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SUAA Mini Briefing

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Pension Reform Unravels . . . or does it?

As stated in the last Mini Briefing "sitting in the Senate or House Gallery always provides a view of lawmaking that most of you cannot imagine". This stayed true until adjournment this past Friday night - 7:36 p.m. for the House and 9:40 p.m. for the Senate.

This is the first session of the 98th General Assembly, therefore the following bills remain active:

SB 1 - House Speaker Madigan's pension reform bill, even though defeated in the Senate 16-42, remains on the Senate calendar on order of Concurrence. Those Senators voting Yea were - President Cullerton (D) Althoff (R), Biss (D), Brady (R), Connelly (R), Dillard (R), Harmon (D), LaHood (R), Landek (D), Murphy (R), Oberweis (R), Minority Leader Radogno (R), Rezin (R), Stadelman (D), Steans (D) and Syverson (R). Six Democrats; ten Republicans. Passed the House of Representatives on May 2nd, 62 - 51.

SUAA remains opposed.

SB 1 contains:

- Tier 1 Participant and Tier 1 Retiree Benefit Reform
- State Funding Reform

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
SB 1 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
SB 1 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
SB 1 reforms automatic annual increases provided to Tier 1 participants and Tier 1 retirees. Moving forward, such members shall receive an annual increase to his or her retirement annuity that is equal to 3% of the lesser of, the previous year's retirement annuity, or the sum of $1,000 multiplied by each year of service credit.
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
SB 1 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.

Effective Rate of Interest
The amendment recommends that the Comptroller adopt a more conservative number for what is known as the "effective rate of interest" ("ERI"). Under current law, the Comptroller determines the effective rate of interest for Money Purchase benefits for university and community college employees hired before 2005. The amendment still provides that the Comptroller set this rate, but advises a figure that will more appropriately determine benefits for certain participants. SB 1 also provides that the Comptroller shall establish the effective rate of interest for portable plan lump sum payouts, portable plan refunds, purchases of service credit. This rate is currently set by the SURS board of trustees.

Prohibition of non-public employers and new employees participating in SURS
SB 1 provides that employers that are not defined as an employer under the SURS article shall be excluded from enrolling new employees in SURS. Those employees of such employers that are already SURS participants shall remain participants. SURS is given the authority to determine whether or not a person is an employee and is eligible to participate in SURS.

Eliminate the subject of pensions for collective bargaining.
Bargaining units and employers with participants in the State systems would be prohibited from negotiating changes related to pensions.

State Funding Reform
SB 1 enhances statutory funding requirements so that the State shall be required to adhere to a funding schedule that provides an annual contribution of an annual amount determined by the System to bring the total assets of the system up to 100% of the total liabilities of the System by 2044. The current statutory amount is to bring the total assets of the System up to 90% of the total liabilities by 2045.

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.

Pensionable Stabilization Fund

SB 1 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 shall not include such contributions from the fund for the purposes of projecting current and future contributions until the systems receive such payment from the fund.

Entry Age Normal Actuarial Cost method

SB 1 changes the actuarial cost method for the 5 state retirements from "projected unit credit" actuarial cost method, to "entry-age normal" actuarial cost method. The impact this change will have on the liabilities should be minimal, and this method is the most common accurate actuarial cost method as used in the public retirement systems.

Require separate appropriation request for employer normal cost and amortization of unfunded liability

The Governor must introduce and the systems must certify these costs separately.

SB 1515 - passed both Houses and is now headed to the Governor's Desk; Specifies that the procurement of the program of group health benefits for Medicare-primary members and their Medicare-primary dependents by the Department of Central Management Services is subject to the approval of the applicable Chief Procurement Officer.

This basically allows the CMS Chief Procurement Officer to by-pass the Commission of Government Forecasting and Accountability (COGFA) when securing bids for the State sponsored proposed Medicare health insurance. There will be no oversight by COGFA which is normally required.   Passed House 110 - 0; Senate 54 - 4.

SUAA was opposed.

SB 1687 - Cost shifting for SURS employers only.

Provides that beginning on July 1, 2014, SURS-covered employers shall begin paying the cost of the annual accruing retirement benefits of their employees. Beginning on July 1, 2014, SURS covered employers shall begin phasing in this cost at a rate equal to 0.5% of payroll. Each fiscal year thereafter, this payment shall increase annually at a rate equal to 0.5% of payroll until the SURS Board has certified that the employers are paying the full employer's share of normal cost (present value of the annual cost of the benefits earned by the member population).

