COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 2357** February 20, 2013

SPONSOR(S): McCarter

SYSTEM(S): General Assembly Retirement System (GARS), State Employees Retirement System (SERS), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

FISCAL IMPACT: SB 2357 proposes closing the defined benefit plans currently offered by the State systems and transitioning all members to Self-Managed Plans. CGFA's actuary produced a cost study specifically for TRS, which states this bill would produce savings in:

- FY 2014 State Contribution by $1.27 billion
- FY 2014 Unfunded liabilities by $27 billion
- FY 2014-2045 cumulative contributions by $71 billion

This study assumed a 7% employer match whereas this bill calls for only 6%, so the above numbers may be interpreted as the minimum savings as associated with this plan.

SUBJECT MATTER: SB 2357 amends the Pension Code by closing the traditional defined benefit plans offered by the State Systems and replacing them with Self-Managed Plans. The bill also reduces Tier 1 members' COLA's and raises their retirement age to 62. SB 2357 specifies that once the Self-Managed Plans are established, no additional service can be accrued in the traditional DB plans, and no additional optional service credit purchases can occur within the DB plans. The bill also establishes a gradual cost-shift of the normal cost to individual school districts over the period FY 2014 – FY 2023.

FISCAL IMPACT: SB 2357 proposes closing the defined benefit plans currently offered by the State systems and transitioning all members to Self-Managed Plans. CGFA's actuary produced a cost study specifically for TRS, which states this bill would produce savings in:

- FY 2014 State Contribution by $1.27 billion
- FY 2014 Unfunded liabilities by $27 billion
- FY 2014-2045 cumulative contributions by $71 billion

This study assumed a 7% employer match whereas this bill calls for only 6%, so the above numbers may be interpreted as the minimum savings as associated with this plan.

COMMENT:

Changes to All Five State Systems: This bill limits the definition of "salary" and "earnings," with respect to whichever the member's pension benefit is calculated with, to the Social Security wage base set the previous year. Any remuneration in excess of this limit will not be considered when calculating a member's pension benefit.

This bill makes several changes to the traditional benefit package of all members.

1) No retirement annuity will be paid out until the age 62 for Tier 1 members.

2) COLA limitations:
    a. The Tier 1 COLA becomes the same as the Tier 2 COLA (3% or half the CPI-U of the previous year)
    b. No COLA's for a Tier 1 retiree under age 67.
    c. No COLA's unless the system the member ascribes to is over 85% funded.
3) With the exception of members within GARS, the vested/qualified status of all participants and future beneficiaries of participants is frozen.
    a. Unvested/non-qualifying members will participate in a new SMP plan, as described below.

Self-Managed Plan: Under current law, only SURS offers a Self-Managed Plan in addition to the traditional retirement and survivors' annuities that all five State Retirement Systems offer to their members. SB 2357 establishes identical Self-Managed Plans for members of GARS, SERS, TRS, and JRS. In doing so, the bill explicitly defines the "traditional benefit package" as entitlement to the retirement annuity, survivors' annuities, and the option for contribution refunds. Conversely, the bill defines a "Self-Managed Plan" as having none of the aspects of the aforementioned traditional benefit package.

This bill mandates all participants of each system to take part in the SMP for all service rendered after the date upon which the SMP is established. Participation in the traditional DB plan shall terminate and the accrual of benefits towards the traditional DB plan will cease on that date. Members who are not vested in the traditional benefit package may transfer all past employee contributions (plus interest) into the SMP in the form of a refund. This starting balance may be no more than 7.6% of the employee's current salary, but the bill does not explicitly state what happens to amounts in excess of that limit (although it is presumed that such amounts will be refunded to the member). Over the course of the member's career, employee and employer contributions will be at 6% of the employee's salary, up to the Social Security wage base. Additionally, funds may be distributed into another qualified plan to the extent allowable under each system and federal law.

Cost Shift to Employing Entities: Under current law, employer contributions to TRS are primarily the responsibility of the State. SB 2357 suggests a gradual shift of the normal cost to individual school districts. Beginning FY 2014, school districts will pay .5% of the normal cost. In FY 2015, school districts will pay 1%, and for each fiscal year up until FY 2023, the amount will increase by one percentage point. In FY 2023 and for every year thereafter, school districts will pay 9% of the NC. Alternatively, individual school districts will not have to contribute towards the normal cost for that fiscal year if certain State mandates have not been fully funded. Finally, the minimum required contribution will be no more than TRS's normal costs.

Miscellaneous:

With regards to alternative retirement annuities within SERS, future eligible service credit may only be earned by State Police, special agents, security employees of the Department of Corrections, and investigators for the State Police. Additionally, when applying for an alternative retirement annuity, members will have to pay a lump sum based on their membership tier as follows:

1) Tier 1: Employer and employee contributions that would be due for the next 7 years at the member's current salary level, plus interest.

2) Tier 2: Employer and employee contributions that would be due for the next 2 years at the member's current salary level, plus interest.

SB 2357 also provides more narrow definitions of an employee under IMRF by excluding employees of certain organizations that operate outside the auspices of municipalities.

MD:dkb
LRB098 10732 EFG 41071 b