

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 1447** **February 17, 2011**
SPONSOR(S): Burke, Kelly
SYSTEM(S): General Assembly Retirement System, Judges' Retirement System

FISCAL IMPACT: The fiscal impact of HB 1447 has not been calculated, but reducing cost-of-living adjustments and making them non-compounded for new members in GARS and JRS would reduce state contributions to both systems between FY 2012 – FY 2045. The changes made to survivor's annuities will also have a positive impact going forward.

SUBJECT MATTER: HB 1447 amends the General Assembly and Judges Articles of the Illinois Pension Code to make cost-of-living adjustments for new members of both systems non-compounded and based upon the lesser of 3% or one-half the increase in the Consumer Price Index. P.A. 96-0889, the two tier pension reform bill, made this change to several other systems under the Pension Code, but the Act retained compounded COLAs for GARS and JRS members hired after Jan. 1, 2011. The bill also changes the growth rate of the pensionable salary base for new members to \$106,800, increased by the lesser of 3% or one-half the annual percentage change in the CPI (currently, this amount is increased by the lesser of 3% or the full percentage change in the CPI).

The bill also makes survivor annuities non-compounded and applies the growth rate articulated above to the 66 2/3% survivor annuity multiplier. HB 1447 essentially creates a third tier under GARS and JRS that will apply only to new members on or after the effective date of this Act.

FISCAL IMPACT: The fiscal impact of HB 1447 has not been calculated, but reducing cost-of-living adjustments and making them non-compounded for new members in GARS and JRS would reduce state contributions to both systems between FY 2012 – FY 2045. The changes made to survivor's annuities will also have a positive impact going forward.

COMMENT:

Highest Salary for Annuity Purposes in GARS

Pursuant to Public Act 96-889, the average monthly salary for a person who becomes a member of GARS on or after January 1, 2011 is calculated by dividing the total salary of the participant during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months of service in that period. The highest salary for annuity purposes cannot exceed \$106,800, however,

that amount annually increases by the lesser of (i) 3% of that amount (including all previous adjustments), or (ii) the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1.

HB 1447 provides that for a person who first becomes a participant of GARS on or after the effective date of this amendatory Act of the 97th General Assembly, the average monthly salary will be obtained by dividing the total salary of the participant during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months of service in that period. Under HB 1447, the highest salary for annuity purposes may not exceed \$106,800, however that amount is to be annually increased by the lesser of (i) 3% of that amount, including all previous adjustments, or (ii) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1.

Automatic Increase in Retirement Annuity in GARS

HB 1447 provides that a person who first becomes a participant of GARS on or after the effective date of this amendatory Act must have his or her annuity increased by the lesser of 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index, as determined by the Public Pension Division of the Department of Insurance, of the originally granted retirement annuity. This annual automatic increase will first begin in January or July next following the first anniversary of retirement (so long as the member is at least 67 years of age), whichever occurs first, and then in the same month of each year thereafter.

Amount of Survivor's Annuity in GARS

HB 1447 provides that the initial survivor's annuity for a survivor of a participant who first becomes a participant on or after the effective date of this amendatory Act will be 66 2/3% of the amount of the retirement annuity to which the participant or annuitant was entitled to on the date of death. This annuity will be increased (1) on each January occurring on or after the commencement of the annuity if the deceased member died while receiving a retirement annuity, or (2) on January 1 occurring on or after the first anniversary of the commencement of the annuity. The increase will be by an amount equal to the lesser of 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index, as determined by the Public Pension Division of the Department of Insurance, of the originally granted survivor's annuity.

Highest Salary for Annuity Purposes in JRS

HB 1447 provides that for a person who first serves as a judge on or after the effective date of this amendatory Act of the 97th General Assembly, the average monthly salary will be obtained by dividing the total salary of the judge during the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest by the number of months of service in that period. Under HB 1447, the highest salary for annuity purposes may not exceed \$106,800, however that amount is to be annually increased by the lesser of (i) 3% of that amount, including all previous adjustments, or (ii) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1.

Automatic Increase in Retirement Annuity in JRS

HB 1447 provides that a person who first serves as a judge on or after the effective date of this amendatory Act must have his or her annuity increased by the lesser of 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index, as determined by the Public Pension Division of the Department of Insurance, of the originally granted retirement annuity. This annual automatic increase will first begin in January of the year next following the year in which the first anniversary of retirement occurs (so long as the member is at least 67 years of age), and then in January of each year thereafter.

Amount of Survivor's Annuity in JRS

HB 1447 provides that the initial survivor's annuity for a survivor of a participant who first serves as a judge on or after the effective date of this amendatory Act will be 66 2/3% of the amount of the annuity received or earned by the decedent. This annuity will be increased (1) on each January 1 occurring on or after the commencement of the annuity if the deceased participant died while receiving a retirement annuity, or (2) on January 1 occurring on or after the first anniversary of the commencement of the annuity (but in no event prior to reaching age 67). The increase will be by an amount equal to the lesser of 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index, as determined by the Public Pension Division of the Department of Insurance, of the originally granted survivor's annuity.

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