.
 - Future increases in income are pensionable.
 - Increase employee contribution rates for Tier 1 active members making Choice B Option 2.
 - A total of 1% of salary for the period spanning July 1, 2014 to June 30, 2015.
 - A total of 2% of salary thereafter.
- For retired members:
 - Choice A: *Lower COLA, Maintain Access to Healthcare*
 - Receive 3% non-compounding COLA's, and forego 2 COLA's in the first 4 years of retirement.
 - In cases of future re-employment, future increases in income are pensionable.
 - Choice B: *Keep COLA, Forfeit Healthcare Access*
 - Keep all COLA's at 3% compounding, but forfeit any future increases in income if the member returns to work.
- Optional Cash Balance Plan
 - Only active members of SERS, SURS, and TRS making Choice A of the Deal may enroll in this plan.
 - Members enrolled in this plan will make additional employee contributions of 2% of salary.
 - Employer contributions will be statutorily optional.
- Early Retirement Option (active TRS members taking Choice A only)
 - Tier 1 teachers may forego having their retirement annuity reduced by .5% per month for each month that they are under the age of 60 by making a one-time contribution to the system equal to half the cost of this benefit.
 - The employer (school district) provides the other 50% of the cost.
 - Employers (school districts) may limit participation in this program to no less than 10% of those otherwise eligible, with priority given according to seniority.

Other Provisions of SB 2404, as engrossed:

- The four State retirement systems will accept proceeds from Budget Stabilization Payments, and all such payments will be in addition to, not in lieu of, regular pension payments from the State starting FY 2020.
- 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.
- Narrowed definition of a ‘teacher’ in TRS and an ‘employer’ in IMRF and SURS such that certain employees of entities that do not operate under the auspices of a school district, university, or municipality may not participate in these funds.
- Travel vouchers will no longer be counted towards pensionable salary in SERS, and in TRS, new hires may not count sick leave towards their pension calculations.
- Creation of a “Tier II Task Force” staffed by COGFA
 - To study the impact of and to recommend improvements to the Tier II benefits implemented by both P.A. 96-0889 and P.A. 96-1495 affecting the State Systems and the Police and Fire funds.

MD: bj

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