ILLINOIS PUBLIC PENSION FUND ASSOCIATION℠
An Association of Public Pension Funds
2587 Millennium Dr., Unit C Elgin IL 60124
(630) 784-0406 • Fax (630) 784-0416 • www.ippfa.org

Anyone who artfully claims "lightening never strikes twice" is obviously unfamiliar with Illinois politics. On December 3, 2013, the Illinois General Assembly passed major pension reform legislation for the second time in three years. Senate Bill (SB) 1 is the product of a special bipartisan conference committee on pensions and negotiated terms from all four legislative leaders. SB 1 reduces benefits for current 'Tier 1' active and retired employees who were hired before January 1, 2011. The legislation is projected to save the State of Illinois $160 billion over 30 years and fully fund the pension systems, which are currently underfunded by an estimated $100 billion, by 2043. The chain of events surrounding the legislations' passage were highly orchestrated and controlled. After both Chambers convened, legislators were immediately shuffled into Caucus meetings by leadership in an attempt to round up last minute 'yea' votes. After more than 2 hours of caucusing, legislators returned to their respective Chambers for a lengthy and emotional floor debate. SB 1 was adopted first by the Senate, on a vote of 30-24-3, and minutes later by the House, on a vote of 62-53-1. Governor Quinn is expected to sign the bill into law by or before the end of this week.

Overview:

The four affected pension systems are:

- the Teachers' Retirement System (TRS)
- the State Universities Retirement System (SURS)
- the State Employees' Retirement System (SERS)
- the General Assembly Retirement System (GARS)

Excluded from the language are the pension systems covering uniformed police officers and fire fighters, both in Chicago and downstate.

Benefit changes:

Optional Defined Contribution Plan:
An optional defined-contribution plan (401k) will be created July 1, 2015 for all Tier 1 employees. The first 5% of employees in each system would be allowed to opt in. Those who opt in will keep their future defined benefits already earned (frozen as of the date of the opt-in) and going forward will get the investment value of their defined-contribution plan at retirement.

Reduction to COLA:
Future COLAs will be based on a retiree's years of service and the consumer price index (CPI). The annual increase is equal to 3% of years of service multiplied by $1,000 ($800 for those coordinated with social security). The $1000/$800 will be adjusted each year by the CPI for everyone (retirees and current employees). Those with an annuity that is less than their years of service times $1000/$800 (or whatever the amount is at the time of retirement) will receive a COLA equal to 3% compounded each year until their annuity reaches that amount.

COLA Skips & Delays:
COLAs on future benefits of employees (not retirees) would be skipped every other year under the following schedule: Age 50 as of the effective date: miss one COLA; ages 49-47, miss two COLAs, ages 46-44, miss three COLAs, age 43 and under, miss five COLAs.

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Increased Retirement Age:
Retirement age would be raised by 5 years gradually for future benefits of employees age 45 and younger as of the June 1, 2014 effective date of the bill. Retirement age will not change for those 46 and older. Four months would be added to retirement age for each year of the employee's age, reaching a total of 60 months more (5 years) for those now age 31 and younger. The increase in retirement age will apply to both full and early retirement ages which now range from 50 to 60 (with the vast majority at age 60).

Pensionable Salary Cap:
Applies the Tier II salary cap ($109,971 for 2013), which is annually adjusted by the lesser of 3% or 1/2 of the annual consumer price index-urban (CPI-U). Salaries that currently exceed the cap or that will exceed the cap based on raises in a collective bargaining agreement would be grandfathered in.

Employee contribution:
Employees will contribute 1% less toward their pension.

General Assembly Tier 2 fix:
Changes the GARS Tier 2 salary cap and annual adjustment to bring it in line with all other Tier 2 benefits.

Healthcare:
The State systems will be specifically prohibited from using pension funds to pay for retiree health insurance.

Collective Bargaining:
All pension matters, except pension pickups, are removed from collective bargaining.

Funding changes:

Funding Guarantee:
If the State fails to make a pension payment or a supplemental contribution, a retirement system may file an action to compel the State to make the required pension payment and/or supplemental contribution.

Effective rate of interest (ERI):
The ERI for SURS and the rate of regular interest for TRS would be set to a value equivalent to 75 basis points above the interest paid by 30-year U.S. Treasury Bonds for all purposes.

Pension Abuses: Pension abuse reforms previously included in SB 1 and SB2404 will be included. These include preventing future hires in several non-governmental organizations from getting public pension benefits. New hires will not be able to include their final average salary, or have their years of service include unused vacation and sick days.

Healthcare: The State systems will be specifically prohibited from using pension funds to pay for retiree health insurance.

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As many public sector workers and retirees digest the details of the pension reform legislation one thing is resoundingly clear, the fight is far from over. Public employee unions and associations that have formed the 'We Are One' coalition, which includes the Illinois Public Pension Fund Association, have vowed to file a lawsuit on the grounds that a clause (Pension Protection Clause) within the Illinois Constitution prohibits any and all actions that impair or diminish pension benefits once they are in place. Many coalition members believe that the Illinois Supreme Court will ultimately rule against the legislative measure.

While the threat of a long waited court battle would be enough to stop the average person from considering additional pension reform legislation, one individual has chosen to capitalize off of yesterday's events. Shortly after yesterday's pension vote Chicago Mayor Rahm Emanuel was quoted as saying,

> "The pension crisis is not truly solved until relief is brought to Chicago and <u>all of the other local governments across our state that are standing on the brink of a fiscal cliff because of our pension liabilities</u>. Without providing the same relief to local governments, we know that taxpayers, employees and the future of our state and local economies will remain at risk."

It would be reasonable for one to infer that another storm will likely blow into Springfield sometime next year. That storm will see a mixture of new alliances from various municipalities and groups like the Illinois Municipal League, the Civic Committee of the Commercial Club of Chicago, and the Pension Fairness for Illinois Communities, to name a few. These groups will be working together to bring reform to police, fire fighters, and Chicago teachers. It appears that lightening could strike a third time.

Bukola Bello, IPPFA Consultant