State Universities Retirement System of Illinois

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Legal Department

Summary of Public Act 98-599 (Pension Reform)
December 20, 2013

Automatic Annual Increase (AAI)

Current and future Tier 1 retirees will receive automatic annual increases starting January 1, 2015, that will be 3% of the lesser of (i) the total annuity payable at the time of the increase, including previously granted increases or (ii) $1,000 multiplied by the number of years of creditable service upon which the annuity is based. The 2015 AAI for retirements that are effective in calendar year 2014 will be subject to pro-rating under the new AAI formula.

The $1,000 multiplier will be adjusted for inflation (CPI-u) each year thereafter. The CPI-u adjustment to the $1,000 multiplier shall be equal to the annual unadjusted percentage increase in the CPI-u for the 12 months ending with the preceding September. These adjustments will be cumulative and the first adjustment will occur with the AAI effective January 1, 2016.

Tier 1 members who retire on or after July 1, 2014, will not be eligible to receive the following automatic annual increases based on their ages as of June 1, 2014:

- Age 50 or over - will not receive their 2nd automatic annual increase;
- Age 47 to under age 50 - will not receive their 2nd, 4th, or 6th automatic annual increase;
- Age 44 to under age 47 - will not receive their 2nd, 4th, 6th, or 8th automatic annual increase;
- Age 43 and under - will not receive their 2nd, 4th, 6th, 8th, or 10th automatic annual increase.

The changes to the AAI do not apply to the Tier 2 retirement and survivor AAIs, the Tier 1 survivor AAIs, and the Tier 1/Tier 2 disability benefit and disability retirement annuity AAIs.

Retirement Age

Retirement age eligibility is delayed as follows for Tier 1 members who begin receiving an annuity on or after July 1, 2014:

- Members age 46 and older on June 1, 2014 are not subject to any delay in retirement eligibility;
- Members age 45 on June 1, 2014 are subject to a 4 month delay in retirement eligibility;
- Members age 44 on June 1, 2014 are subject to a 8 month delay in retirement eligibility;
- Members age 43 on June 1, 2014 are subject to a 12 month delay in retirement eligibility;
- Members age 42 on June 1, 2014 are subject to a 16 month delay in retirement eligibility;
- Members age 41 on June 1, 2014 are subject to a 20 month delay in retirement eligibility;
- Members age 40 on June 1, 2014 are subject to a 24 month delay in retirement eligibility;
- Members age 39 on June 1, 2014 are subject to a 28 month delay in retirement eligibility;

- Members age 38 on June 1, 2014 are subject to a 32 month delay in retirement eligibility;
- Members age 37 on June 1, 2014 are subject to a 36 month delay in retirement eligibility;
- Members age 36 on June 1, 2014 are subject to a 40 month delay in retirement eligibility;
- Members age 35 on June 1, 2014 are subject to a 44 month delay in retirement eligibility;
- Members age 34 on June 1, 2014 are subject to a 48 month delay in retirement eligibility;
- Members age 33 on June 1, 2014 are subject to a 52 month delay in retirement eligibility;
- Members age 32 on June 1, 2014 are subject to a 56 month delay in retirement eligibility; and
- Members age 31 or younger on June 1, 2014 are subject to a 60 month delay in retirement eligibility.

It is unclear at this time whether the retirement age delay applies to retirement eligibility under the "30 and Out" eligibility criterion. SURS will seek future legislative clarification on this issue.

Pensionable Earnings Limitation

Pensionable earnings for Tier 1 members shall not exceed the Tier 2 earnings limitation (as adjusted for inflation). For reference, the FY2015 Tier 2 earnings limitation is $110,631.26.

Tier 1 participants who are receiving earnings exceeding the Tier 2 earnings limitation as of June 1, 2014, are grandfathered and pensionable earnings will be limited to the participant's annualized rate of earnings as of June 1, 2014, or the annualized rate of earnings immediately preceding the expiration, renewal or amendment of an employment contract or collective bargaining agreement that is in effect on June 1, 2014.

Tier 1 Employee Contribution Decrease

Beginning July 1, 2014, Tier 1 employee contributions are decreased by 1% of earnings. This is accomplished by reducing the employee "normal" contribution rate by 0.5% of earnings, and eliminating the 0.5% employee contribution rate for the AAI. Tier 2 and SMP employee contribution rates remain unchanged.

Money Purchase Formula Changes

Beginning in FY 2015 (July 1, 2014), the annuity factors used to calculate money purchase benefits shall change to a new effective rate of interest.

