

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **SB 2558, as amended by House Amendment 2** May 30, 2008
SPONSOR(S): Sullivan – Noland (Molaro – Holbrook, et al)
SYSTEM(S): State Employees' Retirement System

FISCAL IMPACT: The fiscal impact of the first section of SB 2558, as amended by House Amendment 2, 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 second section of SB 2558, as amended by House Amendment 2, and estimated it would decrease the unfunded liabilities of SERS by \$2.1 million and 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 Governmental Forecasting and Accountability reviewed the methods and assumptions used by the SERS actuary in the foregoing calculation and found them to be reasonable.

SUBJECT MATTER: The first section of SB 2558, as amended by House Amendment 2, 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 Amendment 2, 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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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.

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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 Amendment 2, 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. In addition, SB 2558, as amended by House Amendment 2, states that allowing employees to establish service credit for this type of service constitutes a new benefit increase and this increase shall be funded by the additional employee and employer contributions.

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.

Social Security Offset Removal

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 Amendment 2, 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 below 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

Fiscal Year	Existing State Contribution	Revised State Contribution	Net Increase
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

GS:bj

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