

UJBC meeting 6/26/12

This was an informational meeting only as there was no quorum.

Jeff distributed two SURS documents: “End of session legislative update – June 6, 2012” and “Pension reform update – June 6, 2012.” The former gives an explanation of bills SURS had been watching that have now passed the legislature, while the latter describes SB 1673 and its amendments.

Kim Kavish @SIU-Med said that she has 56 people retiring on July 1; she suspects that Mary has many more. HR has been very busy with assisting retiring employees.

Jeff outlined HB 4996, which impacts SURS members who return to work for the state.

Next UJBC meeting will be Sept. 25.

Reported by Karin McClure



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Pension Reform Update – June 6, 2012

SB 1673 (House Amendments #7 and #8)

The three main components of SB 1673 are:

- Tier I employees and Tier I retirees elect 1 of 2 options that will impact benefit calculations and eligibility for retiree health insurance.
- Creation of the Cash Balance Plan
- State Retirement System Funding Reform

A Tier 1 employee is defined as an employee who began participation prior to January 1, 2011. A Tier 1 retiree is a former employee who first began participating prior to January 1, 2011 and is now receiving a retirement annuity.

Tier I employees and Tier I retirees are required to make an irrevocable election between 1 of 2 options. The election period begins January 1, 2013 and concludes on May 31, 2013. The election choice is effective July 1, 2013.

Tier 1 Employee and Tier 1 Retiree Election

Option 1 – Under Option 1, **employees** and **retirees** elect a reduced, non-compounded COLA on their future annuity. The COLA is equal to the lesser of 3% or one-half the urban Consumer Prices Index (CPI) on the amount of their original annuity (Tier 2 COLA). Employees and retirees electing Option 1 will receive a delayed COLA that will begin the January 1st following the earliest of age 67 or the 5th anniversary of the annuity start date. **Retirees** who elect Option 1 receive the same COLA reduction and delay; however, previous increases received remain unchanged.

A Tier 1 employee or Tier 1 retiree who elects Option 1 are eligible to participate in their applicable retiree healthcare plan.

Increases in pay to Tier 1 employees and Tier 1 retirees (who return to active service) will increase the Tier 1 employees and Tier 1 retirees pensionable earnings.

Option 2 – Under Option #2, **employees** and **retirees** elect to not reduce their 3% compounded COLA and to avoid a delay in receiving their COLA. Current law allows a retiree to receive their COLA on the January 1st following the first anniversary of the annuity start date.

Tier 1 retirees and Tier 1 employees who elect Option 2 are NOT eligible to participate in applicable retiree healthcare plans.

Increases in pay to Tier 1 employees and Tier 1 retirees (who return to active service) will NOT increase the Tier 1 employees and Tier 1 retirees pensionable earnings.

Funding Reform

Under current law the state is required to make contributions, expressed as a level percentage of payrolls, to be sufficient to fund 90% of SURS liabilities by State fiscal year 2045.

State contributions will be determined as a level percentage of payroll based on the following formulas:

If at least 50% of Tier 1 employees elected the reduced benefit formula- the State shall make contributions to be sufficient to fund 100% of SURS liabilities by State fiscal year 2043.

If fewer than 50% of Tier 1 employees elected the reduced benefit formula- the State shall continue to make contributions under the current funding plan.

Nothing in SB 1673 changes the SURS fiscal year 2013 certified state contribution of \$1,402,800,000.

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.

State Actuary

A State Actuary is created under the Office of the Auditor General. The State Actuary shall review actuarial assumptions utilized by the State Retirement Systems. Each November 1st the State Retirement Systems shall submit their proposed certified contributions for the next fiscal year to the State Actuary. By January 1st of each year the State Actuary may make recommendations concerning System assumptions used to determine its proposed certified contribution.

If the State Actuary makes recommendations concerning System assumptions, the System must consider the recommendations before finalizing its certified contribution on January 15th. Each System must note any deviation between its assumptions and assumptions recommended by the State Actuary, the reason for any deviation, and the fiscal impact of any deviation.

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.

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, 2012, employers and active employees shall contribute 1.25% of salary (currently .5% of salary) to CIP. Beginning July 1, 2013 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. Contributions will increase significantly if the State fails to contribute its required CIP contribution in fiscal year 2013.

The reform attempts to eliminate state contributions to CIP in fiscal year 2013 and each fiscal year thereafter. It is unclear whether or not the state contribution to CIP in fiscal year 2013 is required under the Continuing Appropriation Act.

City Colleges are given the opportunity to voluntarily participate in CIP.

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. This bill would also close a loophole that allows SURS members to continue to accrue service credit while on leave of absence with a teacher organization.

Severability

The following provisions are in-severable:

- **Tier 1 Employee and Retiree Election**
- **Cash Balance Plan**
- **Funding Reform**
- **CIP Reform**

The following provisions are severable:

- **State Actuary**
- **Prohibition of Non-Public Employers**

A provision that is severable, valid and constitutional will be enacted into law even if in-severable provisions are held to be invalid or unconstitutional.

