ED-RED
Finance-Legislation Meeting

Pensions (yet again) and Veto Session Update

December 7, 2012
HB 6258

• Offered as a framework to prompt reaction
• 21 co-sponsors, both parties
• Developed by rank-and-file House members without involvement of leadership, Senate, Governor’s office, or stakeholders
• Stakeholder meeting scheduled in December; possible action in January...or May...or...???
• Past pension proposals still under review
HB 6258 – Benefit Changes

• Employee contribution for Tier 1 employees: increase from 9.4% to 10.4% in FY 2014 and from 10.4% to 11.4% in FY 2015

• Employee contribution for Tier 2 employees: remains 9.4%

• Benefit program for employees hired after June 30, 2013: new Cash Balance Plan
  – Employee contribution is 9.4%
  – District contribution is 6.2%

• Constitutionality of increase in employee contribution?
HB 6258 – Benefit Changes

• Retirement Age – Tier 1 employees
  – 34 and under: retirement age increases by 5 years
  – 35-39: retirement age increases by 3 years
  – 40-45: retirement increases by 1 year
  – Employees over 46: no change in retirement age

• Tier 2 retirement age remains 67

• Cash Balance Plan participants may retire at 59 ½ per IRS rules governing 401(k) plans
HB 6258 – Benefit Changes

• COLA changes apply to Tier 1 and retirees

• Timeline: employees will be eligible to receive an adjustment starting at age 67 or five years after they retire, whichever is earlier

• Cap: COLA would apply to the first $25,000 of a TRS employee’s pension and the first $20,000 of pension for employees eligible for social security. Basically, TRS employees will be capped at $750 annually. District employees who qualify for the federal Windfall Elimination Provision will be capped at $750 with other TRS employees.
HB 6258 – Benefit Changes

- Cap on salary counting toward pension calculation: capped at the annually adjusted social security wage index or the salary included in the final year of the current contract CBA, whichever is greater

- SS Wage Index for 2013 = $113,700

- Employee contribution only paid on pensionable salary

- No Defined Contribution Plan or Cash Balance Plan offered for salary above cap

- Effective date???
HB 6258 – New District Costs

• Shift of normal cost: phase in at 0.5% of creditable earnings in FY 2014 and an additional 0.5% each year until the normal cost is the full responsibility of the districts

• What is the estimated normal cost?

• New controls/protections for districts?

• Cash Balance Plan district contribution = 6.2%
HB 6258 – State Funding Changes

• 100% funding in 30 years
• Systems may sue the state for insufficient payment
• Priority of pension payments would be second only to bond payments
• Debt service on current bonds would go toward the pension systems as bonds mature.
  – $700 million starting in FY 2016
  – $900 million starting in FY 2020
  – $1.1 billion starting in FY 2034
• New State Actuary position created in 2012 to review annual funding requirements and the certified contribution of each pension system. This process has already started and the State Actuary reviewed the TRS certified amount for FY 2014
Issues not included in HB 6258

- School management representation on TRS Board
- Changes to access to state health insurance post retirement
- Normal cost cap/limitations on G.A. passing new pension enhancements
- Changes to the Early Retirement Option
- New levy authority for districts
- Mandate relief
- Taxing retirement
- Bonding program to pay overdue bills
Pension changes in other states for current employees

• Reductions in post-retirement benefits enacted in 2010-2011 for current employees
  – 6 states: some classes of active employees
  – 6 states: all active employees and retirees

• Increase vesting period

• Increase length of time in determining final pension calculation (3 years to 5 years)

• Higher retirement age

• Hybrid Defined Benefit/Defined Contribution plan
COLA changes in other states - 2012

• 7 states – new hires only
• 21 states – current employees
  – Includes Michigan, Wisconsin, Iowa, and Minnesota
  – Changes include reducing the COLA, capping the COLA at a specific dollar amount, deferring the COLA for several years after retirement, suspending the COLA until the system is fully funded

• Illinois Tier 1 COLA: 3% compounded
• Illinois Tier 2 COLA: lesser of 3% or ½ CPI not compounded
Veto Session Action – bills not resolved

• HB 6240 - $4 billion for overdue bills

• Gaming - new revenue for schools?
  – Districts in state intervention
  – Early childhood
  – Bringing back Special Ed hold harmless

• HB 5440 – satellite TV tax
  – $75 million for K-12

• Back to Springfield January 3-8