STATE OF ILLINOIS

OFFICE OF THE GOVERNOR

SPRINGFIELD, ILLINOIS 62706

Pat Quinn
GOVERNOR

Chair
Don McNeil
Chicago, IL

NOTICE

Thursday, June 18th, 2009

Pension System Modernization Taskforce Board Meeting: 10:30A.M. – 12:30P.M.

Governor's Executive Mansion
410 East Jackson
Springfield, IL 62701

AGENDA

I. Individual Introduction of Task Force Members

II. Confirmation of Chairman/Vice Chairman

III. Initial Steps of Review

IV. Presentation by David Vaught, Senior Advisor to Governor Pat Quinn

V. Organizational Issues

VI. Setting future Meeting Schedules/Locations

VII. Conclusion & Adjournment

PENSION MODERNIZATION TASKFORCE COMMITTEE

NAMES	TITLES	ALTERNATES	PHONE NUMBERS	EMAIL ADDRESS	MAILING ADDRESS
Bill Franklin	SERS		217.971.0103	wlewnka@hotmail.com	
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Elaine Nekritz	Representative		847.257.0450	enekritz@repnekritz.org	
Kathy Ryg	Representative	*Alternate*	847.680.5909	kathy@kathyryg.org	
Chris Lauzen	Senator		630.264.2334	admin@lauzen.com	
John Jones	Senator		618.242.9511	johnojones@sbcglobal.net	
Roger Eddy	Representative		618.563.4128	reddyunit1@aol.com	
Jeff Schoenberg	Senator		847.492.1200	senator@jschoenberg.org	
Kwame Raoul	Senator		773.363.1996	senatorraoul@sbcglobal.net	
Don McNeil	Chairman		312.214.8313	dmcneil@btlaw.com	
Bill Perkins	LABOR		312.233.8772	perkinsw@seiuilcouncil.org	
Hank Scheff	LABOR		312.641.6060	hanks@afscmeillinois.org	
Nick Yalverton	Educational Labor		217.544.8562 ext 15	nyelverton@ift-aft.org	
Will Lovett	Educational Labor		217.544.0706	will.lovett@ieanea.org	
Raymond Poe	Representative		217.782.0044	poer@housegopmail.state.il.us	

PENSION MODERNIZATION TASKFORCE COMMITTEE

Tom Weisner (Tom's Chief of Staff to CC on emails: Carrie Ann Ergo)	Mayor of Aurora	630.461.3167	Assistant:	mayorsoffice@aurora-il.org cergo@aurora-il.org	44 East Downers Place Aurora, IL 60507
Mr. Rob Karr	VP Government and Member Relation illinois Retail Merchants Association	Off. 217 544 1003 Cell: 217 725 0870		rkarr@irma.org	
Doris Lowry	Business	312.296.9709		Daven111@aol.com	
Eden Martin	President of Civic Committee	312.853.1205		emartin@civiccom.org	
Laurence Msall	Civic Federation *Alternate*	312.201.9044		lmsall@civicfed.org	

PENSION OBLIGATION NOTES

Background

Pension Obligation Bonds ("POBs") are long dated debt instruments issued by a governmental entity to fund all or portion of the Unfunded Actuarially Accrued Liability ("UAAL") for pensions.

POBs are taxable bonds that are issued to provide cash flow to the pension funds with the expectation of the interest **earned** on the investments bought with the POBs proceeds being higher then the interest **paid** on the POBs. This is commonly referred to as arbitrage.

In 2003, the State issued $10 billion General Obligation POBs, the largest issuance of debt by a state to date.

Pension Obligation Notes

Given the current liquidity position of the State, the issuance of Pension Obligation Notes ("Pension Notes") would ensure full funding of the State's required annual contribution.

The Pension Notes would be:

- Secured by General Obligation pledge of the State - "full faith and credit";
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- Structured as a short term financing vehicle – up to 5 years in duration; and
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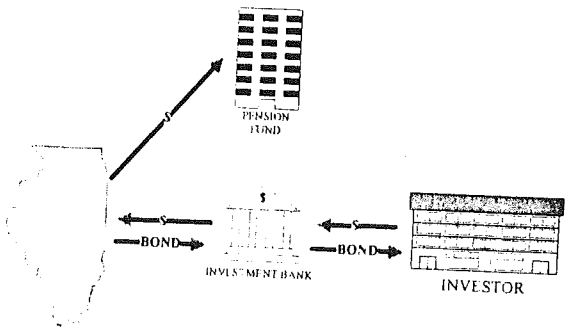
Mechanics:

PENSION OBLIGATION BONDS



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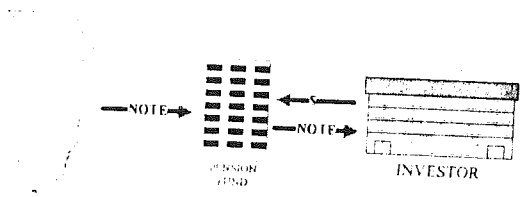

Proposed Pension Reforms

Current Plan		New Tier for New Hires
Benefit Formulas Five separate benefit formulas ranging from 1.67% to 5% of final average salary	→	**Benefit Formulas** Unified benefit formula: 2% per year non-Social Security 1.5% per year covered by Social Security
Salaries Total salary used to determine final average salary, averaging four of the highest consecutive ten years with raises limited to 6% each year	→	**Salaries** Base salary used up to 2009 Social Security Covered Wage Base indexed going forward – final average salary is average of highest consecutive eight years out of last ten years, with raises limited to 3% each year.
Reduced & Unreduced Benefits Five different rules for unreduced and reduced benefits at retirement age	→	**Reduced & Unreduced Benefits** Unreduced benefits at Social Security retirement age (67) and 10 years of service. Reduced benefits at age 62 plus 10 years of Service, with 6% reduction per year.
Service Limits No service limit but maximum benefits ranging from 75% to 85% with selected credited service purchases	→	**Service Limits** 35 year limit creating a 70% maximum benefit not covered by Social Security and 52.5% limit for those covered by Social Security, with no purchases of credited service, except 2 years military service, and with no conversion of vacation or sick time. Benefits suspended upon re-employment.
COLA 3% compounded COLA	→	**COLA** Simple interest COLA lesser of 3% or ½ of CPI
Life Annuity 50% joint and survivor annuity with some optional terms	→	**Life Annuity** Life annuity with optional forms including 100%, 75% and 50% joint and survivor provisions plus 5, 10 & 15 year guaranteed life annuities
Refunds Various refund provisions	→	**Refunds** Refund with interest of 3% or ½ of CPI with re-employment repayment at 4%
Disability and Death Benefits 35% to 75% disability payment with 30% to 80% death benefit	→	**Disability and Death Benefits** Unreduced accrued benefit on disability Survivor payment is joint and survivor annuity.

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Pension Reform

The Problem

Due to chronic underfunding since the 1970s and the recent stock market decline, the pension systems are only currently 54.3 percent funded. Over the last six months of 2008, stock market losses increased the unfunded liability from $54 billion to $73 billion (According to the Commission on Government Forecasting and Accountability). The unfunded liability is a constant stress on the state budget, requiring money that could be used to provide critical services such as health care, education, and public safety.

Additionally, the state has five public employee retirement systems. These systems have no uniformity. They have different benefits, employment contributions, retirement ages, and death and disability benefits.

The Solution: Modernization

State employees deserve a secure retirement after years of service. This budget strengthens the state retirement systems and makes employee benefits more affordable, now and in the future. Plan changes apply to new employees only and it will bring their benefits in line with changes in Social Security.

Reforms:

- Retirement Age – Eligibility for unreduced benefits would become the age at which the participant would become eligible for unreduced Social Security benefits, which is currently age 67 for those born after 1960. This change reflects gains in life expectancy and is more consistent with plans covering private sector employees. Early retirement could occur no earlier than age 62, just as for Social Security. There would be no combinations of age and service that would qualify an employee for a full retirement benefit prior to achieving eligibility for unreduced Social Security benefits.

- Benefit Formula – Participants covered by Social Security would earn 1.5 percent of final pay per year of service. Participants not covered by Social Security would earn 2 percent. Final pay would be defined as the final eight year average, and considered compensation would be limited to base pay. Credited service would be limited to 35 years. The benefit would be payable as a life annuity.

- Cost of Living Adjustments (COLA) – The COLA would be 50 percent of the change in the consumer price index or 3 percent, whichever is lower. The annual COLA would be applied to the amount of the annual benefit awarded upon retirement. This change would bring the five state retirement systems approximately in line with other public employee retirement systems.

- Employee Contributions – New participants would contribute one percentage point less than currently required contribution rates.

These reforms will reduce Illinois taxpayers' liability by $162 billion in 2045.

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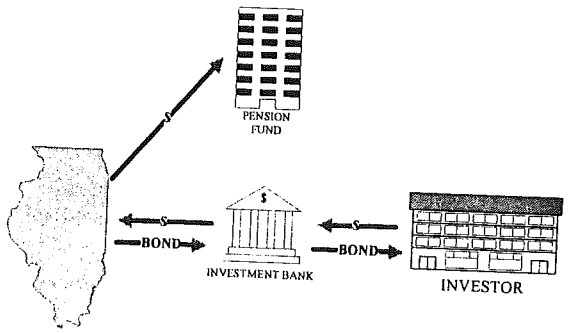
PENSION OBLIGATION BONDS



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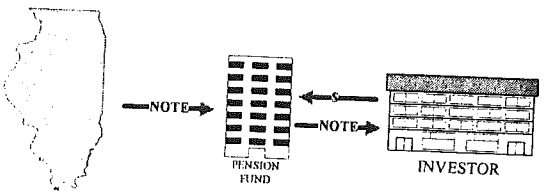

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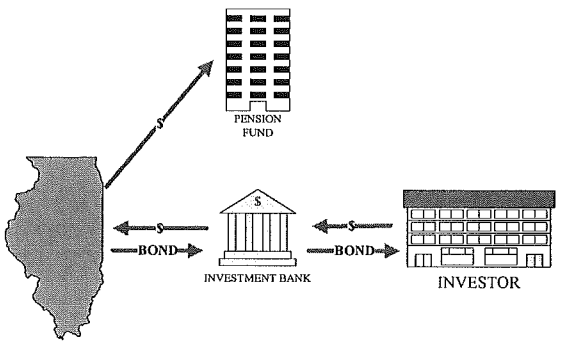

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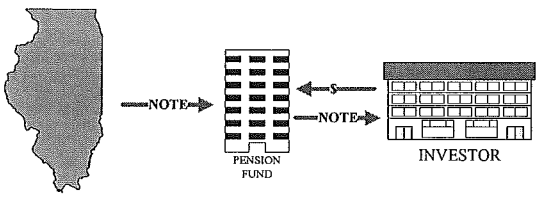

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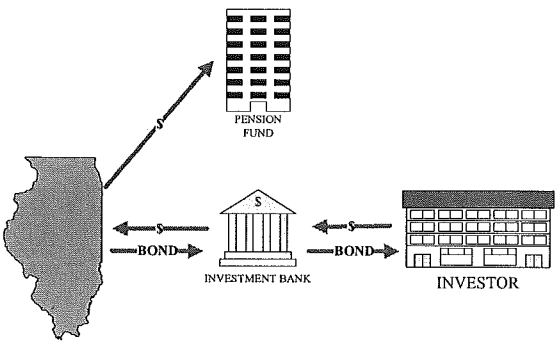

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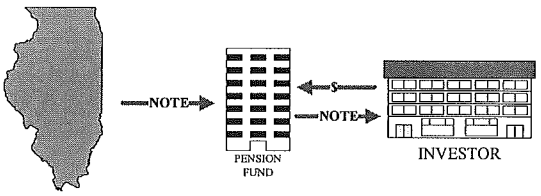


Personnel and Pensions Committee

Filed: 5/12/2009

AMENDMENT TO SENATE BILL 1292

AMENDMENT NO. _____. Amend Senate Bill 1292 by replacing everything after the enacting clause with the following:

"Section 5. The Illinois Public Labor Relations Act is amended by changing Section 15 as follows:

(5 ILCS 315/15) (from Ch. 48, par. 1615)

Sec. 15. Act Takes Precedence.

(a) In case of any conflict between the provisions of this Act and any other law (other than Section 5 of the State Employees Group Insurance Act of 1971 <u>and other than the changes made to the Illinois Pension Code by this amendatory Act of the 96th General Assembly</u>), executive order or administrative regulation relating to wages, hours and conditions of employment and employment relations, the provisions of this Act or any collective bargaining agreement negotiated thereunder shall prevail and control. Nothing in

this Act shall be construed to replace or diminish the rights of employees established by Sections 28 and 28a of the Metropolitan Transit Authority Act, Sections 2.15 through 2.19 of the Regional Transportation Authority Act. The provisions of this Act are subject to Section 5 of the State Employees Group Insurance Act of 1971. Nothing in this Act shall be construed to replace the necessity of complaints against a sworn peace officer, as defined in Section 2(a) of the Uniform Peace Officer Disciplinary Act, from having a complaint supported by a sworn affidavit.

(b) Except as provided in subsection (a) above, any collective bargaining contract between a public employer and a labor organization executed pursuant to this Act shall supersede any contrary statutes, charters, ordinances, rules or regulations relating to wages, hours and conditions of employment and employment relations adopted by the public employer or its agents. Any collective bargaining agreement entered into prior to the effective date of this Act shall remain in full force during its duration.

(c) It is the public policy of this State, pursuant to paragraphs (h) and (i) of Section 6 of Article VII of the Illinois Constitution, that the provisions of this Act are the exclusive exercise by the State of powers and functions which might otherwise be exercised by home rule units. Such powers and functions may not be exercised concurrently, either directly or indirectly, by any unit of local government,

1 including any home rule unit, except as otherwise authorized by
2 this Act.
3 (Source: P.A. 95-331, eff. 8-21-07.)

4 Section 10. The Illinois Pension Code is amended by adding
5 Sections 2-300, 2-305, 2-310, 2-315, 2-320, 2-325, 2-330,
6 2-335, 2-340, 14-300, 14-305, 14-310, 14-315, 14-320, 14-325,
7 14-330, 14-335, 14-340, 15-300, 15-305, 15-310, 15-315,
8 15-320, 15-325, 15-330, 15-335, 15-340, 16-300, 16-305,
9 16-310, 16-315, 16-320, 16-325, 16-330, 16-335, 16-340,
10 18-300, 18-305, 18-310, 18-315, 18-320, 18-325, 18-330,
11 18-335, and 18-340 as follows:

12 (40 ILCS 5/2-300 new)
13 Sec. 2-300. Provisions applicable to later entrants.
14 (a) The provisions of this Article following this Section
15 apply only to members who first become members on or after
16 August 1, 2009, who are referred to as "later entrants".
17 (b) Except as provided in subsection (c) of this Section,
18 the Sections of this Article before this Section do not apply
19 to members who first become members on or after August 1, 2009.
20 (c) The following Sections are also applicable to members
21 who first become members on or after August 1, 2009: Sections
22 2-101, 2-102, 2-103, 2-104, 2-105, 2-107, 2-108, 2-109, 2-111,
23 2-112, 2-113, 2-114, 2-116, 2-117, 2-117.1, 2-117.3, and
24 2-121.2 and Sections 2-124 through 2-162.

(d) To the extent that the Sections enumerated in subsection (c) of this Section conflict with the Sections following this Section, the Sections following this Section shall control.

(e) To the extent that the applicable Sections are included under subsection (c) of this Section, later entrants, including survivors, are entitled to disability benefits under this Article.

(40 ILCS 5/2-305 new)

Sec. 2-305. Creditable service for later entrants.

(a) Creditable service under this Article is subject to the following conditions:

(1) The maximum amount of creditable service a member may establish under this Article is 35 years.

(2) A member may only establish creditable service for his or her service as a member under this Article. Except as provided in subsection (b), a member may not establish creditable service for any other service.

(3) A member may not convert any unused sick leave or vacation into creditable service under this Article.

(b) A member may establish creditable service for up to 2 years of military service, as defined in Section 2-109, before becoming a member under this Article by paying to the System (1) employee contributions based upon the member's salary upon becoming a member under this Article, (2) an amount determined

by the board to be equal to the employer's normal cost of the benefit, and (3) interest on items (1) and (2) at 4% per year from the date of first membership in the System to the date of payment.

(40 ILCS 5/2-310 new)

Sec. 2-310. Retirement annuity; conditions for eligibility; later entrants. A member may claim his or her retirement annuity upon attainment of (1) the full (normal) retirement age as provided in the federal Social Security Act with at least 10 years of service credit or (2) age 62 with at least 35 years of service credit.

A member may claim a reduced retirement annuity under subsection (c) of Section 2-315 if he or she is at least 62 years of age and has at least 10 years of service.

The annuity shall begin with the first full calendar month specified in the member's application therefor, the first day of which shall not be before the date of withdrawal as approved by the board. Regardless of the date of withdrawal, the annuity need not begin within one year of application therefor.

(40 ILCS 5/2-315 new)

Sec. 2-315. Retirement life annuity; amount; later entrants.

(a) With respect to late entrants:

(1) "Final average salary" means the monthly salary

obtained by dividing the total salary of a participant during the period of: (A) the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest or (B) the total period of service, if less than 96 months, by the number of months of service in such period; provided that for the purposes of a retirement annuity the average salary for the last 12 months of the 96 months shall not exceed the final average salary by more than 25%.

In no event shall the monthly salary used to determined final average salary exceed (i) the Social Security Covered Wage Base for the given month of service or (ii) $12,500, whichever is less.

The earnings limitations contained in this item (1) apply to earnings under any other participating system under the Retirement Systems Reciprocal Act that are considered in calculating a proportional annuity under this Article, except in the case of a person who first became a member of this System before August 22, 1994.

(2) "Salary" means:

(A) For members of the General Assembly, the total salary paid to the member by the State for one year of service, including the additional amounts, if any, paid to the member as an officer, committee chair, or minority spokesman pursuant to Section 1 of General Assembly Compensation Act. "Salary" shall not include

any compensation or allowance for mileage, food, or lodging.