SB 1673 (House Amendment #5)

In addition to changes made in amendments #7 and #8, amendment #5 makes additional funding reforms, creates a cash balance plan and makes changes to the SURS Board.

Funding Reform

House Amendment #5 to SB 1673 requires the State to make contributions to fund 100% of the total cost of benefits arising before July 1, 2013. State contributions will be determined as a level percentage of payroll based on the following formulas:

If at least 50% of Tier 1 employees elected the reduced benefit formula - the state shall fund 100% of the total cost of benefits arising before July 1, 2013, by state Fiscal Year 2043.

If fewer than 50% of Tier 1 employees elected the reduced benefit formula- the State shall fund 100% of the total cost of benefits arising before July 1, 2013, by state Fiscal Year 2045.

Nothing in SB 1673 changes the SURS fiscal year 2013 certified State contribution of \$1,402,800,000.

Employer Funding

SURS currently has 65 employers that include community colleges, universities, and state agencies. The State currently makes employer contributions for all SURS employers.

House Amendment #5 to SB 1673 requires SURS employers to fund 100% of liabilities arising on or after July 1, 2013. Beginning in fiscal year 2014, employers will be required to contribute:

- An amount to be phased in overtime that will eventually result in the employer contributing the full normal cost of benefits earned by employee who began participating prior to July 1, 2013.
 - Employers begin contributing 1% of payroll in FY 14 towards the normal cost of benefits earned by employees that began participating prior to July 1, 2013.
 - Each fiscal year thereafter employers contribute an additional 1% of payroll from the previous fiscal year until either (i) the Board certifies that the employer is contributing an amount equal to the normal cost of benefits earned by employees that began participating prior to July 1, 2013 or (ii) until the employer is contributing 6% of payroll.
 - If the normal cost of benefits earned by employees that began participating prior to July 1, 2013 exceeds 6%, the employer shall contribute an additional .5 % of payroll from the previous fiscal year until the Board certifies that the employer is contributing an amount equal to the normal cost of benefits.



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End of Session Legislative Update – June 6, 2012

SB 2348 (as amended by Senate Amendment #2) – SURS FY 13 Appropriation Rep. Currie/Sen. Steans

SB 2348 appropriates the full Fiscal Year 2013 certified contribution to SURS. The contribution is \$1,402,800,000. \$1,252,800,000 is appropriated from the Education Assistance Fund and \$150,000,000 is appropriated from the State Pensions Fund.

The bill does not appropriate College Insurance Program's Fiscal Year 2013 certified contribution of \$4,175,820; however, the bill does appropriate \$36 million to the College Insurance Program for payment of claims made prior to June 30, 2012.

Status: Passed the House with vote of 65-53; Passed Senate with vote of 33-25.

SB 179 (as amended) – Creation of the State Actuary Speaker Madigan/Sen. Clayborne

SB 179 provides that a State Actuary is created under the Office of the Auditor General. The State Actuary will review actuarial assumptions utilized by the State Retirement Systems. Each November 1st, the Systems shall submit their proposed certified contributions for the next fiscal year to the State Actuary. By January 1st of each year, the State Actuary may make recommendations concerning System assumptions used to determine the proposed certified contribution.

If the State Actuary makes recommendations concerning System assumptions, the System must consider the recommendations before finalizing its certified contribution on January 15th. Each System must note any deviation between its assumptions and the assumptions recommended by the State Actuary, the reason for any deviation, and the fiscal impact of any deviation.

Status: Passed House with vote of 112-6; Passed Senate with vote of 58-0.

SB 1313 (as amended by House Amendment #9) - State Retiree Health Insurance Sen. Schoenberg/Speaker Madigan

SB 1313 reforms state retiree health insurance. The bill does not reform CIP or TRIP. The bill provides that CMS shall determine the state's contribution to the program and removes the current

law formula that determines annuitant premiums. Current law allows members to earn a 5% premium reimbursement per year of service up to a maximum of 100%.

The CMS determination will influence the level of annuitant premium reimbursement. Premium reimbursement rates shall be the same for all annuitants, but rates may differ depending on whether or not an annuitant is eligible for Medicare and rates may differ for SURS annuitants who made an election under Section 15-135.1. (Annuitants who make an election under Section 15-135.1 forfeit their flat 2.2% multiplier in exchange for a graduated multiplier and State paid premiums for retiree health insurance.)

It is unclear as to how CMS will determine the annuitant premium reimbursements, but CMS has said that several factors will be used to make that determination, including pension income and years of service.

Status: Passed the House with a vote of 74-43; Passed the Senate with vote of 31-20.

HB 4996 (as amended) – SURS Return to Work Rep. Biss/Sen. Steans

HB 4996 adopts new return to work restrictions for employers and annuitants.

