



State Universities Retirement System of Illinois

Serving Illinois Community Colleges and Universities

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Legal Department

SB 1 (as amended by House Amendment #1)- Comprehensive Pension Reform

Speaker Madigan (D)

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.

Prohibition for new employees converting unused sick and vacation days to service credit and lump sum payouts for such unused days being included in final rate of earnings

SB 1 amends several articles under the Illinois Pension Code (IMRF, Cook County Pension Fund, SERS, SURS, TRS, and Chicago Teachers' Pension Fund) by prohibiting payment for unused sick days and unused vacation days from being included in final average salary. SB 1 also prohibits unused sick days and vacation days from being used to establish service credit. This provision shall only apply to participants that first become participants on or after the effective date of this Act.

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. 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 2044.

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.

Status: Assigned to the House Personnel and Pensions Committee