

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 98TH GENERAL ASSEMBLY

BILL NO: **SB 1544, as amended by SA 3**

April 9, 2013

SPONSOR(S): Cullerton

SYSTEM(S): General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), State Employees' Retirement System (SERS), State Universities' Retirement System (SURS)

FISCAL IMPACT: Part A of SB 1544, as amended by SA 3, has many of the core provisions of SB 35; the savings from that bill are highlighted below:

<b>Projected Savings in Annual State Contributions</b>				
(\$ 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
<b>Total</b>	<b>\$2,990.1</b>	<b>\$619.4</b>	<b>\$2,370.7</b>	<b>\$31,025.3</b>

*Note – The above 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 SB 1544 SA 3 are as itemized below:

- COLA cap on first \$30,000 of salary for all annuitants
  - SB 1544 SA 3: \$30 per year of service credit for Tier 1
- COLA cap is indexed to CPI
  - SB 1544 SA 3: No indexing
- A Tier 3 "stacked hybrid" DB/DC plan for new hires
  - SB 1544 SA 3: No separate plan for "Tier 3"
- GARS remains open
  - SB 1544 SA 3: GARS closes to new members on 1/1/14

A revised note will be issued when actuarial data more closely reflecting Part A of SB 1544 SA 3 becomes available.

Part B of this bill fairly resembles the original SB 1. The actuaries for SERS and SURS performed cost studies on the effects of Part B of SB 1, and a summary of the results is shown below:

<b>SB 1 Part B - 50% Accept Deal</b>			
System	FY 2014 Reduction in State Contributions	Cumulative Reduction in State Contributions	FY 2014 Reduction in Unfunded Liability
SERS	\$0	\$19,666	\$3,130
SURS	\$119	\$8,894	\$2,107
<b>Total</b>	<b>\$119</b>	<b>\$28,560</b>	<b>\$5,237</b>

The above cost study does not reflect the impact of the proposed closure of GARS on January 1, 2014. A revised impact note will be issued when an actuarial study from GARS becomes available.

**SUBJECT MATTER:** SB 1544, as amended by SA 3, contains two sections: Part A, which is intended by the General Assembly as a stand-alone reform of GARS, SERS, and SURS that takes effect upon becoming law; and Part B, which is intended to provide alternative provisions that take effect only if and when a corresponding portion of Part A is determined to be unconstitutional or otherwise invalid or unenforceable. Part A caps pensionable salary, temporarily suspends and reduces the amount of COLA's, requires the systems to make ARC-funding contributions such that each system is 100% funded by 2045, and increases employee contributions. Part B requires persons to make an election either to accept reductions in the amount of, as well as delays in eligibility for, automatic annual increases or to forgo certain healthcare benefits and future increases in pensionable income.

**COMMENTS:**

***Part A:***

**Reforms for Tier 1 Members (employees hired before 2011)**

- COLA's
  - Still a compounded 3%, but capped at \$30 per year of service credit
    - COLA's for Social Security-eligible employees will be capped at \$24 per year of service credit
  - COLA's 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 year
- Funding Schedule:

- Beginning FY 2015, GARS, SERS, and SURS will adopt an ARC-funding schedule through the end of FY 2044.
  - Between the passage of this bill and the end of FY 2014, the State will make contributions in accordance with current statutes.
- Employee contributions increased by:
  - 1% of salary during Fiscal Year 2013
  - 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, the participant's last 365 days' of salary, or the participant's contractual salary (through the duration of the contract and if applicable) on the effective date of this Amendatory Act.
  - New Hires of SERS (after the effective date of this bill) may not count travel vouchers nor apply unused sick time towards their pensionable salary.

Reforms for GARS New Hires (employees hired after January 1<sup>st</sup>, 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;
  - SB 1544, AS AMENDED BY SA 3: 3% of the original annuity or ½ the CPI-U, whichever is less.
- Closure of GARS: No new participants starting January 1, 2014.

**Part B:** The following mutually exclusive provisions go into law as soon as a corresponding provision in Part A of SB 1544, as amended by SA 3, is ruled unconstitutional. Each retirement system is severable from one another; however, changes to the COLA, contributions (employee or employer), funding guarantee, or salary are not severable from one another *within a particular retirement system*.

Employers: All provisions in Part B refer to either GARS, SERS, or SURS. These provisions include:

- Establishing individual funding goals for each retirement system. GARS, SERS, and SURS will each adopt a goal dependent on the outcome of their employees' response to "The Deal."
  - Within each retirement system, Tier 1 participants will elect to either accept or deny "The Deal."
    - If 50% or more participants of a given retirement system accept "The Deal," then that system will establish a funding guarantee and will accept Budget Stabilization payments.
    - If less than 50% accept, then the system will resume its current funding schedule pursuant to P.A. 88-593 (with a goal of reaching a 90% funding ratio by FY 2045).
- Allowing SERS and SURS to compel payment to their respective funds via mandamus action.

Employees: Once again, everything in Part B refers only to GARS, SERS, and SURS. Members in those systems will be subject to the following provisions:

- Explicitly defining a "Tier 1 Participant/Member" and a "Tier 1 Retiree."

- Explicitly defining a “Future Increase in Income”
- The Deal
  - Accepting The Deal allows a member to make all Future Increases in Income pensionable; however, their COLA will be equal to the Tier 2 COLA, and it will be delayed until the sooner of 5 years or the age of 67.
  - Denying The Deal allows a member to keep their Tier 1 COLA, but their pensionable salary is capped at this year’s salary.
- Optional Cash Balance Plan
  - For an additional 2% of salary contribution, Tier 1 members of SERS and SURS may participate in the Optional Cash Balance Plan.
- GARS only: Closed to anyone first participating on or after January 1, 2014.

MD:dkb

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