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Legislative Update as of March 20, 2013

SB 1 (as amended by Senate Amendment #3) – Comprehensive Pension Reform for the Teachers' Retirement System

Sponsor – Senate President Cullerton (D)

SB 1 provides that Tier 1 members not yet retired with Teachers' Retirement System are required to make an irrevocable election between 1 of 2 options. The benefit reforms under this amendment apply only to members of Teachers' Retirement System.

Tier 1 Employee and Tier 1 Retiree Election

Option 1 – Under Option 1, **employees** and **retirees** elect a reduced, non-compounded COLA on their future annuity. The COLA is equal to the lesser of 3% or one-half the urban Consumer Prices Index (CPI) on the amount of their original annuity (Tier 2 COLA). Employees and retirees electing Option 1 will receive a delayed COLA that will begin the January 1st following the earliest of age 67 or the 5th anniversary of the annuity start date. **Retirees** who elect Option 1 receive the same COLA reduction and delay; however, previous increases received remain unchanged.

A Tier 1 employee or Tier 1 retiree who elects Option 1 are eligible to participate in their applicable retiree healthcare plan.

Increases in pay to Tier 1 employees and Tier 1 retirees (who return to active service) will increase the Tier 1 employees' and Tier 1 retirees' pensionable earnings.

Option 2 – Under Option #2, **employees** and **retirees** elect to not reduce their 3% compounded COLA and to avoid a delay in receiving their COLA. Current law allows a retiree to receive their COLA on the January 1st following the first anniversary of the annuity start date.

Tier 1 retirees and Tier 1 employees who elect Option 2 are NOT eligible to participate in applicable retiree healthcare plans.

Increases in pay to Tier 1 employees and Tier 1 retirees (who return to active service) will NOT increase the Tier 1 employees' and Tier 1 retirees' pensionable earnings.

Tier 1 retirees that made an election under Section 135.1 and chose a reduced pension for premium free retiree healthcare shall not lose access to retiree healthcare if they choose Option 2.

Funding Reform

SB 1 provides that the state shall adhere to the following funding schedule based upon the outcome of the Tier 1 employee/retiree election.

If at least 50% of Tier 1 employees elected the reduced benefit formula - the state shall contribute based upon a funding schedule that pays the employer's normal cost plus an amount to get to the System to 90% funded as a level percentage of payroll by State Fiscal Year 2045. Also, if at least 50% of Tier 1 employees elect the reduced benefit formula, then the provisions revitalizing the Pension Stabilization Fund take effect. 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.

If fewer than 50% of Tier 1 employees elected the reduced benefit formula- the state shall contribute based upon a funding schedule that pays the employer's normal cost plus an amount to get to the System to 100% funded as a level percentage of payroll by State Fiscal Year 2045.

Nothing in SB 1 changes the SURS fiscal year 2014 certified State contribution of $1,509.B.

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 mandamus action in the Illinois Supreme Court to compel the Comptroller to satisfy the voucher.

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.

SB 1544 (as amended by Senate Amendment #3) – Comprehensive Pension Reform for 3 of the 5 State Retirement Systems including SURS (TRS and JRS not included)

Sponsor – Senate President Cullerton (D)

SB 1544 consists of Part A and Part B. Part B serves as a "backstop" so that if any benefit reforms contained in Part A are declared un-Constitutional, then benefit reforms contained in Part B shall take effect.

SB 1544 consists of Part A and Part B. Part B serves as a "backstop" so that if any benefit reforms contained in Part A are declared un-Constitutional, then benefit reforms contained in Part B shall take effect.

Part A

SB 1544, part A provides the following reforms to 4 of the 5 State Retirement Systems including SURS. Outlined are the following measures:

The following analysis is SURS specific.

Tier 1 Participant and Tier 1 Retiree Benefit Reforms

Pensionable Earnings Limitations

SB 1544 part A 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 1544 part A 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 1544 part A 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.

Employee Contributions

SB 1544 part A 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.

State Funding Reform

SB 1544 part A 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.

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 a circuit court 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.

If the Board fails to file a mandamus action within 21 days of a delinquent monthly payment, then a member may file a mandamus action against the Board to compel the Board to commence a mandamus action against the State.

Pensionable Stabilization Fund

SB 1544 part A 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, 2012, employers and active employees shall contribute 1.25% of salary (currently .5% of salary) to CIP. Beginning July 1, 2013 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. Contributions will increase significantly if the State fails to contribute its required CIP contribution in fiscal year 2013.

The reform attempts to eliminate state contributions to CIP in fiscal year 2013 and each fiscal year thereafter. It is unclear whether or not the state contribution to CIP in fiscal year 2013 is required under the Continuing Appropriation Act.

City Colleges are given the opportunity to voluntarily participate in CIP.

Severability

The following provisions of part A are in-severable:

- **Earnings limitation**
- **Automatic Annual Increase**

- **Tier 1 Employee contribution increase**
- **State Funding Reform**
- **Annual GRF transfer into Pension Stabilization Fund beginning in FY 2020**

The following provisions are severable:

- **Prohibition of Non-Public Employers**

A provision that is severable, valid and constitutional will be enacted into law even if in-severable provisions are held to be invalid or unconstitutional.

Part B

Part B provides that if any of the in-severable provisions provided in part A are declared un-Constitutional, then the following provisions provided under part B shall take effect.

Part B provides that Tier I employees and Tier I retirees are required to make an irrevocable election between 1 of 2 options. The election period begins 6 months upon a court decision that rules any provision of part A to be un-Constitutional, and shall conclude upon 11 months following such Court decision ruling.

Tier 1 Employee and Tier 1 Retiree Election

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Tier 1 retirees and Tier 1 employees who elect Option 2 are NOT eligible to participate in applicable retiree healthcare plans.

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Tier 1 retirees that made an election under Section 135.1 and chose a reduced pension for premium free retiree healthcare shall not lose access to retiree healthcare if they choose Option 2.

Funding Reform

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