

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **HB 1697, as amended by House Amendment 002** March 5, 2008

SPONSOR(S): Molaro - Poe

SYSTEM(S): State Employees' Retirement System

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**FISCAL IMPACT:** According to the System's actuary, HB 1697, as amended by House Amendment 002, would not require any increase in the required employer contributions during the period FY 2007 through FY 2045.

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**SUBJECT MATTER:** HB 1697 amends the State Employees' Article of the Pension Code to remove the Social Security offset against current and future widows' and survivors' annuities, beginning July 1, 2008.

**FISCAL IMPACT:** According to the System's actuary, HB 1697, as amended by House Amendment 002, would not require any increase in the required employer contributions during the period FY 2007 through FY 2045.

**COMMENTS:** When SERS became coordinated with Social Security in 1969, a reduced benefit formula for Social Security-covered members was implemented to reflect that a benefit would be provided through Social Security. While the same approach could have been utilized to determine widows' and survivors' annuities, an offset was adopted. The offset reduces widows' and survivors' annuities by  $\frac{1}{2}$  of the Social Security survivor benefit.

Prior to 1983, survivor benefits were based primarily on a percentage of the active salary, which was the same regardless of whether or not the member was covered by Social Security. However, in 1983, legislation was passed which established a minimum survivor annuity equal to 50% of the earned retirement benefit. Thus, even though survivor benefits for members covered by Social Security are computed based on a benefit formula already reduced to reflect Social Security, the Social Security offset continues. The result is a double reduction for survivors of Social Security-coordinated members. HB 1697, as amended by House Amendment 002, allows employees to file an election by March 1, 2007, thereby voluntarily increasing their employee contribution rate by 0.6% and removing the Social Security offset for their current and future widow's annuity and survivor's annuity recipients.

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