

January 8, 2013



## ALLIANCE LEGISLATIVE REPORT (97-67)

### LEGISLATURE IN FOR FINAL DAY

The Illinois House of Representatives may be voting today (Tuesday) on a “pension reform” bill that would affect participants in the Teachers’ Retirement System (TRS). The House Personnel and Pensions Committee approved amendment #10 to **SB 1673** Monday and sent the amended bill to the House floor for consideration. If the House approves the bill today, the measure will be sent to the Senate for a final vote.

The Senate, which convened last week for two days, is returning to the Capitol today at 3:00. This General Assembly completes its business at noon Wednesday and will be adjourned forever. New members are sworn in at noon Wednesday to begin the brand new 98<sup>th</sup> Illinois General Assembly. So tomorrow noon is a real deadline for all legislation, including the pension reform bill.

Other major legislation that was expected to be on the agenda this lame duck session has all gone by the wayside, including: gay marriage, gun control, and medical marijuana. Time will tell if the pension issue will also be shelved until the spring.

### GENERAL PROVISIONS OF THE PENSION PROPOSAL

SB 1673, sponsored by **Representative Elaine Nekritz (D-Northbrook)** in the House, would make significant benefit cuts for members of four of the State pension systems, the systems for: downstate teachers, State employees, university employees, and members of the General Assembly. The bill would suspend all Cost of Living Adjustments (COLA) for six years, remove the current 3% compounding interest provisions for the COLA, apply the COLA (3% simple interest) to only the first \$25,000 of a person’s pension, cap the salary for pensionable purposes at \$113,700, and increase the employee’s pension contribution by 2%.

The bill does not raise the age for retirement, shift pension costs onto local school districts, or require an election of benefits by pension system participants. The Alliance opposed the bill in committee.

The legislation is designed to fully fund the pension systems (100% of the pension liability) by 2043 and to contain a “guarantee” that the State will make its annual pension payments by establishing a contractual obligation between the State and the pension systems. This provision allows the pension systems to bring a mandamus action in the circuit court to force State payment.

Proponents of SB 1673 claim that the revisions contained in the bill would save the State up to \$30 billion over the next 30 years, including over \$1 billion in the upcoming fiscal year.

### SPECIFICS OF THE BILL

- Applies to Tier I employees who participate in TRS (hired before January 1, 2011)
- No changes to Tier II members (hired after January 1, 2011)
- There will be no COLA (for either current annuitants or future retirees) disbursed until January 1, 2020
- No COLA will be granted until participants reach to age of 67
- COLA will be calculated at a 3% simple interest on the first \$25,000 of a person’s pension

- To calculate the pensionable salary, the amount will be capped at the higher of the person's annual salary at the time the bill is enacted into law, or the Social Security Wage Base (currently \$113,700)
- No pension will be earned on any salary amount above the cap
- Employees under a collective bargaining agreement or employment contract are exempt from the limitation until the expiration of the agreement or contract
- Employees will be required to contribute an additional 1% of salary in each of the next two years towards the pension fund (starting July 1, 2013, TRS members would pay 10.4%; starting July 1, 2014, they would pay 11.4%)
- The State's pension funding schedule would be actuarially set to achieve 100% funding of the pension systems by 2043
- Once current pension notes are paid, \$1 billion would be paid annually into a Pension Stabilization Fund to pay down the State's past unfunded liability on the pension systems
- If the State fails to make the required pension payments, the pension systems have the right to take action in Circuit Court to compel payment
- Participants hired after the effective date of this new Act will not be able to use sick days to count towards pension service credit
- Future employees of the IASA, IPA, and IASB may not be participants of any State retirement system

#### OTHER OPTIONS

The provisions of SB 1673 are largely taken from **HB 6258**, the bill introduced last month by Representatives Nekritz and **Daniel Biss (D-Evanston)**. The bill is a departure from the proposals that were debated throughout last year which included a "choice" provision for pension system participants. With the lack of the choice or election provision, many (including **Senate President John Cullerton**) question the constitutionality of the provisions in SB 1673.

The Senate approved a measure last May which contained major reforms for members of the pension systems for State employees and members of the General Assembly (TRS was not included in the bill). **HB 1447** did contain the choice provision and is still pending on the floor of the House of Representatives. Senator Cullerton would like the House to approve that bill and send it to the Governor for his signature. This is the current stalemate in the Capitol today.

Senator Cullerton has scheduled a press conference for 1:00 today (Tuesday) to discuss his pension plans.

The Alliance will keep you updated on what transpires today in the Capitol.

*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**

[www.iasb.com](http://www.iasb.com)  
[www.ilga.gov](http://www.ilga.gov)