

# State Universities Annuitants Association



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## SUAA Mini Briefing

March 15, 2013

Happy  
Saint Paddy's  
Day!

### Another Week at the Capitol

While SUAA remains opposed to SB 1 in its entirety, it became evident that work had to be done over this past weekend to make sure that those who made the Irrevocable Election under the provisions of Public Act 91-395 were not included within the content of **SB 1 Amendment 1**. This was also the case with Public Act 97-0695 (SB 1313). The pension code reference is (40 ILCS 5/15-135.1). There are currently 5,681 annuitants receiving benefits who elected the provisions of 91-395; 13,643 active and 4,317 inactive members eligible to make the election for a total of 23,641 people. The language can be found on page 231 (PDF version) under (g) "Nothing in this Section shall be construed as applying to a person who is eligible to make or who made the election under Section 15-135.1 of the Illinois Pension Code." Please see last page of Mini Briefing to further explain this election.

Moving forward, this week definitely added to the confusion of pension reform. As you might remember last week separate amendments were brought to the House Floor by Speaker Madigan. This week Floor Amendments continued, but adding to the perplexity was the Senate Executive Committee reading postponed bills (**SB 35** sponsored by Senator Biss and **SB 1 Amendment 1** sponsored by Senate President Cullerton) and not calling a bill that was scheduled, **SB 2404**. However, the postponed readings were not as unusual as the passing of TWO pension reform bills in the same committee; sending them out of committee and on to the Senate floor for voting.

**SB 2404** sponsored by Senator Holmes was heard on Thursday morning in Senate Executive sub-committee on Special Issues. It has now been referred back to the Senate Executive Committee to be heard on Wednesday, March 20th. This will be the third pension reform bill to be heard in the Senate Executive Committee with possible passage to the Senate Floor. This is the bill that the We Are One Coalition is pushing. The companion is **HB 3162**.

To maintain the confusion, SB 1 Amendment 1 was placed on the calendar as a Second Reading while SB 35 was placed under Third Reading on the printed calendar which is actually out-of-order (skipped second reading). SB 1 was read on the Senate Floor Thursday and is now on Third Reading. Even though both are scheduled to be heard as the legislators leave for their spring break, there is no commitment from everyone who voted yes to do so when the bills are called for a vote on the Senate Floor.

The order of how these bills are filing out of the Senate Executive Committee hearing might be an indication of which will prevail. SUAA is **opposed** to SB 1 and SB 35. SUAA is in **support** of SB 2404 and HB 3162.

On to the House - **HB 1166 Floor Amendment 6** passed 74 - 43 (sponsored by Rep. Nekritz); increases the retirement age by various amounts for certain Tier 1 members and participants:

- No increase for those age 46 and over
- Increases one year for those age 40 - 45
- Increases three years for those age 35 - 39
- Increases five years for those under age 35

Note: Tier I employees are those who were hired on or before December 31, 2010.

**Floor Amendment 7 to HB 1166** failed 37 - 79 (sponsored by Rep. Nekritz). This would have required current employees to pay an additional 3% with no guarantee that the State make the required pension payments.

**HB 1154 Amendment 10** passed 101 - 15 (sponsored by Speaker Madigan); sets a cap on pensionable salary at the Social Security maximum - 2013 cap is \$113,700. This allows for a change to those who were originally grandfathered in with salaries over the threshold.

*SURS' actuary ran a cost study on HB 6258 from the 97th GA. That cost study shows a cumulative annual contribution savings of \$961 million through 2045 by limiting Tier 1 pay at the Social Security Taxable Wage Base. An updated note will be issued when actuarial numbers become available from SERS and TRS.*

Thursday in House Personnel and Pensions Committee **HB 3411** was passed out of the House Pensions and Personnel Committee by a vote of 9 - 1 (Rep. Poe was the lone vote). This is the pension reform bill that has been introduced by both Rep. Nekritz and House Minority Leader Representative Tom Cross.

This bill creates a Tier III - defined benefit (4% of salary) with a defined contribution plan (5% of salary) for SURS and TRS members hired on or after January 1, 2014. Employers and employees would be responsible for making the contributions to the hybrid part of the plan. 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 is less.

SUAA was **opposed** to the House Floor Amendments and HB 3411.

A note from lobbyist Dick Lockhart on the word **Ironclad** in relationship to how it is being used in reference to legislation. We point this out because there is a tendency to think that legislation cannot be changed once effective. As you will read, this is not so:

"I am neither an attorney nor a constitutional scholar, but I do not believe there can be an "ironclad" statutory requirement. We may see some language that purports to be such, but it could not prevent future legislative session from amending, or repealing, that statute. Also, who is to say how the Courts may rule? The General Assembly would have to appropriate the money, but suppose they didn't? Would the legislators be punished in some way? Not likely. If appropriated, where would the money come from? Education? Higher Education? Additional closings of prisons and mental institutions? Is there a Constitutional Amendment to force the allocation of Pension Funds?"

