

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

REVISED

BILL NO: SB 0512, as amended by HA 1 November 3, 2011

SPONSOR (S): Cullerton (Cross – Madigan, et al.)

SYSTEM(S): State Employees Retirement System, State Universities Retirement System, Teachers Retirement System, General Assembly Retirement System, Cook County Employees Pension Fund, Cook County Forest Preserve Retirement Fund, Laborers Annuity and Benefit Fund of Chicago, Municipal Employees Annuity and Benefit Fund of Chicago, Park Employees Annuity and Benefit Fund of Chicago, Public School Teachers Pension and Retirement Fund of Chicago

FISCAL IMPACT: Tables 1 and 2 on Pages 4 and 5 of this Pension Impact Note show the results of a cost study performed by COGFA’s actuary on the long-term impact of SB 512 on the Teachers’ Retirement System (**TRS**). The actuarial assumptions that were utilized in performing this cost study are outlined on Page 3 of this Impact Note.

Below are some highlights from the cost study of SB 512:

- State contributions to TRS will increase by \$653.9 million in FY 2013 when compared to current law.
- State contributions to TRS will be higher than under current law for Fiscal Years 2013 – 2019. Since State contributions are projected to increase under SB 512 at a considerably slower rate than under current law (2.3% compared to 4.4%), State contributions need to start at an initially higher amount so that with the slower rate of increase they will produce the amount needed to attain a 90% funding ratio in FY 2045. After several years, the slower rate of increase under SB 512 results in State contributions that will be lower than under current law.
- When looking at the broad span of the entire funding period under P.A. 88-593, State contributions to TRS will be reduced by \$47.9 billion between FY 2013 – FY 2045 when compared to current law. This long-term aggregate reduction in contributions is premised upon the State making its annual statutorily-required contributions (as shown in the column labeled “Total State Contribution” in Table 1 on Page 4 below).

- State contributions to TRS gradually decline as a percentage of payroll in each year over the period FY 2013 – FY 2045. This is because under SB 512, the major portion of State contribution is to be determined as a level percentage of state revenue, under the assumption that State revenue will increase at the rate of 2.3% per year. Under the actuary's projections, total payroll increases at the rate of 4.4% per year. Therefore, State contributions are projected to increase at a slower rate than payroll, resulting in State contributions decreasing as a percent of payroll.

SUBJECT MATTER: SB 0512, as amended by H.A. 001, amends the Illinois Pension Code to allow all employee participants to select their own plan from a menu of various available pension plans. Participants beginning employment before January 1, 2011 may select one of the following plans: (1) The traditional defined benefit plan in effect prior to Public Act 96-0889, (2) A revised defined benefit plan placed into effect by Public Act 96-0889 and Public Act 96-1490, (3) A new defined contribution plan established by SB 0512, as amended by H.A. 001. Participants beginning employment on or after January 1, 2011 may select one to the following plans: (1) A revised defined contribution plan placed into effect by Public Act 96-0889 and Public Act 96-1490, (2) A new defined contribution plan established by SB 0512, as amended by H.A. 001. Applicable initial member balances, plan selection dates, employer/employee costs and other procedures are established by SB 0512, as amended by H.A. 001.

COMMENTS: Under SB 0512, as amended by H.A. 001, employees are permitted to choose their pension plan from the following options: (1) The traditional defined benefit plan in effect prior to Public Act 0889, (2) A revised defined benefit plan established by Public Act 96-0889 and Public Act 96-1490, or (3) A defined contribution plan established by SB 0512, as amended by H.A. 001. Participants beginning employment on or after January 1, 2011 may not choose the traditional defined benefit plan.

SB 0512, as amended by H.A. 001, establishes employee pension contributions based upon the retirement system and the plan selected. The defined benefit plan in effect prior to Public Act 0889 will cost regular SERS employees covered by Social Security 9.29%, and similar employees not covered by Social Security will pay 18.91%. SERS alternative plan employees covered by Social Security will pay 16.65% for this plan. TRS employees choosing this plan will pay 13.77%, SURS employees will pay 15.31%, and GARS employees will pay 24.89%.

State contribution amounts are also established by SB 0512, as amended by H.A. 001. For employees covered by Social Security that choose the revised DB plan or the defined contribution plan, the State shall contribute one half of the normal cost of the revised DB plan. For employees not covered, the State shall contribute 6% or the normal cost of the revised DB plan, whichever is greater.

