COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **SB 0011** January 20, 2017

SPONSOR (S): J. Cullerton

SYSTEM(S): Teachers' Retirement System (TRS), State Universities' Retirement System (SURS), General Assembly's Retirement System (GARS), Judge's Retirement System (JRS), and Chicago Teachers' Pension Fund (CTPF)

FISCAL IMPACT: The fiscal impact of SB 11 is expected to be significant, but the extent of the impact is unknown. There is currently an actuarial cost study being conducted for SB 11. An updated impact note will be submitted upon completion of the actuarial study.

SUBJECT MATTER: SB 11 proposes a multitude of changes to TRS, SURS, GARS, JRS, and CTPF. It proposes a consideration plan that gives Tier 1 members the option to take a delayed and reduced COLA in exchange for a lump sum payment of 10% of all employee contributions made at that point, as well as reduced future employee contribution rates. The bill also introduces a new defined contribution plan that Tier 1 members may voluntarily opt into in lieu of their current defined benefit plan. In addition, there are also changes in assumptions for State contribution calculations. Finally, SB 11 introduces provisions regarding penalty payments for excess earnings.

COMMENT: SB 11 amends TRS, SURS, GARS, JRS and CTPF. The proposed changes can be broken down as follows:

The Consideration Plan

Affected Systems: TRS, SURS, GARS, CTPF

An active Tier 1 member is expected make an irrevocable decision between two choices from January 1, 2018, to March 1, 2018.

- *Choice 1*
    - Receive his/her first COLA in retirement annuity at age 67 or on the 5th anniversary of retirement annuity, whichever occurs first.
    - The COLA will be equal to 3% or 1.5% the annual unadjusted percentage increase in CPI-U. If the percentage increase in CPI-U is less than or equal to 0%, no COLA will be given.
    - In exchange for having delayed and reduced COLA:

        - Receive a consideration payment of 10% of the contributions that have been made by or on behalf of the member before the election.
        - The member's future increases in salary would be included in pensionable salary.
    - Starting July 1, 2018, or the effective date of the Tier 1 employee's election, employee contributions will be decreased. Each system's respective employee contributions rate is listed below.
        - TRS – 8.1% (7.5% for retirement annuity & 0.6% for the survivor's annuity)
        - SURS – 7.2% (6.5% for retirement annuity & 0.7% for the survivor's annuity) or 8.55% for police or firefighter (8% for retirement annuity & 0.55% for the survivor's annuity)
        - GARS – 10.35% (8.5% for retirement annuity & 1.85% for the survivor's annuity)
        - CTPF – 8.1% (7.5% for retirement annuity & 0.6% for the survivor's annuity)
    - Employees no longer need to pay for the COLA.
- *Choice 2*
    - Keep the compounding 3% COLA
    - Any future increases in salary would not be included in pensionable salary.

Defined Contribution (DC) Plan

Affected Systems: TRS, SURS, GARS

By July 1, 2018, each affected system shall introduce a voluntary DC Plan for its Tier 1 members:

- Up to the first 5% of active Tier 1 members can move to the DC plan from their current defined benefit (DB) plan. Once the decision is made, it is irrevocable.
- Employee contributions for the DC plan will be the same as employee contributions for the DB plan.
- State contributions at a uniform rate, calculated as a percentage of salary, would not be higher than the employers normal cost and not lower than 3%.
- Without 5 years of participation in the DC plan, the State contributions and earnings shall be forfeited.

State Contributions

Affected Systems: TRS, SURS, JRS, GARS

Computation of State Contributions:

- Beginning FY 2018 through FY 2045 except for FY 2019, State contributions shall be computed as a level percentage of *total payroll*, including nonpensionable payroll under the projected unit credit actuarial cost method so that each system's respective funded ratio could reach 90% by the end of FY 2045.

   - FY 2019 (except for JRS in which "the consideration plan" is not applicable)
      - Initial State contribution will be determined as mentioned above.
      - For recertification due on or before May 1, 2018, State contribution shall take into account the respective System's liabilities affected by the election under "the consideration plan."
      - For recertification due on or before October 1, 2018, State contribution shall be decreased by the total amount of the consideration payments.
- Changes in State Contributions due to Assumption Changes
   - Increase or decrease in State contributions due exclusively to actuarial or investment assumption changes shall be smoothed equally over the next five years, so that the State is contributing at the rate otherwise required under the Pension Code.

Penalty Payments for Excess Earnings

Affected Systems: TRS, SURS

Provisions regarding penalty payments for excess earnings for academic years beginning, July 1, 2018:

- Final Average Salary (FAS) Threshold
   - For an employee's earnings, on a full-time equivalent basis, used to compute his or her FAS, if an employee in TRS or SURS receives his or her earnings exceeding the previous earnings with the identical employer more than the unadjusted percentage increase in the CPI-U, the employer shall pay additional payments to a System.
- Any Salary Exceeding the Governor's Salary
   - If an employee's full-time salary exceeds the amount of the Governor's salary, an employer with TRS or SURS shall pay penalty payments to the System, in addition to other required payments including the penalty payments regarding the aforementioned FAS threshold.

GARS' DB Plan Closure

Beginning on the effective date of this legislation, the DB plan in GARS would no longer accept new participants.

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