COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **HB 3661** March 10, 2015

SPONSOR(S): Fortner

SYSTEM(S): Teachers' Retirement System (TRS), State Universities Retirement System (SURS), Chicago Teachers' Pension Fund (CTPF)

FISCAL IMPACT: HB 3661 has significant ramifications. Consolidating 3 major systems will incur transition costs, but the employment of fewer persons in the long run will save money. As well, the extended funding schedule spreads costs out over 2 more years, but it also raises the funding goal to 100%. *Further study would be required to claim a definitive Fiscal Impact regarding the funding and employee contribution provisions of this bill.*

SUBJECT MATTER: HB 3661 amends the Downstate Teachers, the State Universities, and the Chicago Teachers' articles of the Illinois Pension Code to merge the three retirement systems into the Teachers' Retirement Fund. This bill establishes a 100% funded schedule that includes local employers contributing for benefits earned after FY2015.

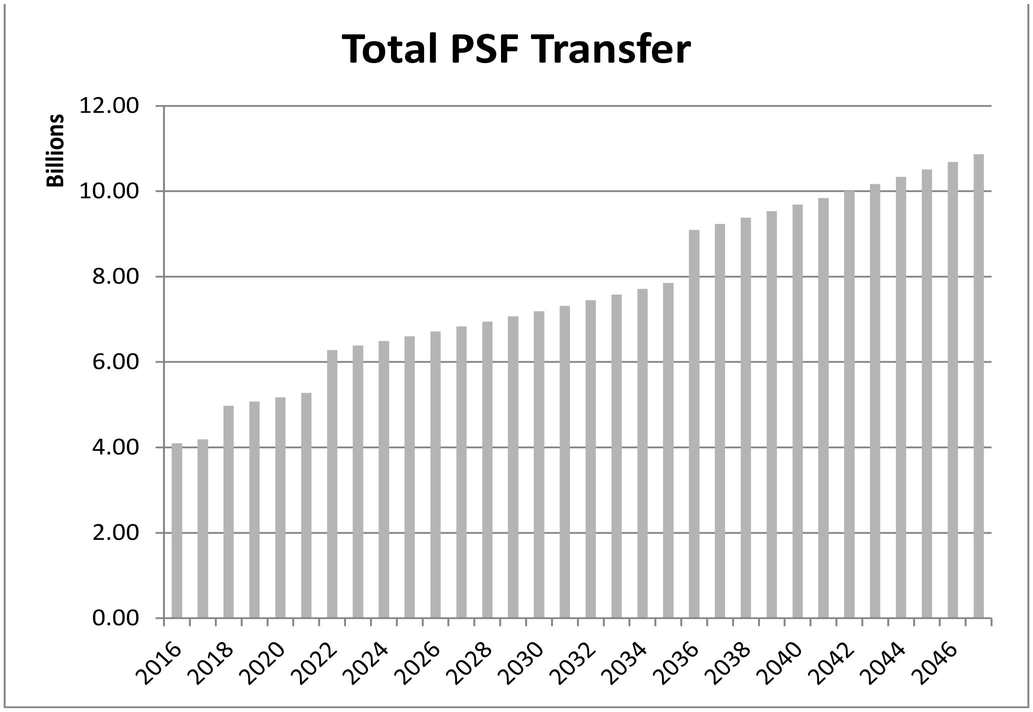
COMMENT: The Illinois Pension Code has three separate articles establishing and regulating the Downstate Teachers' Retirement System, the State Universities' Retirement System, and the Chicago Teachers' Pension Fund as unique entities.

HB 3661 merges the three systems into one fund, named the Teachers' Retirement Fund.

Pension Stabilization Fund: HB 3661 proposes 4 iterations of transfers from GRF into the Pension Stabilization Fund.

1. $4.1 Billion starting FY 2016 and increasing by 2.25% annually thereafter
2. In addition to the above, $693.5 Million starting in FY 2018
3. In addition to the above, $900 Million starting in FY 2022
4. In addition to the above, $1.1 Billion starting in FY 2036

Funds in the PSF are to be distributed to the 5 State-funded retirement systems proportional to the appropriations the systems certify to the Governor and General Assembly (current law requires division of the moneys in the fund proportional to the amount of unfunded liabilities owned by the System). Funding to the Systems will cease by FY 2047 or when each System reaches 100% funded.



Changes to the System/employers:

- The new fund, TRF, will overwrite article 15 (SURS) of the Pension Code
  - Inasmuch, **anything not explicitly changed** by this bill will emulate current procedure/policy in SURS.
- Creation of new Board
- Pension guarantee language: the retirement fund may bring a Mandamus suit to the State or an employer for failure to submit contributions on behalf of the members
  - Any employer contribution more than 90 days overdue will have their funds circumvented by the Comptroller
  - The fund has the right to audit records of the employers, as necessary
- New funding schedule: 100% by end of FY 2047, using level % of payroll and the Projected Unit Credit cost method.
  - The State is responsible for all TRS and SURS pre-FY 2016 liabilities.
  - The State is also responsible for all of the normal cost for benefits accrued by members that joined TRS and SURS in FY 2016 but before the effective date of this bill.
  - Individual employers will have separate accounts in TRF and will be liable for all benefits accrued after FY 2015.
    - Employer deficiencies must be paid off within 10 years.
  - After the fund reaches 100% or FY 2048, whichever is later, the minimum contribution will be enough to maintain 100% funded.

Changes to Employees:

- Employee contributions will be the greater of 6% of salary or half of their normal cost.
  - Self-Managed Plan (SMP) contributions (under the salary cap) will be a flat 8% of salary.
- All employees will be subject to the Tier-2 salary cap when calculating Final Average Salary.

    - Any members in excess of the cap at the effective date of this bill will be grandfathered in at their present salary.
    - Any remuneration in excess of the salary cap will pensionable in the fund's SMP.
        - Contributions to SMP will be at 6% of salary in excess of the cap.
- Early retirement incentives/options will be available only for those members currently in a contract stipulating such benefits.
    - No future ERI/ERO will be offered.
- Pension guarantee language: the retirement fund may bring a Mandamus suit to the State or an employer for failure to submit contributions on behalf of the members.

MD:dkb
LRB099 05216 EFG 25250 b