SB 1687 also provides that an employer may accept or reject any future increase to the benefits of the SURS retirement plan, but if an employer accepts such benefit increase, it shall be applied to all of its covered employees. An employer that accepts such benefit increase shall pay the full annual increase in normal cost associated with that increase. An employer that accepts such benefit increase shall also be responsible for amortizing the unfunded liability created as a result of the benefit increase over a 10 year period.

SB 1687 provides that employers shall also be responsible for financing any unfunded liability created on that employer's share of assets and liabilities resulting from changes in actuarial assumptions, investment losses, or any other actuarial increases to the employer's share of liabilities. The schedule to finance such unfunded liabilities shall be a 30 year rolling amortization schedule.

In order to achieve the intent of this proposal, notional employer accounts shall be created for the purposes of determining an employer's notional assets and liabilities to be used in order to determine costs to be paid by each employer. Service credit accrued after July 1, 2014 shall be liabilities of the employers and contributions made after July 1, 2014 shall be assets of the employers. Service credit accrued before July 1, 2014 shall be liabilities of the State and contributions made before July 1, 2014 shall be assets of the State.

If a covered employer fails to transmit to the System contributions required of it under this legislation within 90 days that such payment is due, then the System shall certify to the State Comptroller or the applicable county treasurer the amount of the delinquent payment and either the Comptroller or county treasurer shall redirect state or local government revenue payable to the employer that is delinquent to pay the delinquent amount. If State or local funds payable to that employer is not available, the System may proceed against the employer to recover the amounts of such delinquent payments in the circuit court of Champaign county.

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.

State Funding
The State shall make payments to finance its portion of liabilities so that it has funded 100% of its portion of liabilities by 2044. Upon amortizing 100% of its portion of liabilities, the State shall no longer be liable for any payments to the State retirement systems. It should be clarified that the State shall pay the difference between employer normal cost and the amount phased-in by employers at the rate of 0.5% of payroll. It should be mentioned that the system shall not include such contribution for the purposes of projecting current and future contributions until the system receives such contribution.

SURS Board
SB 1687 alters the make-up of the SURS board of Trustees and provides that beginning on July 1, 2014, 1 trustee appointed collectively by universities and 1 trustee appointed collectively by community colleges shall serve on the SURS board of trustees. As the current terms of the appointed trustees expire or become vacant, then such terms shall instead be appointed by universities and community colleges.

As the terms of the elected trustees expire or became vacant, then moving forward, such elected trustees shall be comprised so that such elected trustees are split equally among participants or annuitants of community colleges and universities. Said different, after the expiration of the 4 active member trustee terms, 2 shall be active employees of universities and 2 shall be active employees of community colleges. Upon the expiration of the current terms of the annuitant trustees, 1 annuitant trustee shall be a retired community college employee, and 1 annuitant trustee shall be a retired university employee.

Beginning on July 1, 2014 the trustees shall elect among themselves the Chairperson of the board and that Chairperson shall serve 2 year terms. On such date, the IBHE chairperson shall not be a de facto Trustee of the SURS board. It is important to mention that the board will be increased to 12 trustees on January 1, 2014 as the current make-up consists of 11 trustees.

Entry Age Normal Actuarial Cost method
SB 1687 changes the actuarial cost method for the 5 state retirements from "projected unit credit" actuarial cost method, to "entry-age normal" actuarial cost method. This method is the most common and accurate actuarial cost method as used by public retirement systems.

Require separate appropriation request for employer normal cost and amortization of unfunded liability
The Governor must introduce and the systems must certify these costs separately.

Amendment to Public Act 97-968
SB 1687 extends the effective date of Section 15-139.5 (Return to work restrictions created by PA 97-968) from August 1, 2013 to August 1, 2014. SB 1687 also provides that such provisions of Public Act 97-968 shall not apply to SURS annuitants that are "status employees" under the Civil Servant Code, and eliminates the "18 paid week condition" of Public Act 97-968. For review, PA 97-968 tightens up the SURS return to work provisions so that if a SURS-covered employer employs a SURS annuitant under certain conditions, the SURS-covered employer is to a pay a penalty to SURS.

SUAA was invited to the first hearing on Cost Shifting; also attended a second meeting which was of a smaller audience. This was an initiative by Speaker Madigan which was to also include local school districts. However, at this time school districts are not included in this legislative bill.

Passed the House 60 - 55; failed in the Senate 21 - 33 with 5 voting present. The bill remains in the Senate on the order of Concurrence. While this was not to be considered pension reform, by the time SB1687 reached the Senate the reference changed as it was referred to as actual pension reform.

Both community college presidents and State funded university presidents and chancellors have agreed to cost shifting. Speaker Madigan stated that cost shifting would be approved this year. The unions were able to defeat the bill in the Senate.

