



Public Act 98-599

Pension Reform

In a Nutshell

SURS Legal Department

Michael B. Weinstein

Albert J. Lee

Jeff Houch

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Disclaimer

- Uncertainties still exist, terms need to be fleshed out or fixed by trailer bill or rulemaking.
- This is for informational purposes only and is not formal SURS guidance.



SURS Funding Changes

- State to pay off 100% of the SURS “mortgage” by end of FY2044.
- Level-cost method for ER cost (Entry Age Normal method).
- Pension Stabilization Fund (debt service)
- Systems get 10% of pension reform savings.
- State must make mortgage payments on time or SURS Board can sue.



Fiscal Impact

- FY2016 State contribution savings = \$199.4 M
- 30-year State contribution savings = \$29.279 B
- FY2014 reduction in Unfunded Actuarial Accrued Liability = \$4.225 B
- FY2015 reduction in ER Normal Cost = \$183.2 M

* These figures are based on a 12/20/2013 SURS actuarial study on the fiscal impact of P.A. 98-599.



T1 Benefit Changes

- **T1 Automatic Annual Increases** for current and future retirees = 3% of lesser of (Total Annuity or \$1,000* x Years of Service) beginning January 1, 2015. Skipping.
- **T1 Retirement Age Eligibility** delayed for retirements on or after July 1, 2014 (the younger, the more delayed).
- **T1 Earnings Cap** (similar to T2) starting June 1, 2014.
- **T1 Employee Contributions** decrease by 1.0% to 7.0% (police/fire to 8.5%) starting July 1, 2014 .
- **T1 New Defined Contribution Plan** for up to 5% of active Tier 1 members starting July 1, 2015.



Global Changes

- **Effective Rate of Interest** pegged to U.S. 30-yr. Treasury Bond rates + 0.75% as of July 1, 2014.
 - Money Purchase Formula (Rule 2) w/min. guarantee
 - Refunds, Waivers, Lump-Sum Retirements
 - Service Purchases, Overpayments, etc.
- **No more private employers** (*e.g.*, Spec. Olympics) as of June 1, 2014. SURS has final say on “employee.”
- **No Vacation Pay or Unused Sick Leave** for FRE or service credit for new hires on or after June 1, 2014.



Effective Date(s)

- Official “Effective Date” is June 1, 2014.
 - Earnings Cap, Unused Vac./Sick, Private ERs
- But, certain provisions start on July 1, 2014.
 - ERI, EE Cont., Retirement Age, Funding
- New AAI
 - effectively starts January 1, 2015.
 - but skipping looks at retirements as of July 1, 2014.
- New DC Plan opens on July 1, 2015 (earliest).



New T1 AAI

- Applies to all T1 members (retired or not).
- **No change** to AAI on **January 1, 2014**.
- First new AAI on **January 1, 2015**.
- AAI Skipping applies if retire on **July 1, 2014** or later.

New AAI = 3% of the **lesser** of –
→ Total Annuity (incl. prev. AAI); **OR**
→ \$1,000 x Years of Service



New T1 AAI

- Starting January 1, 2016, the “\$1,000” is adjusted by the Consumer Price Index for Urban Consumers (CPI-U).
- Public Pension Division of the Dept. of Insurance provides this every November 1.
- AAI is pro-rated for mid-year retirements.
 - 2014 retirements pro-rated with New AAI for 1/1/2015 AAI.



T1 AAI Skipping

- AAI “skipping” applies to T1 members who are retired on or after July 1, 2014. So, doesn’t apply if retired before July 1, 2014.
- AAI skipping is based on age as of June 1, 2014.
 - Age 50 or more = Skip 2nd AAI
 - Age 47 < Age 50 = Skip 2nd, 4th, 6th AAI
 - Age 44 < Age 47 = Skip 2nd, 4th, 6th, and 8th AAI
 - Less than Age 44 = Skip 2nd, 4th, 6th, 8th, and 10th AAI



T1 Retirement Age

- If a T1 member retires on or after July 1, 2014, then retirement age is delayed based on age as of June 1, 2014.
 - Age 46 and older = No delay.
 - Age 45 = 4 mos.
 - Age 44 = 8 mos.
 - Age 43 = 12 mos.
 - ... (increases in increments of 4 mos./year)
 - Less than Age 32 = 60 mos.
- Retirement ages 50 (f/p), 55 (early), 62 (normal) delayed.
- 30 and Out? Possibly affected.



Money Purchase (ERI)

- For fiscal years beginning on or after July 1, 2014,
ERI = July 1st 30-year U.S. Treasury Bond rate plus 75 basis points (0.75%).
 - Example using Bond rate on 1/8/2014:
$$3.90\% + 0.75\% = 4.65\%$$
- FY2014 Comptroller ERI is currently 6.75% for Money Purchase Formula.
- FY2014 Board ERI is currently 7.00%.



