

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 95TH GENERAL ASSEMBLY

**BILL NO:** HB 3755, as amended by HA 1 July 5, 2007

**SPONSOR (S):** Madigan - Hannig

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

---

**FISCAL IMPACT:** The Commission's actuary has determined that a \$16 billion infusion from a Pension Obligation Bond issuance would increase the aggregate funding ratio of the five State-funded pension systems from 60.5% at the end of FY 2006 to 73.5% at the end of FY 2007. If an additional \$10 billion in Lottery lease proceeds are also distributed to the pension funds, the aggregate funding ratio would increase to 82.6% (the Lottery lease proposal is not included in this amendment, although it is part of the Governor's FY 2008 budget proposal). If a new Pension Obligation Bond issuance and Lottery lease are enacted and the proceeds (\$26 billion) are deposited with the retirement systems, the actuary projects that annual State pension contributions will "ramp up" in equal annual increments of approximately \$308.0 million per year in order to reach a 90% funding ratio by FY 2040 (see "actuarial funding projections" on Page 3).

---

**SUBJECT MATTER:** HB 3755, as amended by HA #1, makes various changes to the current pension funding law (P.A. 88-593) as outlined in the comments below.

**FISCAL IMPACT:** The Commission's actuary has determined that a \$16 billion infusion from a Pension Obligation Bond issuance would increase the aggregate funding ratio of the five State-funded pension systems from 60.5% at the end of FY 2006 to 73.5% at the end of FY 2007. If an additional \$10 billion in Lottery lease proceeds are also distributed to the pension funds, the aggregate funding ratio would increase to 82.6% (the Lottery lease proposal is not included in this amendment, although it is part of the Governor's FY 2008 budget proposal). If a new Pension Obligation Bond issuance and Lottery lease are enacted and the proceeds (\$26 billion) are deposited with the retirement systems, the actuary projects that annual State pension contributions will "ramp up" in equal annual increments of approximately \$308.0 million per year in order to reach a 90% funding ratio by FY 2040.

COMMENTS:*Change in Pension Funding Plan*

Under the current pension funding plan (P.A. 88-0593), the State makes annual contributions to the five State-funded retirement systems each year in an amount that is determined to be sufficient to bring the total assets of the systems up to 90% of the total actuarial liabilities by the end of FY 2045. HB 3755, as amended by HA #1, amends the current funding plan to require that the State make annual contributions to the retirement systems so as to bring total assets of the systems up to 90% of total actuarial liabilities by the end of FY 2040. Rather than make contributions as a level percentage of payroll, as the current plan calls for, HB 3755, as amended, would require the State to make contributions that would increase in equal amounts so as to reach the aforementioned 90% funding goal.

*Recertification of FY 2008 Contribution*

Under the current pension funding plan (P.A. 88-0593), the five State-funded retirement systems submit an annual certification to the Governor outlining their respective required pension contribution for the ensuing fiscal year. In November of 2006, the five systems certified a total FY 2008 contribution of approximately \$2.1 billion. HB 3755, as amended by HA #1, specifies that the boards of directors of the respective pension funds shall recertify to the Governor the amount of the new FY 2008 contribution, which will essentially remain level with the FY 2007 contribution (\$1,374.7 million), including Pension Obligation Bond debt service. Beginning in FY 2009, annual contributions will “ramp up” in equal annual increments so as to attain a 90% funding ratio by FY 2040. These annual increments will be re-calculated each year as part of the certification process.

*Compliance with Business Enterprise for Minorities, Females, and Persons with Disabilities Act*

HB 3755, as amended by HA #1, specifies that the respective boards of trustees of the five State-funded retirement systems must ensure that at least 19% of the proceeds from a Lottery lease as well as 19% of the proceeds from a Pension Obligation Bond issuance must be invested through qualified investment advisors who are a “minority owned business” or a “female owned business” as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. The Act defines “minority owned business” as a business concern which is at least 51% owned by one or more minority persons, or in the case of a corporation, at least 51% of the stock must be owned by one or more minority persons. The Act also defines “Female owned business” as a business concern which is at least 51% owned by one or more females, or, in the case of a corporation, at least 51% of the stock in which is owned by one or more females.