(B) For the State executive officers specified in Section 2-105, the total salary paid to the member for one year of service. "Salary" shall not include any compensation or allowance for mileage, food, or lodging.

However, in the event that federal law results in any participant receiving imputed income based on the value of group term life insurance provided by the State, such imputed income shall not be included in salary for the purposes of this Article.

(b) The retirement life annuity shall be 2% of final average salary for each year of service.

(c) For a member retiring after attaining age 62, the retirement life annuity shall be reduced by one-half of 1% for each month that the member's age is under the full (normal) retirement age as provided in the federal Social Security Act.

(40 ILCS 5/2-320 new)

Sec. 2-320. Alternative forms of annuities for later entrants. A participant may choose any of the following types of annuities in lieu of receiving the full annuity provided in Section 2-315:

(1) Joint and 50% survivor annuity. Under this form of payment, the participant receives a reduced monthly

payment for his or her lifetime with a payment equal to 50% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(2) Joint and 75% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 75% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(3) Joint and 100% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 100% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(4) Single life annuity with 60, 120, or 180 months of guaranteed payments. Under this option, the participant receives a reduced monthly payment for his or her lifetime. If the participant dies before receiving at least the number of guaranteed monthly payments, then the participant's beneficiary or estate receives the remaining guaranteed number of monthly payments.

The Board must determine the participant's optional form of annuity provided under this Section by taking into account the appropriate actuarial assumptions, including without limitation the participant's and beneficiary's age; applicable mortality tables; and any other factors that the Board determines to be relevant. For this purpose, the participant's joint and survivor annuity should result in no significant increase to the System's unfunded actuarial accrued liability determined as of the most recent actuarial valuation, based on the same assumptions and methods used to develop and report the System's actuarial accrued liability and actuarial value of assets under Statement No. 25 of Governmental Accounting Standards Board or any subsequent applicable Statement.

(40 ILCS 5/2-325 new)

Sec. 2-325. Automatic annual increases for later entrants. Notwithstanding any other provision of this Article, a person receiving a retirement or survivor annuity under Sections 2-315 or 2-320 shall, on the first anniversary of retirement, but not before attaining age 67, and annually thereafter, have his or her annuity increased by (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the increase is being granted, whichever is less, of the originally granted annuity.

(40 ILCS 5/2-330 new)

Sec. 2-330. Contributions by participants; later entrants.

(a) Each participant shall contribute 7% of each payment of salary received by him or her for service as a member toward the cost of his or her retirement annuity. In no event shall contributions be deducted from salary in excess of (1) the Social Security Covered Wage Base for the given calendar year or (2) $150,000, whichever is less.

(b) Contributions shall be in the form of a deduction from salary and shall be made notwithstanding that the salary paid in cash to the member shall be reduced thereby below the minimum prescribed by law or regulation. Each member is deemed to consent and agree to the deductions from compensation provided for in this Article and shall receipt in full for salary or compensation.

(c) These contributions shall be picked up in the manner provided in Section 2-126.1.

(40 ILCS 5/2-335 new)

Sec. 2-335. Refunds; later entrants. A participant who ceases to be a member, other than an annuitant, shall, upon written request, receive a refund of his or her total contributions, plus interest at (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the interest is being

1 credited, whichever is less, per year, not compounded.
2 Upon re-entry into service as a member, a former member may
3 reestablish any creditable service forfeited by acceptance of a
4 refund by paying to the System the full amount refunded, plus
5 interest at the actuarially assumed rate, not compounded, from
6 the date of payment of the refund to the date of repayment.

7 (40 ILCS 5/2-340 new)
8 Sec. 2-340. Re-entry after retirement; later entrants.
9 (a) An annuitant who re-enters service as a member shall
10 become a participant on the date of re-entry,less he or she
11 elects not to participate under Section 2-117, and retirement
12 annuity payments shall cease at that time. The participant
13 shall resume contributions to the system on the date of
14 re-entry at the rates then in effect and shall begin to accrue
15 additional service credit.
16 (b) Upon subsequent retirement, the participant shall be
17 entitled to a retirement annuity consisting of: (1) the amount
18 of retirement annuity previously granted and terminated by
19 re-entry into service and (2) the amount of additional
20 retirement annuity earned during the additional service.
21 (c) In computing the retirement annuity under subsection
22 (b) of this Section, the time that the member was on retirement
23 shall not interrupt the continuity of service for the
24 computation of final average compensation and the additional
25 membership service shall be considered, together with service

rendered before the previous retirement, in establishing final average compensation.

(d) A person who re-enters service within 3 years after retiring may qualify to have the retirement annuity computed as though the member had not previously retired by paying to the System, within 5 years after re-entry and prior to subsequent retirement, in a lump-sum or in installment payments, in accordance with rules adopted by the board, an amount equal to all retirement annuity payments received, plus interest at the actuarially assumed rate from the date retirement payments were suspended to the date of repayment.

(40 ILCS 5/14-300 new)

Sec. 14-300. Provisions applicable to later entrants.

(a) The provisions of this Article following this Section apply only to employees who first become employees on or after August 1, 2009, who are referred to as "later entrants".

(b) Except as provided in subsection (c) of this Section, the Sections of this Article before this Section do not apply to employees who first become employees on or after August 1, 2009.

(c) The following Sections are also applicable to employees who first become employees on or after August 1, 2009: Sections 14-101, 14-102, 14-103.01, 14-103.02, 14-103.03, 14-103.04, 14-103.05, 14-103.06, 14-103.07, 14-103.08, 14-103.09, 14-103.10, 14-103.11, 14-103.13, 14-103.15, 14-103.16,

14-103.17, 14-103.18, 14-103.19, 14-103.22, 14-103.24, 14-103.25, 14-103.26, 14-103.27, 14-103.28, 14-103.29, 14-103.32, 14-103.33, 14-103.34, 14-103.35, 14-103.36, 14-103.37, 14-103.38, 14-103.39, 14-104.7, 14-123, 14-123.1, 14-124, 14-125, 14-125.1, 14-126, 14-127, 14-131, 14-132.2, 14-132.2, and 14-133.1 and Sections 14-134 through 14-152.2.

(d) To the extent that the Sections enumerated in subsection (c) of this Section conflict with the Sections following this Section, the Sections following this Section shall control.

(e) To the extent that the applicable Sections are included under subsection (c) of this Section, later entrants, including survivors, are entitled to disability benefits under this Article.

(40 ILCS 5/14-305 new)

Sec. 14-305. Creditable service for later entrants.

(a) Creditable service under this Article is subject to the following conditions:

(1) The maximum amount of creditable service a member may establish under this Article is 35 years.

(2) A member may only establish creditable service for his or her membership service, as defined in Section 14-103.13. Except as provided in subsection (b), a member may not establish creditable service for any other service.

(3) A member may not convert any unused sick leave or

vacation into creditable service under this Article.

(b) A member may establish creditable service for up to 2 years of military service, as defined in Section 14-103.16, before becoming a member under this Article by paying to the System (1) employee contributions based upon the member's salary upon becoming a member under this Article, (2) an amount determined by the board to be equal to the employer's normal cost of the benefit, and (3) interest on items (1) and (2) at the actuarially assumed rate from the date of first membership in the System to the date of payment.

(40 ILCS 5/14-310 new)

Sec. 14-310. Retirement annuity; conditions for eligibility; later entrants. A member may claim his or her retirement annuity upon attainment of (1) the full (normal) retirement age as provided in the federal Social Security Act with at least 10 years of service credit or (2) age 62 with at least 35 years of service credit.

A member may claim a reduced retirement annuity under subsection (c) of Section 14-315 if he or she is at least 62 years of age and has at least 10 years of service.

The annuity shall begin with the first full calendar month specified in the member's application therefor, the first day of which shall not be before the date of withdrawal as approved by the board. Regardless of the date of withdrawal, the annuity need not begin within one year of application therefor.

(40 ILCS 5/14-315 new)

Sec. 14-315. Retirement life annuity; amount; later entrants.

(a) With respect to late entrants:

(1) "Final average compensation" means the monthly compensation obtained by dividing the total compensation of an employee during the period of: (A) the 96 consecutive months of service within the last 120 months of service in which the total compensation was the highest or (B) the total period of service, if less than 96 months, by the number of months of service in such period; provided that for the purposes of a retirement annuity the average compensation for the last 12 months of the 96 months shall not exceed the final average compensation by more than 25%.

In no event shall the monthly compensation used to determined final average compensation exceed (i) the Social Security Covered Wage Base for the given month of service or (ii) $12,500, whichever is less.

(2) "Compensation" means a member's base compensation and does not include any overtime or bonuses.

(b) The retirement life annuity shall be (1) 1.5% of final average compensation for each year of service for covered employees or (2) 2% of final average compensation for each year of service for noncovered employees.

(c) For a member retiring after attaining age 62, the

retirement life annuity shall be reduced by one-half of 1% for each month that the member's age is under the full (normal) retirement age as provided in the federal Social Security Act.

(40 ILCS 5/14-320 new)

Sec. 14-320. Alternative forms of annuities for later entrants. A member may choose any of the following types of annuities in lieu of receiving the full annuity provided in Section 14-315:

(1) Joint and 50% survivor annuity. Under this form of payment, the member receives a reduced monthly payment for his or her lifetime with a payment equal to 50% of the reduced amount payable to the member paid to the member's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the member.

(2) Joint and 75% survivor annuity. Under this form of payment, the member receives a reduced monthly payment for his or her lifetime with a payment equal to 75% of the reduced amount payable to the member paid to the member's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the member.

(3) Joint and 100% survivor annuity. Under this form of payment, the member receives a reduced monthly payment for his or her lifetime with a payment equal to 100% of the reduced amount payable to the member paid to the member's designated beneficiary for the beneficiary's lifetime if

the beneficiary survives the member.

(4) Single life annuity with 60, 120, or 180 months of guaranteed payments. Under this option, the member receives a reduced monthly payment for his or her lifetime. If the member dies before receiving at least the number of guaranteed monthly payments, then the member's beneficiary or estate receives the remaining guaranteed number of monthly payments.

The Board must determine the participant's optional form of annuity provided under this Section by taking into account the appropriate actuarial assumptions, including without limitation the participant's and beneficiary's age; applicable mortality tables; and any other factors that the Board determines to be relevant. For this purpose, the participant's joint and survivor annuity should result in no significant increase to the System's unfunded actuarial accrued liability determined as of the most recent actuarial valuation, based on the same assumptions and methods used to develop and report the System's actuarial accrued liability and actuarial value of assets under Statement No. 25 of Governmental Accounting Standards Board or any subsequent applicable Statement.

(40 ILCS 5/14-325 new)

Sec. 14-325. Automatic annual increases for later entrants. Notwithstanding any other provision of this Article, a person receiving a retirement or survivor annuity under

Sections 14-315 or 14-320 shall, on the first anniversary of retirement, but not before attaining age 67, and annually thereafter, have his or her annuity increased by (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the increase is being granted, whichever is less, of the originally granted annuity.

(40 ILCS 5/14-330 new)

Sec. 14-330. Contributions by members; later entrants.

(a) Each employee shall contribute the following percentage of each payment of salary received by him or her for service as an employee toward the cost of his or her retirement annuity:

(1) Covered employees, 3%.

(2) Noncovered employees, 7%.

(b) Contributions shall be in the form of a deduction from compensation and shall be made notwithstanding that the compensation paid in cash to the employee shall be reduced thereby below the minimum prescribed by law or regulation. Each member is deemed to consent and agree to the deductions from compensation provided for in this Article and shall receipt in full for salary or compensation.

(c) These contributions shall be picked up in the manner provided in Section 14-133.1.

(d) In no event shall contributions be deducted from salary in excess of (1) the Social Security Covered Wage Base for the given calendar year or (2) $150,000, whichever is less.

(40 ILCS 5/14-335 new)

Sec. 14-335. Refunds; later entrants. An employee who ceases to be a member, other than an annuitant, shall, upon written request, receive a refund of his or her total contributions, plus interest at (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the interest is being credited, whichever is less, per year, not compounded.

Upon re-entry into service as a member, a former member may reestablish any creditable service forfeited by acceptance of a refund by paying to the System the full amount refunded, plus interest at actuarially assumed rate, not compounded, from the date of payment of the refund to the date of repayment.

(40 ILCS 5/14-340 new)

Sec. 14-340. Re-entry after retirement; later entrants.

(a) An annuitant who re-enters service as a member shall become a member on the date of re-entry and retirement annuity payments shall cease at that time. The employee shall resume contributions to the system on the date of re-entry at the rates then in effect and shall begin to accrue additional

service credit.

(b) Upon subsequent retirement, the employee shall be entitled to a retirement annuity consisting of: (1) the amount of retirement annuity previously granted and terminated by re-entry into service and (2) the amount of additional retirement annuity earned during the additional service.

(c) In computing the retirement annuity under subsection (b) of this Section, the time that the member was on retirement shall not interrupt the continuity of service for the computation of final average compensation and the additional membership service shall be considered, together with service rendered before the previous retirement, in establishing final average compensation.

(d) A person who re-enters service within 3 years after retiring may qualify to have the retirement annuity computed as though the member had not previously retired by paying to the System, within 5 years after re-entry and prior to subsequent retirement, in a lump-sum or in installment payments, in accordance with rules adopted by the board, an amount equal to all retirement annuity payments received, plus interest at the actuarially assumed rate from the date retirement payments were suspended to the date of repayment.

(40 ILCS 5/15-300 new)

Sec. 15-300. Provisions applicable to later entrants.

(a) The provisions of this Article following this Section

apply only to employees who first become employees on or after August 1, 2009, who are referred to as "later entrants".

(b) Except as provided in subsection (c) of this Section, the Sections of this Article before this Section do not apply to employees who first become employees on or after August 1, 2009.

(c) The following Sections are also applicable to employees who first become employees on or after August 1, 2009: Sections 15-101, 15-102, 15-103.2, 15-103.3, 15-104, 15-105, 15-106, 15-107, 15-108, 15-109, 15-110, 15-111, 15-113, 15-113.1, 15-118, 15-119, 15-124, 15-126, 15-126.1, 15-134, 15-136.4, 15-150, 15-151, 15-152, 15-153, 15-153.1, 15-153.2, 15-153.3, 15-155, 15-156, 15-157.1, and 15-158.2 and Sections 15-159 through 15-198.

(d) To the extent that the Sections enumerated in subsection (c) of this Section conflict with the Sections following this Section, the Sections following this Section shall control.

(e) To the extent that the applicable Sections are included under subsection (c) of this Section, later entrants, including survivors, are entitled to disability benefits under this Article.

(40 ILCS 5/15-305 new)

Sec. 15-305. Creditable service for later entrants.

(a) Creditable service under this Article is subject to the

following conditions:

(1) The maximum amount of creditable service a participant may establish under this Article is 35 years.

(2) A participant may only establish creditable service for his or her service for employment with an employer, as defined in Section 15-106. Except as provided in subsection (b), a participant may not establish creditable service for any other service.

(3) A participant may not convert any unused sick leave or vacation into creditable service under this Article.

(b) A participant may establish creditable service for up to 2 years of military service before becoming a participant under this Article by paying to the System (1) employee contributions based upon the participant's salary upon becoming a participant under this Article, (2) an amount determined by the board to be equal to the employer's normal cost of the benefit, and (3) interest on items (1) and (2) at the actuarially assumed rate from the date of first employment in the System to the date of payment.

For the purposes of this subsection (b), "military service" means periods during which a person served in the armed forces of the United States for which the person received a discharge other than dishonorable.

(40 ILCS 5/15-310 new)

Sec. 15-310. Retirement annuity; conditions for

eligibility; later entrants. A participant may claim his or her retirement annuity upon attainment of (1) the full (normal) retirement age as provided in the federal Social Security Act with at least 10 years of service credit or (2) age 62 with at least 35 years of service credit.

A participant may claim a reduced retirement annuity under subsection (c) of Section 15-315 if he or she is at least 62 years of age and has at least 10 years of service.

The annuity shall begin with the first full calendar month specified in the participant's application therefor, the first day of which shall not be before the date of withdrawal as approved by the board. Regardless of the date of withdrawal, the annuity need not begin within one year of application therefor.

(40 ILCS 5/15-315 new)

Sec. 15-315. Retirement life annuity; amount; employer contribution; later entrants.

(a) With respect to late entrants:

(1) "Final average rate of earnings" means the monthly rate of earnings obtained by dividing the total rate of earnings of an employee during the period of: (A) the 96 consecutive months of service within the last 120 months of service in which the total rate of earnings was the highest or (B) the total period of service, if less than 96 months, by the number of months of service in such period; provided

that for the purposes of a retirement annuity the average rate of earnings for the last 12 months of the 96 months shall not exceed the final average rate of earnings by more than 25%.

In no event shall the monthly rate of earnings used to determined final average rate of earnings exceed (i) the Social Security Covered Wage Base for the given month of service or (ii) $12,500, whichever is less.

(2) "Earnings" means a participant's base earnings and does not include any overtime or bonuses.

(b) The retirement life annuity shall be 2% of final average rate of earnings for each year of service.

(c) For a participant retiring after attaining age 62, the retirement life annuity shall be reduced by one-half of 1% for each month that the participant's age is under the full (normal) retirement age as provided in the federal Social Security Act.

(40 ILCS 5/15-320 new)

Sec. 15-320. Alternative forms of annuities for later entrants.

(a) A participant may choose any of the following types of annuities in lieu of receiving the full annuity provided in Section 15-315:

(1) Joint and 50% survivor annuity. Under this form of payment, the participant receives a reduced monthly

payment for his or her lifetime with a payment equal to 50% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(2) Joint and 75% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 75% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(3) Joint and 100% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 100% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(4) Single life annuity with 60, 120, or 180 months of guaranteed payments. Under this option, the participant receives a reduced monthly payment for his or her lifetime. If the participant dies before receiving at least the number of guaranteed monthly payments, then the participant's beneficiary or estate receives the remaining guaranteed number of monthly payments.