Actuarial Assumptions Used in SB 512 Cost Study:

1. 20% of employees hired before January 1, 2011 who are under age 30 are assumed to stay in Tier 1 and 80% are assumed to switch.
2. 80% of employees hired before January 1, 2011 who are age 55 and over are assumed to stay in Tier 1 and 20% are assumed to switch.
3. 50% of employees hired before January 1, 2011 who are between ages 30 and 55 are assumed to stay in Tier 1 and 50% are assumed to switch.
4. 50% of employees who switch from Tier 1 and 50% of employees hired after January 1, 2011 are assumed to elect the self-managed plan.
5. The additional contributions to be made by employees to remain in Tier 1 were not used for purposes of those employees hired before 2005 who qualify for the TRS money purchase formula. (The TRS money purchase formula was eliminated for new employees beginning service after 2005 by P.A. 94-0004).
6. For purposes of determining the required State contribution under the funding plan specified in Section 16-158 of the Pension Code, total payroll was used.

Table 1

FUNDING PROJECTIONS FOR THE TEACHERS' RETIREMENT SYSTEM COGFA Projections Based on Senate Bill 512, HA 1 (\$ in millions)							
Fiscal Year	Employee Contribution	SMP State Contribution	TRS State Contribution	Total State Contribution	Total State Contribution as a % of Payroll	Reduction in State Contribution	Present Value of Reduction in State Contribution
2011	\$936.7	\$0.0	\$2,357.0	\$2,357.0	24.3%	\$0.0	\$0.0
2012	972.6	0.0	2,405.2	2,405.2	23.8%	0.0	0.0
2013	890.1	161.9	2,910.9	3,072.8	29.1%	(653.9)	(555.4)
2014	887.7	181.3	2,955.6	3,136.9	28.4%	(477.8)	(374.1)
2015	888.8	201.3	3,002.2	3,203.5	27.6%	(296.7)	(214.1)
2016	893.6	221.9	3,050.4	3,272.3	26.9%	(229.1)	(152.3)
2017	899.4	242.8	3,123.5	3,366.3	26.4%	(170.8)	(104.7)
2018	907.9	264.5	3,199.3	3,463.8	25.9%	(105.9)	(59.8)
2019	919.2	286.8	3,278.2	3,565.0	25.4%	(37.0)	(19.3)
2020	932.8	309.8	3,359.9	3,669.7	24.9%	25.7	12.3
2021	948.4	333.9	3,444.4	3,778.3	24.4%	97.9	43.3
2022	966.7	359.2	3,531.8	3,891.0	23.9%	178.1	72.6
2023	985.9	385.5	3,621.9	4,007.4	23.4%	268.6	100.9
2024	1,006.6	413.0	3,714.7	4,127.7	23.0%	355.6	123.1
2025	1,026.3	441.6	3,809.8	4,251.4	22.5%	452.8	144.5
2026	1,046.1	471.7	3,907.3	4,379.0	22.1%	575.2	169.2
2027	1,060.8	503.3	4,006.9	4,510.2	21.7%	705.3	191.2
2028	1,071.2	536.3	4,108.8	4,645.1	21.4%	830.0	207.4
2029	1,076.7	571.0	4,213.1	4,784.1	21.0%	962.5	221.6
2030	1,079.9	607.7	4,319.8	4,927.4	20.6%	1,088.3	231.0
2031	1,076.7	646.5	4,429.1	5,075.6	20.3%	1,224.3	239.5
2032	1,067.3	687.5	4,541.5	5,229.0	20.0%	1,386.2	249.9
2033	1,054.6	730.2	4,656.3	5,386.6	19.7%	1,657.7	275.4
2034	1,035.4	774.9	4,773.9	5,548.8	19.3%	1,821.6	279.0
2035	1,012.9	821.5	4,894.2	5,715.7	19.1%	2,337.4	329.9
2036	984.4	870.1	5,017.4	5,887.4	18.8%	2,530.9	329.3
2037	951.4	920.8	5,143.7	6,064.5	18.5%	2,733.9	327.8
2038	913.3	974.0	5,273.6	6,247.6	18.2%	2,948.3	325.8
2039	871.2	1,029.3	5,407.7	6,437.1	18.0%	3,175.1	323.4
2040	828.9	1,086.6	5,546.6	6,633.1	17.7%	3,414.9	320.6
2041	785.1	1,143.7	5,688.6	6,832.3	17.5%	3,655.4	316.3
2042	742.9	1,202.7	5,836.1	7,038.8	17.3%	3,910.8	311.9
2043	710.3	1,263.8	5,990.8	7,254.6	17.0%	4,188.0	307.8
2044	689.8	1,327.5	6,153.5	7,481.0	16.8%	4,491.1	304.2
2045	676.3	1,394.0	6,324.0	7,718.0	16.5%	4,820.1	300.9
Totals						\$47,864.2	\$4,579.0

