

SB 512-Pension Reform

Applicability

Systems and Funds Affected;

Five State Systems

- General Assembly Retirement System
- State Employees' Retirement System of Illinois (excluding State police and State Firefighters)
- State Universities Retirement System (excluding members who have already opted into the SURS self-managed plan)
- Teachers' Retirement System
- Judges' Retirement System (SB512 will be amended to include judges)

Cook County and Chicago Funds

- Cook County Employees' And Officers' Annuity And Benefit Fund
- Chicago Municipal Employees', Officers', And Officials' Annuity And Benefit Fund
- Chicago Public School Teachers' Pension And Retirement Fund
- Cook County Forest Preserve District Employees' Annuity And Benefit Fund
- Chicago Laborers' And Retirement Board Employees' Annuity And Benefit Fund
- Chicago Park Employees' And Retirement Board Employees' Annuity And Benefit Fund

Effective Date

- For the all of the State pension systems, the benefit changes in this bill will take effect on July 1, 2012.
- For the City of Chicago and Cook County funds the benefit changes will begin on January 1, 2013 since they are on a calendar year budget schedule.
- For the Judges' Retirement System the benefit changes will go into effect on the beginning of the next term of office.

Benefits

Members must make an election on which of the following three retirement plans to participate in starting on July 1, 2012 (January 1, 2013 for members of Chicago and Cook County Funds). Current Tier 1 members can choose between all three plans, Tier 2 members (hired after January 1, 2011) can choose between options two and three. If a member does not make an election, he or she will be automatically enrolled in Tier 2, the Revised Defined Benefit Plan. Judges will be required to make an election on the beginning of the next term of office.

1. **Traditional Defined Benefit ("DB") Plan, Tier 1:** Current Tier 1 employees may continue under their current defined benefit plan, but with higher employee contributions. For the first 3 years of the plan the employee contributions for employees are fixed percentages of salary. The contributions will be recalculated after the initial 3 years and every 3 years thereafter. After 3 years, each employee will

contribute the normal cost, which is the true cost of the benefit earned in that year, of the benefit minus the 6% that the employer will pay.

For the State Employees' Retirement System members that are covered by Social Security, the State will pay half the normal cost of the Revised DB Plan and the employee will pay any additional cost of the Traditional DB Plan benefit.

2. **Revised Defined Benefit ("DB") Plan, Tier 2:** Tier 1 employees, Tier 2 employees, and employees hired after the effective date of the bill will be allowed to participate in the Revised DB plan. Current state system employees who opt into the Revised DB plan will be credited for all benefits earned prior to July 1, 2012, with level of pay frozen. The State and employee contribution for this plan will be 6% of salary. For the State Employees' Retirement System members that are covered by Social Security, the State and employee will split the normal cost of the benefit.

Current Chicago or Cook County employees who opt into the Revised DB plan will be credited for all benefits earned prior to January 1, 2013, with level of pay frozen at the time they change plans. Cook County and Chicago employees must contribute 7% of salary for the Revised DB Plan.

The benefit levels under this plan will be the same as SB 1946, P.A. 96-889

3. **Self-Managed Plan ("SMP"):** Allows Tier 1 employees, Tier 2 employees, and employees hired after the effective date of the bill to opt in to a self-managed plan. Current state system employees who opt into the SMP will be credited for all benefits earned prior to July 1, 2012, with level of pay frozen. The employer and employee contribution for this plan will be 6% of salary. For the State Employees' Retirement System members that are covered by Social Security, the State and employee will contribute a 50/50 split of the normal cost of the Revised DB Plan benefit.

All employees who elect the SMP can make additional contributions above the prescribed rate. It takes 5 years to vest in the SMP. If the member does not attain 5 years of service he or she is entitled to a refund of employee contributions and any interest earned on those contributions.

For Chicago and Cook County, the employer and employee shall contribute 6% each, but only members with less than 5 years of service qualify to enroll in the SMP and, if the SMP participation pool becomes 20% of the total participants of the Fund, no additional enrollees will be permitted.