1 (b) In lieu of the annuities under Section 15-315 and
2 subsection (a) of this Section, a participant may choose the
3 portable benefit package under Section 15-136.4 or the
4 self-managed plan under Section 15-158.2.
5 (c) The Board must determine the participant's optional
6 form of annuity provided under this Section by taking into
7 account the appropriate actuarial assumptions, including
8 without limitation the participant's and beneficiary's age;
9 applicable mortality tables; and any other factors that the
10 Board determines to be relevant. For this purpose, the
11 participant's joint and survivor annuity should result in no
12 significant increase to the System's unfunded actuarial
13 accrued liability determined as of the most recent actuarial
14 valuation, based on the same assumptions and methods used to
15 develop and report the System's actuarial accrued liability and
16 actuarial value of assets under Statement No. 25 of
17 Governmental Accounting Standards Board or any subsequent
18 applicable Statement.

19 (40 ILCS 5/15-325 new)
20 Sec. 15-325. Automatic annual increases for later
21 entrants. Notwithstanding any other provision of this Article,
22 a person receiving a retirement or survivor annuity under
23 Sections 15-315 or 15-320 shall, on the first anniversary of
24 retirement, but not before attaining age 67, and annually
25 thereafter, have his or her annuity increased by (1) 3% or (2)

one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the increase is being granted, whichever is less, of the originally granted annuity.

(40 ILCS 5/15-330 new)

Sec. 15-330. Contributions by participants; later entrants.

(a) Each employee shall contribute 7% of each payment of salary received by him or her for service as an employee toward the cost of his or her retirement annuity.

(b) Contributions shall be in the form of a deduction from earnings and shall be made notwithstanding that the earnings paid in cash to the employee shall be reduced thereby below the minimum prescribed by law or regulation. Each participant is deemed to consent and agree to the deductions from earnings provided for in this Article and shall receipt in full for salary or compensation.

(c) These contributions shall be picked up in the manner provided in Section 15-157.1.

(d) In no event shall contributions be deducted from salary in excess of (1) the Social Security Covered Wage Base for the given calendar year or (2) $150,000, whichever is less.

(40 ILCS 5/15-335 new)

1 Sec. 15-335. Refunds; later entrants. An employee who
2 ceases to be a participant, other than an annuitant, shall,
3 upon written request, receive a refund of his or her total
4 contributions, plus interest at (1) 3% or (2) one-half of the
5 percentage increase, if any, in the Consumer Price Index for
6 All Urban Consumers measured from the preceding January 1 to
7 the January 1 of the year during which the interest is being
8 credited, whichever is less, per year, not compounded.
9 Upon re-entry into service as an employee, a former
10 participant may reestablish any creditable service forfeited
11 by acceptance of a refund by paying to the System the full
12 amount refunded, plus interest at the actuarially assumed rate,
13 not compounded, from the date of payment of the refund to the
14 date of repayment.

15 (40 ILCS 5/15-340 new)
16 Sec. 15-340. Re-entry after retirement; later entrants.
17 (a) An annuitant who re-enters service as an employee shall
18 become a participant on the date of re-entry and retirement
19 annuity payments shall cease at that time. The employee shall
20 resume contributions to the system on the date of re-entry at
21 the rates then in effect and shall begin to accrue additional
22 service credit.
23 (b) Upon subsequent retirement, the employee shall be
24 entitled to a retirement annuity consisting of: (1) the amount
25 of retirement annuity previously granted and terminated by

re-entry into service and (2) the amount of additional retirement annuity earned during the additional service.

(c) In computing the retirement annuity under subsection (b) of this Section, the time that the employee was on retirement shall not interrupt the continuity of service for the computation of final average rate of earnings and the additional service shall be considered, together with service rendered before the previous retirement, in establishing final average rate of earnings.

(d) A person who re-enters service within 3 years after retiring may qualify to have the retirement annuity computed as though the participant had not previously retired by paying to the System, within 5 years after re-entry and prior to subsequent retirement, in a lump-sum or in installment payments, in accordance with rules adopted by the board, an amount equal to all retirement annuity payments received, plus interest at the actuarially assumed rate from the date retirement payments were suspended to the date of repayment.

(40 ILCS 5/16-300 new)

Sec. 16-300. Provisions applicable to later entrants.

(a) The provisions of this Article following this Section apply only to teachers who first become teachers on or after August 1, 2009, who are referred to as "later entrants".

(b) Except as provided in subsection (c) of this Section, the Sections of this Article before this Section do not apply

to teachers who first become teachers on or after August 1, 2009.

(c) The following Sections are also applicable to teachers who first become teachers on or after August 1, 2009: Sections 16-101, 16-102, 16-103, 16-104, 16-105, 16-106, 16-106.1, 16-106.2, 16-106.3, 16-107, 16-109, 16-110, 16-111.1, 16-113, 16-114, 16-118, 16-121, 16-123, 16-149, 16-149.1, 16-149.2, 16-149.3, 16-149.4, 16-149.5, 16-149.6, and 16-152.1 and Sections 16-155 through 16-203.

(d) To the extent that the Sections enumerated in subsection (c) of this Section conflict with the Sections following this Section, the Sections following this Section shall control.

(e) To the extent that the applicable Sections are included under subsection (c) of this Section, later entrants, including survivors, are entitled to disability benefits under this Article.

(40 ILCS 5/16-305 new)

Sec. 16-305. Creditable service for later entrants.

(a) Creditable service under this Article is subject to the following conditions:

(1) The maximum amount of creditable service a member may establish under this Article is 35 years.

(2) A member may only establish creditable service for his or her service for employment as a teacher, as defined

in Section 16-106. Except as provided in subsection (b), a member may not establish creditable service for any other service.

(3) A member may not convert any unused sick leave or vacation into creditable service under this Article.

(b) A member may establish creditable service for up to 2 years of military service before becoming a member under this Article by paying to the System (1) employee contributions based upon the member's salary upon becoming a member under this Article, (2) an amount determined by the board to be equal to the employer's normal cost of the benefit, and (3) interest on items (1) and (2) at the actuarially assumed rate from the date of first employment in the System to the date of payment.

For the purposes of this subsection (b), "military service" means periods a person spent in active service with the military forces of the United States for which the person received a discharge other than dishonorable.

(40 ILCS 5/16-310 new)

Sec. 16-310. Retirement annuity; conditions for eligibility; later entrants. A member may claim his or her retirement annuity upon attainment of (1) the full (normal) retirement age as provided in the federal Social Security Act with at least 10 years of service credit or (2) age 62 with at least 35 years of service credit.

A member may claim a reduced retirement annuity under

subsection (c) of Section 16-315 if he or she is at least 62 years of age and has at least 10 years of service.

The annuity shall begin with the first full calendar month specified in the member's application therefor, the first day of which shall not be before the date of withdrawal as approved by the board. Regardless of the date of withdrawal, the annuity need not begin within one year of application therefor.

(40 ILCS 5/16-315 new)

Sec. 16-315. Retirement life annuity; amount; employer contribution; later entrants.

(a) With respect to late entrants:

(1) "Final average salary" means the monthly salary obtained by dividing the total salary of a member during the period of: (A) the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest or (B) the total period of service, if less than 96 months, by the number of months of service in such period; provided that for the purposes of a retirement annuity the average salary for the last 12 months of the 96 months shall not exceed the final average salary by more than 25%.

In no event shall the monthly salary used to determined final average salary exceed (i) the Social Security Covered Wage Base for the given month of service or (ii) $12,500, whichever is less.

1 (2) "Salary" means a member's base salary and does not
2 include any overtime or bonuses.
3 (b) The retirement life annuity shall be 2% of final
4 average salary for each year of service.
5 (c) For a member retiring after attaining age 62, the
6 retirement life annuity shall be reduced by one-half of 1% for
7 each month that the member's age is under the full (normal)
8 retirement age as provided in the federal Social Security Act.

9 (40 ILCS 5/16-320 new)
10 Sec. 16-320. Alternative forms of annuities for later
11 entrants. A member may choose any of the following types of
12 annuities in lieu of receiving the full annuity provided in
13 Section 14-315:
14 (1) Joint and 50% survivor annuity. Under this form of
15 payment, the member receives a reduced monthly payment for
16 his or her lifetime with a payment equal to 50% of the
17 reduced amount payable to the member paid to the member's
18 designated beneficiary for the beneficiary's lifetime if
19 the beneficiary survives the member.
20 (2) Joint and 75% survivor annuity. Under this form of
21 payment, the member receives a reduced monthly payment for
22 his or her lifetime with a payment equal to 75% of the
23 reduced amount payable to the member paid to the member's
24 designated beneficiary for the beneficiary's lifetime if
25 the beneficiary survives the member.

(3) Joint and 100% survivor annuity. Under this form of payment, the member receives a reduced monthly payment for his or her lifetime with a payment equal to 100% of the reduced amount payable to the member paid to the member's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the member.

(4) Single life annuity with 60, 120, or 180 months of guaranteed payments. Under this option, the member receives a reduced monthly payment for his or her lifetime. If the member dies before receiving at least the number of guaranteed monthly payments, then the member's beneficiary or estate receives the remaining guaranteed number of monthly payments.

The Board must determine the participant's optional form of annuity provided under this Section by taking into account the appropriate actuarial assumptions, including without limitation the participant's and beneficiary's age; applicable mortality tables; and any other factors that the Board determines to be relevant. For this purpose, the participant's joint and survivor annuity should result in no significant increase to the System's unfunded actuarial accrued liability determined as of the most recent actuarial valuation, based on the same assumptions and methods used to develop and report the System's actuarial accrued liability and actuarial value of assets under Statement No. 25 of Governmental Accounting Standards Board or any subsequent applicable Statement.

(40 ILCS 5/16-325 new)

Sec. 16-325. Automatic annual increases for later entrants. Notwithstanding any other provision of this Article, a person receiving a retirement or survivor annuity under Sections 16-315 or 16-320 shall, on the first anniversary of retirement, but not before attaining age 67, and annually thereafter, have his or her annuity increased by (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the increase is being granted, whichever is less, of the originally granted annuity.

(40 ILCS 5/16-330 new)

Sec. 16-330. Contributions by teachers; later entrants.

(a) Each teacher shall contribute 8% of each payment of salary received by him or her for service as a teacher toward the cost of his or her retirement annuity.

(b) Contributions shall be in the form of a deduction from salary and shall be made notwithstanding that the salary paid in cash to the teacher shall be reduced thereby below the minimum prescribed by law or regulation. Each member is deemed to consent and agree to the deductions from salary provided for in this Article and shall receipt in full for salary or compensation.

1 (c) These contributions shall be picked up in the manner
2 provided in Section 16-152.1.
3 (d) In no event shall contributions be deducted from salary
4 in excess of (1) the Social Security Covered Wage Base for the
5 given calendar year or (2) $150,000, whichever is less.

6 (40 ILCS 5/16-335 new)
7 Sec. 16-335. Refunds; later entrants. A teacher who ceases
8 to be a member, other than an annuitant, shall, upon written
9 request, receive a refund of his or her total contributions,
10 plus interest at (1) 3% or (2) one-half of the percentage
11 increase, if any, in the Consumer Price Index for All Urban
12 Consumers measured from the preceding January 1 to the January
13 1 of the year during which the interest is being credited,
14 whichever is less, per year, not compounded.
15 Upon re-entry into service as a teacher, a former member
16 may reestablish any creditable service forfeited by acceptance
17 of a refund by paying to the System the full amount refunded,
18 plus interest at the actuarially assumed rate, not compounded,
19 from the date of payment of the refund to the date of
20 repayment.

21 (40 ILCS 5/16-340 new)
22 Sec. 16-340. Re-entry after retirement; later entrants.
23 (a) An annuitant who re-enters service as a teacher shall
24 become a member on the date of re-entry and retirement annuity

payments shall cease at that time. The teacher shall resume contributions to the system on the date of re-entry at the rates then in effect and shall begin to accrue additional service credit.

(b) Upon subsequent retirement, the teacher shall be entitled to a retirement annuity consisting of: (1) the amount of retirement annuity previously granted and terminated by re-entry into service and (2) the amount of additional retirement annuity earned during the additional service.

(c) In computing the retirement annuity under subsection (b) of this Section, the time that the teacher was on retirement shall not interrupt the continuity of service for the computation of final average salary and the additional service shall be considered, together with service rendered before the previous retirement, in establishing final average salary.

(d) A person who re-enters service within 3 years after retiring may qualify to have the retirement annuity computed as though the member had not previously retired by paying to the System, within 5 years after re-entry and prior to subsequent retirement, in a lump-sum or in installment payments, in accordance with rules adopted by the board, an amount equal to all retirement annuity payments received, plus interest at the actuarially assumed rate from the date retirement payments were suspended to the date of repayment.

(40 ILCS 5/18-300 new)

Sec. 18-300. Provisions applicable to later entrants.

(a) The provisions of this Article following this Section apply only to judges who first become judges on or after August 1, 2009, who are referred to as "later entrants".

(b) Except as provided in subsection (c) of this Section, the Sections of this Article before this Section do not apply to judges who first become judges on or after August 1, 2009.

(c) The following Sections are also applicable to judges who first become judges on or after August 1, 2009: Sections 18-101, 18-102, 18-103, 18-104, 18-105, 18-106, 18-107, 18-108, 18-109, 18-110, 18-111, 18-112.5, 18-113, 18-114, 18-116, 18-118, 18-119, 18-120, 18-120.1, 18-121, 18-126, 18-126.1, 18-128.2, 18-131, and 18-132 and Sections 18-133.1 through 18-169.

(d) To the extent that the Sections enumerated in subsection (c) of this Section conflict with the Sections following this Section, the Sections following this Section shall control.

(e) To the extent that the applicable Sections are included under subsection (c) of this Section, later entrants, including survivors, are entitled to disability benefits under this Article.

(40 ILCS 5/18-305 new)

Sec. 18-305. Creditable service for later entrants.

1 (a) Creditable service under this Article is subject to the
2 following conditions:
3 (1) The maximum amount of creditable service a
4 participant may establish under this Article is 35 years.
5 (2) A participant may only establish creditable
6 service for his or her service for employment as a judge,
7 as defined in Section 16-106. Except as provided in
8 subsection (b), a participant may not establish creditable
9 service for any other service.
10 (3) A participant may not convert any unused sick leave
11 or vacation into creditable service under this Article.
12 (b) A participant may establish creditable service for up
13 to 2 years of military service before becoming a participant
14 under this Article by paying to the System (1) employee
15 contributions based upon the participant's salary upon
16 becoming a participant under this Article, (2) an amount
17 determined by the board to be equal to the employer's normal
18 cost of the benefit, and (3) interest on items (1) and (2) at
19 the actuarially assumed rate from the date of first employment
20 in the System to the date of payment.
21 For the purposes of this subsection (b), "military service"
22 means periods a person spent in active service with the
23 military forces of the United States for which the person
24 received a discharge other than dishonorable.

25 (40 ILCS 5/18-310 new)

Sec. 18-310. Retirement annuity; conditions for eligibility; later entrants. A participant may claim his or her retirement annuity upon attainment of (1) the full (normal) retirement age as provided in the federal Social Security Act with at least 10 years of service credit or (2) age 62 with at least 35 years of service credit.

A participant may claim a reduced retirement annuity under subsection (c) of Section 16-315 if he or she is at least 62 years of age and has at least 10 years of service.

The annuity shall begin with the first full calendar month specified in the participant's application therefor, the first day of which shall not be before the date of withdrawal as approved by the board. Regardless of the date of withdrawal, the annuity need not begin within one year of application therefor.

(40 ILCS 5/18-315 new)

Sec. 18-315. Retirement life annuity; amount; employer contribution; later entrants.

(a) With respect to late entrants:

(1) "Final average salary" means the monthly salary obtained by dividing the total salary of a participant during the period of: (A) the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest or (B) the total period of service, if less than 96 months, by the number of months of

service in such period; provided that for the purposes of a retirement annuity the average salary for the last 12 months of the 96 months shall not exceed the final average salary by more than 25%.

In no event shall the monthly salary used to determined final average salary exceed (i) the Social Security Covered Wage Base for the given month of service or (ii) $12,500, whichever is less.

(2) "Salary" means a participant's base salary and does not include any overtime or bonuses.

(b) The retirement life annuity shall be 2% of final average salary for each year of service.

(c) For a participant retiring after attaining age 62, the retirement life annuity shall be reduced by one-half of 1% for each month that the participant's age is under the full (normal) retirement age as provided in the federal Social Security Act.

(40 ILCS 5/18-320 new)

Sec. 18-320. Alternative forms of annuities for later entrants. A participant may choose any of the following types of annuities in lieu of receiving the full annuity provided in Section 14-315:

(1) Joint and 50% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 50%

of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(2) Joint and 75% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 75% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(3) Joint and 100% survivor annuity. Under this form of payment, the participant receives a reduced monthly payment for his or her lifetime with a payment equal to 100% of the reduced amount payable to the participant paid to the participant's designated beneficiary for the beneficiary's lifetime if the beneficiary survives the participant.

(4) Single life annuity with 60, 120, or 180 months of guaranteed payments. Under this option, the participant receives a reduced monthly payment for his or her lifetime. If the participant dies before receiving at least the number of guaranteed monthly payments, then the participant's beneficiary or estate receives the remaining guaranteed number of monthly payments.

The Board must determine the participant's optional form of

annuity provided under this Section by taking into account the appropriate actuarial assumptions, including without limitation the participant's and beneficiary's age; applicable mortality tables; and any other factors that the Board determines to be relevant. For this purpose, the participant's joint and survivor annuity should result in no significant increase to the System's unfunded actuarial accrued liability determined as of the most recent actuarial valuation, based on the same assumptions and methods used to develop and report the System's actuarial accrued liability and actuarial value of assets under Statement No. 25 of Governmental Accounting Standards Board or any subsequent applicable Statement.

