# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

#### 101ST GENERAL ASSEMBLY

BILL NO: SB 2145 March 6, 2019

SPONSOR (S): Villivalam

SYSTEM(S): State Universities Retirement System (SURS) and Teachers'

Retirement System (TRS)

FISCAL IMPACT: The fiscal impact of SB 2145 is not known as the number of exemptions to the 3% final average salary (FAS) cap cannot be predicted. TRS, the largest of the five State-funded systems, notes that the last time similar exemptions to the FAS cap were in force between the years 2006 and 2014, a total of 770 waivers to the previous FAS cap of 6% were granted. To the extent that employers pay a lower penalty than they otherwise would under current law due to the exemptions enumerated below, state contributions would be increased at a commensurate rate.

<u>SUBJECT MATTER</u>: SB 2145 amends the State Universities Retirement System (SURS) and Teachers' Retirement System (TRS) Articles of the Illinois Pension Code. This proposed legislation provides exemptions to the Final Average Salary (FAS) cap "penalty" payment that a local school district is required to pay when a teacher is awarded a salary increase exceeding the salary increase cap of 3%.

<u>COMMENT</u>: Under current law, the FAS cap for a Tier 1 member under SURS or TRS is based on the highest average annual salary of the 4 consecutive academic/school years. (For a Tier 2 member, the 8 consecutive years are used.) When a teacher's annual salary, used to determine the FAS, increases more than the salary increase cap of 3%, a school district under SURS or TRS is required to make an additional "penalty" contribution to an applicable system. P.A. 100-0587, enacted on June 4, 2018, lowered the salary increase cap to 3% from 6%. The school district's "penalty" payment should be equal to the present value of the increase in benefits resulting from the excess salary increase.

In a calculation of a school district's additional "penalty" contribution, SB 2145 excludes salary increases arising from the following cases from the calculation:

### Under SURS

1. Salary increases provided when 10 or more years are left until a teacher's retirement eligibility;

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2. Necessary overload work, including summer teaching, approved by SURS, that is for the sole purpose of academic instruction for a full-time employee, with the earnings increases being equal to or less than the rate of pay for academic instruction; and

- 3. The following promotions:
  - a. A move to a higher classification under the State Universities Civil Service System;
  - b. Promotion to a tenured or tenure-track faculty position; or
  - c. A recommendation made by the Illinois Community College Board.

## • Under TRS

- 1. Salary increases provided when 10 or more years are left until a teacher's retirement eligibility;
- 2. Overload work, including summer school, approved by TRS, that is for the sole purpose of classroom instruction for a full-time teacher, with a teacher's salary increases being equal to or less than the rate of pay for classroom instruction;
- 3. A promotion that requires a license or supervisory endorsement that was not required by a teacher's previous position; and
- 4. From the State of Illinois or the State Board of Education over which an employer (school district) does not have discretion.

Exemptions created by SB 2145 will apply only to salary increases made in academic years beginning on or after July 1, 2018. However, a refund of any payments that TRS and SURS receive before the effective date of this legislation is not required.

Similar waivers were first established under TRS and SURS in FY 2006 and last granted in FY 2014. Since the end of FY 2014, the waivers have expired. According to SURS, there were a total of 32 exemptions granted during calendar year 2018. According to TRS, there were more than 770 cases in total where waivers were granted from FY 2006 throughout FY 2014.

JB:bj LRB101 08466 RPS 53542 b