COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 3411** March 13, 2013

SPONSOR(S): Cross – Nekritz et. al.

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

FISCAL IMPACT: CGFA's actuary completed a study in November of 2011 on a proposal that included similar provisions to those found in HB 3411. Along with the State contribution savings illustrated below, this bill reduces unfunded liability for SERS, SURS, and TRS by $28.5 billion in FY 2014.

Projected Savings in Annual State Contributions ($ in Millions)				
System	FY 2014 Current Law	FY 2014 Savings	FY 2014 Revised	Savings thru 2045
GARS	$14.7	$3.3	$11.4	$155.2
SERS	$1,608.6	$245.99	$1,362.6	$14,415.9
SURS	$1,366.8	$370.10	$996.7	$16,454.2
TRS	$2,957.8	$1,638.79	$1,319.0	$102,943.9
Total	**$5,947.9**	**$2,258.2**	**$3,689.8**	**$133,969.1**

Note – The cost study was performed using FY 2011 membership and actuarial data by CGFA's former actuary, Sandor Goldstein. Hence, the study does not reflect the FY 2014 required State contribution amounts certified pursuant to P.A. 88-593 and P.A. 97-0694, the State Actuary Law.

The differences between the proposal that CGFA's actuary examined and HB 3411 are enumerated below:

- Tier 3 stacked hybrid DB multiplier of 1.0 (1.1 in HB 3411)
- COLA cap on first $30,000 of salary for all annuitants ($25,000 for Tier 1 in HB 3411)
- COLA cap is indexed to CPI (No indexing in HB 3411)

The exact provisions of HB 3411 are under review by the system actuaries. A revised note will be issued when the actuarial data becomes available.

SUBJECT MATTER: HB 3411 amends the Illinois Pension Code by amending 4 of the 5 State-funded Retirement Systems (GARS, SERS, SURS, and TRS). This bill includes introducing an actuarially-required contribution (ARC) funding schedule, an actuarially-backed funding guarantee, a new benefit tier, and a provision requiring employers to cover the normal cost of Tier-3 employees. Provisions primarily affecting employees include a pensionable-salary cap, a conditional increase in retirement age, a COLA cap and conditional freeze, and a gradual increase in contribution rates for Tier 1 members.

COMMENT:

State/Local Contributions

- Employers under TRS and SURS (school districts and colleges/universities) will assume all employer costs associated with Tier 3 employees; the State will retain responsibility for funding Tier 1 and Tier 2 members;
- Employer/State contributions will be made according to a 30-year funding plan with a goal of achieving a 100 percent funded status by 2043;
- The retirement systems will be empowered to seek writs of mandamus to compel the State and school districts/universities to make their annual required pension contributions.

Reforms for Tier 1 Members (employees hired before 2011)

- COLAs
  - Only applied to the first *$25,000* of the employees' pension (an effective cap of $750)
    - COLAs for Social Security-eligible employees will be reduced to the first *$20,000* (an effective cap of $600 annually)
  - COLAs will be delayed until the employee turns 67 or five years after retirement, whichever comes first;

- Retirement age is increased by:
  - For employees age 45 and older: no increase
  - For employees age 40 to 44: 1 year
  - For employees age 35 to 39: 3 years
  - For employees age 34 and younger: 5 years

- Employee contributions increased by:
  - 1% of salary during the first year the legislation is in effect (not before Fiscal Year 2014)
  - 2% of salary thereafter

- Pensionable salary - the amount of salary used to calculate an employee's pension is limited to the higher of the Social Security wage base or the participant's contractual salary (if applicable) on the effective date of this Amendatory Act.

Reforms for New Hires (employees hired after January 1st, 2011)

- The COLA for members of GARS will match those of Tier 2 members in the other four State systems:
  - Current Law: a compounded 3% or CPI-U, whichever is less;
  - HB 3411: 3% of the original annuity or ½ the CPI-U, whichever is less

- Introduction of Tier 3 (explained in detail below)
  - All employees hired after the effective date in TRS and SURS are automatically enrolled;
  - TRS and SURS employees hired *before the effective date* can choose to remain in the Tier 2 DB plan or enroll in Tier 3;

Tier III: Beginning July 1, 2014, new hires participating in either SURS or TRS will partake in the new Tier III benefit package.

- Final Average Salary: The highest-average consecutive-8-of-the-last-10 years' salary.

- Eligibility to receive benefits: age 67 with 5 years, or 62 and 10 years reduced at .5% per month before age 67.

- Hybrid Plan: Every Tier-3 participant will be entitled to *both* of the following.
    - The Defined-Benefit Component: An annual retirement annuity equaling the product of 1.1%, the Final Average Salary, and the number of years in service.
        - Annual post-retirement adjustments: Equal to the Tier-2 COLA (1/2 of the CPI-U or 3% of the original annuity)
        - Contribution rates: Employee pays 4% of salary
            - The actual employer covers the rest of the NC.

    - The Defined-Contribution Component: The actuarial equivalent of the sum of employee and employer contributions (including interest) made specifically for this component of the employee's pension plan.
        - Contribution rates: Employee pays 5% of salary
            - Employees may contribute more
            - The actual employer may match any amount between 3-10% of salary

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