Senate Bill 16

- **PENSION CODE CHANGES FOR NEW HIRES**

HYBRID BENEFIT FOR SERS, SURS and TRS EMPLOYEES NOT COVERED BY SOCIAL SECURITY

Members not covered by Social Security that first become a participant of the pension systems on or after 6 months after the effective date of the Act will be placed in a new hybrid benefit. A member may irrevocably elect to be placed in the current Tier 2 benefit within 30 days of their initial participation date. Each retirement system shall establish procedures for making this election.

Participation in the hybrid benefit includes, as a condition of participation, consent that benefits earned may not be diminished but that future benefits may be modified, including diminishment.

Defined Benefit Component of Hybrid Benefit

- Eligibility: Normal retirement age under Social Security (but no earlier than age 67) with 10 years of service credit
- Base Benefit Calculation:
  - Final Average Salary- calculated by averaging the monthly salary during the last 10 years of service
  - Benefit Formula- 1.25% for each year of service
  - Base Retirement Pension: FAS x YOS x 1.25%
- Annuity Increases- Annuity increases will commence on the 1st anniversary of the annuity start date and will increase annually by ½ of the increase in the CPI-W, non-compounding.
- Employee monthly contribution for DB component of hybrid benefit is 6.2% of salary; however employee contribution cannot exceed normal cost of benefit.

Defined Contribution Component of Hybrid Benefit

- No later than 5 months after the effective date of the Act, each retirement system must implement a DC plan.
- Each member will contribute a minimum of 4% of salary to the DC plan.
- Each participant with at least 1 year of employment will receive an employer contribution. The rate may be set for individual employees and shall be no higher than 6% and no less than 2% of salary. The employer contribution is vested automatically.
- Administrative fees shall be deducted from the participating member's contributions.
- Participation in the defined contribution plan cannot begin until it is approved by the IRS.

HYBRID BENEFIT FOR COOK COUNTY, COOK COUNTY FOREST PRESERVE, LABF, CHICAGO PARKS, CHICAGO TEACHERS

The governing body of the unit of local government may adopt a resolution or ordinance to designate a pension fund to be affected by the new hire provisions of this Act. Employees hired on or after 6 months after the resolution or ordinance, who does not elect to maintain current Tier 2 benefits, will be placed in the hybrid plan as outlined above.

DEFINED CONTRIBUTION OPTION FOR NEW HIRES COVERED BY SOCIAL SECURITY- SERS ONLY

Eligible employees hired on or after 6 months after the effective date of the Act may irrevocably elect to participate in a defined contribution plan in lieu of the defined benefit plan. The election to participate in the defined contribution plan must be made within 30 days after becoming an eligible covered employee.

A participant in the defined contribution plan shall contribute a minimum of 3% of salary. For employees with at least 1 year of service, the employer contributions shall be 3% of compensation. Employer contributions shall vest immediately. Administrative fees shall be deducted from the participating member's contributions.

CLOSING OF THE GENERAL ASSEMBLY PENSION FUND

GARS will NOT accept new participants after the effective date of the Act.

- **PENSION CODE CHANGES TO TIER 1 MEMBER BENEFITS**

"CONSIDERATION MODEL" FOR GARS, SERS, SURS (excluding self-managed), TRS, CHICAGO TEACHERS

Requires Tier 1 employees to make an irrevocable election to either:

(1) Accept a delayed and lower automatic annual increase (AAI) and have future increases in compensation be included in the retirement benefit; or

(2) Refuse the lower AAI, however pensionable salary shall not exceed the annualized rate of compensation as of June 30, 2019 (if the member is under a CBA, then compensation shall not exceed the annualized rate upon expiration, renewal or amendment of the agreement).

Those members electing (1) above will have their AAI lowered to the lesser of 3% or ½ the CPI-U, non-compounding, with increases commencing the earlier of the first January following reaching age 67 or the 5th anniversary of the annuity start date. Tier 1 members making this election will also receive a "consideration payment" from the Comptroller equal to 10% of the employee pension contributions made and, in addition, will have their employee contributions decreased 10% after the date of the election.

The election is required of all Tier 1 employees and shall occur no earlier than January 1, 2019 and no later than March 31, 2019, with an effective date of July 1, 2019. There is an exception for those that return to service as a Tier 1 employee on or after the election date. These returning employees will have 60 days to make an election and the election will be effective the following month.

Employees failing to make an election will be placed in option (2) and have future salary increases excluded from pensionable earnings.

