COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 1, as amended by HA 1** May 1, 2013

SPONSOR(S): Cullerton (Madigan)

SYSTEM(S): General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), Cook County Pension Fund, State Employees' Retirement System (SERS), State Universities' Retirement System (SURS), Teachers' Retirement System (TRS),

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FISCAL IMPACT: The precise fiscal impact of HA 1 to SB 1 is not known, as an actuarial study has not been completed on the exact provisions contained in the amendment. The Commission's Pension Impact Note for HB 3411 (Cross-Nekritz) indicated long-term State contribution savings of $134 billion between FY 2014-FY 2045. The study also showed an immediate reduction in unfunded liabilities of approximately $30 billion. The Tier 1 retirement age increase and Tier 1 active employee contribution increase contained in HB 3411 is included in HA 1 to SB 1. In addition, the COLA delay is identical between HB 3411 and HA 1 to SB 1, while the COLA limitation is slightly different. CGFA's cost study on HB 3411 did not contemplate the impact of changing actuarial cost methods, nor did it include the impact of pension stabilization transfers beginning in FY 2020, both of which are included in this amendment. A revised impact note will be issued when updated actuarial data becomes available from the retirement systems.

SUBJECT MATTER: SB 1, as amended by HA 1 amends the Illinois Pension Code by primarily amending 4 of the 5 State-funded Retirement Systems (GARS, SERS, SURS, and TRS) by introducing an actuarially-required contribution (ARC) funding schedule, a conversion over to the Entry-Age Normal cost method, a legal funding guarantee, a new benefit tier. Provisions primarily affecting employees include a pensionable-salary cap, a conditional increase in retirement age, a COLA cap and conditional freeze, and a gradual increase in contribution rates for Tier 1 members. This bill amends IMRF and the Cook County Fund to a lesser degree regarding pensionable use of sick time and vacation time.

COMMENT:

State/Local Contributions
- Starting FY 2015, State contributions will be made according to a 30-year ARC funding plan with a goal of achieving a 100 percent funded status by 2044;
  - The above funding schedule will utilize the Entry-Age Normal cost method.
  - State contributions for FY 2013 and FY 2014 will follow the current-law funding schedule.

- The retirement systems will be empowered to seek writs of mandamus to compel the State to make the annual required pension contributions.

- No contributions will be used by the System as a healthcare subsidy.

Reforms for Tier 1 Members (employees hired before 2011)

- Pensionable salary - the amount of salary used to calculate an employee's pension is limited to the greater of the Tier 2 pensionable salary cap, or the employee's salary during the 365 days preceding the effective date of this amendatory Act, or the participant's contractual salary (if applicable) on the effective date of this Amendatory Act.

- COLAs will be the lesser of
  - 1) 3% of the annuitant's pension; or
  - 2) $30 per year of service credit
    - For members coordinated with Social Security, this figure becomes $24 per year of service credit
  - COLAs will be delayed until the employee turns 67 or five years after retirement, whichever comes first;

- Retirement age is increased by:
  - For employees age 45 and older: no increase
  - For employees age 40 to 44: 1 year
  - For employees age 35 to 39: 3 years
  - For employees age 34 and younger: 5 years

- Employee contributions increased by:
  - 1% of salary during the first year the legislation is in effect (not before Fiscal Year 2014)
  - 2% of salary thereafter

Reforms for New Hires (employees hired after January 1st, 2011)

- The COLA for members of GARS will match those of Tier 2 members in the other four State systems:
  - Current Law: a compounded 3% or CPI-U, whichever is less;
  - SB 1, as amended by HA 1: 3% of the original annuity or ½ the CPI-U, whichever is less

Miscellaneous Reforms

- SURS
  - Unless the employer is specifically listed in this Article, future employees will no longer be allowed to participate.
  - The Board has final say if an employee's eligibility is in question.
  - The Comptroller assumes the role of setting the Effective Rate of Interest.
    - The State Comptroller uses the same criteria as the SURS Board.

- TRS
  - Certain employers will no longer qualify employees to participate in TRS.

- IMRF
  - Certain employers will no longer qualify employees to participate in IMRF.

- Cook County Fund, IMRF, SERS, SURS, and TRS

- Current employees are allowed to take a lump sum in exchange for vacation day accruals
    - Future new hires may not.
- Current employees' sick time may be counted towards a pension.
    - Future new hires may not count sick time towards a pension.

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