The new effective rate of interest shall be equal to the 30-year US Treasury bond rate plus 75 basis points. The new effective rate of interest shall apply prospectively towards crediting interest to money purchase plan accounts, Portable plan lump sum retirements and refunds, purchases of service credit, etc.

Changes to the money purchase annuity conversion factors are applied prospectively, but members who retire on or after July 1, 2014, are eligible to receive the money purchase benefit they were eligible to receive had they retired during the fiscal year preceding June 1, 2014 or the money purchase benefit they are eligible to receive under the new formula, whichever is greater. The member must have been retirement eligible during the aforementioned fiscal year for this provision to apply.

Optional Defined Contribution Plan

An optional defined contribution plan (DC plan) will be made available to active Tier 1 employees. The plan is to be implemented by July 1, 2015, unless the plan is not qualified under the Internal Revenue Code. If the plan is not qualified by July 1, 2015, the plan shall be implemented upon being determined a qualified plan. No more than 5% of the active Tier 1 membership may elect to participate in the plan.

This DC plan will be a 401(a) defined contribution plan. The employee will not be permitted to choose how much salary to contribute. Tier 1 employees participating in the DC plan will contribute at the same rate as other Tier 1 participants under the Traditional and Portable plans (DB plan). The DC plan participants will fund the cost of administration of the plan through deductions from the employee contributions to their accounts. Disability benefits may be provided, but employee contributions will fund the cost.

Employer contributions shall be a minimum of 3% of pay and no greater than the employer's normal cost for Tier I members in the DB plan. The State of Illinois will adjust the employer contribution rate annually.

Tier 1 members electing to participate in the DC plan will cease accruing benefits under the DB plan. Service credit for DB plan benefit sizing will cease to accrue. However, service credit earned under the DC plan will be used for vesting purposes in the DB plan. Interest crediting for purposes of the money purchase formula (Rule 2) will cease. No service purchases for the DB plans will be permitted.

Unused Sick and Vacation Time- New Hires

Persons who first become SURS participants June 1, 2014, are not eligible to convert unused sick and/or vacation days into service credit or have unused sick and/or vacation days used to enhance pensionable earnings under the Final Rate of Earnings.

Prohibition of Non-Public Employers

Employers that are not defined as an employer under the SURS article shall be excluded from enrolling new employees in SURS. Those employees of such employers that are already SURS participants shall remain participants. The SURS Board of Trustees is given the authority to determine whether or not a person is an employee. In case of doubt as to whether an individual is an "employee", the decision of the Board of Trustees is final.

State Funding

The State shall be required to adhere to a funding schedule that provides an annual contribution, beginning in FY 2015, equal to normal cost plus an amount that is sufficient to fund 100% of each system's liabilities by FY 2044. Normal cost contributions shall be determined under the entry age normal cost method beginning in FY 2016. In FY 2045 and each fiscal year thereafter, the State shall contribute an annual amount to maintain a funding status of 100%.

Additional Pension Stabilization Fund Contributions– beginning in FY 2019, the 5 state retirement systems shall receive additional payments as debt service payments on existing Pension Obligation Bonds expire. The Pension Stabilization Fund will receive dedicated revenues that will be proportionately distributed to each system based on the systems proportional share of the State's total unfunded liabilities. In FY 2019, the Pension Stabilization Fund will receive $364 million. Beginning FY 2020, the Pension Stabilization Fund will receive $1 billion a year. The transfers will terminate at the end of FY 2045 or when each of the retirement systems has achieved 100% funding, whichever occurs first. The systems shall not include these contributions or interest accrued on these contributions in calculations to determine required contributions until the system is 100% funded or FY 2045, whichever occurs first.

Additional supplemental payments- beginning in FY 2016, the 5 state retirement systems shall receive additional payments equal to 10% of the difference of what contributions would have been required had the reform not been enacted and required contributions under the reform. The systems shall not include these contributions or interest accrued on these contributions in calculations to determine required contributions until the system is 100% funded or FY 2045, whichever occurs first.

> Example: if the reforms are enacted and SURS certifies a $1 billion contribution, but would have certified a $1.5 billion contribution without the reforms, the State would be required to make an additional supplemental contribution equal to $50 million.

Funding Guarantee

Beginning July 1, 2014, the State is obligated to contribute an amount not less than the normal cost plus the portion of the unfunded liability assigned to that year by law. If the State fails to make a required payment, the Board of Trustees shall bring a mandamus action in the Illinois Supreme Court to compel the State to make the required payment. For purposes of this Section, the State waives its sovereign immunity. This payment mechanism will also apply to "Pension Stabilization Fund" payments. However, all such payments are subordinate to bonded debt obligations.