

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 95TH GENERAL ASSEMBLY

**BILL NO:** **HB 1702, as amended by SA #002** May 5, 2008  
**SPONSOR (S):** Molaro (Harmon – Hunter, et al)  
**SYSTEM(S):** SERS

**FISCAL IMPACT:** SERS’ actuary performed a cost study on the fiscal impact of switching 694 Tollway employees from the regular formula to the alternative formula. According to that cost study, the June 30, 2008 accrued liabilities of the system would increase by approximately \$49.2 million, or approximately \$70.9 thousand per employee. HB 1702, as amended by SA #002, contains language declaring that the formula increase does not constitute a new benefit increase.

**SUBJECT MATTER:** HB 1702, as amended by SA #002, allows certain employees of the Illinois Toll Highway Authority, CMS, IDOT, and the Department of Agriculture to qualify for the Alternative Formula under the State Employees’ Retirement System.

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**COMMENTS:** Currently, all persons entering state service become members of the State Employees’ Retirement System after serving a six-month qualifying period. Members are required to contribute a percentage of salary as their share of meeting the cost of the various benefits, as outlined in the table below:

<b>Regular Formula Employees</b>	
Coordinated with Social Security	4.0%
Not Coordinated with Social Security	8.0%
<b>Alternative Formula Employees</b>	
Coordinated with Social Security	8.5%
Not Coordinated with Social Security	12.5%

P.A. 90-0065 (HB 0110), which became effective on July 7, 1997, implemented a flat rate formula of 1.67% of final average salary for members coordinated with Social Security and 2.2% of final average salary for members not coordinated with Social Security. The Act applied to all members retiring on or after January 1, 1998.

P.A. 92-0014 (HB 0250), which became effective on June 28, 2001, changed the Alternative Formula to 2.5% for each year of service for members coordinated with Social Security and 3.0% for each year of service for members not coordinated with Social Security.

P.A. 92-0257 (HB 0267), which became effective on August 6th, 2001, extended the benefits of the alternative formula to state highway maintenance workers for IDOT and the Illinois Toll Highway Authority. These workers primarily performed maintenance duties to keep the State highway system and Tollway system in serviceable condition for vehicular traffic.

HB 1702, as amended by SA #002, would extend the benefits of the alternative formula to various employees of the Illinois Department of Transportation, the Illinois Toll Highway Authority, the Department of Central Management Services, and the Department of Agriculture. All of these positions are coordinated with Social Security, and members in these positions currently contribute 4.0% of salary toward their pensions and receive a benefit equal to 1.67% of final average salary for each year of service.

If this legislation becomes law, these members would begin contributing 8.5% of salary and would receive a pension benefit equal to 2.5% of final average salary for each year of service. Under the regular formula, members can retire at age 60 with 8 years of service, or at any age when the member's age plus his or her years of service equal 85 ("rule of 85"). The maximum regular formula benefit is 75% of final average compensation. Under the regular formula, "final average compensation" is the 48 highest consecutive months of service within the last 120 months of service. The maximum alternative formula benefit is 80% of final average compensation. Under the alternative formula, "final average compensation" is the rate of pay on the last day of employment, or the average of the last 48 months of compensation, whichever is greater. Alternative formula members can retire at age 55 with 20 years of service, or at age 50 with 25 years of service.

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