COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 1166, as amended by HA 2** March 5, 2013

SPONSOR(S): Fortner

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

FISCAL IMPACT: CGFA's actuary produced a cost estimate in 2012 detailing the effects of a Self-Managed Plan within SERS and the effects of changing the employee contribution rates across all Systems. CGFA's actuary assumed 10% of SERS's members would opt-into the Self-Managed Plan and found that the State's contribution would be reduced by $102 million, or 2.41% of payroll. Additionally, accrued liabilities for SERS would be reduced by $1.16 billion, the majority of which can be attributed to active members transferring into the Self-Managed Plan. *A revised cost study would be required to determine the effect of implementing identical Self-Managed Plans as well as the adjusted employee contribution rates within the five State-funded Retirement Systems. An additional cost study would also be required to determine the effect of shifting the long-term, actuarially-based funding schedule goal from 90% up to 100%.*

SUBJECT MATTER: HB 1166 amends the GARS, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code by establishing a Self-Managed Plan and by assessing a salary cap on salary used to calculate a traditional retirement benefit. Within the SMP of SURS and TRS, this bill employees a cost shift to the actual employer to match employee contributions. Also, this bill amends the long-term, actuarially-based funding schedule of each system to have a goal of a 100% funded ratio by FY 2045.

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COMMENT:

Changes to All Five State Systems: Under current law, the five State-funded Retirement Systems abide by long-term, actuarially-based funding schedules with the goal of obtaining a 90% funded ratio by FY 2045. HB 1166, as amended by HA 2, proposes to improve the funding goal to 100% within the same time frame. Additionally, this bill proposes to establish the State as a fiduciary and trustee in the pension-funding process. To this extent, any State Retirement System receiving less than the amount certified by the Board of the respective System for that fiscal year is entitled to bring a Mandamus action against the State. In the event the particular System fails to bring action against the State, this bill empowers members to bring a Mandamus action against the System.

HB 1166, as amended by HA 2, seeks to combat end-of-career salary spikes to five State-funded Retirement Systems. After the effective date of this bill, employment contracts that guarantee future increases in income in return for an expected date of retirement will *not* factor into the calculation of that contract signee's retirement annuity.

HB 1166, as amended by HA 2, proposes a change in employee contribution for members entitled to the traditional benefit package. The proposed employee contribution rates will be the greater of half the normal cost or 6% of the member's salary. According to a 2012 cost estimate performed by CGFA's actuary, the change will be as indicated in the graphic below:

				Employee Contribution as a Percent of Payroll				
Retirement System			Current Law:	All Members		Proposed:	Tier 1	Tier 2
GARS				11.50%			18.24%	6.29%
JRS				11.00%			18.43%	6.00%
SERS				8.00%			8.12%	6.00%
TRS				9.40%			9.47%	6.00%
SURS				8.00%			9.08%	6.00%

Additionally, HB 1166, as amended by HA 2, empowers the Boards of each State Retirement System to recalculate the normal cost of each plan offered by the System as a percentage of salary at least every three years. After the recalculation of normal cost, employee contribution rates will adjust accordingly.

Self-Managed Plan: Under current law, only SURS offers a Self-Managed Plan in addition to traditional retirement and survivors' annuities.

HB 1166, as amended by HA 2, proposes to expand SURS' Self-Managed Plan and establish identical Self-Managed Plans for members of the other four State-funded Retirement Systems. In doing so, the bill explicitly defines the "traditional benefit package" as entitlement to the retirement annuity, survivors' annuities, and the option for contribution refunds. Conversely, the bill defines a "Self-Managed Plan" as having none of the aspects of the aforementioned traditional benefit package.

Enrollment in the Self-Managed Plan for five State-funded Retirement Systems happens under two conditions:

- Irrevocable election: Opt-out of the traditional benefit package and transfer all past employee contributions (along with accrued interest) into the SMP.
  - By taking this route, the member forfeits all past employer contributions along with the interest on those contributions.
- Automatic Application: Members whose salaries are in excess of the Tier 2 pensionable-salary cap or that specific member's earnings for the 365 days prior, whichever is greater.
  - *However*, members enrolled in this manner are only enrolled to the extent in which their salary is in excess of the before-stated limit.

Contributions into the SMP: All contributions are made by pre-tax dollars.

- Employee contributions:
  - Salary up to and including the limit: 8%
  - Salary exceeding the limit: 6%
- Employer contributions: Paid by the actual employer
  - Salary up to and including the limit: 7.1%
  - Salary exceeding the limit: 3%