SB 2404 - Senate President Cullerton's pension reform bill remains in the House Rules Committee.

(as amended by Senate Amendment #2)–Comprehensive Pension Reform for the 4 of the 5 State Retirements–SURS included:

Tier 1 Election (dates would obviously need to be corrected if passed)
Dependent upon whether a member retired before January 1, 2013, members will be required to make an election among the following choices. Elections must be made by May 31, 2014, with the benefit changes taking effect on July 1, 2014.

Tier I Non-Retired Participants (those who retire on or after January 1, 2013):

Choice A
Those electing Choice A, automatic annual increases shall be equal to the 3% of the originally granted annuity. This will be a non-compounding annual increase (calculated with simple interest). Such individuals electing such choice would also not receive annual increases in the first 2 years following retirement. After such delay, those individuals shall receive annual increases moving forward.

Such members electing Choice A shall remain eligible for access to his or her public retirement healthcare plan. Also, all future increases in earnings shall be included in the calculation of his or her future retirement benefit. Finally, only those who elect this choice shall be eligible to participate in the Optional Cash Balance Plan as described in this summary

Choice B
Those electing Choice B shall receive annual increases equal to the current rate for Tier 1 members, but shall lose access to his or her public retirement healthcare plan. Also, all future increases in earnings shall not be included in the calculation of his or her future retirement benefit. This is also the default choice for those that fail to make an election before the deadline.

Choice C
Tier 1 active participants electing Choice C shall receive annual increases equal to the current rate for Tier 1 members, but would not receive annual increases in the first 3 years following retirement. Such members electing this Choice will be required to contribute an additional 2% in employee contributions phased in over 2 years beginning in FY 14. The 2% in additional employee contributions will NOT count for money purchase formula purposes.

Election for Tier I Retirees (those who retire before January 1, 2013)

Choice A
Those that elect this choice are subject to a 2 year delay in receiving an automatic annual increase. For example, a retiree would not receive the scheduled increase for January 1, 2015. However, he or she would receive the increase payable beginning on January 1, 2016 but the increase scheduled for January 1, 2017 would be suspended. Finally, beginning on January 1, 2018, such individuals shall no longer subject to suspension to their automatic annual increases. For those that have not yet retired, then such staggered delays don't start until the

year that follows the first year in which that retiree has received his or her first annual increase. Retirees making this election shall retain access to his or her public retirement healthcare plan.

Choice B
Reject Choice A, but lose access to his or her public retirement healthcare plan. This is also the default choice for those that fail to make an election before the deadline.

Funding Enforcement
If the State fails to contribute required contributions within 90 days of SURS submitting a voucher for payment, SURS shall have the right to commence a <u>mandamus action in the Illinois Supreme Court to compel the Comptroller to satisfy the voucher.</u>

Pension Stabilization Fund
SB 2404 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.

Prohibition of Non-Public Employers
Employers that are not defined as an employer under the SURS articles shall be excluded from enrolling new employees in SURS. Those employees of such employers that are already SURS participants shall remain participants. SURS is given the authority to determine whether or not a person is an employee. SURS members shall not be eligible to receive service credit for a leave of absence for service with a teacher organization if that leave of absence begins on or after the effective date.

CIP Reform
The College Insurance Program (CIP) is reformed to increase employer costs, active employee costs, and recipient costs. Employees of community colleges who are members of SURS are currently eligible to participate in CIP upon vesting with SURS.

Beginning July 1, 2013, employers and active employees shall contribute 1.25% of salary (currently .5% of salary) to CIP. Beginning July 1, 2014 and each July 1 thereafter, employers and active employees shall contribute an amount determined by Central Management Services, by rule, which in each fiscal year shall not exceed 108% of the percentage of salary actually required to be contributed in the previous fiscal year.

CIP recipient costs shall be an amount equal to the difference between the projected costs of health benefits under the program and projected contributions from community college districts, active contributors, and other income of the program. Other income of the program excludes contributions made by the State to retire unpaid claims of the program.

Under current law CIP recipients currently receive up to 75% of the total insurance rate in subsidized premiums. The reform attempts to eliminate state contributions to CIP in fiscal year 2014 and each fiscal year thereafter City Colleges are given the opportunity to voluntarily participate in CIP.

Cash Balance Plan
Tier 1 employees that select option 1, shall be eligible to participate in the notional cash balance plan. The cash balance plan is a notional account credited with employee contributions that will be annually adjusted by an interest credit. Annuities are determined at retirement and the level of annuity is dependent on the notional account balance and other variables, such as the member's age at retirement and their life expectancy.