Table 2

FUNDING PROJECTIONS FOR THE TEACHERS' RETIREMENT SYSTEM COGFA Projections Based on Senate Bill 512, HA 1 (\$ in millions)								
Fiscal Year	Annual Payroll	Total State Contribution	State Contribution as a % of Payroll	Total Payout	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio
2011	\$9,684.7	\$2,357.0	24.3%	\$4,548.5	\$81,091.4	\$36,895.5	\$44,195.9	45.5%
2012	10,102.8	2,405.2	23.8%	4,847.4	84,934.8	36,265.7	48,669.1	42.7%
2013	10,564.0	3,072.8	29.1%	5,010.2	81,421.8	36,204.1	45,217.7	44.5%
2014	11,065.3	3,136.9	28.4%	5,279.5	84,407.3	38,479.4	45,928.0	45.6%
2015	11,603.4	3,203.5	27.6%	5,553.4	87,368.7	40,465.0	46,903.7	46.3%
2016	12,172.5	3,272.3	26.9%	5,831.4	90,301.4	42,415.4	47,886.0	47.0%
2017	12,765.1	3,366.3	26.4%	6,105.8	93,211.3	44,360.9	48,850.3	47.6%
2018	13,393.1	3,463.8	25.9%	6,379.4	96,103.3	46,310.7	49,792.6	48.2%
2019	14,060.0	3,565.0	25.4%	6,646.2	98,988.5	48,280.1	50,708.4	48.8%
2020	14,762.1	3,669.7	24.9%	6,913.9	101,867.1	50,276.0	51,591.1	49.4%
2021	15,504.6	3,778.3	24.4%	7,190.9	104,729.7	52,297.9	52,431.8	49.9%
2022	16,291.6	3,891.0	23.9%	7,458.7	107,585.0	54,369.1	53,215.9	50.5%
2023	17,114.7	4,007.4	23.4%	7,726.5	110,432.0	56,500.6	53,931.5	51.2%
2024	17,976.6	4,127.7	23.0%	7,996.8	113,265.3	58,705.9	54,559.4	51.8%
2025	18,870.5	4,251.4	22.5%	8,270.2	116,076.4	60,991.3	55,085.1	52.5%
2026	19,801.7	4,379.0	22.1%	8,549.3	118,852.8	63,366.1	55,486.6	53.3%
2027	20,764.7	4,510.2	21.7%	8,835.0	121,579.6	65,825.5	55,754.1	54.1%
2028	21,761.5	4,645.1	21.4%	9,125.4	124,242.9	68,367.8	55,875.1	55.0%
2029	22,797.7	4,784.1	21.0%	9,425.2	126,822.1	70,987.5	55,834.7	56.0%
2030	23,877.7	4,927.4	20.6%	9,736.8	129,290.9	73,682.3	55,608.6	57.0%
2031	25,007.8	5,075.6	20.3%	10,061.2	131,620.8	76,445.1	55,175.7	58.1%
2032	26,193.2	5,229.0	20.0%	10,393.3	133,786.1	79,271.0	54,515.1	59.3%
2033	27,417.6	5,386.6	19.7%	10,734.0	135,756.9	82,163.7	53,593.2	60.5%
2034	28,687.2	5,548.8	19.3%	11,077.0	137,508.0	85,115.5	52,392.6	61.9%
2035	30,002.1	5,715.7	19.1%	11,427.8	139,006.4	88,124.7	50,881.7	63.4%
2036	31,362.6	5,887.4	18.8%	11,783.1	140,219.8	91,187.7	49,032.1	65.0%
2037	32,778.9	6,064.5	18.5%	12,147.0	141,109.4	94,298.2	46,811.1	66.8%
2038	34,259.7	6,247.6	18.2%	12,508.9	141,648.1	97,458.8	44,189.3	68.8%
2039	35,810.5	6,437.1	18.0%	12,847.6	141,831.5	100,692.2	41,139.4	71.0%
2040	37,434.1	6,633.1	17.7%	13,169.8	141,649.4	104,020.1	37,629.2	73.4%
2041	39,072.4	6,832.3	17.5%	13,456.0	141,252.1	107,479.2	33,772.9	76.1%
2042	40,793.2	7,038.8	17.3%	13,702.6	140,671.1	111,118.8	29,552.3	79.0%
2043	42,629.6	7,254.6	17.0%	13,880.7	139,940.7	115,046.8	24,893.9	82.2%
2044	44,602.2	7,481.0	16.8%	13,990.3	139,092.9	119,405.3	19,687.6	85.8%
2045	46,711.2	7,718.0	16.5%	14,062.4	138,132.9	124,319.6	13,813.3	90.0%