(40 ILCS 5/18-325 new)

Sec. 18-325. Automatic annual increases for later entrants. Notwithstanding any other provision of this Article, a person receiving a retirement or survivor annuity under Sections 16-315 or 16-320 shall, on the first anniversary of retirement, but not before attaining age 67, and annually thereafter, have his or her annuity increased by (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the interest is being credited, whichever is less, of the originally granted annuity.

(40 ILCS 5/18-330 new)

Sec. 18-330. Contributions by judges; later entrants.

(a) Each judge shall contribute 7% of each payment of salary received by him or her for service as a judge toward the cost of his or her retirement annuity.

(b) Contributions shall be in the form of a deduction from salary and shall be made notwithstanding that the salary paid in cash to the judge shall be reduced thereby below the minimum prescribed by law or regulation. Each participant is deemed to consent and agree to the deductions from salary provided for in this Article and shall receipt in full for salary or compensation.

(c) These contributions shall be picked up in the manner provided in Section 18-133.1.

(d) In no event shall contributions be deducted from salary in excess of (1) the Social Security Covered Wage Base for the given calendar year or (2) $150,000, whichever is less.

(40 ILCS 5/18-335 new)

Sec. 18-335. Refunds; later entrants. A judge who ceases to be a participant, other than an annuitant, shall, upon written request, receive a refund of his or her total contributions, plus interest at (1) 3% or (2) one-half of the percentage increase, if any, in the Consumer Price Index for All Urban Consumers measured from the preceding January 1 to the January 1 of the year during which the interest is being credited,

whichever is less, per year, not compounded.

Upon re-entry into service as a judge, a former participant may reestablish any creditable service forfeited by acceptance of a refund by paying to the System the full amount refunded, plus interest at the actuarially assumed rate, not compounded, from the date of payment of the refund to the date of repayment.

(40 ILCS 5/18-340 new)

Sec. 18-340. Re-entry after retirement; later entrants.

(a) An annuitant who re-enters service as a judge shall become a participant on the date of re-entry and retirement annuity payments shall cease at that time. The judge shall resume contributions to the system on the date of re-entry at the rates then in effect and shall begin to accrue additional service credit.

(b) Upon subsequent retirement, the judge shall be entitled to a retirement annuity consisting of: (1) the amount of retirement annuity previously granted and terminated by re-entry into service and (2) the amount of additional retirement annuity earned during the additional service.

(c) In computing the retirement annuity under subsection (b) of this Section, the time that the judge was on retirement shall not interrupt the continuity of service for the computation of final average salary and the additional service shall be considered, together with service rendered before the

previous retirement, in establishing final average salary.

(d) A person who re-enters service within 3 years after retiring may qualify to have the retirement annuity computed as though the participant had not previously retired by paying to the System, within 5 years after re-entry and prior to subsequent retirement, in a lump-sum or in installment payments, in accordance with rules adopted by the board, an amount equal to all retirement annuity payments received, plus interest at the actuarially assumed rate from the date retirement payments were suspended to the date of repayment.

Section 99. Effective date. This Act takes effect upon becoming law.".

	State Contributions to Trust 2009 - 2045		State Debt Payments 2009 - 2045		Total State Outlay 2009 - 2045	
	Sum	Present Value	Sum	Present Value	Sum	Present Value
1. Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding	$ 437.6	$ 92.3	$ 19.4	$ 7.2	$ 457.0	$ 99.4
2. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding	$ 399.5	$ 85.5	$ 19.4	$ 7.2	$ 419.0	$ 92.7
3. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding	$ 532.3	$ 85.5	$ 19.4	$ 7.2	$ 551.7	$ 92.7

	Total State Outlay (including 2003 POB debt service)					
	FY10	FY11	FY12	FY13	FY14	FY45
1. Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding	$ 4.557	$ 5.994	$ 6.260	$ 6.482	$ 6.717	$ 23.648
2. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding	$ 4.557	$ 5.677	$ 5.917	$ 6.114	$ 6.322	$ 21.329
3. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding	$ 2.013	$ 2.512	$ 3.060	$ 3.489	$ 3.940	$ 37.128

Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding

Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution
2009	124.8	46.5	78.3	37.26%	2.8
2010	131.2	49.1	82.1	37.39%	4.0
2011	137.8	52.9	84.9	38.41%	5.5
2012	144.5	56.9	87.6	39.36%	5.7
2013	151.3	60.9	90.4	40.25%	5.9
2014	158.3	65.1	93.3	41.10%	6.1
2015	165.4	69.3	96.1	41.91%	6.4
2016	172.7	73.7	99.0	42.69%	6.7
2017	180.2	78.3	101.8	43.48%	6.9
2018	187.8	83.1	104.7	44.27%	7.2
2019	195.6	88.2	107.5	45.06%	7.6
2020	203.6	93.4	110.2	45.88%	7.9
2021	211.9	99.0	112.9	46.72%	8.2
2022	220.4	104.9	115.5	47.60%	8.6
2023	229.1	111.2	118.0	48.52%	9.0
2024	238.2	117.9	120.3	49.50%	9.4
2025	247.5	125.1	122.5	50.53%	9.8
2026	257.2	132.8	124.4	51.62%	10.2
2027	267.2	141.0	126.2	52.78%	10.7
2028	277.6	149.9	127.7	54.01%	11.2
2029	288.3	159.4	128.9	55.30%	11.7
2030	299.4	169.7	129.7	56.67%	12.2
2031	310.9	180.7	130.2	58.11%	12.7
2032	322.9	192.6	130.3	59.65%	13.3
2033	335.4	205.6	129.8	61.29%	13.8
2034	348.3	219.6	128.8	63.03%	14.5
2035	361.9	234.7	127.1	64.86%	15.1
2036	376.0	251.2	124.8	66.81%	15.8
2037	390.7	269.1	121.7	68.86%	16.5
2038	406.1	288.6	117.6	71.05%	17.2
2039	422.3	309.8	112.5	73.36%	18.0
2040	439.2	332.9	106.4	75.79%	18.8
2041	457.1	358.0	99.0	78.33%	19.7
2042	475.9	385.6	90.2	81.04%	20.6
2043	495.7	415.8	79.9	83.88%	21.6
2044	516.6	448.8	67.8	86.87%	22.6
2045	538.6	484.7	53.9	90.00%	23.6

Total 2009 - 2045	437.6
Present Value 2009 - 2045	92.3

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service

Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding

Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution
2009	124.8	46.5	78.3	37.26%	2.8
2010	131.1	49.0	82.1	37.40%	4.0
2011	137.5	52.5	85.0	38.19%	5.1
2012	144.0	56.0	88.0	38.91%	5.3
2013	150.6	59.6	91.0	39.56%	5.5
2014	157.3	63.2	94.1	40.15%	5.7
2015	164.0	66.8	97.3	40.70%	6.0
2016	170.8	70.4	100.4	41.22%	6.2
2017	177.7	74.1	103.6	41.71%	6.5
2018	184.6	77.9	106.7	42.21%	6.7
2019	191.6	81.8	109.8	42.70%	7.0
2020	198.7	85.8	112.8	43.20%	7.3
2021	205.8	90.0	115.8	43.72%	7.6
2022	213.0	94.3	118.7	44.27%	7.9
2023	220.2	98.8	121.4	44.86%	8.3
2024	227.5	103.5	124.0	45.50%	8.6
2025	234.9	108.5	126.4	46.19%	9.0
2026	242.3	113.7	128.5	46.94%	9.4
2027	249.7	119.3	130.4	47.77%	9.8
2028	257.2	125.2	132.0	48.68%	10.2
2029	264.6	131.4	133.2	49.66%	10.6
2030	272.0	138.0	134.0	50.73%	11.1
2031	279.4	145.1	134.3	51.92%	11.6
2032	286.8	152.7	134.1	53.23%	12.1
2033	294.3	160.9	133.3	54.69%	12.6
2034	301.6	169.8	131.8	56.30%	13.1
2035	309.0	179.5	129.5	58.07%	13.7
2036	316.4	189.9	126.4	60.04%	14.3
2037	323.7	201.4	122.3	62.21%	14.9
2038	331.1	214.0	117.1	64.63%	15.6
2039	338.5	227.8	110.7	67.30%	16.3
2040	346.0	243.0	102.9	70.24%	17.0
2041	353.6	259.8	93.8	73.47%	17.8
2042	361.6	278.6	83.0	77.05%	18.6
2043	370.0	299.6	70.3	80.99%	19.5
2044	378.7	323.0	55.7	85.30%	20.4
2045	387.9	349.1	38.8	90.00%	21.3

Total 2009 - 2045	399.5
Present Value 2009 - 2045	85.5

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service

Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding

Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution
2009	124.8	46.5	78.3	37.26%	2.8
2010	131.1	46.4	84.7	35.38%	1.5
2011	137.5	46.3	91.2	33.70%	2.0
2012	144.0	46.4	97.7	32.19%	2.5
2013	150.6	46.4	104.3	30.78%	2.9
2014	157.3	46.3	111.0	29.45%	3.4
2015	164.0	46.3	117.8	28.21%	3.8
2016	170.8	46.2	124.6	27.06%	4.3
2017	177.7	46.2	131.5	26.02%	4.9
2018	184.6	46.3	138.3	25.08%	5.4
2019	191.6	46.5	145.2	24.24%	6.0
2020	198.7	46.7	151.9	23.52%	6.6
2021	205.8	47.2	158.6	22.92%	7.2
2022	213.0	47.8	165.2	22.45%	7.9
2023	220.2	48.7	171.5	22.12%	8.6
2024	227.5	49.9	177.6	21.95%	9.4
2025	234.9	51.5	183.3	21.94%	10.1
2026	242.3	53.5	188.7	22.10%	11.0
2027	249.7	56.1	193.6	22.47%	11.8
2028	257.2	59.2	197.9	23.04%	12.7
2029	264.6	63.0	201.6	23.80%	13.7
2030	272.0	67.5	204.5	24.80%	14.6
2031	279.4	72.9	206.6	26.07%	15.7
2032	286.8	79.3	207.6	27.63%	16.8
2033	294.3	86.8	207.4	29.50%	17.9
2034	301.6	95.7	206.0	31.72%	19.1
2035	309.0	106.0	203.0	34.30%	20.4
2036	316.4	118.0	198.4	37.29%	21.7
2037	323.7	131.9	191.8	40.74%	23.1
2038	331.1	147.9	183.1	44.68%	24.6
2039	338.5	166.4	172.1	49.17%	26.1
2040	346.0	187.6	158.4	54.22%	27.8
2041	353.6	211.8	141.8	59.90%	29.4
2042	361.6	239.7	121.9	66.29%	31.2
2043	370.0	271.6	98.4	73.40%	33.1
2044	378.7	307.9	70.8	81.30%	35.1
2045	387.9	349.1	38.8	90.00%	37.1

Total 2009 - 2045	532.3
Present Value 2009 - 2045	85.5

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service

Unified Results of Current Two-Tiered Proposal

	State Contributions to Trust 2009 - 2045		State Debt Payments 2009 - 2045		Total State Outlay 2009 - 2045	
	Sum	Present Value	Sum	Present Value	Sum	Present Value
1. Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding	$ 437.6	$ 92.3	$ 19.4	$ 7.2	$ 457.0	$ 99.4
2. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding	$ 399.5	$ 85.5	$ 19.4	$ 7.2	$ 419.0	$ 92.7
3. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding	$ 532.3	$ 85.5	$ 19.4	$ 7.2	$ 551.7	$ 92.7

Unified Results of Current Two-Tiered Proposal

	Total State Outlay (including 2003 POB debt service)					
	FY10	FY11	FY12	FY13	FY14	FY45
1. Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding	$ 4.557	$ 5.994	$ 6.260	$ 6.482	$ 6.717	$ 23.648
2. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding	$ 4.557	$ 5.677	$ 5.917	$ 6.114	$ 6.322	$ 21.329
3. Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding	$ 2.013	$ 2.512	$ 3.060	$ 3.489	$ 3.940	$ 37.128

Projected 6/30/2009 Results Assuming a -20% return in FY09, Level % of Pay Funding

Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution	Debt Service	Debt Service
2009	124.8	46.5	78.3	37.26%	2.8	544,950	0.5
2010	131.2	49.1	82.1	37.39%	4.0	543,550	0.5
2011	137.8	52.9	84.9	38.41%	5.5	541,900	0.5
2012	144.5	56.9	87.6	39.36%	5.7	590,125	0.6
2013	151.3	60.9	90.4	40.25%	5.9	586,375	0.6
2014	158.3	65.1	93.3	41.10%	6.1	582,525	0.6
2015	165.4	69.3	96.1	41.91%	6.4	578,575	0.6
2016	172.7	73.7	99.0	42.69%	6.7	574,525	0.6
2017	180.2	78.3	101.8	43.48%	6.9	595,175	0.6
2018	187.8	83.1	104.7	44.27%	7.2	614,738	0.6
2019	195.6	88.2	107.5	45.06%	7.6	633,213	0.6
2020	203.6	93.4	110.2	45.88%	7.9	674,550	0.7
2021	211.9	99.0	112.9	46.72%	8.2	713,413	0.7
2022	220.4	104.9	115.5	47.60%	8.6	749,800	0.7
2023	229.1	111.2	118.0	48.52%	9.0	783,713	0.8
2024	238.2	117.9	120.3	49.50%	9.4	840,150	0.8
2025	247.5	125.1	122.5	50.53%	9.8	892,200	0.9
2026	257.2	132.8	124.4	51.62%	10.2	915,425	0.9
2027	267.2	141.0	126.2	52.78%	10.7	936,100	0.9
2028	277.6	149.9	127.7	54.01%	11.2	979,225	1.0
2029	288.3	159.4	128.9	55.30%	11.7	1,018,525	1.0
2030	299.4	169.7	129.7	56.67%	12.2	1,079,000	1.1
2031	310.9	180.7	130.2	58.11%	12.7	1,134,375	1.1
2032	322.9	192.6	130.3	59.65%	13.3	1,159,650	1.2
2033	335.4	205.6	129.8	61.29%	13.8	1,156,100	1.2
2034	348.3	219.6	128.8	63.03%	14.5	0	0.0
2035	361.9	234.7	127.1	64.86%	15.1	0	0.0
2036	376.0	251.2	124.8	66.81%	15.8	0	0.0
2037	390.7	269.1	121.7	68.86%	16.5	0	0.0
2038	406.1	288.6	117.6	71.05%	17.2	0	0.0
2039	422.3	309.8	112.5	73.36%	18.0	0	0.0
2040	439.2	332.9	106.4	75.79%	18.8	0	0.0
2041	457.1	358.0	99.0	78.33%	19.7	0	0.0
2042	475.9	385.6	90.2	81.04%	20.6	0	0.0
2043	495.7	415.8	79.9	83.88%	21.6	0	0.0
2044	516.6	448.8	67.8	86.87%	22.6	0	0.0
2045	538.6	484.7	53.9	90.00%	23.6	0	0.0
	Total 2009 - 2045				437.6	19,417,875	19.4
	Present Value 2009 - 2045				92.3	7,161,685	7.2

