

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 5377**

February 24, 2012

SPONSOR (S): Tryon

SYSTEM(S): All State Systems

FISCAL IMPACT: The Commission's actuary estimates that HB 5377 would reduce State contributions to TRS by \$10-14 billion between FY 2013 and FY 2045. The total savings for all five State systems combined would likely be in the \$20-28 billion range over the same time period.

SUBJECT MATTER: HB 5377 amends the State Retirement articles of the Illinois Pension Code to modify the annual cost of living adjustment (COLA) for employees hired prior to January 1, 2011 (the effective date of P.A. 96-0889). The bill limits the amount of the current 3% annual COLA to the first \$50,000 of a retirement annuity. For retirement annuities greater than \$50,000, the Tier 2 COLA would be payable on retirement amounts over \$50,000.

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COMMENT: Currently, all of the State retirement systems pay annual 3% compounded COLAs on retirement annuities paid to employees hired prior to January 1, 2011 (the effective date of P.A. 96-0889). Employees hired after Jan 1, 2011 (Tier 2) are entitled to receive COLAs equal to the lesser of 3% or one-half the annual unadjusted percentage increase in the Consumer Price Index. HB 5377 would grant 3% compounded COLAs to employees hired before Jan 1, 2011 who did not begin to receive a retirement annuity before the effective date of this bill up to the first \$50,000. If the retirement annuity is in excess of \$50,000, a COLA equal to the Tier 2 COLA would be payable on the amount of the annuity in excess of \$50,000.

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