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SUAA Mini Briefing

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And the Focus Changes!

Rumblings began yesterday on HB3411after it became apparent that House Republican Leader Tom Cross and Democrat Representative Elaine Nekritz introduced a "comprehensive pension reform" bill that predicts a savings of $30 billion and the health of the pension systems along with new protections including the guarantee that the State will have to meet its funding obligations. It also contains the cost shifting

By late evening it became even more convincing that HB 3411 could be the legislation to move forward as Senate President Cullerton is willing to take a serious look at this legislation as he determines the constitutionality of this proposal.

Other bi-partisan sponsors are: David Harris - Sara Feigenholtz - Darlene J. Senger, Michael J. Zalewski, Carol A. Sente, Robyn Gabel, William Davis, Greg Harris, Luis Arroyo, Elizabeth Hernandez, Kelly Burke, Deborah Mell, David McSweeney, Timothy L. Schmitz, Ed Sullivan, Jr., Ron Sandack, Sandra M. Pihos, Kay Hatcher, Joe Sosnowski, Thomas Morrison, Barbara Wheeler, JoAnn D. Osmond, Patricia R. Bellock, Jim Durkin, Renée Kosel, Jil Tracy, Pam Roth, David R. Leitch and Dwight Kay

The contents of HB 3411 are:

* Tier 1 Participant and Tier 1 Retiree Benefit Reform
* State and Employer Funding Reform
* A newly created Tier 3 Retirement Plan

The bill applies to the General Assembly Retirement System, the State Employees Retirement System, the State Universities Retirement System, and the Teachers' Retirement System. The following analysis is specific to the State Universities Retirement System.

The bill has an immediate effective date.

Tier 1 Participant and Tier 1 Retiree Benefit Reforms

Pensionable Earnings Limitations

HB 3411 caps the pensionable earnings of a Tier 1 participant at the applicable Social Security Wage Base. The limitation does not apply to a participant's earnings that are determined under an employment contract or collective bargaining agreement in effect on the effective date.

Participants currently receiving salary in excess of the Social Security Wage Base, shall have their pensionable earnings limited to their salary received 365 days prior to the effective date.

Normal Retirement Age

HB 3411 reforms Tier 1 participants' normal retirement age. The following adjustments apply to Tier 1 participants retiring after July 1, 2013:

* Members age 45 or older on the effective date shall not be subject to any delay in retirement eligibility;
* Members age 40-45 on the effective date shall be subject to a 1 year delay in retirement eligibility;
* Members age 35-40 on the effective date shall be subject to a 3 year delay in retirement eligibility; and
* Members younger than age 35 on the effective date shall be subject to a 5 year delay in retirement eligibility.

Automatic Annual Increases

HB 3411 reforms automatic annual increases provided to Tier 1 participants and Tier 1 retirees. Members receiving an annuity of less than $25,000 a year shall receive a 3% compounded automatic annual increase, members receiving an annuity of $25,000 or more shall receive an automatic annual increase of $750.

Members shall not be eligible for an automatic annual increase until the January 1st following attainment of age 67 or the January 1st following the 5th anniversary of the annuity start date.

Automatic annual increase received prior to the effective date are protected and not diminished.

Employee Contributions

HB 3411 requires employees to contribute an additional 1% of payroll in FY 14, plus an additional 1% in FY 15. The total contribution increase is 2% of payroll.

The employee contribution increases are exempt from Money Purchase Plan calculations.

Reciprocal Act

The Reciprocal Systems Act is amended to account for Tier 3 participants that are eligible for reciprocal benefits.

HB 3411 provides that Tier 3 annuities and Tier 3 survivor's annuities shall not be eligible for proportional adjustments, however service earned under other reciprocal systems shall count towards vesting requirements.

Tier 3 Retirement Plan

A Tier 3 retirement plan is created for employees who first become participants on or after January 1, 2014. Tier 2 participants are allowed to opt into the plan by making an irrevocable election to participate on or before June 1, 2014.

The Tier 3 plan is a stacked hybrid plan, meaning that participants concurrently participate in a defined benefit plan and a defined contribution plan.

Defined Benefit

The defined benefit component of the Tier 3 plan is identical to the Tier 2 benefit with a reduced multiplier of 1.1%. Participants would be eligible for full retirement at age 67, or reduced retirement at age 62. Participants receive automatic annual increase equal to 3% or ½ CPI, whichever less.