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service

Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Level % of Pay Funding

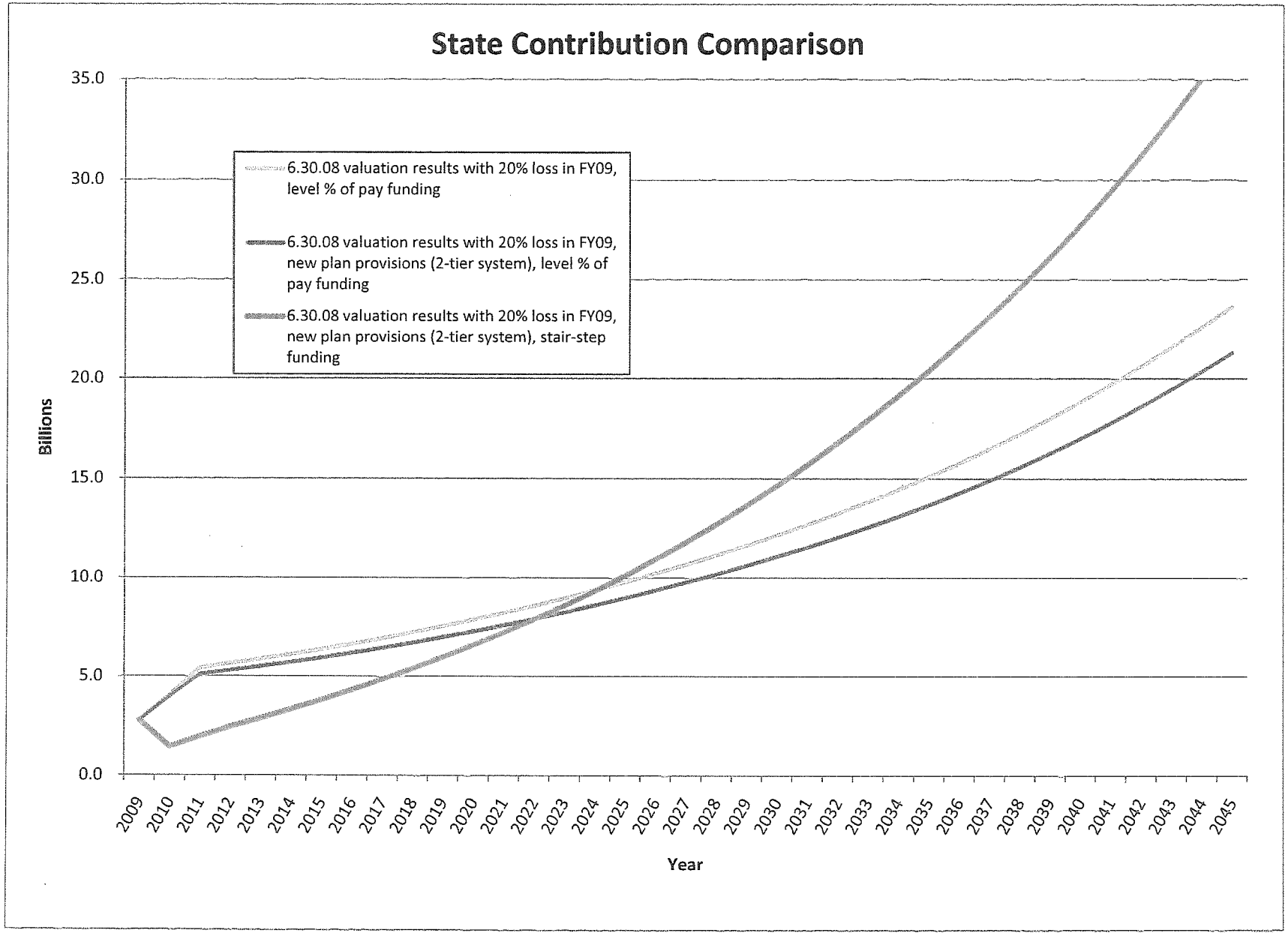
Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution	Debt Service	Debt Service
2009	124.8	46.5	78.3	37.26%	2.8	544,950	0.5
2010	131.1	49.0	82.1	37.40%	4.0	543,550	0.5
2011	137.5	52.5	85.0	38.19%	5.1	541,900	0.5
2012	144.0	56.0	88.0	38.91%	5.3	590,125	0.6
2013	150.6	59.6	91.0	39.56%	5.5	586,375	0.6
2014	157.3	63.2	94.1	40.15%	5.7	582,525	0.6
2015	164.0	66.8	97.3	40.70%	6.0	578,575	0.6
2016	170.8	70.4	100.4	41.22%	6.2	574,525	0.6
2017	177.7	74.1	103.6	41.71%	6.5	595,175	0.6
2018	184.6	77.9	106.7	42.21%	6.7	614,738	0.6
2019	191.6	81.8	109.8	42.70%	7.0	633,213	0.6
2020	198.7	85.8	112.8	43.20%	7.3	674,550	0.7
2021	205.8	90.0	115.8	43.72%	7.6	713,413	0.7
2022	213.0	94.3	118.7	44.27%	7.9	749,800	0.7
2023	220.2	98.8	121.4	44.86%	8.3	783,713	0.8
2024	227.5	103.5	124.0	45.50%	8.6	840,150	0.8
2025	234.9	108.5	126.4	46.19%	9.0	892,200	0.9
2026	242.3	113.7	128.5	46.94%	9.4	915,425	0.9
2027	249.7	119.3	130.4	47.77%	9.8	936,100	0.9
2028	257.2	125.2	132.0	48.68%	10.2	979,225	1.0
2029	264.6	131.4	133.2	49.66%	10.6	1,018,525	1.0
2030	272.0	138.0	134.0	50.73%	11.1	1,079,000	1.1
2031	279.4	145.1	134.3	51.92%	11.6	1,134,375	1.1
2032	286.8	152.7	134.1	53.23%	12.1	1,159,650	1.2
2033	294.3	160.9	133.3	54.69%	12.6	1,156,100	1.2
2034	301.6	169.8	131.8	56.30%	13.1	0	0.0
2035	309.0	179.5	129.5	58.07%	13.7	0	0.0
2036	316.4	189.9	126.4	60.04%	14.3	0	0.0
2037	323.7	201.4	122.3	62.21%	14.9	0	0.0
2038	331.1	214.0	117.1	64.63%	15.6	0	0.0
2039	338.5	227.8	110.7	67.30%	16.3	0	0.0
2040	346.0	243.0	102.9	70.24%	17.0	0	0.0
2041	353.6	259.8	93.8	73.47%	17.8	0	0.0
2042	361.6	278.6	83.0	77.05%	18.6	0	0.0
2043	370.0	299.6	70.3	80.99%	19.5	0	0.0
2044	378.7	323.0	55.7	85.30%	20.4	0	0.0
2045	387.9	349.1	38.8	90.00%	21.3	0	0.0
Total 2009 - 2045					399.5	19,417,875	19.4
Present Value 2009 - 2045					85.5	7,161,685	7.2

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service

Results Based on the Projected 6/30/2009 Results Assuming a -20% Return in FY09 and Incorporate Plan Provision Changes (2 Tier System), Stair Step Funding

Fiscal Year Ending	Actuarial Accrued Liability	Assets	Unfunded Liability	Funded Ratio	State Contribution	Debt Service	Debt Service
2009	124.8	46.5	78.3	37.26%	2.8	544,950	0.5
2010	131.1	46.4	84.7	35.38%	1.5	543,550	0.5
2011	137.5	46.3	91.2	33.70%	2.0	541,900	0.5
2012	144.0	46.4	97.7	32.19%	2.5	590,125	0.6
2013	150.6	46.4	104.3	30.78%	2.9	586,375	0.6
2014	157.3	46.3	111.0	29.45%	3.4	582,525	0.6
2015	164.0	46.3	117.8	28.21%	3.8	578,575	0.6
2016	170.8	46.2	124.6	27.06%	4.3	574,525	0.6
2017	177.7	46.2	131.5	26.02%	4.9	595,175	0.6
2018	184.6	46.3	138.3	25.08%	5.4	614,738	0.6
2019	191.6	46.5	145.2	24.24%	6.0	633,213	0.6
2020	198.7	46.7	151.9	23.52%	6.6	674,550	0.7
2021	205.8	47.2	158.6	22.92%	7.2	713,413	0.7
2022	213.0	47.8	165.2	22.45%	7.9	749,800	0.7
2023	220.2	48.7	171.5	22.12%	8.6	783,713	0.8
2024	227.5	49.9	177.6	21.95%	9.4	840,150	0.8
2025	234.9	51.5	183.3	21.94%	10.1	892,200	0.9
2026	242.3	53.5	188.7	22.10%	11.0	915,425	0.9
2027	249.7	56.1	193.6	22.47%	11.8	936,100	0.9
2028	257.2	59.2	197.9	23.04%	12.7	979,225	1.0
2029	264.6	63.0	201.6	23.80%	13.7	1,018,525	1.0
2030	272.0	67.5	204.5	24.80%	14.6	1,079,000	1.1
2031	279.4	72.9	206.6	26.07%	15.7	1,134,375	1.1
2032	286.8	79.3	207.6	27.63%	16.8	1,159,650	1.2
2033	294.3	86.8	207.4	29.50%	17.9	1,156,100	1.2
2034	301.6	95.7	206.0	31.72%	19.1	0	0.0
2035	309.0	106.0	203.0	34.30%	20.4	0	0.0
2036	316.4	118.0	198.4	37.29%	21.7	0	0.0
2037	323.7	131.9	191.8	40.74%	23.1	0	0.0
2038	331.1	147.9	183.1	44.68%	24.6	0	0.0
2039	338.5	166.4	172.1	49.17%	26.1	0	0.0
2040	346.0	187.6	158.4	54.22%	27.8	0	0.0
2041	353.6	211.8	141.8	59.90%	29.4	0	0.0
2042	361.6	239.7	121.9	66.29%	31.2	0	0.0
2043	370.0	271.6	98.4	73.40%	33.1	0	0.0
2044	378.7	307.9	70.8	81.30%	35.1	0	0.0
2045	387.9	349.1	38.8	90.00%	37.1	0	0.0
Total 2009 - 2045					532.3	19,417,875	19.4
Present Value 2009 - 2045					85.5	7,161,685	7.2

Historical results are from the CGFA February, 2009 Report
Numbers are in billions
State contributions do not include debt service


State Contribution Comparison
6.30.08 valuation results with 20% loss in FY09, level % of pay funding
6.30.08 valuation results with 20% loss in FY09, new plan provisions (2-tier system), level % of pay funding
6.30.08 valuation results with 20% loss in FY09, new plan provisions (2-tier system), stair-step funding
Billions
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2009
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AN ACT concerning finance.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The General Obligation Bond Act is amended by changing Sections 2, 2.5, 7.2, 9 and 11 as follows:

(30 ILCS 330/2) (from Ch. 127, par. 652)

Sec. 2. Authorization for Bonds. The State of Illinois is authorized to issue, sell and provide for the retirement of General Obligation Bonds of the State of Illinois for the categories and specific purposes expressed in Sections 2 through 8 of this Act, in the total amount of $43,658,149,369 ~~$27,658,149,369~~.

The bonds authorized in this Section 2 and in Section 16 of this Act are herein called "Bonds".

Of the total amount of Bonds authorized in this Act, up to $2,200,000,000 in aggregate original principal amount may be issued and sold in accordance with the Baccalaureate Savings Act in the form of General Obligation College Savings Bonds.

Of the total amount of Bonds authorized in this Act, up to $300,000,000 in aggregate original principal amount may be issued and sold in accordance with the Retirement Savings Act in the form of General Obligation Retirement Savings Bonds.

Of the total amount of Bonds authorized in this Act, the

additional $10,000,000,000 authorized by Public Act 93-2 and the $16,000,000,000 authorized by this amendatory Act of the 95th General Assembly ~~this amendatory Act of the 93rd General Assembly~~ shall be issued and used solely as provided in Section 7.2.

The issuance and sale of Bonds pursuant to the General Obligation Bond Act is an economical and efficient method of financing the long-term capital needs of the State. This Act will permit the issuance of a multi-purpose General Obligation Bond with uniform terms and features. This will not only lower the cost of registration but also reduce the overall cost of issuing debt by improving the marketability of Illinois General Obligation Bonds.

(Source: P.A. 92-13, eff. 6-22-01; 92-596, eff. 6-28-02; 92-598, eff. 6-28-02; 93-2, eff. 4-7-03; 93-839, eff. 7-30-04.)

(30 ILCS 330/2.5)

Sec. 2.5. Limitation on issuance of Bonds.

(a) Except as provided in subsection (b), no Bonds may be issued if, after the issuance, in the next State fiscal year after the issuance of the Bonds, the amount of debt service (including principal, whether payable at maturity or pursuant to mandatory sinking fund installments, and interest) on all then-outstanding Bonds, other than Bonds issued pursuant to Section 7.2 of this Act, would exceed 7% of the aggregate appropriations from the general funds (which consist of the

General Revenue Fund, the Common School Fund, the General Revenue Common School Special Account Fund, and the Education Assistance Fund) and the Road Fund for the fiscal year immediately prior to the fiscal year of the issuance.

(b) If the Comptroller and Treasurer each consent in writing, Bonds may be issued even if the issuance does not comply with subsection (a).

(Source: P.A. 93-839, eff. 7-30-04.)

(30 ILCS 330/7.2)

Sec. 7.2. State pension funding.

(a) The amount of $10,000,000,000 is authorized to be used for the purpose of making contributions to the designated retirement systems. For the purposes of this Section, "designated retirement systems" means the State Employees' Retirement System of Illinois; the Teachers' Retirement System of the State of Illinois; the State Universities Retirement System; the Judges Retirement System of Illinois; and the General Assembly Retirement System.

<u>The amount of $16,000,000,000 of Bonds authorized by this amendatory Act of the 95th General Assembly is authorized to be used for the purpose of making contributions to the designated retirement systems.</u>

(b) The Pension Contribution Fund is created as a special fund in the State Treasury.

The proceeds of the additional $10,000,000,000 of Bonds

authorized by this amendatory Act of the 93rd General Assembly, less the amounts authorized in the Bond Sale Order to be deposited directly into the capitalized interest account of the General Obligation Bond Retirement and Interest Fund or otherwise directly paid out for bond sale expenses under Section 8, shall be deposited into the Pension Contribution Fund and used as provided in this Section.

The proceeds of the additional $16,000,000,000 of bonds authorized by this amendatory Act of the 95th General Assembly, less the amounts directly paid out for bond sale expenses under Section 8, shall be deposited into the Pension Contribution Fund and used as provided in this Section, provided that at the request of the Illinois State Board of Investments or the affected state pension system established under Article 15 or 16 of the Illinois Pension Code, all or a portion of such proceeds may be used by the Governor's Office of Management and Budget to purchase an investment contract or other investment assets, which shall be transferred to the affected pension systems. The investment contract or other investment asset shall be in an amount specified by the Illinois State Board of Investments or state pension system, provide for a guaranteed minimum interest rate, be with an issuer satisfactory to the Illinois State Board of Investments or state pension system, and have a credit rating of A3 or higher from Moody's Investor Services or A- or higher from Standard & Poor's.

(c) Of the amount of Bond proceeds from the bond sale

authorized by Public Act 93-2 first deposited into the Pension Contribution Fund, there shall be reserved for transfers under this subsection the sum of $300,000,000, representing the required State contributions to the designated retirement systems for the last quarter of State fiscal year 2003, plus the sum of $1,860,000,000, representing the required State contributions to the designated retirement systems for State fiscal year 2004.

Upon the deposit of sufficient moneys from the bond sale authorized by Public Act 93-2 into the Pension Contribution Fund, the Comptroller and Treasurer shall immediately transfer the sum of $300,000,000 from the Pension Contribution Fund to the General Revenue Fund.

Whenever any payment of required State contributions for State fiscal year 2004 is made to one of the designated retirement systems, the Comptroller and Treasurer shall, as soon as practicable, transfer from the Pension Contribution Fund to the General Revenue Fund an amount equal to the amount of that payment to the designated retirement system. Beginning on the effective date of this amendatory Act of the 93rd General Assembly, the transfers from the Pension Contribution Fund to the General Revenue Fund shall be suspended until June 30, 2004, and the remaining balance in the Pension Contribution Fund shall be transferred directly to the designated retirement systems as provided in Section 6z-61 of the State Finance Act. On and after July 1, 2004, in the event that any amount is on

deposit in the Pension Contribution Fund from time to time, the Comptroller and Treasurer shall continue to make such transfers based on fiscal year 2005 payments until the entire amount on deposit has been transferred.

(d) All amounts deposited into the Pension Contribution Fund, other than the amounts reserved for the transfers under subsection (c), shall be appropriated to the designated retirement systems to reduce their actuarial reserve deficiencies. The amount of the appropriation to each designated retirement system shall constitute a portion of the total appropriation under this subsection that is the same as that retirement system's portion of the total actuarial reserve deficiency of the systems, as most recently determined by the Governor's Office of Management and Budget under Section 8.12 of the State Finance Act.

Within 15 days after any Bond proceeds in excess of the amounts initially reserved under subsection (c) <u>from the bond sale authorized by Public Act 93-2</u> are deposited into the Pension Contribution Fund, the Governor's Office of Management and Budget shall (i) allocate those proceeds among the designated retirement systems in proportion to their respective actuarial reserve deficiencies, as most recently determined under Section 8.12 of the State Finance Act, and (ii) certify those allocations to the designated retirement systems and the Comptroller.

Upon receiving certification of an allocation under this

subsection, a designated retirement system shall submit to the Comptroller a voucher for the amount of its allocation. The voucher shall be paid out of the amount appropriated to that designated retirement system from the Pension Contribution Fund pursuant to this subsection.

(Source: P.A. 93-2, eff. 4-7-03; 93-665, eff. 3-5-04.)

(30 ILCS 330/9) (from Ch. 127, par. 659)

Sec. 9. Conditions for Issuance and Sale of Bonds - Requirements for Bonds.

(a) Except as otherwise provided in this subsection, Bonds shall be issued and sold from time to time, in one or more series, in such amounts and at such prices as may be directed by the Governor, upon recommendation by the Director of the Governor's Office of Management and Budget. Bonds shall be in such form (either coupon, registered or book entry), in such denominations, payable within 25 years from their date, subject to such terms of redemption with or without premium, bear interest payable at such times and at such fixed or variable rate or rates, and be dated as shall be fixed and determined by the Director of the Governor's Office of Management and Budget in the order authorizing the issuance and sale of any series of Bonds, which order shall be approved by the Governor and is herein called a "Bond Sale Order"; provided however, that interest payable at fixed or variable rates shall not exceed that permitted in the Bond Authorization Act, as now or

hereafter amended, and provided further that Bonds authorized by this amendatory Act of the 95th General Assembly, issued at a fixed rate, shall bear interest at an interest rate or interest rates not to exceed 5.95%. Bonds shall be payable at such place or places, within or without the State of Illinois, and may be made registrable as to either principal or as to both principal and interest, as shall be specified in the Bond Sale Order. Bonds may be callable or subject to purchase and retirement or tender and remarketing as fixed and determined in the Bond Sale Order. Bonds must be issued with principal or mandatory redemption amounts in equal amounts, with the first maturity issued occurring within the fiscal year in which the Bonds are issued or within the next succeeding fiscal year, with Bonds issued maturing or subject to mandatory redemption each fiscal year thereafter up to 25 years. Notwithstanding anything in this Act to the contrary, the term of the Bonds authorized by this amendatory Act of the 95th General Assembly may not exceed 30 years from issuance, with payment of principal beginning in the first State fiscal year following the fiscal year of issuance and, to the extent so determined and specified in the Bond Sale Order, including periodic increases in principal payments, whether at maturity or upon mandatory redemption thereafter, provided that such Bonds maturing more than one year from the date of issuance shall not be payable on a single date in a fixed amount.

In the case of any series of Bonds bearing interest at a

variable interest rate ("Variable Rate Bonds"), in lieu of determining the rate or rates at which such series of Variable Rate Bonds shall bear interest and the price or prices at which such Variable Rate Bonds shall be initially sold or remarketed (in the event of purchase and subsequent resale), the Bond Sale Order may provide that such interest rates and prices may vary from time to time depending on criteria established in such Bond Sale Order, which criteria may include, without limitation, references to indices or variations in interest rates as may, in the judgment of a remarketing agent, be necessary to cause Variable Rate Bonds of such series to be remarketable from time to time at a price equal to their principal amount, and may provide for appointment of a bank, trust company, investment bank, or other financial institution to serve as remarketing agent in that connection. The Bond Sale Order may provide that alternative interest rates or provisions for establishing alternative interest rates, different security or claim priorities, or different call or amortization provisions will apply during such times as Variable Rate Bonds of any series are held by a person providing credit or liquidity enhancement arrangements for such Bonds as authorized in subsection (b) of this Section. The Bond Sale Order, other than for those bonds authorized pursuant to this amendatory Act of the 95th General Assembly, may also provide for such variable interest rates to be established pursuant to a process generally known as an auction rate process and may

provide for appointment of one or more financial institutions to serve as auction agents and broker-dealers in connection with the establishment of such interest rates and the sale and remarketing of such Bonds.

