COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **SB 2517** February 20, 2018

SPONSOR (S): McConchie

SYSTEM(S): Teachers' Retirement System (TRS)

FISCAL IMPACT: The fiscal impact of SB 2517 cannot be determined at this time as a cost study on this legislation is not currently available. An updated note would be provided when an actuarial cost study is available.

TRS notes that there would be no increase in the employer's normal cost due to salary increases for Tier 2 members as Tier 2 members are currently overpaying for their benefits by 2% of their salary.

SUBJECT MATTER: SB 2517 amends the Downstate Teachers (TRS) Article of the Illinois Pension Code by shifting a certain employer normal cost to local school districts.

COMMENT: Under current law, there are two salary caps that require an employer to make an additional contribution in addition to other required contributions: the 6% cap (pursuant to P.A. 94-0004) and the Governor's salary cap (pursuant to P.A. 100-0023).

- **6% Cap**
  - A teacher's annual salary increase with the same employer is capped at 6% for the purposes of determining the Final Average Salary. If a teacher's annual salary increase exceeds the 6% cap, an employer shall make an additional contribution to TRS for the cost of the present value of the increase in benefits resulting from any salary increases exceeding the 6% cap.

- **Governor's Salary Cap**
  - If an employee's full-time salary exceeds the amount of the Governor's salary, an employer shall pay to TRS penalty payments equal to the employer normal cost, expressed as a total percentage of payroll, multiplied by the excess amount of Governor's salary. In FY 2017, the Governor's salary was $177,500.

SB 2517 requires an employer to pay an additional amount on the top of any other required contributions including the 6% cap penalty payments and the Governor's salary cap penalty payments. Beginning in FY 2020 and for each fiscal year thereafter, if the amount of a teacher's salary is higher than the amount of the teacher's previous year salary with a same employer, the teacher's employer shall pay to TRS *the projected amount of the increase in the employer normal cost of benefits*, expressed as a percentage of salary and reflecting separate amounts for Tier 1 members and Tier 2 members, resulting from the salary increase over the previous school year.

TRS notes that there would be no increase in the employer's normal cost due to increases in annual earnings for Tier 2 members as Tier 2 members are currently overpaying for their benefits by 2% of their earnings.

However, pursuant to this bill, when TRS assesses this salary increase penalty, TRS shall exclude salary increases paid to:

1. A member under contracts or collective bargaining agreements entered into, amended, or renewed before the effective date of this bill; and
2. A member who elects the Optional Hybrid Plan on or after the implementation date of this bill.

JB:bj
LRB100 16911 RPS 32052 b