Defined Contribution

The System shall establish a defined contribution plan for Tier 3 participants to be managed by the System and invested in the portfolio. Each participant receives an individual account to be credited with employee contributions, employer contributions, and the actual investment return net of fees and administrative costs.

Active participants are allowed to use their defined contribution plan for expenses other than retirement. Participants are permitted to receive lump sum disbursements of plan assets at any time during active service. In addition, participants may elect to roll over plan assets into another qualified plan, or purchase an annuity or other insurance product to the extent allowable under federal law.

Employee Contributions

Employees shall contribute 4% of earnings to fund the defined benefit plan, and 5% of earnings to fund the defined contribution plan.

Employees may make additional contributions to the defined contribution plan.

Employer Contributions

Employers shall contribute an amount equal to the employer normal cost of the defined benefit plan, plus an amount not less than 3% and not more than 10% to the defined contribution plan.

In addition, employers must contribute an amount sufficient to finance any unfunded liability of that employer over a period not to exceed 10 years.

State and Employer Funding Reform

State Funding Reform

HB 3411 enhances statutory funding requirements. Beginning FY 14, the State shall be responsible for i) the state's portion of projected normal cost for that fiscal year, plus ii) an amount sufficient to amortize 100% of liabilities by FY 2043.

Additionally, the State is required to employer contributions for its employees participating in the Tier 3 retirement plan.

Employer Funding

Employers are responsible for funding the benefits of all employees who participate in the Tier 3 retirement plan. This means employers are responsible for funding for all Tier 3 participants, including Tier 2 participants that elect to participate in Tier 3.

Employers shall contribute an amount equal to the employer normal cost of the Tier 3 defined benefit plan, plus an amount not less than 3% and not more than 10% to the Tier 3 defined contribution plan.

In addition, employers must contribute an amount sufficient to finance any unfunded liability of that employer over a period not to exceed 10 years.

State Funding Enforcement

Beginning July 1, 2013, the State shall be contractually obligated to contribute to the System in each State fiscal year an amount not less than the sum of the State's certified contribution. The obligations are contractual obligations protected and enforceable under Article I, Section 16 and Article XIII, Section 5 of the Illinois Constitution.

Notwithstanding any other provision of law, if the State fails to pay in a State fiscal year the amount guaranteed under this subsection, the System may bring a mandamus action in the circuit court of Champaign or Sangamon County to compel the State to make that payment, irrespective of other remedies that may be available to the System. In ordering the State to make the required payment, the court may order a reasonable payment schedule to enable the State to make the required payment without significantly imperiling the public health, safety, or welfare.

Any payments required to be made by the State pursuant to this guarantee are expressly subordinated to the payment of the principal, interest, and premium, if any, on any bonded debt obligation of the State or any other State-created entity, either currently outstanding or to be issued, for which the source of repayment or security thereon is derived directly or indirectly from tax revenues collected by the State or any other State-created entity.

Employer Funding Enforcement

Any employer, other than the State, that fails to transmit to the System contributions required of it or contributions required of employees, for more than 90 days after such contributions are due, is subject to the following: after giving notice to the employer, the System may certify to the State Comptroller or the Illinois Community College Board, whichever is applicable, the amounts of such delinquent payments and the State Comptroller or the Illinois Community College Board, whichever is applicable, shall deduct the amounts so certified or any part thereof from any State funds to be remitted to the employer and shall pay the amount so deducted to the System. If State funds from which such deductions may be made are not available, the System may proceed against the employer to recover the amounts of such delinquent payments in the appropriate circuit court.

The System may provide for an audit of the records of an employer, other than the State, as may be required to establish the amounts of required contributions. The employer shall make its records available to the System for the purpose of such audit. The cost of such audit shall be added to the amount of the delinquent payments.

Pensionable Stabilization Fund

HB 3411 revitalizes the Pension Stabilization Fund. The now unused fund begins receiving $1 billion annually in FY 2020. GRF transfers into the Fund will continue until each of the state retirement systems are funded at their targeted funding ratio. Contributions from the fund to the systems are in addition to required contributions, however the systems to not have to include contributions from the fund for the purposes of projecting current and future contributions until the systems receive payment from the fund.

Status: Assigned to House Rules Committee

The current status of HB 3411 could change yet today as there is a House Personnel and Pensions Committee meeting today at 3:00 p.m.

It should be noted that the pension debate on the House Floor is still scheduled today. House is scheduled to come it at 11:30 a.m.