COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

REVISED

BILL NO: **SB 1985, as amended by House Amendment #1** December 17, 2008

SPONSOR(S): Raoul - Bomke, et al. (Molaro – Froehlich, et al.)

SYSTEM(S): State Employees' Retirement System

FISCAL IMPACT: The State Employees' Retirement System actuary analyzed SB 1985, as amended by House Amendment #1, and estimated it would result in no increase in the total state contributions required for the period FY 2008 – FY 2045, and the funded ratio would still reach 90% in FY 2045. There would be an identical percentage increase in Assets, Liabilities and Unfunded for FY 2045, resulting from a slight demographic difference between current law and SB 1985, as amended by House Amendment #1. Specifically, payouts in the early years are slightly lower due to the reduction in payment amounts for the retirees, and payment amounts are slightly higher in the later years due to higher payment amounts for surviving spouses. The former results in slightly higher early asset values that are carried throughout the period under review, while the latter results in slightly higher liabilities in the later years. These identical percentage changes in assets and liabilities effectively offset and thereby do not result in any change in the funded ratio for FY 2045.

SUBJECT MATTER: SB 1985, as amended by House Amendment #1, 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, 2009.

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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 ½ 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, resulting in a double reduction for survivors of Social Security-coordinated members.
SB 1985, as amended by House Amendment #1, allows retired employees to file an election during a specified period after the effective date which will reduce their retirement annuity by 3.825% in exchange for not having the social security offset applied to their widow or survivors' annuities. Members not yet retired on the effective date may file this election at the time of their retirement.

TABLE 1

Fiscal Year	Existing State Contribution	Revised State Contribution	Net Increase
2008	$638.3	$638.3	$0.0
2009	827.2	827.2	0.0
2010	1,047.4	1,047.4	0.0
2011	1,087.5	1,087.5	0.0
2012	1,134.9	1,134.9	0.0

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