COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 3524**

March 12, 2019

- SPONSOR (S): Durkin
- SYSTEM(S): General Assembly, State Employee, State Universities, TRS, and Chicago Teachers

FISCAL IMPACT: This bill introduces the "consideration model" for Tier 1 employees as enumerated below. Please see page 3 for a summary of the Commission on Government Forecasting and Accountability's actuarial analysis of the impact upon TRS, SERS, and SURS.

<u>SUBJECT MATTER</u>: HB 3524 proposes the "consideration model" which gives Tier 1 employees under Articles 2, 14, 15, 16, and 17 the option to choose to receive delayed and reduced annual increases in exchange for a consideration payment of 10% of contributions already made and a reduction in annual contributions going forward (see the chart under "Tier 1 contribution changes" for more information on Tier 1 employee contribution rate reductions). Future pay increases would be considered pensionable. Those who do not choose this option will retain the 3% compounded COLA but will have their pensionable salary frozen.

<u>COMMENT</u>: Employees may either make the election enumerated below to receive pay raises that will count as "pensionable salary," or agree to receive a raise on the condition that the increase cannot be included in the calculation of pensions.

Consideration model: Tier 1

- Each Tier 1 employee participating in the General Assembly, State Employees, State Universities, Downstate Teachers, and Chicago Teachers Pensions shall make an election to either:
 - a. agree to delay automatic annual increases until after the age of 67 or the fifth anniversary of their retirement, and to have the amount of automatic annual increases in their annuity to be calculated as 3% or one-half (but not less than zero) the consumer price index-u of their originally granted annuity. If the consumer price index-u is zero or negative, no increase is granted. If a Tier 1 employee agrees, they shall receive a consideration payment equal to 10% of the contributions made by or on behalf of the employee; or

- b. not elect to agree to the above terms. Each future increase offered to a Tier 1 emloyee shall be offered expressly on the condition of not counting towards the employee's salary in regards to pension calculations.
- The election must be made between between January 1st and March 30th, 2020.
- If no election is made for any reason, the employee will be deemed to have refused the delayed and reduced cola, i.e., rejected the "consideration model."
- HB 3524 stipulates that for fiscal year 2020, the certification and calculation of the minimum required contribution by the State for the systems must be recertified and recalculated in order to capture the effects of the above Consideration model. The total fiscal year 2021 required contribution would then be reduced by the amount of the consideration payments made to Tier 1 employees who agreed to the election.

Tier 1 Contribution Changes

The chart below outlines the changes in employee contributions for Tier 1 members who accept the "consideration model." Those who refuse will see no change to the employee contribution rates currently enshrined in statute.

HB 3524 Potential Changes to			Employee	Retirement	Cost-of-Living-	Survivor's &	Total
Contributions			Election	Annuity	Increase (COLA)	Children Benefits	TOtal
General Assembly:			Accepted	8.50%	0.00%	1.85%	10.35%
			Refused	8.50%	1.00%	2.00%	11.50%
	Regular Formula	Covered	Accepted	3.15%	0.00%	0.45%	3.60%
			Refused	3.50%	0.00%	0.50%	4.00%
		Noncovered	Accepted	6.30%	0.00%	0.90%	7.20%
			Refused	7.00%	0.00%	1.00%	8.00%
State Employees:	Alternative Formula	Covered	Accepted	7.20%	0.00%	0.45%	7.65%
			Refused	8.00%	0.00%	0.50%	8.50%
		Noncovered	Accepted	10.35%	0.00%	0.90%	11.25%
		Noncovered	Refused	11.50%	0.00%	1.00%	12.50%
	Security Employees	Covered	Accepted	10.80%	0.00%	0.45%	11.25%
			Refused	8.00%	0.00%	0.50%	8.50%
		Noncovered	Accepted	10.35%	0.00%	0.90%	11.25%
			Refused	11.50%	0.00%	1.00%	12.50%
Non-Police		Accepted	6.50%	0.00%	0.70%	7.20%	
State III			Refused	6.50%	0.50%	1.00%	8.00%
State Universities: Police & Fire		Dolico & Firo	Accepted	8.00%	0.00%	0.55%	8.55%
		Refused	8.00%	0.50%	1.00%	9.50%	
Downstate Teachers:		Accepted	7.50%	0.00%	0.60%	8.10%	
Downstate reachers:			Refused	7.50%	0.50%	1.00%	9.00%
Chicago Teachers:		Accepted	7.50%	0.00%	0.60%	8.10%	
chicago reachers.			Refused	7.50%	0.50%	1.00%	9.00%

<u>Actuarial Analysis:</u> The Commission's actuary, Segal Consulting, conducted an actuarial impact study on the Consideration Model in May of 2018. The analysis concluded that younger members with fewer years of service and many years until retirement would be most likely to accept the proposal, while older members with a long service record who are close to retirement would be most likely to refuse. Segal assumed that Tier 1 members would make the choice that would maximize their individual wealth.

Under the "wealth maximization" approach, 32% of TRS Tier 1 members are expected to accept, and 68% to decline. 44% of SERS Tier 1 members are expected to accept, and 56% to decline. 39% of SURS Tier 1 members are expected to accept, and 61% to decline. Based on these assumptions, the 10% consideration payments for each fund are estimated to be \$144,000,000 for TRS, \$80,000,000 for SERS, and \$125,000,000 for SURS.

Finally, each fund is expected to see a reduction in State contributions through FY 2045. TRS is expected to see a nominal reduction of \$5.32 billion or \$2.62 billion based on present value, SERS is expected to see a nominal reduction of \$1.76 billion or \$0.82 billion based on present value, and SURS is expected to see a nominal reduction of \$0.70 billion or \$0.46B based on present value. Additionally, projections out to 2045 show that unfunded liabilities will be slightly reduced in all years up until 2045.

Below are charts outlining the actuarial assumptions used to calculate the savings using the "wealth maximizing" choice, and estimates of long-term State contribution savings that correspond with the rates of acceptance and refusal of the Consideration Model as shown below.

Assumed Election Rates						
	Choice 1 (Accept)	Choice 2 (Refuse)				
TRS	32%	68%				
SERS	44%	56%				
SURS	39%	61%				

<u>Characteristics</u>	Choice 1	Choice 2
Age	Younger	Older
Years of Service	Lower service	Higher service
Proximity to Retirement	Many years in the future	Near retirement

Based on Pensionable Payroll					
System	Nominal Increase/(Reduction) in State Contribution Through FY 2045	Present Value of Increase/(Reduction) in State Contribution Through FY 2045			
TRS	(\$ 5.32B)	(\$ 2.62B)			
SURS	(\$ 0.70B)	(\$ 0.46B)			
SERS	(\$ 1.76B)	(\$ 0.82B)			

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