

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: SB 1985, as amended by Senate Amendment #002 April 15, 2008

SPONSOR(S): Raoul, Bomke, et al

SYSTEM(S): State Employees' Retirement System

FISCAL IMPACT: The State Employees' Retirement System actuary analyzed SB 1985, as amended by Senate Amendment #002, and estimated it would increase the unfunded liabilities of SERS by \$109.7 million and result in a \$906 million increase in the total state contributions required for the period FY 2008 – FY 2045. The effect upon State contributions for the first five years is displayed in Table 1 on the following page.

SUBJECT MATTER: SB 1985, as amended by Senate Amendment #002, 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.

FISCAL IMPACT: The State Employees' Retirement System actuary analyzed SB 1985, as amended by Senate Amendment #002, and estimated it would increase the unfunded liabilities of SERS by \$109.7 million and result in a \$906 million increase in the total state contributions required for the period FY 2008 – FY 2045. The effect upon State contributions for the first five years is displayed in Table 1 on the following page.

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 Senate Amendment #002, allows retired employees to file an election during a specified period after the effective date which will reduce their retirement annuity by 1% 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	833.0	5.8
2010	1,047.4	1,059.4	12.0
2011	1,087.5	1,100.0	12.5
2012	1,134.9	1,147.9	13.0

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