



ALLIANCE LEGISLATIVE REPORT (98-30)

PENSION REFORM BILL APPROVED

The Illinois General Assembly returned to the Capitol Tuesday and approved a pension reform bill that makes substantial changes to retirement benefits for Illinois teachers, General Assembly members, university employees, and State government workers. Lawmakers were summoned back to Springfield when the Conference Committee appointed this summer to continue discussions on last spring's pension legislation, **SB 1 (Cullerton, D-Chicago)**, reached an agreement with the four legislative leaders on a pension reform package last month.

The Conference Committee Report on SB 1 was filed as legislation on Monday. Proponents estimate that the package will reduce the State's pension liability by \$160 billion over the next 30 years. A little over half of the pension deficit reduction, according to **House Speaker Michael Madigan (D-Chicago)**, is a result of new supplemental State spending (from the Pension Stabilization Fund) which will be required each year until the pension systems are 100% funded. The remainder of the pension deficit reduction results from changes in pension benefits for current employees and annuitants.

The House of Representatives approved SB 1 on a vote of 62-53-1; the Senate on a 30-24-3 vote. The Governor has stated he intends to sign the bill into law, which will become effective on July 1, 2014. Inevitably, a law suit will be filed to challenge the constitutionality of the new law.

The major components of the bill for participants of the Teachers' Retirement System (TRS) include a reduction in the amount of the annual Cost of Living Adjustment (COLA) for both current TRS annuitants and current employees participating in TRS; a suspension of the COLA in varying degrees for current employees upon their retirement; a gradual increase in the retirement age for current employees under the age of 46; and a pensionable salary cap for Tier I employees (those hired before January 1, 2011) equal to that of Tier II employees (hired after January 1, 2011).

A fierce pension reform debate has been ongoing for the past three years. **Governor Pat Quinn** has made pension reform a top priority and both **Senate President John Cullerton** and Speaker Madigan have called for a "pension fix". Madigan mentioned several times in debate on the House floor how **Senate Republican Leader Christine Radogno (R-Lemont)** and **House Republican Leader Jim Durkin (R-Western Springs)** put their stamp on the agreed legislation.

There is no provision in the bill that would shift pension costs from the State and onto local school districts. However, that concept is not off of the table with some of the legislative leaders and will likely be up for debate next spring.

PROVISIONS OF THE BILL:

Collective Bargaining:

"Employers shall not be required to bargain over matters affected by the changes, the impact of changes and the implementation of changes made by this amendatory Act". "The provisions of this Section shall not apply to an employment contract or collective bargaining agreement that is in effect on the effective date of this amendatory Act. However, any such contract or agreement that is subsequently modified, amended, or renewed shall be subject to the provisions of this Section."

Reduction in Contribution:

Reduces the TRS employees' contribution to the retirement system by 1%.

Pension Stabilization Fund:

State must make supplemental payments from the Pension Stabilization Fund to the pension systems each year to assure 100% funding of the pensions systems.

Pensionable Salary Cap:

Current employees who participate in TRS will have a cap on their pensionable salary the same as Tier II employees (those hired after January 1, 2011). The cap is set at about \$110,000, though the provision is grandfathered in so an employee currently working would be capped at his/her current salary.

Increase of Retirement Age:

For those current employees 46 years old or older on June 1, 2014, there would be no change in the retirement age. For others, the retirement age would increase by four months for every year under the age of 46, maximum of five years added.

Cost of Living Adjustment:

For both current annuitants and current employees, the 3% compounding COLA would only apply to \$1,000 multiplied by the number of creditable years of service (if one worked for 30 years, the 3% compounding COLA would apply to the first \$30,000 of pension). The \$1,000 would increase each year by CPI.

Current employees who participate in TRS would have their COLA suspended upon retirement. Employees 50 years old or older would not receive an adjustment in year 2; employees 49-47 would not receive adjustments in years 2, 4, and 6; employees 46-44 would not receive adjustments in years 2, 4, 6, and 8; employees 43 and under would not receive adjustments in years 2, 4, 6, 8, and 10.

ERO Age:

For the Early Retirement Option (ERO), the references to age 60 are increased at the same proportion as the increase in retirement ages.

Pension Funding:

State pensions must be 100% funded by 2044.

Funding Guarantee:

Beginning July 1, 2014, "the State shall be obligated to contribute to the system in each fiscal year an amount not less than the sum of the State's normal cost for the year and the portion of the unfunded accrued liability assigned to that year by law". "If the State fails to pay an amount required it shall be the obligation of the Board to seek payment of the required amount in compliance with the provisions of this Section and, if the amount remains unpaid, to bring a mandamus action in the Supreme Court of Illinois to complete the State to make the required payment."

Actuary Report:

An actuary report and certification of the amount owed to the pension systems is due November 1 of each year.

Defined Contribution Plan:

There is creation of an optional defined contribution plan for Tier I participants.

Sick/Vacation time:

For employees hired after the effective date of the Act, salary (for pensionable purposes) may not include payment for unused sick or vacation days.

OTHER LEGISLATION THIS WEEK

SB 114 (Forby, D-Benton) is a “trailer bill” for the concealed carry of firearms legislation enacted this summer to make some technical and other minor changes. The bill was approved by both chambers and will be sent to the Governor for his consideration.

SB 1961 (Haine, D-Alton) clarifies that only the Illinois Attorney General can represent the State retirement systems in court if the pension reform law is challenged in court. The bill was approved by both chambers and will be sent to the Governor for his consideration.

HB 1002 (Chapa La Via, D-Aurora) was amended in the Senate by **Senator James Clayborne (D-East St. Louis)** with a provision for Lebanon CUSD #9 to extend its debt limit, allowing the district to continue issuing bonds and to collect receipts from a previously adopted referendum for a new school. **The bill was approved** by the House of Representatives and will be sent to the Governor for his consideration.

The legislative report is written and edited by the lobbyists of the Illinois Association of School Boards to provide information to the members of the organizations that comprise the Statewide School Management Alliance.

Alliance Legislative Reports:
Bill Text/Status: Illinois General Assembly

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