(b) In connection with the issuance of any series of Bonds, the State may enter into arrangements to provide additional security and liquidity for such Bonds, including, without limitation, bond or interest rate insurance or letters of credit, lines of credit, bond purchase contracts, or other arrangements whereby funds are made available to retire or purchase Bonds, thereby assuring the ability of owners of the Bonds to sell or redeem their Bonds. The State may enter into contracts and may agree to pay fees to persons providing such arrangements, but only under circumstances where the Director of the Governor's Office of Management and Budget certifies that he or she reasonably expects the total interest paid or to be paid on the Bonds, together with the fees for the arrangements (being treated as if interest), would not, taken together, cause the Bonds to bear interest, calculated to their stated maturity, at a rate in excess of the rate that the Bonds would bear in the absence of such arrangements.

The State may, with respect to Bonds issued or anticipated to be issued, participate in and enter into arrangements with respect to interest rate protection or exchange agreements, guarantees, or financial futures contracts for the purpose of limiting, reducing, or managing interest rate exposure. The

authority granted under this paragraph, however, shall not increase the principal amount of Bonds authorized to be issued by law. The arrangements may be executed and delivered by the Director of the Governor's Office of Management and Budget on behalf of the State. Net payments for such arrangements shall constitute interest on the Bonds and shall be paid from the General Obligation Bond Retirement and Interest Fund. The Director of the Governor's Office of Management and Budget shall at least annually certify to the Governor and the State Comptroller his or her estimate of the amounts of such net payments to be included in the calculation of interest required to be paid by the State.

(c) Prior to the issuance of any Variable Rate Bonds pursuant to subsection (a), the Director of the Governor's Office of Management and Budget shall adopt an interest rate risk management policy providing that the amount of the State's variable rate exposure with respect to Bonds shall not exceed 20%. This policy shall remain in effect while any Bonds are outstanding and the issuance of Bonds shall be subject to the terms of such policy. The terms of this policy may be amended from time to time by the Director of the Governor's Office of Management and Budget but in no event shall any amendment cause the permitted level of the State's variable rate exposure with respect to Bonds to exceed 20%.

(Source: P.A. 92-16, eff. 6-28-01; 93-9, eff. 6-3-03; 93-666, eff. 3-5-04; 93-839, eff. 7-30-04.)

(30 ILCS 330/11) (from Ch. 127, par. 661)

Sec. 11. Sale of Bonds. Except as otherwise provided in this Section, Bonds shall be sold from time to time pursuant to notice of sale and public bid or by negotiated sale in such amounts and at such times as is directed by the Governor, upon recommendation by the Director of the Governor's Office of Management and Budget. At least 25%, based on total principal amount, of all Bonds issued each fiscal year shall be sold pursuant to notice of sale and public bid. At all times during each fiscal year, no more than 75%, based on total principal amount, of the Bonds issued each fiscal year, shall have been sold by negotiated sale. Failure to satisfy the requirements in the preceding 2 sentences shall not affect the validity of any previously issued Bonds. All Bonds issued pursuant to the authorization contained in this amendatory Act of the 95th General Assembly may be sold by negotiated sale. The principal amount of Bonds issued pursuant to the authorization contained in this amendatory Act of the 95th General Assembly shall not be included in determining compliance for any fiscal year with the requirements of the second and third sentences of this paragraph.

If any Bonds, including refunding Bonds, are to be sold by negotiated sale, the Director of the Governor's Office of Management and Budget shall comply with the competitive request for proposal process set forth in the Illinois Procurement Code

and all other applicable requirements of that Code.

If Bonds are to be sold pursuant to notice of sale and public bid, the Director of the Governor's Office of Management and Budget shall, from time to time, as Bonds are to be sold, advertise the sale of the Bonds in at least 2 daily newspapers, one of which is published in the City of Springfield and one in the City of Chicago. The sale of the Bonds shall also be advertised in the volume of the Illinois Procurement Bulletin that is published by the Department of Central Management Services. Each of the advertisements for proposals shall be published once at least 10 days prior to the date fixed for the opening of the bids. The Director of the Governor's Office of Management and Budget may reschedule the date of sale upon the giving of such additional notice as the Director deems adequate to inform prospective bidders of such change; provided, however, that all other conditions of the sale shall continue as originally advertised.

Executed Bonds shall, upon payment therefor, be delivered to the purchaser, and the proceeds of Bonds shall be paid into the State Treasury as directed by Section 12 of this Act.

(Source: P.A. 93-839, eff. 7-30-04.)

Section 10. The Illinois Pension Code is amended by changing Sections 2-124, 2-134, 14-131, 14-135.08, 15-155, 15-156, 15-157, 15-165, 16-158, 18-131, and 18-140 as follows:

(40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

Sec. 2-124. Contributions by State.

(a) The State shall make contributions to the System by appropriations of amounts which, together with the contributions of participants, interest earned on investments, and other income will meet the cost of maintaining and administering the System on a 90% funded basis in accordance with actuarial recommendations.

(b) The Board shall determine the amount of State contributions required for each fiscal year on the basis of the actuarial tables and other assumptions adopted by the Board and the prescribed rate of interest, using the formula in subsection (c).

(c) Except as otherwise provided in this Section, the ~~For State fiscal years 2011 through 2045, the~~ minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2034, as ~~2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be~~ determined under the projected unit credit actuarial cost method.

For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable

employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $4,157,000.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $5,220,300.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2009 is $7,653,000, less that percentage of estimated fiscal year 2009 debt service payable on bonds authorized by this amendatory Act of the 95th General Assembly that is attributable to the percentage of bond proceeds received by the System.

For each of State fiscal years 2010 ~~2008~~ through 2038 ~~2010~~, the State contribution to the System~~, as a percentage of the applicable employee payroll,~~ shall be increased in an ~~equal~~ annual amount equal to the increase from the required State contribution from the preceding fiscal year, and this increase shall be increased by 3% each year ~~increments from the required State contribution for State fiscal year 2007~~, so that by State fiscal year 2038 ~~2011~~, the State is contributing at the rate otherwise required under this Section. If in any year this specified payment, when actuarially projected forward, should not be sufficient to achieve 90% funding by 2038, then that

year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% funding by 2038.

Beginning in State fiscal year 2039 or the fiscal year following that fiscal year during which 90% funding is achieved, the minimum State contribution for each fiscal year shall be the amount determined by the System to be sufficient to accumulate total System assets equal to 90% of the total actuarial liabilities of the System over 30 years. In making these determinations, the required State contribution shall be calculated each year as a level percentage of employee payroll over 30 years and shall be determined under the project unit credit actuarial cost method. ~~2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the

System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and for fiscal year 2010 and each fiscal year thereafter, as calculated under this Section and certified under Section 2-134, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act.

(d) Notwithstanding this Code or any other law to the contrary, the Board must ensure that at least 19% of the proceeds from the issuance of general obligation bonds under the General Obligation Bond Act authorized by this amendatory Act of the 95th General Assembly are invested through qualified investment advisers who are a "minority owned business" or a "female owned business" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act. ~~In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in~~

~~item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.~~

(Source: P.A. 93-2, eff. 4-7-03; 94-4, eff. 6-1-05; 94-839, eff. 6-6-06.)

(40 ILCS 5/2-134) (from Ch. 108 1/2, par. 2-134)

Sec. 2-134. To certify required State contributions and submit vouchers.

(a) The Board shall certify to the Governor on or before December 15 of each year the amount of the required State contribution to the System for the next fiscal year. The certification shall include a copy of the actuarial recommendations upon which it is based.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and

recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2006, taking into account the changes in required State contributions made by this amendatory Act of the 94th General Assembly.

On or before July 1, 2008, the board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2009, taking into account the changes in required contributions made by this amendatory Act of the 95th General Assembly.

(b) Beginning in State fiscal year 1996, on or as soon as possible after the 15th day of each month the Board shall submit vouchers for payment of State contributions to the System, in a total monthly amount of one-twelfth of the required annual State contribution certified under subsection (a). From the effective date of this amendatory Act of the 93rd General Assembly through June 30, 2004, the Board shall not submit vouchers for the remainder of fiscal year 2004 in excess of the fiscal year 2004 certified contribution amount determined under this Section after taking into consideration the transfer to the System under subsection (d) of Section 6z-61 of the State Finance Act. These vouchers shall be paid by the State Comptroller and Treasurer by warrants drawn on the funds appropriated to the System for that fiscal year. If in any month the amount remaining unexpended from all other appropriations to the System for the applicable fiscal year (including the appropriations to the System under Section 8.12

of the State Finance Act and Section 1 of the State Pension Funds Continuing Appropriation Act) is less than the amount lawfully vouchered under this Section, the difference shall be paid from the General Revenue Fund under the continuing appropriation authority provided in Section 1.1 of the State Pension Funds Continuing Appropriation Act.

(c) The full amount of any annual appropriation for the System for State fiscal year 1995 shall be transferred and made available to the System at the beginning of that fiscal year at the request of the Board. Any excess funds remaining at the end of any fiscal year from appropriations shall be retained by the System as a general reserve to meet the System's accrued liabilities.

(Source: P.A. 94-4, eff. 6-1-05; 94-536, eff. 8-10-05; 95-331, eff. 8-21-07.)

(40 ILCS 5/14-131) (from Ch. 108 1/2, par. 14-131)

Sec. 14-131. Contributions by State.

(a) The State shall make contributions to the System by appropriations of amounts which, together with other employer contributions from trust, federal, and other funds, employee contributions, investment income, and other income, will be sufficient to meet the cost of maintaining and administering the System on a 90% funded basis in accordance with actuarial recommendations.

For the purposes of this Section and Section 14-135.08,

1 references to State contributions refer only to employer
2 contributions and do not include employee contributions that
3 are picked up or otherwise paid by the State or a department on
4 behalf of the employee.

5 (b) The Board shall determine the total amount of State
6 contributions required for each fiscal year on the basis of the
7 actuarial tables and other assumptions adopted by the Board,
8 using the formula in subsection (e).

9 The Board shall also determine a State contribution rate
10 for each fiscal year, expressed as a percentage of payroll,
11 based on the total required State contribution for that fiscal
12 year (less the amount received by the System from
13 appropriations under Section 8.12 of the State Finance Act and
14 Section 1 of the State Pension Funds Continuing Appropriation
15 Act, if any, for the fiscal year ending on the June 30
16 immediately preceding the applicable November 15 certification
17 deadline), the estimated payroll (including all forms of
18 compensation) for personal services rendered by eligible
19 employees, and the recommendations of the actuary.

20 For the purposes of this Section and Section 14.1 of the
21 State Finance Act, the term "eligible employees" includes
22 employees who participate in the System, persons who may elect
23 to participate in the System but have not so elected, persons
24 who are serving a qualifying period that is required for
25 participation, and annuitants employed by a department as
26 described in subdivision (a)(1) or (a)(2) of Section 14-111.

(c) Contributions shall be made by the several departments for each pay period by warrants drawn by the State Comptroller against their respective funds or appropriations based upon vouchers stating the amount to be so contributed. These amounts shall be based on the full rate certified by the Board under Section 14-135.08 for that fiscal year. From the effective date of this amendatory Act of the 93rd General Assembly through the payment of the final payroll from fiscal year 2004 appropriations, the several departments shall not make contributions for the remainder of fiscal year 2004 but shall instead make payments as required under subsection (a-1) of Section 14.1 of the State Finance Act. The several departments shall resume those contributions at the commencement of fiscal year 2005.

(d) If an employee is paid from trust funds or federal funds, the department or other employer shall pay employer contributions from those funds to the System at the certified rate, unless the terms of the trust or the federal-State agreement preclude the use of the funds for that purpose, in which case the required employer contributions shall be paid by the State. From the effective date of this amendatory Act of the 93rd General Assembly through the payment of the final payroll from fiscal year 2004 appropriations, the department or other employer shall not pay contributions for the remainder of fiscal year 2004 but shall instead make payments as required under subsection (a-1) of Section 14.1 of the State Finance

Act. The department or other employer shall resume payment of contributions at the commencement of fiscal year 2005.

(e) Except as otherwise provided in this Section, the ~~For State fiscal years 2011 through 2045, the~~ minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2034, as ~~2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be~~ determined under the projected unit credit actuarial cost method.

~~For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section; except that (i) for State fiscal year 1998, for all purposes of this Code and any other law of this State, the certified percentage of the applicable employee payroll shall be 5.052% for employees earning eligible creditable service under Section 14-110 and 6.500% for all other employees, notwithstanding any contrary certification made under Section 14-135.08 before the effective date of this amendatory Act of 1997, and (ii) in the following specified State fiscal years, the State contribution to the System shall~~

~~not be less than the following indicated percentages of the applicable employee payroll, even if the indicated percentage will produce a State contribution in excess of the amount otherwise required under this subsection and subsection (a): 9.8% in FY 1999; 10.0% in FY 2000; 10.2% in FY 2001; 10.4% in FY 2002; 10.6% in FY 2003; and 10.8% in FY 2004.~~

Notwithstanding any other provision of this Article, the total required State contribution to the System for State fiscal year 2006 is $203,783,900.

Notwithstanding any other provision of this Article, the total required State contribution to the System for State fiscal year 2007 is $344,164,400.

Notwithstanding any other provision of this Article, the total required State contribution to the System for State fiscal year 2009 is $623,406,000, less that percentage of estimated fiscal year 2009 debt service payable on bonds authorized by this amendatory Act of the 95th General Assembly that is attributable to the percentage of bond proceeds received by the System.

For each of State fiscal years 2010 ~~2008~~ through 2038 ~~2010~~, the State contribution to the System~~, as a percentage of the applicable employee payroll,~~ shall be increased in an ~~equal~~ annual amount equal to the increase from the required State contribution from the preceding fiscal year, and this increase shall be increased by 3% each year ~~increments from the required State contribution for State fiscal year 2007~~, so that by State

fiscal year 2038 ~~2011~~, the State is contributing at the rate otherwise required under this Section. If in any year this specified payment, when actuarially projected forward, should not be sufficient to achieve 90% funding by 2038, then that year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% funding by 2038.

Beginning in State fiscal year 2039 or the fiscal year following that fiscal year during which 90% funding is achieved, the minimum State contribution for each fiscal year shall be the amount determined by the System to be sufficient to accumulate total System assets equal to 90% of the total actuarial liabilities of the System over 30 years. In making these determinations, the required State contribution shall be calculated each year as a level percentage of employee payroll over 30 years and shall be determined under the project unit credit actuarial cost method. ~~2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under

this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and for fiscal year 2010 and each fiscal year thereafter, as calculated under this Section and certified under Section 14-135.08, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. ~~In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds~~

~~issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.~~

(f) After the submission of all payments for eligible employees from personal services line items in fiscal year 2004 have been made, the Comptroller shall provide to the System a certification of the sum of all fiscal year 2004 expenditures for personal services that would have been covered by payments to the System under this Section if the provisions of this amendatory Act of the 93rd General Assembly had not been enacted. Upon receipt of the certification, the System shall determine the amount due to the System based on the full rate certified by the Board under Section 14-135.08 for fiscal year 2004 in order to meet the State's obligation under this Section. The System shall compare this amount due to the amount received by the System in fiscal year 2004 through payments under this Section and under Section 6z-61 of the State Finance Act. If the amount due is more than the amount received, the difference shall be termed the "Fiscal Year 2004 Shortfall" for purposes of this Section, and the Fiscal Year 2004 Shortfall shall be satisfied under Section 1.2 of the State Pension Funds Continuing Appropriation Act. If the amount due is less than the amount received, the difference shall be termed the "Fiscal Year 2004 Overpayment" for purposes of this Section, and the Fiscal Year 2004 Overpayment shall be repaid by the System to

the Pension Contribution Fund as soon as practicable after the certification.

(g) Notwithstanding this Code or any other law to the contrary, the Board must ensure that at least 19% of the proceeds from the issuance of general obligation bonds under the General Obligation Bond Act authorized by this amendatory Act of the 95th General Assembly are invested through qualified investment advisers who are a "minority owned business" or a "female owned business" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

(Source: P.A. 93-2, eff. 4-7-03; 93-665, eff. 3-5-04; 94-4, eff. 6-1-05; 94-839, eff. 6-6-06.)

(40 ILCS 5/14-135.08) (from Ch. 108 1/2, par. 14-135.08)

Sec. 14-135.08. To certify required State contributions.

(a) To certify to the Governor and to each department, on or before November 15 of each year, the required rate for State contributions to the System for the next State fiscal year, as determined under subsection (b) of Section 14-131. The certification to the Governor shall include a copy of the actuarial recommendations upon which the rate is based.

(b) The certification shall include an additional amount necessary to pay all principal of and interest on those general obligation bonds due the next fiscal year authorized by Section 7.2(a) of the General Obligation Bond Act and issued to provide

the proceeds deposited by the State with the System ~~in July 2003~~, representing deposits other than amounts reserved under Section 7.2(c) of the General Obligation Bond Act from the bond sale authorized by Public Act 93-2. For State fiscal year 2005, the Board shall make a supplemental certification of the additional amount necessary to pay all principal of and interest on those general obligation bonds due in State fiscal years 2004 and 2005 authorized by Section 7.2(a) of the General Obligation Bond Act and issued to provide the proceeds deposited by the State with the System in July 2003, representing deposits other than amounts reserved under Section 7.2(c) of the General Obligation Bond Act, as soon as practical after the effective date of this amendatory Act of the 93rd General Assembly.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor and to each department the amount of the required State contribution to the System and the required rates for State contributions to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and recertify to the Governor and to each department the amount of the required State contribution to the System and the required rates for State contributions to the System for State fiscal year 2006, taking into account the changes in required State

contributions made by this amendatory Act of the 94th General Assembly.

