

A Comprehensive Solution for Illinois' Pension Problem

Overview: The proposal aims to end the long, bitter impasse over pension reform at the state Capitol by combining what has been proposed by business, labor, legislators and civic groups with some new ideas. The bill makes necessary changes to some benefits to preserve the health of the systems going forward but also provides new protections, including a historic guarantee that the state will never again shirk its funding obligations.

Stabilizing the System: Reforms for Tier 1 Members (public employees hired before 2011)

- Cost-of-living adjustments apply only to the first \$25,000 of the employees' pension
 - That limit is reduced to the first \$20,000 for employees eligible for Social Security
- COLAs are delayed until the employee turns 67 or five years after retirement, whichever comes first
 - This applies to all employees and retirees who are currently receiving COLAs
- Retirement age is increased by:
 - No increase for employees age 45 and older
 - One year for employees age 40 to 44
 - Three years for employees age 35 to 39
 - Five years for employees age 34 and younger
- Employees would be required to contribute more toward their pensions by:
 - One percent starting July 1, 2013
 - Two percent starting July 1, 2014
- Pensionable salary – the amount of salary that counts toward a pension – is limited to the higher of the Social Security wage base or the participant's salary when the legislation becomes law

Predictability, Fairness, and Local Control: Reforms for Tier 2 Members (public employees hired since 2011)

- All new employees in the Teachers Retirement System and State University Retirement System are placed in a stacked hybrid plan (combination defined benefit and defined contribution plan)
 - Employees are guaranteed a minimum defined benefit
 - Employers and employees contribute an additional amount in to a 401(k) style benefit plan
 - Local school districts can negotiate the generosity and cost of the 401(k) benefit with employees
- TRS and SURS employees hired before the effective date can choose to remain in Tier 2 or join the stacked hybrid plan (Tier 3)
- COLAs for General Assembly Retirement System members will match those of Tier 2 members in the other pension systems

Creates Tier 3 (SURS and TRS employees who start after January 1, 2014)

- Hybrid Defined Contribution, Defined Benefit plan
- Defined Benefit component:
 - Employee contribution is 4% of pay
 - Final Average Salary = Highest 8 out of last 10 years

- Unreduced retirement at 67 and 5 years of service
- Reduced retirement at 62 and 10 years of service
- 1.1% annual accrual rate
- COLA is lesser of 3% or ½ CPI, simple starting at age 67
- Defined Contribution component:
 - Employee contribution is 5% of pay
 - Local employer can make optional matching contribution (pursuant to local contracts) of between 3% and 10% of pay
 - Ability for the DC plan to be invested in existed investments in the system and managed by the system for employees.
 - 5 years to vest in the employer contributions.

Ensuring the Benefit Will Be There: Employer Contributions and Funding Guarantees

- Employer contributions will be on a 30-year level-funding plan to achieve 100 percent funding
- State contributions will be enforced through court action or intercept of other state funds
- Revenue currently being used to repay pension obligation bonds will be used to pay down our unfunded liability once the pension obligation bonds are paid off