COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

REVISED

BILL NO: HB 1697

SPONSOR(S): Molaro - Poe

SYSTEM(S): State Employees' Retirement System

FISCAL IMPACT: According to the System's actuary, HB 1697 would increase the accrued liabilities of SERS by an estimated \$219.8 million, resulting in an increase in the FY 2008 required employer contribution of \$2.4 million. The FY 2010 increase in the annual employer contribution is estimated to be \$7.7 million. After FY 2010, the increase in required employer contributions will grow at the same rate as payroll.

<u>SUBJECT MATTER</u>: 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 January 1, 2008.

<u>FISCAL IMPACT</u>: According to the System's actuary, HB 1697 would increase the accrued liabilities of SERS by an estimated \$219.8 million, resulting in an increase in the FY 2008 required employer contribution of \$2.4 million. The FY 2010 increase in the annual employer contribution is estimated to be \$7.7 million. After FY 2010, the increase in required employer contributions will grow at the same rate as payroll.

<u>COMMENTS</u>: 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. Effective 1/1/08, HB 1697 allows employees to voluntarily increase their employee contribution rate by 0.5% and remove the Social Security offset for their current and future widow's annuity and survivor's annuity recipients.

GS:dkb LRB095 07041 AMC 31868 b 5/7/2007 1:21 PM April 26, 2007