

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

REVISED

BILL NO: **HB 4427** March 31, 2016

SPONSOR (S): Batinick - Martwick, et al.

SYSTEM(S): General Assembly Retirement System, State Employees; Retirement System, State Universities Retirement System, Teachers' Retirement System, Judges Retirement System

FISCAL IMPACT: It is difficult to determine the potential fiscal impact of HB 4427. This is mainly due the fact that it is hard determine who is likely to take a full or partial buyout. However, an actuarial analysis was performed for TRS to help discern the possible ramifications of HB 4427. The analysis predicts that there will be an overall decrease in State Contributions and Accrued Liability through 2045. These reductions can be viewed in full detail under "Appendix A" of this note.

SUBJECT MATTER: This bill would implement the accelerated pension benefit payment and the partial accelerated pension benefit payment as options for retirees of the five state pension systems: General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirements System (SURS), Teachers' Retirement System (TRS), and Judges Retirement System (JRS). The accelerated pension benefit payment is a one-time lump sum payment equal to 75% of the present value of the greatest retirement annuity that is payable to the eligible retiree at the current date. Anyone who elects to take the accelerated pension benefit payment will do so in lieu of a retirement annuity. The partial accelerated pension benefit payment allows eligible retirees to choose a percentage in which their retirement annuity will be reduced. The system will then pay out a one-time lump sum of 75% of the reduced amount.

COMMENT: This bill would implement the accelerated pension benefit payment and the partial accelerated pension benefit payment as options for retirees of the five state pension systems: GARS, SERS, SURS, TRS, and JRS:

Accelerated Pension Benefit Payment

Beginning on January 1st, an eligible person may make a written election with the System to receive an accelerated pension benefit payment. The Accelerated Pension

Benefit Payment offers eligible members an option to receive a one-time lump sum payment equal to 75% of the present value of the greatest retirement annuity that is payable to the eligible retiree at the current date. Anyone who elects to take this option will not be entitled to a retirement annuity. To be eligible for an accelerated pension benefit payment, a person must:

- Have terminated service
- Be eligible to receive a retirement annuity under his or her corresponding Article of the Illinois Pension Code
- Not have received any retirement annuity under this Article
- Not have a QILDRO in effect against him or her under his or her corresponding Article of the Illinois Pension Code
- Not have elected to receive a partial accelerated pension benefit payment
- No be a participant in a self-managed plan (for SURS members)

A person's credits and creditable service shall be terminated upon his or her receipt of an accelerated pension benefit payment, and no other benefits shall be paid based on those, including any retirement, survivor, or other benefit. In the event that someone who elected to take the accelerated pension benefit payment returns to service, any benefits under the System earned as a result shall be based solely on the credits and creditable service arising from the return to active service.

Partial Accelerated Pension Benefit Payment

Beginning on January 1st, an eligible person may make a written election with the System to receive a partial accelerated pension benefit payment. The Accelerated Pension Benefit Payment offers eligible members an option to choose a percentage to reduce their retirement annuity by. The member will then receive a one-time lump sum payment equal to 75% of the chosen percentage. Anyone who elects to take this option will have his or her retirement annuity reduced by the chosen percentage of their retirement annuity.

To be eligible for an accelerated pension benefit payment, a person must:

- Have terminated service
- Be eligible to receive a retirement annuity under his or her corresponding Article of the Illinois Pension Code
- Not have received any retirement annuity under this Article
- Not have a QILDRO in effect against him or her under his or her corresponding Article of the Illinois Pension Code
- Not have elected to receive an accelerated pension benefit payment
- Not be a participant in a self-managed plan (for SURS members)

A person may not elect a percentage reduction that results in a benefit payment of less than \$50,000. In the event that someone who elected to take the accelerated pension benefit payment returns to service, any benefits under the System earned as a result shall be based solely on the credits and creditable service arising from the return to active service.

***Appendix A**

The following charts represents values that were derived from an actuarial analysis that was conducted to help discern a possible fiscal impact of HB 4427 on the Teachers' Retirement System. This analysis predicts the outcomes of 4 separate scenarios:

- Scenario 1: 10% of eligible TRS members elect to take the full buyout
- Scenario 2: 20% of eligible TRS members elect to take the full buyout
- Scenario 3: 10% of eligible TRS members elect to take a 50% partial buyout
- Scenario 4: 20% of eligible TRS members elect to take a 50% partial buyout

Scenario	Nominal Reduction in State Contribution Through 2045	PV of Reduction in State Contribution Through 2045	Estimated Reduction in First Year State Contribution
Scenario 1 – 10% Full	(\$ 3.50B)	(\$ 1.13B)	(\$ 79M)
Scenario 2 – 20% Full	(\$ 7.00B)	(\$ 2.22B)	(\$ 158M)
Scenario 3 – 10% Partial (50%)	(\$ 1.75B)	(\$ 0.56B)	(\$ 40M)
Scenario 4 – 20% Partial (50%)	(\$ 3.50B)	(\$ 1.13B)	(\$ 79M)

Scenario	Reduction in Actuarial Accrued Liability	Estimated First Year Buyout Payments	PV of Projected Buyout Payments
Scenario 1 – 10% Full	(\$ 0.84B)	\$ 198M	\$ 3.24B
Scenario 2 – 20% Full	(\$ 1.68B)	\$ 397M	\$ 6.49B
Scenario 3 – 10% Partial (50%)	(\$ 0.42B)	\$ 99M	\$ 1.62B
Scenario 4 – 20% Partial (50%)	(\$ 0.84B)	\$ 198M	\$ 3.24B