Other pension bills will emerge. True pension reform cannot be done by Floor Amendments. Some form of legislation will have to connect the changes. As it stands, if reform affects the annuitants there will be court cases. And, as it stands there is most likely federal protection as has been proved in other states.

## Coming UP

**HB 1032** is scheduled in the House Higher Education Committee for March 20th at 2:30. This is another attempt to "repeal the provisions that permit the children of employees of a State university who have been employed by any one or by more than one State university for an aggregate period of at least 7 years to receive a 50% tuition waiver". Rep. Tryon is the sponsor. SUAA is opposed. There is much previous testimony that is still relevant. SUAA will again be in a position to take it forward.

## **IGPA proposes six-step plan to reform pensions** - taken from NIU Now press release Thursday, March 14, 2013. Also found on IGPA's website.

As Illinois' public-employee pension liability soars toward \$100 billion, a group of scholars that includes Northern Illinois University's acting executive vice president Steven Cunningham, has developed a **six-step proposal** to stabilize pensions for employees of the state's public colleges and universities.

The experts said the six steps can help the **State Universities Retirement System (SURS)** achieve financial stability while ensuring retirement security and honoring the constitutional guarantee against reducing employees' already earned benefits. The proposal is contained in a white paper published on Wednesday, March 13 by the **Institute of Government and Public Affairs (IGPA)**.

"The most important take-away is that we have constructed a sensible reform that we believe would be palatable to the employers, the employees, the retirees, the taxpayers, and the courts," said Jeffrey R. Brown, the William G. Karnes professor of finance at the University of Illinois and a member of the IGPA faculty. "Our hope is that the General Assembly will see the wisdom of trying to do the same."

The six steps are divided into three broader categories – reducing the normal cost and liabilities of the current defined benefit plan; how SURS pensions should be funded going forward; and reforming the so-called "Tier II" program instituted for employees hired after January 1, 2011.

The individual steps are outlined in detail in the paper, which is part of IGPA's ongoing contribution to the dialogue on pension reform in Illinois. Generally, they would do the following:

- Change the annual cost of living adjustment (COLA),
- Change the value of the Effective Rate of Interest to eliminate what the authors say is a "hidden subsidy,"
- Shift contributions to colleges and universities,
- Increase employee contributions by an additional 2 percent,
- Require the state to amortize the current SURS unfunded liability, and
- Provide a new "hybrid" defined benefit/defined contribution plan for new employees.

Taken together the six steps will "significantly reduce SURS' \$19.3 billion unfunded liability as well as the annual cost of the pension system going forward," the authors write. They challenge lawmakers to correct the state's public pension problem, saying that each passing day without reform threatens the excellence of higher education at the 65 colleges and universities that are part of SURS.

“This six step proposal improves the financial stability of the system while balancing reasonable approaches toward cost containment, honoring constitutional guarantees, with strategies to stabilize pension plan funding and benefit security,” Cunningham said. “It allows universities like NIU to be competitive in the marketplace for attracting and retaining faculty and staff and provides a path to fair, equitable and feasible pension reform.”

In addition to Cunningham, Brown’s co-authors include U of I at Urbana-Champaign colleagues Avijit Ghosh and Scott Weisbenner, David Merriman of the University of Illinois at Chicago and IGPA.

“A key issue is that the needs of employers and employees in higher education are not the same as the needs of employers and employees covered by other systems,” Ghosh said. “We compete with public and private universities all over the world for the best faculty and staff. We need a retirement system that provides our public higher education institutions with the flexibility to compete in this environment.”

For the complete report - CLICK on [IGPA](#)

### **\*State Health Insurance Choice at Retirement (from page 1, paragraph 1 of Mini Briefing)**

On July 30, 1999, a law was signed that allows state - insurance eligible SURS - covered employees with less than 20 years of service at retirement to retain the right to fully state-paid health insurance - if they gave up certain benefit improvements provided by legislation passed in 1997.

To be eligible for this choice, a qualifying member must:

- Have been a participant who was an employee on July 7, 1997;
- Retire on or after July 30, 1999;
- Qualify for state health insurance coverage at retirement (e.g., 5 years of service with an Illinois university);
- Have less than 20 years of qualified service;
- Receive a monthly retirement annuity under any of the 3 retirement plans;
- abide by applicable maximum annuity limitations; and
- Make a one-time irrevocable choice at retirement.

The choice does not apply to members who:

- Retired before July 30, 1999;
- Were hired after July 7, 1997; or
- Were not active employees on July 7, 1997.

If you have not done so check out:

Commission on Government Forecasting & Accountability [Financial Condition of the State Retirement Systems](#) (February, 2013)