COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 1447, as amended by SA 2 & 3** August 1, 2012

SPONSOR(S): K. Burke – Nybo, et al. (Cullerton – Radogno)

SYSTEM(S): General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), State Employees Retirement System (SERS), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

FISCAL IMPACT: SERS' actuary produced a cost study in May of 2012 detailing how the irrevocable-election language of HB 1447, as amended by SA 2 & 3, will impact the State Employees Retirement System. SERS' actuary found that if the youngest 50% of active members and the lowest-earning 50% of retirees elected to accept the reduced COLA, the State would save $23.1 billion in contributions over the period of FY 2014 – 2045. This savings projection was calculated under the assumption that Tier 2 members and all new participants will participate in a mandatory Cash-Balance plan (not to be confused with the complementary Optional Cash-Balance Plan, as proposed in this bill). A revised actuarial cost study would be required to determine savings under the Optional Cash-Balance plan.

The chart below outlines the immediate reduction in accrued liabilities as well as the projected savings in contributions over the period FY 2014 – 2045. SERS' actuary calculated these amounts over three different scenarios of SERS members accepting The Deal: 0% of members, the youngest 50% of active members and the lowest-earning 50% of retirees, and all members.

SERS	Savings in:	1) FY 2014 Acc. Liability	2) Total Contributions Thru FY 2045
Members taking The Deal			
0%		$4.803 Billion	$28.292 Billion
50%		$3.3615 Billion	$23.129 Billion
100%		$6.283 Billion	$31.064 Billion

SUBJECT MATTER: HB 1447, as amended by SA 2 & 3, amends the Pension Code by creating an irrevocable election for active and retired members of GARS and SERS regarding future pensionable salary and post-retirement cost-of-living adjustments. This bill excludes from participation in IMRF, SURS, and TRS employees of certain non-governmental agencies that operate outside the auspices of municipalities, universities, and school districts.

FISCAL IMPACT: SERS' actuary produced a cost study in May of 2012 detailing how the irrevocable-election language of HB 1447, as amended by SA 2 & 3, will impact the State Employees Retirement System. SERS' actuary found that if the youngest 50% of active members and the lowest-earning 50% of retirees elected to accept the reduced COLA, the State would save $23.1 billion over FY 2014 – 2045. This savings projection was calculated under the assumption that Tier 2 members and all new participants will participate in a mandatory Cash-Balance plan (not to be confused with the complementary Optional Cash-Balance Plan, as proposed in this bill). A revised actuarial cost study would be required to determine savings under the Optional Cash-Balance plan.

COMMENT:

Members: Under current law, Tier I members of GARS and SERS are entitled to a defined-benefit pension plan with a retirement annuity calculated on their respective final average salaries. This Tier 1 retirement annuity includes automatic compounded annual increases (COLA) of 3%, and the pension package also includes a healthcare subsidy for members who have met the requisite service requirements under the State Employees Group Insurance Act.

HB 1447, as amended by SA 2 & 3, not only formally defines Tier 1 employees and retirees in GARS and SERS, but also establishes an irrevocable election for those members. Current members have from January 1, 2013 until May 31, 2013 to choose amongst the following decisions:

i) Current members, both active and retired, may elect to maintain eligibility for the retiree healthcare subsidy. By selecting this option, the member reduces their COLA to the lesser of 3% or ½ of the CPI-U of the previous year of the originally-granted annuity and may have to make required contributions towards the healthcare subsidy. Additionally, the active member, upon retirement, may not receive any COLA until either the age of 67 or the January after the fifth anniversary of first receiving the retirement annuity, whichever occurs sooner.
   a. A retired member making this election may not receive a COLA until either the age of 67 or the January after the fifth anniversary of first receiving the original retirement annuity, whichever occurs sooner. Additionally, the revised Tier 1 COLA will be calculated upon the member's original pension; however, any applicable prior years' COLA's remain in force.

ii) Current members, both active and retired, may elect to secure the 3% compounded COLA. By selecting this option, the member forfeits the healthcare subsidy. Additionally, the member's final average salary, used to calculate their retirement annuity, will not take into account any future increases in income he or she may receive after July 1, 2013.