Identification and Notification requirements of the Employer

An employer must notify SURS within 60 days upon employing an SURS annuitant, and identify if such annuitant is paid from federal, trust, foundation, or corporate funds, or from a state grant in which they have been named the principal investigator. An annuitant who returns to work and is paid from such revenue sources as previously described shall be exempt from the restrictions provided under this bill. Employers must provide the employment contract and if no contract exists, then rate of compensation and anticipated length of employment.

An employer must certify if an employee is an affected annuitant. An employer is required to determine if a potential employee is already an affected annuitant prior to hiring.

An employer shall identify the following information:

- Paid days and paid weeks worked by the annuitant in an academic year;
- Annual compensation earned by an annuitant for the academic year; and
- Amount of compensation paid from federal, trust, foundation, or corporate funds, or state grants in which the annuitant is named as the principal investigator.

Requirements of an employed annuitant

An employee must disclose employment history and earnings history of employment while receiving a retirement annuity. If the employee provides false or misleading information as it relates to employment while receiving a retirement annuity, then that employee has committed fraud as defined under Section 15-186.

Definition of Affected Annuitant

In order for a person to become an “affected annuitant” an annuitant must:

- work more than 18 paid weeks that occur after August 1, 2013. The limitation is cumulative and not particular to an academic year; and
- receive compensation from an SURS-covered employer during an academic year that is equal to or greater than 40% of their highest annual rate of earnings before retirement.

Employer payment to SURS for employing an affected annuitant

An employer who employs an affected annuitant for any additional academic years subsequent to the academic year in which the annuitant first becomes an affected annuitant, shall make payment to SURS in an amount equal to the affected annuitant’s annual retirement annuity. If SURS determines that an employer has failed to identify an affected annuitant, or has failed to notify SURS of any required information, the employer shall make payment to SURS in an amount equal to double the annual retirement annuity of the affected annuitant.

An employer has 1 year to make required payments to SURS and failure to make required payments within 1 year shall result in the employer paying interest (at the prescribed rate). An employer who fails to make required payments within 2 years shall result in the Comptroller deducting the amount owed to SURS from the state funds payable to that employer and making payment to SURS.

If an employer employs an affected annuitant to perform critical operations due to an unforeseen illness, death, or accident of an employee for no more than one academic year, the employer shall not be required to make payment for employing the affected annuitant. The employer must notify SURS if it employs an affected annuitant under these circumstances.

SURS Audit of Employers

SURS may audit employment records of employers. Employers must submit the required information within 60 days.

Status: Passed House with a vote of 115-0-2; Passed the Senate with a vote of 52-0.

HJRCA 49- Limitation on Benefit Increases **Speaker Madigan/President Cullerton**

HJRCA 49 proposes to amend the Constitution (pending voter approval in November) to require a super majority vote for pension benefit increases. The constitutional amendment provides that no bill (except an appropriations bill) that provides a pension benefit increase shall become law unless it receives a 3/5ths vote in each legislative chamber. If the Governor vetoes such a bill that has provided a pension benefit increase, it will require a 2/3rds vote in each chamber to override the veto.

HJRCA 49 also provides that an ordinance, resolution, rule or other actions by a governing body or by an appointee/employee of the governing body of any unit of local government or school district that provides an emolument increase to a member that increases the amount of their pension shall only be valid with a concurrence of 3/5ths of the members of that governing body.

HJRCA 49 also provides that no action of a governing body of a retirement system, school district, or local unit of government that results in a beneficial determination will be valid unless 3/5ths of the members of that governing body approve.

“Benefit increase” is defined as a change to any pension or other law that results in a member of a retirement system receiving a new benefit or an enhancement to a benefit, which includes but is not limited to the following:

- Increase in the amount of the pension or annuity that a member could receive upon retirement;
- Reduce or eliminate the eligibility requirements a member must meet to receive a pension;
- Any change to any pension or other law that expands the class of persons who may become a member of any retirement system; or
- Increase in salary by itself shall not be considered a benefit increase.

“Emolument increase” is defined as the creation of a new or enhancement of an existing advantage, profit or gain that an official or employee receives by virtue of holding office or employment that includes and is not limited to:

- Compensated time off, bonuses, incentives, or other forms of compensation.
- Increase in salary by itself, shall not be considered an emolument increase.

“Beneficial determination” means an interpretation or application of pension or other law by the governing body that reverses or supersedes a previous interpretation or application and either:

- Results in an increase in the amount of the pension or annuity received by a member of the retirement system; or
- Results in a person becoming eligible to receive a pension from the retirement system.

Status: Passed House with vote of 113-0; Passed Senate with vote of 51-2.

HJR 93 – Explanation of HJRCA 49 Rep. Currie/Sen. Harmon

With respect to HJRCA 49 (which provides that no benefit increase under any public pension or retirement system may become law without a three-fifths majority vote), sets forth a brief explanation of the proposed amendment, a brief argument in favor of the amendment, a brief argument against the amendment, and the form in which the amendment will appear on the ballot.

Status: Adopted Both Houses (Passed House with vote of 118-0; Passed Senate with vote of 51-0).