OPTIONAL DEFINED CONTRIBUTION PLAN FOR GARS, SERS, SURS, AND TRS

Requires systems to create a defined contribution plan for up to 5% of the current Tier 1 active participant population by July 1, 2018 (July 1, 2019 for SERS). The employee contribution rate for the DC plan will be the same as the current contribution rate for Tier 1 employees in the DB plan. The state's contribution shall be no higher than the employer's normal cost for Tier 1 employees in the DB plan for that year and shall no lower than 3% of compensation (no lower than 0% for TRS). The state shall adjust its contribution annually. Employer contributions as well as investment earnings shall not vest until 5 years of participation. The administrative fees shall be deducted from the participating member's contributions.

The DC option will not be available until the plan is approved by the IRS. If the plan is terminated or becomes inoperable, participants shall automatically be deemed to have been a contributing Tier 1 employee during the time of participation in the DC plan and amounts in the DC accounts shall be transferred back to the trust fund.

ACCELERATED PENSION PAYMENT FOR INACTIVE SERS, SURS AND TRS MEMBERS

Beginning January 1, 2019, and each year thereafter, an eligible inactive member may irrevocably elect to receive an accelerate pension payment (i.e., buyout) equal to 70% of the present value of the retirement annuity the member is entitled to at the date of the election. A member that elects the buyout forfeits all rights to their pension benefit and their service credit, including benefits provided under the Illinois Reciprocal Act, but retains access to the retiree health care benefit. An eligible inactive member must: (1) have terminated service, (2) be eligible for a retirement annuity, (3) have not received a retirement annuity, and (4) not have a QILDRO in effect.

A member that elects the buyout and returns to service shall be eligible for a benefit based solely on prospective service and shall not have the option to repay the buyout received to re-establish credit.

The buyout offer will close for the year if it is determined that 10% of those eligible made the election for the accelerated pension payment. These payments may be subject to applicable withholdings and taxation provisions prescribed by the IRS, and in addition, must be rolled over into an eligible retirement savings plan as authorized by the IRS.

The state shall, through continuing appropriation, fund the money for the buyouts. If the appropriation is insufficient, the state may issue bonds not to exceed $250 million in outstanding bond debt attributable to this program.

- FUNDING/BUDGET STABILIATION- ALL STATE PENSION SYSTEMS

SB 16 requires that any changes in liabilities resulting from assumption modifications be smoothed over a 5 year period. In addition, the funding of the benefit shall be calculated as a level percent of total payroll, including any compensation that is non-pensionable. Lastly, it requires the systems to calculate and certify contribution rates at specified dates based on formula and benefit changes caused by the legislation.

Beginning in FY2020, on an annual basis the systems shall certify a hypothetical amount that the State would contribute had the two new plan options for new hires not been created for SERS, SURS and TRS. The contribution savings attributable to the new plan options shall be appropriated into the Pension Stabilization Fund and be used to provide additional contributions to the state retirement systems.

- LIMIT STATE'S LIABILITY FOR EARNING INCREASES (SURS AND TRS)

Beginning on or after July 1, 2018, if the amount of a teacher's salary increase for any school year used to determine final average salary exceeds the member's annual rate with the same employer for the previous year by more the percent increase in the CPI-U, then the teacher's employer shall be required to pay to the system the present value of the increase in benefits resulting from that portion of the salary that is above CPI cap.

- LIMIT STATE'S LIABILITY ON HIGH SALARY EMPLOYEES (SURS AND TRS)

For school years on or after July 1, 2018, if the amount of a participant's salary exceeds $140,000 as determined on a full-time equivalent basis, the participant's employer shall pay to the system an amount calculated based on earnings that exceed $140,000 multiplied by the level of payroll used in that fiscal year as determined by the System to be sufficient to bring total assets to 90% funded by 2045.

SB 16 allows optional DC plan and proposed funding changes to be implemented even if Tier 1 Consideration model is found unconstitutional.

- OTHER CHANGES INCLUDED IN THE BILL

Illinois Public Labor Relations Act:

Modifications to the Labor Relations Act to implement pension code changes and not have them subject to bargaining, an unfair labor practice complaint, and arbitration award, with the exception of the ability of the employer and employee representative to bargain collectively with regard to the pickup of employee contributions in limited provisions of the Pension Code.

Changes to the State Employees Group Insurance Act:

Amend the definition of annuitant to include retirees that have elected to receive an accelerated pension benefit payment (i.e., pension buyout)

Changes to the Civil Administrative Code of Illinois, the University of Illinois Act and the School Code:

New language which states that any offer of future increases in income cannot violate the provisions of the pension code