HB 1447, as amended by SA 2 & 3, also provides more narrow definitions of an employee under IMRF, SURS, and TRS by excluding employees of certain organizations that operate outside the auspices of school districts, municipalities, and universities. These provisions only apply to new hires and not to any existing employees of these organizations.

This bill disallows any member of SURS from receiving service credit for a leave of absence for service with a teacher organization occurring after the effective date of this bill.

This bill also disallows new members of SERS, hired after the effective date of this bill, to earn service credit for payment or reimbursement from travel vouchers. This bill prohibits new members of TRS, hired after the effective date of this bill, to claim pensionable service credit for unused sick time.

Employer Contributions: In enacting Public Act 88-593, the General Assembly declared a funded ratio of 90% to be an adequate goal for all five State-funded Retirement Systems and decreed that the Commission on Government Forecasting and Accountability should draft a report on the appropriateness of this 90% funded-ratio goal every five years.

HB 1447, as amended by SA 2 & 3, amends this provision to eliminate the language regarding a specific funded-ratio goal across all State Retirement Systems. Additionally, this bill changes CoGFA's report to discuss the appropriateness of each of the five State-funded Retirement Systems' individual funded-ratio goals.

Pursuant to P.A. 88-593, GARS and SERS must adhere to a long-term, actuarially-based funding schedule with a goal of reaching a 90% funded ratio by FY 2045.

HB 1447, as amended by SA 2 & 3, stipulates that GARS and SERS evaluate the results of Tier 1 active and retired member elections within their own respective systems. If less than 50% of the Tier 1 population of any retirement system elects to take the lesser COLA and secure their retiree healthcare subsidy, that retirement system will maintain its current funding schedule. However, if more than 50% of Tier 1 members within a system retain their healthcare subsidy, then that system will adopt a new 30-year actuarially-required contribution (ARC) funding schedule as follows:

Both GARS and SERS will independently establish their own 30-year ARC funding schedule starting fiscal year (FY) 2014 going through FY 2043. The state contribution into the pension fund will be equal to the sum of 1) the State's portion of the projected normal cost for that fiscal year, plus 2) an amount sufficient to bring total assets of the system up to 100% of the total actuarial liabilities of the System by the end of FY 2043. Such a contribution shall be calculated as a level percentage of payroll over the years and shall be deteremined under the Projected Unit Credit (PUC) cost method. Beginning in FY 2043, the State will pay, at minimum, an amount sufficient to maintain actuarial assets at 100% of total actuarial liabilities.

HB 1447, as amended by SA 2 & 3, includes language allowing the SERS's Board of Trustees to commence a Mandamus action against the State to compel payment if the State fails to make the statutorily-required contribution.

Optional Cash-Balance Plan: The Optional Cash-Balance Plan, as proposed by this bill, is available to all SERS Tier 1 members who opted for the revised COLA. Participation in the Optional Cash-Balance Plan is in addition to, not in lieu of, any other pension benefit. Employees who opt into this plan will make contributions of 2% of salary in addition to their regular retirement contributions. No employer contribution to the Optional Cash-Balance Plan is required, however optional employer contributions are allowed. Interest on all accounts will be referred to as the "assumed treasury rate," a rate equal to the average annual yield of the 30-year U.S. Treasury Bond of the previous year and credited annually at a rate between 4% and 10%. Member accounts will be credited at an interest rate equal to 2/3 of SERS's actual investment returns over the assumed treasury rate *on the condition* that both the last 5-year average and the previous fiscal year's actual investment returns are no less than the assumed treasury rate. The retirement annuity payable from a cash-balance account will be calculated under the assumption that the retiree's account will reach $0 by their actuarially-assumed date of death or by the death of their eligible survivor. The annuity is a lifetime annuity and will not cease in the event the annuitant(s) outlive the actuarial assumptions.

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