On or before July 1, 2008, the Board shall recalculate and recertify to the Governor and to each Department the amount of the required State contribution to the System and the required rates for State contribution to the System for State fiscal year 2009, taking into account the changes in required contributions made by this amendatory Act of the 95th General Assembly.

(Source: P.A. 93-2, eff. 4-7-03; 93-839, eff. 7-30-04; 94-4, eff. 6-1-05.)

(40 ILCS 5/15-155) (from Ch. 108 1/2, par. 15-155)

Sec. 15-155. Employer contributions.

(a) The State of Illinois shall make contributions by appropriations of amounts which, together with the other employer contributions from trust, federal, and other funds, employee contributions, income from investments, and other income of this System, will be sufficient to meet the cost of maintaining and administering the System on a 90% funded basis in accordance with actuarial recommendations.

The Board shall determine the amount of State contributions required for each fiscal year on the basis of the actuarial tables and other assumptions adopted by the Board and the recommendations of the actuary, using the formula in subsection (a-1).

(a-1) Except as otherwise provided in this Section, the ~~For State fiscal years 2011 through 2045, the~~ minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2034, as ~~2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be~~ determined under the projected unit credit actuarial cost method.

~~For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section.~~

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $166,641,900.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $252,064,100.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2009 is $422,189,000, less that percentage of estimated fiscal year 2009 debt service payable on bonds authorized by this

amendatory Act of the 95th General Assembly that is attributable to the percentage of bond proceeds received by the System.

For each of State fiscal years 2010 ~~2008~~ through 2038 ~~2010~~, the State contribution to the System~~, as a percentage of the applicable employee payroll,~~ shall be increased in an ~~equal~~ annual amount equal to the increase from the required State contribution from the preceding fiscal year, and this increase shall be increased by 3% each year ~~increments from the required State contribution for State fiscal year 2007~~, so that by State fiscal year 2038 ~~2011~~, the State is contributing at the rate otherwise required under this Section. If in any year this specified payment, when actuarially projected forward, should not be sufficient to achieve 90% funding by 2038, then that year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% funding by 2038.

Beginning in State fiscal year 2039 or the fiscal year following that fiscal year during which 90% funding is achieved, the minimum State contribution for each fiscal year shall be the amount determined by the System to be sufficient to accumulate total System assets equal to 90% of the total actuarial liabilities of the System over 30 years. In making these determinations, the required State contribution shall be calculated each year as a level percentage of employee payroll over 30 years and shall be determined under the project unit

credit actuarial cost method. ~~2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and for fiscal year 2010 and each fiscal year thereafter, as calculated under this Section and certified under Section 15-165, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that

Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. ~~In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.~~

(b) If an employee is paid from trust or federal funds, the employer shall pay to the Board contributions from those funds which are sufficient to cover the accruing normal costs on behalf of the employee. However, universities having employees who are compensated out of local auxiliary funds, income funds, or service enterprise funds are not required to pay such contributions on behalf of those employees. The local auxiliary funds, income funds, and service enterprise funds of universities shall not be considered trust funds for the purpose of this Article, but funds of alumni associations, foundations, and athletic associations which are affiliated with the universities included as employers under this Article

and other employers which do not receive State appropriations are considered to be trust funds for the purpose of this Article.

(b-1) The City of Urbana and the City of Champaign shall each make employer contributions to this System for their respective firefighter employees who participate in this System pursuant to subsection (h) of Section 15-107. The rate of contributions to be made by those municipalities shall be determined annually by the Board on the basis of the actuarial assumptions adopted by the Board and the recommendations of the actuary, and shall be expressed as a percentage of salary for each such employee. The Board shall certify the rate to the affected municipalities as soon as may be practical. The employer contributions required under this subsection shall be remitted by the municipality to the System at the same time and in the same manner as employee contributions.

(c) Through State fiscal year 1995: The total employer contribution shall be apportioned among the various funds of the State and other employers, whether trust, federal, or other funds, in accordance with actuarial procedures approved by the Board. State of Illinois contributions for employers receiving State appropriations for personal services shall be payable from appropriations made to the employers or to the System. The contributions for Class I community colleges covering earnings other than those paid from trust and federal funds, shall be payable solely from appropriations to the Illinois Community

College Board or the System for employer contributions.

(d) Beginning in State fiscal year 1996, the required State contributions to the System shall be appropriated directly to the System and shall be payable through vouchers issued in accordance with subsection (c) of Section 15-165, except as provided in subsection (g).

(e) The State Comptroller shall draw warrants payable to the System upon proper certification by the System or by the employer in accordance with the appropriation laws and this Code.

(f) Normal costs under this Section means liability for pensions and other benefits which accrues to the System because of the credits earned for service rendered by the participants during the fiscal year and expenses of administering the System, but shall not include the principal of or any redemption premium or interest on any bonds issued by the Board or any expenses incurred or deposits required in connection therewith.

(g) If the amount of a participant's earnings for any academic year used to determine the final rate of earnings, determined on a full-time equivalent basis, exceeds the amount of his or her earnings with the same employer for the previous academic year, determined on a full-time equivalent basis, by more than 6%, the participant's employer shall pay to the System, in addition to all other payments required under this Section and in accordance with guidelines established by the

System, the present value of the increase in benefits resulting from the portion of the increase in earnings that is in excess of 6%. This present value shall be computed by the System on the basis of the actuarial assumptions and tables used in the most recent actuarial valuation of the System that is available at the time of the computation. The System may require the employer to provide any pertinent information or documentation.

Whenever it determines that a payment is or may be required under this subsection (g), the System shall calculate the amount of the payment and bill the employer for that amount. The bill shall specify the calculations used to determine the amount due. If the employer disputes the amount of the bill, it may, within 30 days after receipt of the bill, apply to the System in writing for a recalculation. The application must specify in detail the grounds of the dispute and, if the employer asserts that the calculation is subject to subsection (h) or (i) of this Section, must include an affidavit setting forth and attesting to all facts within the employer's knowledge that are pertinent to the applicability of subsection (h) or (i). Upon receiving a timely application for recalculation, the System shall review the application and, if appropriate, recalculate the amount due.

The employer contributions required under this subsection (f) may be paid in the form of a lump sum within 90 days after receipt of the bill. If the employer contributions are not paid

within 90 days after receipt of the bill, then interest will be charged at a rate equal to the System's annual actuarially assumed rate of return on investment compounded annually from the 91st day after receipt of the bill. Payments must be concluded within 3 years after the employer's receipt of the bill.

(h) This subsection (h) applies only to payments made or salary increases given on or after June 1, 2005 but before July 1, 2011. The changes made by Public Act 94-1057 shall not require the System to refund any payments received before July 31, 2006 (the effective date of Public Act 94-1057).

When assessing payment for any amount due under subsection (g), the System shall exclude earnings increases paid to participants under contracts or collective bargaining agreements entered into, amended, or renewed before June 1, 2005.

When assessing payment for any amount due under subsection (g), the System shall exclude earnings increases paid to a participant at a time when the participant is 10 or more years from retirement eligibility under Section 15-135.

When assessing payment for any amount due under subsection (g), the System shall exclude earnings increases resulting from overload work, including a contract for summer teaching, or overtime when the employer has certified to the System, and the System has approved the certification, that: (i) in the case of overloads (A) the overload work is for the sole purpose of

academic instruction in excess of the standard number of instruction hours for a full-time employee occurring during the academic year that the overload is paid and (B) the earnings increases are equal to or less than the rate of pay for academic instruction computed using the participant's current salary rate and work schedule; and (ii) in the case of overtime, the overtime was necessary for the educational mission.

When assessing payment for any amount due under subsection (g), the System shall exclude any earnings increase resulting from (i) a promotion for which the employee moves from one classification to a higher classification under the State Universities Civil Service System, (ii) a promotion in academic rank for a tenured or tenure-track faculty position, or (iii) a promotion that the Illinois Community College Board has recommended in accordance with subsection (k) of this Section. These earnings increases shall be excluded only if the promotion is to a position that has existed and been filled by a member for no less than one complete academic year and the earnings increase as a result of the promotion is an increase that results in an amount no greater than the average salary paid for other similar positions.

(i) When assessing payment for any amount due under subsection (g), the System shall exclude any salary increase described in subsection (h) of this Section given on or after July 1, 2011 but before July 1, 2014 under a contract or

collective bargaining agreement entered into, amended, or renewed on or after June 1, 2005 but before July 1, 2011. Notwithstanding any other provision of this Section, any payments made or salary increases given after June 30, 2014 shall be used in assessing payment for any amount due under subsection (g) of this Section.

(j) The System shall prepare a report and file copies of the report with the Governor and the General Assembly by January 1, 2007 that contains all of the following information:

(1) The number of recalculations required by the changes made to this Section by Public Act 94-1057 for each employer.

(2) The dollar amount by which each employer's contribution to the System was changed due to recalculations required by Public Act 94-1057.

(3) The total amount the System received from each employer as a result of the changes made to this Section by Public Act 94-4.

(4) The increase in the required State contribution resulting from the changes made to this Section by Public Act 94-1057.

(k) The Illinois Community College Board shall adopt rules for recommending lists of promotional positions submitted to the Board by community colleges and for reviewing the promotional lists on an annual basis. When recommending promotional lists, the Board shall consider the similarity of

the positions submitted to those positions recognized for State universities by the State Universities Civil Service System. The Illinois Community College Board shall file a copy of its findings with the System. The System shall consider the findings of the Illinois Community College Board when making determinations under this Section. The System shall not exclude any earnings increases resulting from a promotion when the promotion was not submitted by a community college. Nothing in this subsection (k) shall require any community college to submit any information to the Community College Board.

(l) Notwithstanding this Code or any other law to the contrary, the Board must ensure that at least 19% of the proceeds from the issuance of general obligation bonds under the General Obligation Bond Act authorized by this amendatory Act of the 95th General Assembly are invested through qualified investment advisers who are a "minority owned business" or a "female owned business" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

(Source: P.A. 94-4, eff. 6-1-05; 94-839, eff. 6-6-06; 94-1057, eff. 7-31-06; 95-331, eff. 8-21-07.)

(40 ILCS 5/15-165) (from Ch. 108 1/2, par. 15-165)

Sec. 15-165. To certify amounts and submit vouchers.

(a) The Board shall certify to the Governor on or before November 15 of each year the appropriation required from State

funds for the purposes of this System for the following fiscal year. The certification shall include a copy of the actuarial recommendations upon which it is based.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2006, taking into account the changes in required State contributions made by this amendatory Act of the 94th General Assembly.

On or before July 1, 2008, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2009, taking into account the changes in required State contributions made by this amendatory Act of the 95th General Assembly.

(b) The Board shall certify to the State Comptroller or employer, as the case may be, from time to time, by its president and secretary, with its seal attached, the amounts payable to the System from the various funds.

(c) Beginning in State fiscal year 1996, on or as soon as possible after the 15th day of each month the Board shall submit vouchers for payment of State contributions to the

System, in a total monthly amount of one-twelfth of the required annual State contribution certified under subsection (a). From the effective date of this amendatory Act of the 93rd General Assembly through June 30, 2004, the Board shall not submit vouchers for the remainder of fiscal year 2004 in excess of the fiscal year 2004 certified contribution amount determined under this Section after taking into consideration the transfer to the System under subsection (b) of Section 6z-61 of the State Finance Act. These vouchers shall be paid by the State Comptroller and Treasurer by warrants drawn on the funds appropriated to the System for that fiscal year.

If in any month the amount remaining unexpended from all other appropriations to the System for the applicable fiscal year (including the appropriations to the System under Section 8.12 of the State Finance Act and Section 1 of the State Pension Funds Continuing Appropriation Act) is less than the amount lawfully vouchered under this Section, the difference shall be paid from the General Revenue Fund under the continuing appropriation authority provided in Section 1.1 of the State Pension Funds Continuing Appropriation Act.

(d) So long as the payments received are the full amount lawfully vouchered under this Section, payments received by the System under this Section shall be applied first toward the employer contribution to the self-managed plan established under Section 15-158.2. Payments shall be applied second toward the employer's portion of the normal costs of the System, as

defined in subsection (f) of Section 15-155. The balance shall be applied toward the unfunded actuarial liabilities of the System.

(e) In the event that the System does not receive, as a result of legislative enactment or otherwise, payments sufficient to fully fund the employer contribution to the self-managed plan established under Section 15-158.2 and to fully fund that portion of the employer's portion of the normal costs of the System, as calculated in accordance with Section 15-155(a-1), then any payments received shall be applied proportionately to the optional retirement program established under Section 15-158.2 and to the employer's portion of the normal costs of the System, as calculated in accordance with Section 15-155(a-1).

(Source: P.A. 93-2, eff. 4-7-03; 93-665, eff. 3-5-04; 94-4, eff. 6-1-05.)

(40 ILCS 5/16-158) (from Ch. 108 1/2, par. 16-158)

Sec. 16-158. Contributions by State and other employing units.

(a) The State shall make contributions to the System by means of appropriations from the Common School Fund and other State funds of amounts which, together with other employer contributions, employee contributions, investment income, and other income, will be sufficient to meet the cost of maintaining and administering the System on a 90% funded basis

in accordance with actuarial recommendations.

The Board shall determine the amount of State contributions required for each fiscal year on the basis of the actuarial tables and other assumptions adopted by the Board and the recommendations of the actuary, using the formula in subsection (b-3).

(a-1) Annually, on or before November 15, the Board shall certify to the Governor the amount of the required State contribution for the coming fiscal year. The certification shall include a copy of the actuarial recommendations upon which it is based.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2006, taking into account the changes in required State contributions made by this amendatory Act of the 94th General Assembly.

<u>On or before July 1, 2008, the board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2009, taking into account the changes in required contributions made by this</u>

1 amendatory Act of the 95th General Assembly.
2 (b) Through State fiscal year 1995, the State contributions
3 shall be paid to the System in accordance with Section 18-7 of
4 the School Code.
5 (b-1) Beginning in State fiscal year 1996, on the 15th day
6 of each month, or as soon thereafter as may be practicable, the
7 Board shall submit vouchers for payment of State contributions
8 to the System, in a total monthly amount of one-twelfth of the
9 required annual State contribution certified under subsection
10 (a-1). From the effective date of this amendatory Act of the
11 93rd General Assembly through June 30, 2004, the Board shall
12 not submit vouchers for the remainder of fiscal year 2004 in
13 excess of the fiscal year 2004 certified contribution amount
14 determined under this Section after taking into consideration
15 the transfer to the System under subsection (a) of Section
16 6z-61 of the State Finance Act. These vouchers shall be paid by
17 the State Comptroller and Treasurer by warrants drawn on the
18 funds appropriated to the System for that fiscal year.
19 If in any month the amount remaining unexpended from all
20 other appropriations to the System for the applicable fiscal
21 year (including the appropriations to the System under Section
22 8.12 of the State Finance Act and Section 1 of the State
23 Pension Funds Continuing Appropriation Act) is less than the
24 amount lawfully vouchered under this subsection, the
25 difference shall be paid from the Common School Fund under the
26 continuing appropriation authority provided in Section 1.1 of

the State Pension Funds Continuing Appropriation Act.

(b-2) Allocations from the Common School Fund apportioned to school districts not coming under this System shall not be diminished or affected by the provisions of this Article.

(b-3) Except as otherwise provided in this Section, the ~~For State fiscal years 2011 through 2045, the~~ minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2034, as ~~2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be~~ determined under the projected unit credit actuarial cost method.

~~For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section; except that in the following specified State fiscal years, the State contribution to the System shall not be less than the following indicated percentages of the applicable employee payroll, even if the indicated percentage will produce a State contribution in excess of the amount otherwise required under this subsection and subsection (a), and notwithstanding any contrary~~

~~certification made under subsection (a-1) before the effective date of this amendatory Act of 1998: 10.02% in FY 1999; 10.77% in FY 2000; 11.47% in FY 2001; 12.16% in FY 2002; 12.86% in FY 2003; and 13.56% in FY 2004.~~

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $534,627,700.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $738,014,500.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2009 is $1,194,588,000, less that percentage of estimated fiscal year 2009 debt service payable on bonds authorized by this amendatory Act of the 95th General Assembly that is attributable to the percentage of bond proceeds received by the System.

For each of State fiscal years 2010 ~~2008~~ through 2038 ~~2010~~, the State contribution to the System, ~~as a percentage of the applicable employee payroll,~~ shall be increased in an ~~equal~~ annual amount equal to the increase from the required State contribution from the preceding fiscal year, and this increase shall be increased by 3% each year ~~increments from the required State contribution for State fiscal year 2007~~, so that by State fiscal year 2038 ~~2011~~, the State is contributing at the rate otherwise required under this Section. If in any year this

specified payment, when actuarially projected forward, should not be sufficient to achieve 90% funding by 2038, then that year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% funding by 2038.

Beginning in State fiscal year 2039 or the fiscal year following that fiscal year during which 90% funding is achieved, the minimum State contribution for each fiscal year shall be the amount determined by the System to be sufficient to accumulate total System assets equal to 90% of the total actuarial liabilities of the System over 30 years. In making these determinations, the required State contribution shall be calculated each year as a level percentage of employee payroll over 30 years and shall be determined under the project unit credit actuarial cost method. ~~2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to

the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and for fiscal year 2010 and each fiscal year thereafter, as calculated under this Section and certified under subsection (a-1), shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. ~~In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the~~

~~State is contributing at the rate otherwise required under this Section.~~

(c) Payment of the required State contributions and of all pensions, retirement annuities, death benefits, refunds, and other benefits granted under or assumed by this System, and all expenses in connection with the administration and operation thereof, are obligations of the State.

If members are paid from special trust or federal funds which are administered by the employing unit, whether school district or other unit, the employing unit shall pay to the System from such funds the full accruing retirement costs based upon that service, as determined by the System. Employer contributions, based on salary paid to members from federal funds, may be forwarded by the distributing agency of the State of Illinois to the System prior to allocation, in an amount determined in accordance with guidelines established by such agency and the System.

