COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 2404, as amended by HA 1** June 14, 2013

SPONSOR(S): Cullerton – Holmes, et al. (Hoffman – Franks, et al.)

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)

FISCAL IMPACT: SB 2404, as amended by HA 1, will immediately reduce unfunded liabilities and cumulative State contributions for the three large State retirement systems as described in the following table.

	SB 2404 HA 1 All Systems	SB 2404 HA 1 SERS	SB 2404 HA 1 SURS	SB 2404 HA 1 TRS
Reduction in Projections ($ in millions)				
Reduction in FY 2013 Accrued Liabilities:	$20,848.7	$4,906.5	$5,297.3	$10,644.9
Reduction in FY 2015 State Contribution:	$1,995.8	$310.0	$605.8	$1,080.0
Reduction in FY 2013 - FY 2045 Cumulative Contributions:	$187,668.8	$32,940.0	$23,988.8	$130,740.0

The Retirement Systems' actuaries provided the above data. Note that the SERS and SURS liability numbers are based on FY 13 projections, while TRS' liability number was based on FY 2012.

SUBJECT MATTER: SB 2404, 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 and 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

<u>Reforms for New Hires</u> (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 2404, as amended by HA 1: 3% of the original annuity or ½ the CPI-U, whichever is less

<u>Miscellaneous Reforms</u>

- The four State retirement systems will accept proceeds from Budget Stabilization Payments, and all such payments will be in addition to, not in lieu of, regular pension payments from the State starting FY 2020.
    - These additional contributions will be contractually obligated in a similar fashion as the regular contributions.

- 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 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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