

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 1, as amended by SA 3**

April 4, 2013

SPONSOR(S): Cullerton

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

FISCAL IMPACT: TRS's actuary performed a recent cost study detailing the provisions of SB 1, as amended by SA 3, and concluded that the bill would produce savings as shown below:

SB 1 SA 3 - 30% of Active Members Accept Deal			
	FY 2015	Cumulative	FY 2014
	Reduction in	Reduction in	Reduction in
	State	State	Unfunded
System	Contributions	Contributions	Liability
TRS	\$320	\$20,350	\$4,770
Total	\$320	\$20,350	\$4,770

** \$ in millions*

SUBJECT MATTER: SB 1, as amended by SA 3 requires active TRS members to make an election either to accept reductions in the amount of, as well as delays in eligibility for, automatic annual increases or to forgo certain healthcare benefits and future increases in pensionable income.

COMMENT: SB 1, as amended by SA 3, is essentially the TRS portion of "Part B" of SB 1, as introduced.

Teacher's Retirement System:

- TRS will adopt a goal dependent on the outcome of employees' response to "The Deal."
 - Tier 1 participants will elect to either accept or deny "The Deal."
 - If 30% or more participants of a given retirement system accept "The Deal," then that system will establish a funding guarantee and will accept Budget Stabilization payments.
 - If less than 30% accept, then the system will resume its current funding schedule of attaining a 90% funding target by FY 2045, as prescribed under P.A. 88-593.
- Allows TRS to compel State payment to the fund via mandamus action.

Employees: *Active members* (retirees are *not* included) will be subject to the following provisions:

- Explicitly defining a “Tier 1 Participant/Member” and a “Tier 1 Retiree.”
- Explicitly defining a “Future Increase in Income”
- The Deal
 - Accepting The Deal allows a member to make all Future Increases in Income pensionable; however, their COLA will be equal to the Tier 2 COLA, and it will be delayed until the sooner of 5 years or the age of 67.
 - Denying The Deal allows a member to keep their Tier 1 COLA (a compounded 3%), but their pensionable salary is capped at this year’s salary.
- Optional Cash Balance Plan
 - For an additional 2% of salary, Tier 1 members may participate in the Optional Cash Balance Plan.
- Early Retirement Option
 - Tier 1 teachers who accepted the Deal may forego having their retirement annuity reduced by .5% per month too young by making a one-time contribution to the system equal to half the cost of this benefit.
 - Employers may limit participation in this program to no less than 10% of those otherwise eligible, with priority to seniority.
- Narrowed definition of a ‘teacher’.
- New hires may not count sick leave towards their pension calculations

MD:dkb

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