Employee Contributions

- Members, including Tier 1 employees who elect Option 1, may elect to make additional contributions into an optional Cash Balance Plan at 2.0% of pay.
- **Employer contributions**
- There shall be no employer contributions

Investment Credit
A complex formula is used determine the investment credit that will annually be determined to credit the cash balance accounts. The credit shall be an amount no less than the assumed treasury rate (the annual 30 year yield of treasury bonds in no event less than 4%). If SURS' 5 year investment returns and the SURS 1 year return is in excess of the assumed treasury rate, the percentage difference between the System's 1 year return and the assumed rate of return shall be multiplied by .67% to determine a percentage to be added to the assumed treasury rate and applied as an interest credit. In no event shall a cash balance account interest credit be in excess of 4%.

Retirement Annuity
A cash balance plan member may begin collecting an annuity at age 59 ½. The annuity shall be calculated based on the balance in the notional cash balance account as well as other relevant actuarial assumptions. Cash balance plan annuities are life annuities.

Survivor's annuity
When a cash balance plan member retires, they may elect to reduce their retirement annuity to provide for a survivor's annuity. The reduction shall be actuarially determined, and the member can elect to provide a survivor's annuity equal to 50%, 75%, or 100% of the retirement annuity.

If a cash balance plan member who has not yet retired dies with more than 5 years of service, the eligible survivor shall be entitled to an annuity beginning at age 59 ½ that is based upon the members cash balance account at the time of death. The survivor of a cash balance plan member who dies with less than 5 years of service shall be entitled to a refund of employee contributions without interest.

Automatic Annual Increase in Retirement Survivor's Annuities
Retirement and survivor's annuities shall be subject to a non-compounded annual automatic increase of 3% that will begin on the January 1 occurring on or after the first anniversary of the annuity start date.

Tier 2 Taskforce
SB 2404 establishes a taskforce to review the Tier 2 retirement plan to determine that plan's effectiveness to provide adequate retirement and whether or not the Tier 2 meets federal compliance.

Vote in the Senate was 40 -16.

SUAA moved from neutral to support of SB2404.

Remaining on third reading in the Senate are the three Madigan bills:

HB 1154 - provides that pensionable earnings shall not exceed the Social Security Wage Base (wage base is $113,100 for FY 13). Tier 1 participants that are receiving earnings exceeding the social security wage base as of the effective date are grandfathered and will be limited to their annual earnings rate on the effective date. Participants subject to a collective bargaining agreement or employment contract shall be exempt from this limitation until the expiration of the existing agreement or contract. No calculation of benefit shall include earnings in excess of this limitation.

HB 1165 - 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 continue to 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.

HB 1166 - 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.

There actually did not seem to be a desire or even any type of a campaign to pass pension reform, especially towards the end of session. Votes were not sought by leadership; the Governor was not on the premises. Governor Quinn said that he was interested in passing SB1, but since he was nowhere in sight his message did not seem to convey any serious effort on his part.

Governor Quinn has stated that he will call the legislators back to Springfield this summer. Any voting will require a super majority rather than a simple majority.

The Budget was passed through appropriation House Bills 206, 208, 213, 214, 215 and Senate Bills 2555 and 2556. The Republicans were not involved in the decisions.

Previously stated - $35 M was taken from the Higher Education appropriations and given to Elementary and Secondary Education. Democrat comments from the Higher Education Appropriations committee, when questioned, stated that the community colleges and universities could raise tuition and fees to make up the difference. Later, told on the Senate floor in regards to cost shifting, those same words came out in opposition by the Republicans who conveyed to the Democrats that they were not in favor of higher tuition and fees.

A few other tidbits of information. Soon you will not be able to talk on your cell phone while driving unless you can use a hands-free device.

You will no longer have to carry your car insurance card with you in the glove compartment of your car. You can request from your car insurance company an electronic version that will store in your cell phone.

Graduated Income Tax could go to the forefront by either Veto Session or next January. Senator Harmon filed SJRCA0039 and Representative Jakobsson filed HJRCA0033 at session end.

Veto Session will begin October 22, 2013. Other dates are October 23 and 24. The second week will be November 5, 6 and 7.

Even though Representative Greg Harris did not call the Marriage Fairness Act for a vote and pension reform was ineffective, other controversial bills did pass. Conceal and carry, fracking and a major economic development act were passed in both Houses and now await the Governor's signature.

More information will be forthcoming as we continue to sort out last week's activity at the Capitol.

At this time, because there was no agreement to pension reform there are no changes to those who are currently working or for those who are retired.