

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 2404, as engrossed** May 9, 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: The precise fiscal impact of SB 2404, as amended by SA 2, is not known as the retirement system actuaries have not yet provided updated cost estimates. Based on prior actuarial cost studies of the original SB 1 provided by the systems, if 50% of Tier 1 members take “the Deal,” the long-term reduction in State contributions is projected to be \$46.2 billion. The immediate reduction in FY 2014 accrued liabilities under the 50% utilization scenario is projected to be \$10.1 billion. A revised impact note will be issued when updated actuarial studies are obtained from the systems.

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.

COMMENT: Provisions of The Deal:

- For active members
 - Choice A Option 1: Maintain Access to Healthcare
 - 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 the Early Retirement Option as well.
 - Choice A Option 2: Maintain Access to Healthcare
 - 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 A Option 2.
 - A total of 1% of salary for the period July 1, 2014 to June 30, 2015.
 - A total of 2% of salary thereafter.

- Choice B: Forfeits 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.
- For retired members
 - Choice A: Maintain Access to Healthcare
 - Forego 2 COLA's in the first 4 years and receive 3% compounding thereafter.
 - If applicable, future increases in income are pensionable.
 - Choice B: Forfeits 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 Option 1 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 Option 1 only)
 - Tier 1 teachers who accepted the Deal may forego having their retirement annuity reduced by .5% per 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.
 - Employers 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 amended by SA 2:

- 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.
- Travel vouchers are no longer pensionable in SERS, and in TRS, new hires may not count sick leave towards their pension calculations nor may anybody count leave while attending a teacher organization as pensionable credit.
- Creation of a "Tier II Task Force" staffed by CGFA
 - To study the impact of and to recommend improvements to the Tier II legislation affecting the State Systems and the Police and Fire funds.