Money Purchase (ERI)

- For retirements on or after July 1, 2014, Money Purchase Factors will use new ERI.
 - Lower ERI means smaller annuity payments over the same lifespan.
 - Higher ERI means larger annuity payments over the same lifespan.
 - Lower ERI may affect excess service waiver refund.
 - Post-reform ERI can be higher than pre-reform ERI.
 - Pre-reform ERI on 7/1/1990 was 8.0%, but 30-Yr. U.S. Bond yield was 8.41%.



Money Purchase (ERI)

- Minimum guaranteed Money Purchase annuity:
 - The money purchase annuity will never be lower than the money purchase annuity the retiree would have received had he/she retired during the fiscal year preceding June 1, 2014.
 - Member must have been retirement eligible on or between July 1, 2012, and June 30, 2013.
 - Question as to whether this was intended.



New T1 DC Plan

- New DC plan for 5% of Active T1 members on July 1, 2015.
- T1 member elects to “freeze” DB plan benefit accruals
 - No more service credit for benefit sizing (only for vesting)
 - No more Money Purchase interest crediting
 - No more service purchases
 - Uncertainties:
 - Refund and lump-sum retirement interest crediting frozen?
 - Disability benefits?
 - Frozen FRE period?
- EE Contributions “same” as other participants. Probably means 7% (8.5% for p/f) to prevent IRS issues.



New T1 DC Plan

- Employer match will range from 3% to the Normal Cost of the DB plans. “The State shall adjust the rate annually.”
 - No express formula given. But, intent is “cost neutrality.”
- 5 year vesting for ER match (same as SMP).
- Plan “may” provide for disability benefits, paid for by EE contributions.
- The System shall reduce the employee contributions credited to the account “by an amount determined by the System to cover the cost” of the plan. If unpopular, a few members could shoulder a huge cost burden.



New T1 DC Plan

- First 5% of Active T1 members as of June 1, 2014, eligible on first-come-first-serve basis.
- SURS required to mail the election to last known address. If no contact, then sufficient to post the election on its website.
- System shall provide information and benefit estimates to help make the decision.
- DC Plan open for enrollment only if IRS approves “qualified plan” status.



T1 Earnings Cap

- Starting June 1, 2014, T1 active members will be subject to an annual earnings limitation that is the greater of:
 - The adjusted Tier 2 earnings limitation (\$109,971.43 for CY 2013; \$110,631.26 for CY 2014);
 - The “annualized rate of earnings” as of June 1, 2014; or
 - The “annualized rate of earnings” immediately before the expiration, renewal, or amendment of a CBA or employment contract that is in effect on June 1, 2014.



Severability

- The following are treated as an inseverable block:
 - New AAI and AAI skipping under Arts. 2, 14, 15, 16;
 - EE contributions and ER funding in Arts. 2, 14, 15, 16;
 - 10% Pension Savings and Pension Stabilization Fund;
 - New DC Plan provisions under Arts. 2, 14, 15, 16; and
 - New DC Plan-related provisions in the Retirement Systems Reciprocal Act.
- All other provisions are severable from the rest.
 - Retirement age delays
 - Earnings cap
 - Private employers
 - Effective rate of interest
 - Unused vacation/sick leave



Legal Challenges

- ***Heaton, et al. v. Quinn, et al.***, filed 12/27/2013 (Cook County).
 - Plaintiff class = TRS members who are not IFT or IEA members.
 - Seeks to find P.A. 98-599 unconstitutional under Pension Protection Clause.
- ***RSEA, et al. v. Quinn, et al.***, filed 1/2/2014 (Sangamon County).
 - Plaintiff class = SERS annuitants and eligible inactives.
 - Seeks to find New AAI unconstitutional under Pension Protection Clause, Equal Protection Clause, and Contract Impairment Clause.
- ***ISEAR, et al. v. Bd. of Trs. of the SERS of Illinois, et al.***, filed 1/2/2014 (Sangamon County).
 - Plaintiff class = SERS, GARS, TRS, SURS retirees w/20 years service not subject to a CBA.
 - Seeks to find P.A. 98-599 unconstitutional under Pension Protection Clause, Contract Impairment Clause, Equal Protection Clause.



SURS Staff Response

- Public Act 98-598 requires the Attorney General to represent the SURS Board for all actions brought by or against it.
- SURS staff cannot comment on substantive aspects of pending litigation.
- SURS staff will continue implementation and educational efforts until ordered otherwise by a court.