*Actuarial Funding Projections*

The actuary’s cost study of HB 3755, as amended by HA #1, is shown on the following page:

<b>FUNDING PROJECTIONS FOR ALL OF THE STATE FUNDED RETIREMENT SYSTEMS</b>									
<b>\$26 BILLION PROCEEDS FROM NEW POB AND SALE OF LOTTERY ADDED AS OF JUNE 30, 2007</b>									
(\$ in Millions)									
Fiscal Year	Annual Payroll	State Contribution	Allocated 2003 Debt Service	Allocated 2007 Debt Service	Total State Pension Cost	Actuarial Liability	Assets	Unfunded Liabilities	Funded Ratio
2006						\$103,073.6	\$62,341.3	\$40,732.3	60.5%
2007	\$14,109.9	\$1,338.6	\$0.0	\$0.0	\$1,338.6	109,086.5	90,159.4	18,927.0	82.6%
2008	14,640.9	417.0	50.0	866.3	1,333.3	115,389.1	93,106.3	22,282.8	80.7%
2009	15,231.1	614.2	545.0	970.0	2,129.2	121,957.5	96,215.4	25,742.1	78.9%
2010	15,836.8	919.3	543.6	968.6	2,431.5	128,770.7	99,576.6	29,194.1	77.3%
2011	16,460.1	1,199.7	541.9	992.2	2,733.8	135,796.6	103,138.8	32,657.8	76.0%
2012	17,096.3	1,456.4	590.1	989.4	3,035.9	142,989.1	106,842.2	36,146.9	74.7%
2013	17,743.2	1,764.8	586.4	986.7	3,337.8	150,326.7	110,720.1	39,606.5	73.7%
2014	18,420.1	2,048.2	582.5	1,008.8	3,639.5	157,803.3	114,746.3	43,057.0	72.7%
2015	19,131.6	2,332.9	578.6	1,029.6	3,941.0	165,412.0	118,947.9	46,464.1	71.9%
2016	19,871.8	2,618.9	574.5	1,048.8	4,242.3	173,156.4	123,309.6	49,846.8	71.2%
2017	20,651.4	2,906.1	595.2	1,041.6	4,542.9	179,696.6	127,829.5	51,867.1	71.1%
2018	21,480.5	3,194.3	614.7	1,034.4	4,843.5	186,313.1	132,577.0	53,736.1	71.2%
2019	22,359.9	3,458.9	633.2	1,052.0	5,144.1	193,025.4	137,551.1	55,474.3	71.3%
2020	23,286.4	3,702.1	674.6	1,068.1	5,444.7	199,851.9	142,751.7	57,100.2	71.4%
2021	24,263.3	3,948.0	713.4	1,082.6	5,744.1	206,801.7	148,202.1	58,599.5	71.7%
2022	25,294.0	4,172.9	749.8	1,120.7	6,043.5	213,885.8	153,902.3	59,983.5	72.0%
2023	26,374.8	4,428.3	783.7	1,130.9	6,342.9	221,106.5	159,896.3	61,210.1	72.3%
2024	27,514.0	4,662.6	840.2	1,139.5	6,642.2	228,473.0	166,186.2	62,286.8	72.7%
2025	28,686.2	4,902.8	892.2	1,146.6	6,941.6	236,001.8	172,806.1	63,195.7	73.2%
2030	35,677.7	6,086.1	1,079.0	1,264.7	8,429.8	276,070.5	211,158.4	64,912.1	76.5%
2040	55,842.4	11,364.3	0.0	0.0	11,364.3	375,412.6	337,871.3	37,541.3	90.0%

DH:dkb

LRB095 07746 AMC 37924 a