# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

#### PENSION IMPACT NOTE

## 99TH GENERAL ASSEMBLY

BILL NO: HB 1725, as amended by HA 1 April 23, 2015

SPONSOR(S): B. Mitchell - Morrison

SYSTEM(S): Judges' Retirement System (JRS)

FISCAL IMPACT: HB 1725, as amended by HA 1, extends provisions similar to those within P.A. 98-0599 to JRS. This bill also includes an optional DC plan for DB members to opt into.

The fiscal impact of this bill is presently indiscernible. The Commission will issue a new Impact Note when an actuarial cost study from the Judges Retirement System is made available.

SUBJECT MATTER: HB 1725, as amended by HA 1, amends the Judges Retirement System Article of the Illinois Pension Code by capping pensionable salary, making changes to the COLA calculation, and the availability of COLA's to Tier 1 members. This bill makes changes to Tier 2 members to bring the COLA in line with the Tier 2 COLA of other pension systems. Finally, this bill introduces a defined-contribution plan available to a limited number of members.

#### COMMENT:

## State/Local Contributions

- Starting FY 2017, State contributions will be made according to a 30-year ARC funding plan with a goal of achieving a 100 percent funded status by FY 2046;
  - o State contributions for FY 2016 will follow the current-law funding schedule.
  - o The above funding schedule will utilize the Entry-Age Normal actuarial cost method from FY 2018 and on.
  - O Starting in FY 2048, the State contribution will be enough to maintain a 100% funded ratio.
- The retirement systems will be empowered to seek writs of mandamus to compel the State to make the annual required pension contributions.
- No contributions will be used by the System as a healthcare subsidy.

## Reforms for Tier 1 Members (employees hired before 2011)

- Pensionable salary the amount of salary used to calculate an employee's pension is limited to the greater of the Tier 2 pensionable salary cap, or the employee's salary during his last term of office preceding the effective date of this amendatory Act.
- COLAs will be the lesser of
  - o 1) 3% of the annuitant's pension; or
  - o 2) \$30 per year of service credit
- If a Judge already has enough service credit to earn the maximum pensionable % of salary and returns to service, he will receive an additional COLA for each extra year of service credit
  - o Current law: 3% of current annuity
  - o HB 1725, as amended by HA 1: new COLA calculation, as listed above
- Members (both active and inactive) who have yet to draw a pension as of July 1, 2016 must forfeit the following COLA's
  - o All members: 2<sup>nd</sup> COLA
  - o Members over 47 but under 50: 4<sup>th</sup> and 6<sup>th</sup> also
  - o Members over 44 but under 47: 4th, 6th, and 8th also
  - o Members under 44: 4th, 6th, 8th, and 10th also
- Minimum retirement age is increased by 4 months for every year the member is under the age of 46
  - o Based on the member's age on June 1, 2016.

# Reforms for Tier 2 Members (employees hired after January 1, 2011)

- COLA is reduced, bringing it in line with the other pension systems
  - o Current law: Lesser of 3% or the % increase in the CPI-U
  - o HB 1725, as amended by HA 1: Lesser of 3% or *half* the % increase in the CPI-U

# DC Plan for Tier 1 Members

- o Members may opt into the DC plan via irrevocable election
- o Available only to the first 5% of membership that apply
- o If DC plan folds for whatever reason, all participants will be re-admitted to the DB plan and receive appropriate service credits
- Contributions
  - o Employee: same as DB
  - O State: an amount equal to the normal cost of the DB plan, but no less than 3% of salary
  - o Vesting requirement: 5 years

#### Miscellaneous

• Not a "new benefit increase" per P.A. 94-0004.

MD:dkb

LRB099 07914 RPS 28054 b