Senate Bill 2404 Senate Amendment 2 passed in the Senate Executive Committee this afternoon.

The following analysis will provide the background for understanding the Amendment which is now actually the bill.

SUAA was neutral on the bill due to concerns of low income annuitants COLA being frozen for two years. While at the same time frame the cost for health insurance would be anywhere from 1- 2% the first year and 2 - 4% the second year.

A big thank you to SURS for providing this to me!

SB 2404 (as amended by Senate Amendment #2) – Comprehensive Pension Reform for the 4 of the 5 State Retirements – SURS included

Sponsor – Senate President Cullerton (D)

Tier 1 Election

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.

Choice C

Tier 1 active participants electing Choice B 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. This is also the default choice for those that fail to make an election before the deadline.

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

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.

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