COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

REVISED

BILL NO: SB 1985 March 11, 2008

SPONSOR(S): Raoul, Bomke, et al

SYSTEM(S): State Employees' Retirement System

FISCAL IMPACT: HB 1697, as amended by House Amendment #002, made similar changes in both benefits and employee contributions. In analyzing that bill the System's actuary estimated it would increase the unfunded liabilities of SERS by \$219.8 million, resulting in an increase in the FY 2010 required employer contribution of \$7.7 million. After FY 2010, the increase in required employer contributions would grow at the same rate as payroll.

SB 1985 differs from HB 1697, as amended by House Amendment #002, by delaying removal of the offset against widows' and survivors' annuities of any person who began receiving benefits on or after January 1, 1998 until at least 50% of covered employees elect to make the specified voluntary additional contributions. At that time SB 1985 is expected to have financial effects similar to HB 1697, as amended by House Amendment #002.

<u>SUBJECT MATTER</u>: SB 1985 amends the State Employees' Article of the Pension Code to remove the Social Security offset against widows' and survivors' annuities of any person who began receiving benefits prior to January 1, 1998. Beginning January 1, 2009, when the elective active employee participation in this election reaches or exceeds 50% of all eligible active employees, the social security offset against widow' and survivors' annuities shall also be removed for all persons who began receiving such benefits on or after January 1, 1998.

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<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 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 allows employees to file an election by January 1, 2009, thereby voluntarily increasing their employee contribution rate by 0.5% and removing the Social Security offset for their widow's annuity and survivor's annuity recipients. Removal of the offset for persons who began receiving benefits on or after January 1, 1998 will occur on January 1, 2009, when the elective active employee participation in this election reaches or exceeds 50% of all eligible active employees. Regardless of the election results, SB 1985 removes the Social Security offset against widows' and survivors' annuities of any person who began receiving benefits prior to January 1, 1998.

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