Statutorily Set State Employee Contributions for the Next 3 Years

	Current Tier 1 Employee Contribution	Increased Employee Contribution to Remain in Tier 1	Total Employee Contribution to Remain in Tier 1	Tier 2 Employee Contribution	SMP Employee Contribution
SERS with SS**	4.00%	5.29%	9.29%	4.04%	4.04%
SERS Alt w/o SS*	12.50%	6.41%	18.91%	6.00%	6.00%
SERS Alt w SS**	8.50%	8.15%	16.65%	4.46%	4.46%
TRS*	9.40%	4.37%	13.77%	6.00%	6.00%
SURS*	8%	7.31%	15.31%	6.00%	6.00%
GARS*	11.50%	13.39%	24.89%	6.00%	6.00%
JRS*	11%	23.04%	34.04%	6.00%	6.00%

* The state will contribute 6% for employees not covered by Social Security.

** The state will pay half the normal cost of the Tier 2 benefit for employees covered by Social Security.

Chicago and Cook County Employee Contributions

	Current Tier 1 Employee Contribution	Increased Employee Contribution to remain Tier 1	Total Employee Contribution to Remain in Tier 1	Tier 2 Employee Contribution	SMP Employee Contribution
Chicago Muni	8.5%	4.25%	12.75%	7.00%	6%
Cook Co	8.5%	5.97%	14.47%	7.00%	6%
Cook Co Forest	8.5%	5.97%	14.47%	7.00%	6%
Chicago Labor	8.5%	4.25%	12.75%	7.00%	6%
Chicago Parks	9.0%	3.75%	12.75%	7.00%	6%
Chicago Teacher	9.0%	3.75%	12.75%	7.00%	6%

System Review and Employee Benefit Election

Every three years, starting in FY16, the actuaries of all systems and funds impacted shall review the contribution rates for employees for accuracy and set the employee contribution rate for the next three years. Once the system reviews the contributions and sets the new rates, the employees will have the opportunity to elect to move to a different level of benefits. The employee may move to a different, lower tier of benefits, but they may not move up.

Minimum Benefit Provision and FICA Provisions

The bill contains a minimum benefit provision for employees that are not covered by Social Security to ensure that no benefit is less than what the Social Security benefit would be if the

member was also enrolled in Social Security. This is to prevent the Social Security Administration and the IRS from imposing a FICA tax on current Social Security-exempt members. For members of the DB plans, the minimum benefit is what the member would have received if they were instead enrolled in Social Security. For members of the SMP, the minimum benefit provision is 7.5% of compensation for service during the period of enrollment.

Due to the benefit changes in SB 1946, P.A. 96-889, the Tier 2 total normal cost is lower than the total employee contribution. The reduction in employee contributions for Tier 2 will also prevent the Social Security Administration and the IRS from removing the system's safe haven status due to employees paying more than the benefit is worth.

State Funding

Each year the state will contribute an amount equal to 6% of the total pensionable salary for employees. Further, the state will contribute a level percentage of the "big 3 revenues" (sales tax, personal income tax, and corporate income tax) to reach a level of 90% funded by 2045. For FY13-15, there will be a "step up" period to ensure a level percentage of revenue from FY16 until FY45. State revenue is assumed to grow at 2.3% per year, and in no case shall the state contribute less than 100% of the prior year's contribution.

Vesting

Years of service in any of the 3 plans will count towards the vesting requirements. For example, if a state employee has 5 years in the Traditional DB Plan and 3 years in the SMP, the employee will meet the 8 year vesting requirement for the Traditional DB Plan and the 5 year vesting requirement for the SMP.

