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Thank you to Steve Zahn at consulting Engineers for providing a complete analysis for us!

ALERT!
SB 1 House Amendment 001

8:30 a.m. Hearing Scheduled in House Personnel and Pensions, Wednesday, **May 1**
Chief Sponsor House Speaker Michael Madigan

SB 1 applies to the General Assembly Retirement System, the State Employees Retirement System, the State Universities Retirement System, and the Teachers' Retirement System.
The bill has an immediate effective date.

Tier 1 Participant and Tier 1 Retiree Benefit Reforms

Automatic Annual Increases

SB 1 reforms automatic annual increases provided to Tier 1 participants and Tier 1 retirees.

A member's compounded automatic annual increase will be capped on an amount equal to the member's number of years of service multiplied by $1,000 ($800 SERS). Amounts received above the cap shall be equal to 3% of the cap.

For example, a member with 30 years of service shall receive a 3% compounded automatic annual increase on an annuity less than $30,000 ($24,000 SERS). If the member receives an annuity of $30,000 ($24,000 SERS) or more the member shall receive a simple automatic annual increase of $900 ($720 SERS).

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 increases employee contributions by 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 (SURS and TRS).

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.

Pensionable Earnings Limitations

SB 1 caps the pensionable earnings of a Tier 1 participant at the applicable Tier 2 pensionable earnings cap. For 2013, the Tier 2 salary cap is $109,971. The cap increases annually by ½ the consumer price index for urban consumers (cpi-u). Participants currently receiving salary in excess of the cap shall have their pensionable earnings limited to their salary received for the 365 days prior to the effective date.

Effective Rate of Interest on Money Purchase Formula Calculations (SURS Only)

SB 1 requires the Comptroller to determine all effective rates of interest; currently the Comptroller only determines the effective rate of interest as it applies to Money Purchase Formula calculations.

The bill directs the Comptroller to provide special consideration to the rates of return achieved by long term U.S. Treasury Bonds.

The change is an attempt to influence the Comptroller into lowering the effective rate of interest to devalue the Money Purchase Formula.

State Funding Reform

State Funding Reform

SB 1 enhances statutory funding requirements. Beginning FY 15, the State shall be responsible for making contributions equal to 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 2044. Contributions shall be determined under the entry age normal actuarial cost method (currently projected unit credit actuarial cost method).

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 (i) the State's normal cost for that year, (ii) the portion of unfunded accrued liability assigned to that year by law and (iii) applicable transfers from the Pension Stabilization Fund.

The Board has a fiduciary obligation to seek payment of the guaranteed amount. If the State fails to a voucher within 90 days of submittal, the Board shall make an additional request for payment to the Comptroller. If the System does not receive payment within 16 days of making the request, the Board shall commence a mandamus action in the Illinois Supreme Court to compel the Comptroller to satisfy the voucher.

Any payments required 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.

Pensionable Stabilization Fund

SB 1 revitalizes the Pension Stabilization Fund. The now unused fund begins receiving $1 billion annually in FY 2020. 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 do not have to include contributions from the Pension Stabilization Fund for the purposes of projecting current and future contributions until the systems receive payment.

Other Changes

Prohibition on Participation of certain Non-public Employers

New employees of several "non-governmental" organizations are prohibited from participating under IMRF, SURS, and TRS.

New Hire Limitations on Unused Sick and Vacation Time

Payments of unused sick or vacation time received by a person who first becomes a participant on or after the effective date shall not be included in the calculation of pensionable earnings or service credit.

Prohibitions on Collective Bargaining

Employers shall not be required to bargain over matters affected by the changes made to the Pension Code by this amendatory Act of the 98th General Assembly.

Prohibition on the Use of Contributions for Health Care Subsidies

The System's are prohibited from using any contribution received pursuant its applicable Article to provide a subsidy for the cost of participation in a retiree health care program.

The System's do not currently use any contributions to provide subsidies for the cost of participation in a retiree health care program.