



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 1235, as amended by HA 001

May 9, 2023

SPONSOR (S): Martwick - Villa (Kifowit – Cassidy, et al)

SYSTEM: SURS

FISCAL IMPACT

According to SURS, the system’s actuary does not recognize the actuarial liabilities associated with part-time employees; the actuary assumes all employees are full-time. SURS reports approximately 24% of active members (73,307) have some part-time service. In addition, approximately 16% of retirement claims have a part-time adjustment, and the adjustment typically impacts the final pension amount in 10% of retirement claims. Thus, while there will be no change to SURS’ liabilities due to the new service accrual schedule and the elimination of the part-time adjustment (for the aforementioned reason that the actuary assumes all employees are FT employees), SURS claims more assets will be necessary to pay enhanced benefits due to the new accrual schedule and the elimination of the part-time adjustment. The amount by which payouts will increase as a result of these changes has not been provided by SURS.

Note – please see Appendix I on page 4 for two examples of how SURS claims that retirement payouts will increase in cases where the PT service credit adjustment would otherwise be made.

SUBJECT MATTER: SB 1235, as amended by HA 001, amends the State Universities Article of the Illinois Pension Code to redefine the amount of service time that comprises one month of pensionable service credit. Under the amended bill, the new standard for one month of service would be a calendar month in which a participant qualifies as an employee and contributes to the system (the current standard is 15 or more days for which earnings are received). The proposed legislation also deems participants employed for ½ time or less as not subject to the “part time

service credit adjustment,” in which the proportion of time employed as a PT employee relative to full-time employment is reflected in the calculation of total service credit. The bill restates current law regarding the amount of time necessary to accrue one year of service, or fractions of a year of service.

HA 1 embodies the engrossed bill and makes two changes: 1) the amendment clarifies that PT and adjunct faculty will be subject to the same 20% maximum pensionable salary increase limitation that currently applies to FT employees, and 2) the amendment adds 2 community college members to the SURS Board of Trustees, bringing the total board membership from 11 members to 13 members. Both changes are explained in more detail in the Comment Section below.

COMMENT:

The following two items were contained in SB 1235, as engrossed:

Service Credit Accrual Schedule in SURS

SB 1235, as amended by HA 001, is a measure to address service credit accruals for part-time and adjunct faculty in SURS. Currently, one month of service credit is granted to a member if they qualify as an employee for at least 15 or more days in a given calendar month during which earnings are received. With regard to defining years of service, the following service increments apply: within an academic year, 8 or more months of service constitutes a year of service; 6-8 months constitutes three-quarters of a year of service; 3-6 months as one-half a year of service; and less than 3 months as one-quarter of a year of service.

SB 1235, as amended by HA 001, forms a new creditable service accrual schedule for active participants on or after September 1, 2024, in which one month of service is granted for any employee who contributes to the system in which service is rendered and earnings received. In other words, the completion of one day of service or 31 days of service would constitute one month of service under the amended bill, so long as the employee contributes to the System. The bill restates the existing schedule for what constitutes a full year of service (or fractions thereof), as previously enumerated.

Elimination of the “Part-Time Service Credit Adjustment”

SB 1235, as amended by HA 001, amends the SURS Article of the Pension Code regarding part-time employment and its effect on service credit. Under current law, for part-time employees, an adjustment is made for service credit earned in proportion to that which would have been earned for full-time service. SURS refers to this provision as the “part-time service credit adjustment.” SB 1235, as amended, removes this adjustment for active members on or after September 1, 2024.

SURS reports that approximately 24% of active members (73,307) have some part-time service. In addition, approximately 16% of retirement claims have a part-time adjustment, and the adjustment typically impacts the final pension amount in 10% of retirement claims. Appendix I

on Page 4 gives two practical examples of how the part-time service credit adjustment functions; both examples were provided by SURS.

The following two items were added by HA 1:

Application of Maximum Pensionable Salary Increases to PT and Adjunct Faculty

Currently, the SURS Article of the Pension Code dictates that salary increases that exceed 20% in a member's final average salary period with the same employer shall not count towards that member's pension. This is separate and distinct from the 6% Final Average Salary Cap under P.A. 94-0004, which allocates responsibility for pay raises over 6% to the employing entity (in this case, the employing university or community college). The employer may grant 20% end-of-career pay increases, but that employer would assume responsibility for the present value of the pension associated with the pay raise over 6%, or 14%, in this hypothetical case. HA 001 to SB 1235 simply clarifies that the 20% end-of-career pensionable salary increase maximum applies to part-time and adjunct faculty in the same manner as full-time faculty.

Addition of Two Additional SURS Board Members

Currently, the SURS Board of Trustees is comprised of 11 members, as follows:

- The Chairperson of the Board of Higher Education;
- Four trustees appointed by the Governor, with the advice and consent of the Senate;
- Four participating members of the system, elected by active members; and
- Two annuitants of the system, elected by annuitants of the system.

SB 1235, as amended by HA 1, provides for two new positions on the Board of Trustees of the State Universities Retirement System, provided they are employees of an Illinois community college. Of the two new positions, one board member would be elected from the contributing membership of the retirement system and one community college board member would be appointed by the Governor. Thus, the SURS Board would be comprised of a total of 13 members.

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APPENDIX I:

The purpose of Appendix I is to demonstrate the practical impact of the elimination of the part-time adjustment with simplified examples. Both examples were provided to CGFA by SURS staff:

Example 1:

- A person under SURS works 50% time for 20 years, earning \$25,000 annually and then takes a job working 100% time at \$50,000 annually during their final 5 years of employment. This person would get the benefit of their higher salary of \$50,000 during the 5 years of employment. However, the adjustment takes the percentage of time worked during the final average salary period (in this case, 100%) and then adjusts the person's service credit proportionately.
- Thus, if this person worked for 20 years at 50% time, SURS would waive 3 years and adjust the 1 year of service credit down to $\frac{1}{2}$ of a year of service credit (50%/100%) for the remaining 17 years. The person's adjusted service credit would be 16.5 years (or $8.5 + 3 + 5$), and the person's benefit would be calculated as follows:
 - Under Current Law, with a PT service credit adjustment: $16.5 * \$50,000 * 2.2\% = \$18,150$ annual benefit
 - **SB 1235, as amended by HA 001, with no PT service credit adjustment: $25 * \$50,000 * 2.2\% = \$27,500$ annual benefit**

Example 2:

- A person teaches one class per semester, making \$3,600 a year working 20% time, for 10 years. Then, the person becomes full-time under a reciprocal system for 20 years (ex: TRS, SERS, IMRF, etc.) making \$75,000 per year. Under the Reciprocal Act, the person could receive a pension from SURS based on the final average salary under the reciprocal system (\$75,000). Under current law, the part-time adjustment ignores the lowest 3 years of service, so the remaining 7 years would be multiplied by 20%/100% to produce adjusted service of 1.4 years. The 1.4 years would be added to the 3 waived years for the total of 4.4 years of adjusted service credit under SURS. If SB 1235, as amended by HA 001, becomes law, the pension would not reflect the fact that the person only worked 20% time under SURS. So, the person's benefit would be calculated as follows:
 - Under Current Law, with a PT service credit adjustment: $\$75,000 * 2.2\% * 4.4 = \$7,260$ annually (in addition to the pension from the reciprocal system)
 - **SB 1235, as amended by HA 001, with no PT service credit adjustment: $\$75,000 * 2.2\% * 10 = \$16,500$ annually (in addition to the pension from the reciprocal system)**