

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 99TH GENERAL ASSEMBLY

BILL NO: **SB 0436, as amended by SA 2**

April 6, 2016

SPONSOR (S): Stadelman – Bush, et al.

SYSTEM(S): Teachers' Retirement System (TRS)

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**FISCAL IMPACT:** According to TRS, state contributions would be expected to increase under SB 436, as amended by SA 2, assuming that FY 2017 certified state contribution to TRS remains unchanged (or the bill is amended to increase state contributions accordingly) and also assuming no change in school districts' behavior. The FY 2017 federal funds contribution as percentage of payroll is 38.54%, which excludes 0.58% of membership payroll which school districts are required to pay for all employees under current law (P.A. 98-0674). This percentage contribution results in a federal funds contribution of approximately \$77.2 million, which consists of the employer's normal cost of \$15.4 million and unfunded liability component of \$61.8 million. If the federal funds contribution rate would be decreased to the rate of the employer's normal cost under this bill, the federal funds contribution is expected to decrease by \$61.8 million (the unfunded liability component). In other words, the FY 2017 state contributions would increase by this amount. However, TRS notes that school districts are likely to use more of the federal funds to pay employees if the federal funds contribution rate becomes lower; if this occurs, the state contribution might not increase as much as \$61.8 million.

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**SUBJECT MATTER:** SB 0436, as amended by SA 2, amends the Downstate Teacher Article of the Illinois Pension Code. If employees are paid from special trust or federal funds, administrated by an employing unit, whether school district or other unit, effective July 1, 2016, the bill would require the employing unit to pay to TRS from such funds the full accruing retirement costs as a rate of salary (federal funds contribution rate), which would be equal to the total employer's normal cost as a rate of salary.

**COMMENT:** Under current law (P.A. 98-0674), in cases where employees are paid from such funds, the full accruing retirement costs, expressed as a rate of salary, that the employing unit should pay shall be equal to the total State minimum contribution which is the sum of normal cost and unfunded liability components as a percentage of payroll under the goal of 90% funded ratio by 2045. The current federal funds contribution rate would be higher than the federal funds contribution rate prescribed by the bill because the current rate includes both the normal cost and the unfunded liability component, while the new rate would include only the total employer's normal cost.

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