Benefit Levels

Tier 1 State System Benefit Formula (Hired Before January 1, 2011)

	Retirement Age	Benefit Formula	Maximum Annuity	Salary Used	COLA	Employee Contribution
TRS	Age 62 with 5 years of service credit. Age 60 with 10 years of service credit. Age 55 with 20 years of service credit (discounted annuity or Early Retirement Option) Age 55 with 35 years of service credit.	2.2% of final average salary for each year of service credit earned after June 30, 1998	75% of final average salary	Average of the four highest consecutive annual salary rates within the last 10 years of service.	3% compounded	9.40%
SERS	“Rule of 85” – retirement when member’s age plus years of service equals 85. Age 60 with 8 years of service credit. Age 55 with at least 25 years of service (reduced one-half of one percent for each month the member is under age 60).	1.67% of final average salary for each year of service for members covered by Social Security. 2.2% of final average salary for each year of service credit for members not covered by Social Security.	75% of final average salary	Highest 48 consecutive months of service within the last 120 months of service.	3% compounded	4.0% of salary for members covered by Social Security. 8.0% of salary for members not covered by Social Security.
SURS	Age 62 with at least 5 years of service. Age 60 with at least 8 years of service. Any age with 30 years of service.	2.2% of final average salary for each year of service.	80% of final average salary	Average annual earnings during the 4 consecutive academic years of service which his or her earnings were the highest.	3% compounded	8.00%
JRS	Age 60 with 10 years of service. Age 62 with 6 years of service. Age 55 with 10 years of service (reduced ½ of 1% for each month under 60).	3.5% of final salary for each of the first 10 years of service, plus 5% of final salary for each year of service in excess of 10 years.	85% of final salary	Salary on last day of service.	3% compounded	11.00%
GARS	Age 55 with 8 years of service. Age 62 with at least 4 years of service.	3.0% of final salary for each of the first 4 years of service, plus 3.5% of final salary for each of the next 2 years of service, plus 4.0% of final salary for each of the next 2 years of service, plus 4.5% of final salary for each of the next 4 years of service, plus 5.0% of final salary for each year of service in excess of 12 years	85% of final salary	Salary on last day of service.	3% compounded	11.50%

**Tier 2 State System Benefit Formula
(Hired After January 1, 2011)**

	Retirement Age	Benefit Formula	Maximum Annuity	Salary Used	COLA	Employee Contribution
TRS	Normal retirement: 67 years old with 10 years of service. Early Retirement: 62 years old with 10 years of service with a 6% per year reduction in benefits for each year age is under 67.	2.2% of final average salary for each year of service credit earned after June 30, 1998	75% of final average salary, salary may not exceed \$106,800.	Annuity based on highest salary 8 years out of last 10 years of service	At age 67, the lesser of 3% or one-half of the annual increase in the CPI, simple interest.	9.40%
SERS	Normal retirement: 67 years old with 10 years of service. Early Retirement: 62 years old with 10 years of service with a 6% per year reduction in benefits for each year age is under 67.	1.67% of final average salary for each year of service for members covered by Social Security. 2.2% of final average salary for each year of service credit for members not covered by Social Security.	75% of final average salary, may not exceed \$106,800	Annuity based on highest salary 8 years out of last 10 years of service	At age 67, the lesser of 3% or one-half of the annual increase in the CPI, simple interest.	4.0% of salary for members covered by Social Security. 8.0% of salary for members not covered by Social Security.
SURS	Normal retirement: 67 years old with 10 years of service. Early Retirement: 62 years old with 10 years of service with a 6% per year reduction in benefits for each year age is under 67.	2.2% of final average salary for each year of service.	80% of final average salary, may not exceed \$106,800	Annuity based on highest salary 8 years out of last 10 years of service	At age 67, the lesser of 3% or one-half of the annual increase in the CPI, simple interest.	8.00%
JRS	Normal retirement: 67 years old with 8 years of service. Early Retirement: 62 years old with 8 years of service with a reduction of 6% per year under age 67.	3% of final average salary for each year of service.	60% of final salary, may not exceed \$106,800	Annuity based on highest salary 8 years out of last 10 years of service	At age 67, the lesser of 3% or one-half of the annual increase in the CPI, simple interest.	11.00%
GARS	Normal retirement: 67 years old with 8 years of service. Early Retirement: 62 years old with 8 years of service with a reduction of 6% per year under age 67.	3% of final average salary for each year of service.	60% of final salary, may not exceed \$106,801	Annuity based on highest salary 8 years out of last 10 years of service	At age 67, the lesser of 3% or one-half of the annual increase in the CPI, simple interest.	11.50%