COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **SB 2338** January 22, 2020

SPONSOR (S): McConchie

SYSTEM(S): Teachers Retirement System

FISCAL IMPACT: According to TRS, $4,009,460 was paid by employers in FY 2018 under the current statutory Final Average Salary Cap. Eliminating the current FAS cap and changing to a "penalty" based on the increase in normal cost associated with all salary increases for active teachers would have an uncertain fiscal impact. An actuarial analysis would be needed to assess the impact of this change.

SUBJECT MATTER: SB 2338 amends the TRS article of the Pension Code. Starting with school year 2022 (July 1, 2021), the bill would require school districts to pay for the projected increase in the normal cost of benefits for a teacher whenever that teacher's salary increases from the previous school year.

COMMENT: Currently, if a teacher's salary was increased in any year that is used to determine the teacher's final average salary for pension purposes, and the increase in any such year was more than 6%, the teacher's employer is required to pay the increase in the present value of benefits to TRS. This provision has come to be known as the "Final Average Salary Cap," or "FAS Cap."

SB 2338 would amend the Downstate Teacher Article of the Illinois pension code. Under the provisions of the bill, the current FAS cap would sunset on July 1, 2021. Beginning in school year 2022 (July 1, 2021), and for each school year after, TRS would calculate the projected increase in the employer's normal cost of benefits resulting from any salary increases over the previous school year.

If a teacher's salary increase exceeded their annual full time salary~~,~~ from the previous year with the same employer, then the employer must pay TRS the projected amount of increase in the employer's normal cost of benefits. This change would apply to all active teachers, whereas the current FAS cap only applies to teachers who are near retirement and entering their final average salary period.

The bill contains an exemption to the newly proposed salary increase penalty for teachers who first enter service after the "implementation date" of the Tier 3 hybrid plan, which was enacted via P.A. 100-0023 (effective July 6, 2017). It is unclear if this is meant to provide an exemption to *all* teachers who enter service after that date, regardless of whether they opt to participate in the Tier 3 plan or the traditional DB plan, or if the exemption would extend only to those teachers who opt into the Tier 3 plan. TRS has not implemented the Tier 3 hybrid plan as of this writing, and the system's 2020 Comprehensive Annual Financial Report (CAFR) states that a technical cleanup bill is necessary before implementation can commence.

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