

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 95TH GENERAL ASSEMBLY

**BILL NO:** SB 2558, as amended by House Amendments 1 & 2 July 10, 2008

**SPONSOR(S):** Sullivan – Noland (Molaro – Holbrook, et al)

**SYSTEM(S):** State Employees' Retirement System

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**FISCAL IMPACT:** The fiscal impact of allowing members to purchase added service credit at an Illinois Veterans Home cannot be determined as the number of employees who may wish to purchase optional service credit for contractual service is unknown. The bill requires the employee to pay the employer's normal cost and the employee contribution, plus interest on both, from the date of service to the date of payment. Therefore, the cost should be minimal.

The State Employees' Retirement System actuary analyzed the Social Security offset section of SB 2558, as amended by House Amendments #001 & #002, and estimated it would result in a \$71.0 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.

The actuary for the Commission on Government Forecasting and Accountability reviewed the methods and assumptions used by SERS' actuary in the foregoing calculation and found them to be reasonable.

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**SUBJECT MATTER:** The first section of SB 2558, as amended by House Amendments #001 & #002, amends the State Employee Article of the Illinois Pension Code to allow the purchase of service credit by any employee who rendered full-time contractual services for an Illinois Veterans' Home operated by the Department of Veterans' Affairs. The second section of SB 2558, as amended by House Amendments #001 & #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.

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contribution, plus interest on both, from the date of service to the date of payment. Therefore, the cost should be minimal.

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#### COMMENTS:

##### *Optional Service Credit for Certain State Contractors*

Currently, the Illinois Pension Code lists specific periods of service for which a member may purchase optional service credit. SB 2558, as amended by House Amendments #001 & #002, amends the State Employees Article of the Pension Code to add service as a contractor for an Illinois Veterans' Home to this approved list. Members are required to pay all contributions as of the date specified.

##### *Social Security Offset Removal*

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, SERS 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 2558, as amended by House Amendments #001 & #002, allows retired employees to file an election during a specified period after the effective date which will reduce their retirement annuity by 3.6% 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 shows the impact of the removal of the Social Security offset on State contributions for the period FY 2008 – FY 2012, as computed by SERS' actuary.

TABLE 1

<b>Fiscal Year</b>	<b>Existing State Contribution</b>	<b>Revised State Contribution</b>	<b>Net Increase</b>
2008	\$638.3	\$638.3	\$0.0
2009	827.2	827.7	0.5
2010	1,047.4	1,048.3	0.9
2011	1,087.5	1,088.5	1.0
2012	1,134.9	1,135.9	1.0

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