(d) Effective July 1, 1986, any employer of a teacher as defined in paragraph (8) of Section 16-106 shall pay the employer's normal cost of benefits based upon the teacher's service, in addition to employee contributions, as determined by the System. Such employer contributions shall be forwarded monthly in accordance with guidelines established by the System.

However, with respect to benefits granted under Section 16-133.4 or 16-133.5 to a teacher as defined in paragraph (8)

of Section 16-106, the employer's contribution shall be 12% (rather than 20%) of the member's highest annual salary rate for each year of creditable service granted, and the employer shall also pay the required employee contribution on behalf of the teacher. For the purposes of Sections 16-133.4 and 16-133.5, a teacher as defined in paragraph (8) of Section 16-106 who is serving in that capacity while on leave of absence from another employer under this Article shall not be considered an employee of the employer from which the teacher is on leave.

(e) Beginning July 1, 1998, every employer of a teacher shall pay to the System an employer contribution computed as follows:

(1) Beginning July 1, 1998 through June 30, 1999, the employer contribution shall be equal to 0.3% of each teacher's salary.

(2) Beginning July 1, 1999 and thereafter, the employer contribution shall be equal to 0.58% of each teacher's salary.

The school district or other employing unit may pay these employer contributions out of any source of funding available for that purpose and shall forward the contributions to the System on the schedule established for the payment of member contributions.

These employer contributions are intended to offset a portion of the cost to the System of the increases in

retirement benefits resulting from this amendatory Act of 1998.

Each employer of teachers is entitled to a credit against the contributions required under this subsection (e) with respect to salaries paid to teachers for the period January 1, 2002 through June 30, 2003, equal to the amount paid by that employer under subsection (a-5) of Section 6.6 of the State Employees Group Insurance Act of 1971 with respect to salaries paid to teachers for that period.

The additional 1% employee contribution required under Section 16-152 by this amendatory Act of 1998 is the responsibility of the teacher and not the teacher's employer, unless the employer agrees, through collective bargaining or otherwise, to make the contribution on behalf of the teacher.

If an employer is required by a contract in effect on May 1, 1998 between the employer and an employee organization to pay, on behalf of all its full-time employees covered by this Article, all mandatory employee contributions required under this Article, then the employer shall be excused from paying the employer contribution required under this subsection (e) for the balance of the term of that contract. The employer and the employee organization shall jointly certify to the System the existence of the contractual requirement, in such form as the System may prescribe. This exclusion shall cease upon the termination, extension, or renewal of the contract at any time after May 1, 1998.

(f) If the amount of a teacher's salary for any school year

used to determine final average salary exceeds the member's annual full-time salary rate with the same employer for the previous school year by more than 6%, the teacher's employer shall pay to the System, in addition to all other payments required under this Section and in accordance with guidelines established by the System, the present value of the increase in benefits resulting from the portion of the increase in salary that is in excess of 6%. This present value shall be computed by the System on the basis of the actuarial assumptions and tables used in the most recent actuarial valuation of the System that is available at the time of the computation. If a teacher's salary for the 2005-2006 school year is used to determine final average salary under this subsection (f), then the changes made to this subsection (f) by Public Act 94-1057 shall apply in calculating whether the increase in his or her salary is in excess of 6%. For the purposes of this Section, change in employment under Section 10-21.12 of the School Code on or after June 1, 2005 shall constitute a change in employer. The System may require the employer to provide any pertinent information or documentation. The changes made to this subsection (f) by this amendatory Act of the 94th General Assembly apply without regard to whether the teacher was in service on or after its effective date.

Whenever it determines that a payment is or may be required under this subsection, the System shall calculate the amount of the payment and bill the employer for that amount. The bill

shall specify the calculations used to determine the amount due. If the employer disputes the amount of the bill, it may, within 30 days after receipt of the bill, apply to the System in writing for a recalculation. The application must specify in detail the grounds of the dispute and, if the employer asserts that the calculation is subject to subsection (g) or (h) of this Section, must include an affidavit setting forth and attesting to all facts within the employer's knowledge that are pertinent to the applicability of that subsection. Upon receiving a timely application for recalculation, the System shall review the application and, if appropriate, recalculate the amount due.

The employer contributions required under this subsection (f) may be paid in the form of a lump sum within 90 days after receipt of the bill. If the employer contributions are not paid within 90 days after receipt of the bill, then interest will be charged at a rate equal to the System's annual actuarially assumed rate of return on investment compounded annually from the 91st day after receipt of the bill. Payments must be concluded within 3 years after the employer's receipt of the bill.

(g) This subsection (g) applies only to payments made or salary increases given on or after June 1, 2005 but before July 1, 2011. The changes made by Public Act 94-1057 shall not require the System to refund any payments received before July 31, 2006 (the effective date of Public Act 94-1057).

When assessing payment for any amount due under subsection (f), the System shall exclude salary increases paid to teachers under contracts or collective bargaining agreements entered into, amended, or renewed before June 1, 2005.

When assessing payment for any amount due under subsection (f), the System shall exclude salary increases paid to a teacher at a time when the teacher is 10 or more years from retirement eligibility under Section 16-132 or 16-133.2.

When assessing payment for any amount due under subsection (f), the System shall exclude salary increases resulting from overload work, including summer school, when the school district has certified to the System, and the System has approved the certification, that (i) the overload work is for the sole purpose of classroom instruction in excess of the standard number of classes for a full-time teacher in a school district during a school year and (ii) the salary increases are equal to or less than the rate of pay for classroom instruction computed on the teacher's current salary and work schedule.

When assessing payment for any amount due under subsection (f), the System shall exclude a salary increase resulting from a promotion (i) for which the employee is required to hold a certificate or supervisory endorsement issued by the State Teacher Certification Board that is a different certification or supervisory endorsement than is required for the teacher's previous position and (ii) to a position that has existed and been filled by a member for no less than one complete academic

year and the salary increase from the promotion is an increase that results in an amount no greater than the lesser of the average salary paid for other similar positions in the district requiring the same certification or the amount stipulated in the collective bargaining agreement for a similar position requiring the same certification.

When assessing payment for any amount due under subsection (f), the System shall exclude any payment to the teacher from the State of Illinois or the State Board of Education over which the employer does not have discretion, notwithstanding that the payment is included in the computation of final average salary.

(h) When assessing payment for any amount due under subsection (f), the System shall exclude any salary increase described in subsection (g) of this Section given on or after July 1, 2011 but before July 1, 2014 under a contract or collective bargaining agreement entered into, amended, or renewed on or after June 1, 2005 but before July 1, 2011. Notwithstanding any other provision of this Section, any payments made or salary increases given after June 30, 2014 shall be used in assessing payment for any amount due under subsection (f) of this Section.

(i) The System shall prepare a report and file copies of the report with the Governor and the General Assembly by January 1, 2007 that contains all of the following information:

(1) The number of recalculations required by the

changes made to this Section by Public Act 94-1057 for each employer.

(2) The dollar amount by which each employer's contribution to the System was changed due to recalculations required by Public Act 94-1057.

(3) The total amount the System received from each employer as a result of the changes made to this Section by Public Act 94-4.

(4) The increase in the required State contribution resulting from the changes made to this Section by Public Act 94-1057.

(j) Notwithstanding this Code or any other law to the contrary, the Board must ensure that at least 19% of the proceeds from the issuance of general obligation bonds under the General Obligation Bond Act authorized by this amendatory Act of the 95th General Assembly are invested through qualified investment advisers who are a "minority owned business" or a "female owned business" as those terms are defined in the Business Enterprise for Minorities, Females, and Persons with Disabilities Act.

(Source: P.A. 94-4, eff. 6-1-05; 94-839, eff. 6-6-06; 94-1057, eff. 7-31-06; 94-1111, eff. 2-27-07; 95-331, eff. 8-21-07.)

(40 ILCS 5/18-131) (from Ch. 108 1/2, par. 18-131)

Sec. 18-131. Financing; employer contributions.

(a) The State of Illinois shall make contributions to this

System by appropriations of the amounts which, together with the contributions of participants, net earnings on investments, and other income, will meet the costs of maintaining and administering this System on a 90% funded basis in accordance with actuarial recommendations.

(b) The Board shall determine the amount of State contributions required for each fiscal year on the basis of the actuarial tables and other assumptions adopted by the Board and the prescribed rate of interest, using the formula in subsection (c).

(c) Except as otherwise provided in this Section, the ~~For State fiscal years 2011 through 2045, the~~ minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2034, as ~~2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be~~ determined under the projected unit credit actuarial cost method.

~~For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section.~~

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $29,189,400.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $35,236,800.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2009 is $51,931,000, less that percentage of estimated fiscal year 2009 debt service payable on bonds authorized by this amendatory Act of the 95th General Assembly that is attributable to the percentage of bond proceeds received by the System.

For each of State fiscal years 2010 ~~2008~~ through 2038 ~~2010~~, the State contribution to the System~~, as a percentage of the applicable employee payroll,~~ shall be increased in an ~~equal~~ annual amount equal to the increase from the required State contribution from the preceding fiscal year, and this increase shall be increased by 3% each year ~~increments from the required State contribution for State fiscal year 2007~~, so that by State fiscal year 2038 ~~2011~~, the State is contributing at the rate otherwise required under this Section. If in any year this specified payment, when actuarially projected forward, should not be sufficient to achieve 90% funding by 2038, then that year's contribution shall be the amount necessary when taken as a level dollar increase, increased by 3% each year, to achieve 90% funding by 2038.

Beginning in State fiscal year 2039 or the fiscal year following that fiscal year during which 90% funding is achieved, the minimum State contribution for each fiscal year shall be the amount determined by the System to be sufficient to accumulate total System assets equal to 90% of the total actuarial liabilities of the System over 30 years. In making these determinations, the required State contribution shall be calculated each year as a level percentage of employee payroll over 30 years and shall be determined under the project unit credit actuarial cost method. ~~2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for

fiscal year 2008 and for fiscal year 2010 and each fiscal year thereafter, as calculated under this Section and certified under Section 18-140, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. ~~In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.~~

(Source: P.A. 93-2, eff. 4-7-03; 94-4, eff. 6-1-05; 94-839, eff. 6-6-06.)

(40 ILCS 5/18-140) (from Ch. 108 1/2, par. 18-140)

Sec. 18-140. To certify required State contributions and submit vouchers.

(a) The Board shall certify to the Governor, on or before November 15 of each year, the amount of the required State contribution to the System for the following fiscal year. The certification shall include a copy of the actuarial recommendations upon which it is based.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2006, taking into account the changes in required State contributions made by this amendatory Act of the 94th General Assembly.

<u>On or before July 1, 2008, the board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2009, taking into account the changes in required contributions made by this amendatory Act of the 95th General Assembly.</u>

(b) Beginning in State fiscal year 1996, on or as soon as possible after the 15th day of each month the Board shall

submit vouchers for payment of State contributions to the System, in a total monthly amount of one-twelfth of the required annual State contribution certified under subsection (a). From the effective date of this amendatory Act of the 93rd General Assembly through June 30, 2004, the Board shall not submit vouchers for the remainder of fiscal year 2004 in excess of the fiscal year 2004 certified contribution amount determined under this Section after taking into consideration the transfer to the System under subsection (c) of Section 6z-61 of the State Finance Act. These vouchers shall be paid by the State Comptroller and Treasurer by warrants drawn on the funds appropriated to the System for that fiscal year.

If in any month the amount remaining unexpended from all other appropriations to the System for the applicable fiscal year (including the appropriations to the System under Section 8.12 of the State Finance Act and Section 1 of the State Pension Funds Continuing Appropriation Act) is less than the amount lawfully vouchered under this Section, the difference shall be paid from the General Revenue Fund under the continuing appropriation authority provided in Section 1.1 of the State Pension Funds Continuing Appropriation Act.

(c) Notwithstanding this Code or any other law to the contrary, the Board must ensure that at least 19% of the proceeds from the issuance of general obligation bonds under the General Obligation Bond Act authorized by this amendatory Act of the 95th General Assembly are invested through qualified

1 investment advisers who are a "minority owned business" or a
2 "female owned business" as those terms are defined in the
3 Business Enterprise for Minorities, Females, and Persons with
4 Disabilities Act.
5 (Source: P.A. 93-2, eff. 4-7-03; 93-665, eff. 3-5-04; 94-4,
6 eff. 6-1-05.)

7 Section 99. Effective date. This Act takes effect upon
8 becoming law.

Asset Smoothing

LRB096 12898 AMC 26760 a

AMENDMENT TO HOUSE BILL XXX

AMENDMENT NO. _____. Amend House Bill XXX by replacing everything after the enacting clause with the following:

"Section 5. The Illinois Pension Code is amended by changing Sections 2-124, 14-131, 15-155, 16-158, and 18-131 as follows:

(40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

Sec. 2-124. Contributions by State.

(a) The State shall make contributions to the System by appropriations of amounts which, together with the contributions of participants, interest earned on investments, and other income will meet the cost of maintaining and administering the System on a 90% funded basis in accordance with actuarial recommendations.

(b) The Board shall determine the amount of State contributions required for each fiscal year on the basis of the

employee payroll, shall be increased in equal annual increments from the required State contribution for State fiscal year 2007, so that by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.

Beginning in State fiscal year 2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act or Section 8.12 of the State Finance Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and each fiscal year thereafter, as calculated under this Section and certified under Section 2-134, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section

following scale, of the gains or losses, respectively, realized during each of the preceding 4 years:

For the preceding year	80%
For 2 years prior	60%
For 3 years prior	40%
For 4 years prior	20%

This methodology shall be first effective for the June 30, 2009 actuarial valuation of the System and shall be applied on a prospective basis taking into account only those gains and losses occurring after June 30, 2008.

A gain or loss for a year shall be calculated by subtracting the expected value of the assets at the valuation date from the market value of the assets at the valuation date. The expected value of the assets at the valuation date equals the market value of the assets one year prior to the valuation date plus contributions during the year leading up to the valuation date and minus disbursements during the year leading up to the valuation date, all adjusted with interest at the valuation interest rate up to the valuation date.

For the actuarial valuation of the System as of June 30, 2009, the actuarial value is equal to the June 30, 2009 market value of assets plus or minus 80% of the gain or loss, respectively, earned from July 1, 2008 through June 30, 2009. In each subsequent year, an additional year's gain or loss shall be recognized according to the schedule contained in this subsection (d), so that the methodology shall be fully

LRB096 12898 AMC 26760 a

AMENDMENT TO HOUSE BILL XXX

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(40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

Sec. 2-124. Contributions by State.

(a) The State shall make contributions to the System by appropriations of amounts which, together with the contributions of participants, interest earned on investments, and other income will meet the cost of maintaining and administering the System on a 90% funded basis in accordance with actuarial recommendations.

(b) The Board shall determine the amount of State contributions required for each fiscal year on the basis of the

actuarial tables and other assumptions adopted by the Board and the prescribed rate of interest, using the formula in subsection (c).

(c) For State fiscal years 2011 through 2045, the minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $4,157,000.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $5,220,300.

For each of State fiscal years 2008 through 2010, the State contribution to the System, as a percentage of the applicable

employee payroll, shall be increased in equal annual increments from the required State contribution for State fiscal year 2007, so that by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.

Beginning in State fiscal year 2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act or Section 8.12 of the State Finance Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and each fiscal year thereafter, as calculated under this Section and certified under Section 2-134, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section

for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.

(d) Notwithstanding any other provision of this Article, for purposes of determining the required State contribution to the System, the value of the System's assets shall be equal to the actuarial value of the System's assets, which shall be calculated as follows:

The actuarial value of System assets on a particular date is equal to the market value of the assets as of that same date plus or minus a decreasing percentage, as identified in the

following scale, of the gains or losses, respectively, realized during each of the preceding 4 years:

For the preceding year	80%
For 2 years prior	60%
For 3 years prior	40%
For 4 years prior	20%

This methodology shall be first effective for the June 30, 2009 actuarial valuation of the System and shall be applied on a prospective basis taking into account only those gains and losses occurring after June 30, 2008.

A gain or loss for a year shall be calculated by subtracting the expected value of the assets at the valuation date from the market value of the assets at the valuation date. The expected value of the assets at the valuation date equals the market value of the assets one year prior to the valuation date plus contributions during the year leading up to the valuation date and minus disbursements during the year leading up to the valuation date, all adjusted with interest at the valuation interest rate up to the valuation date.

For the actuarial valuation of the System as of June 30, 2009, the actuarial value is equal to the June 30, 2009 market value of assets plus or minus 80% of the gain or loss, respectively, earned from July 1, 2008 through June 30, 2009. In each subsequent year, an additional year's gain or loss shall be recognized according to the schedule contained in this subsection (d), so that the methodology shall be fully

1 implemented for the June 30, 2012 actuarial valuation.
2 In the actuarial projection of System assets to 2045 used
3 to determine the required State contribution, the valuation
4 interest rate shall be applied to the actuarial value of System
5 assets as of the valuation date without recognizing future
6 gains or losses.
7 (Source: P.A. 94-4, eff. 6-1-05; 94-839, eff. 6-6-06; 95-950,
8 eff. 8-29-08.)

9 (40 ILCS 5/14-131) (from Ch. 108 1/2, par. 14-131)
10 Sec. 14-131. Contributions by State.
11 (a) The State shall make contributions to the System by
12 appropriations of amounts which, together with other employer
13 contributions from trust, federal, and other funds, employee
14 contributions, investment income, and other income, will be
15 sufficient to meet the cost of maintaining and administering
16 the System on a 90% funded basis in accordance with actuarial
17 recommendations.
18 For the purposes of this Section and Section 14-135.08,
19 references to State contributions refer only to employer
20 contributions and do not include employee contributions that
21 are picked up or otherwise paid by the State or a department on
22 behalf of the employee.
23 (b) The Board shall determine the total amount of State
24 contributions required for each fiscal year on the basis of the
25 actuarial tables and other assumptions adopted by the Board,

Private Retirement Funding

Most private companies in the US have moved to private retirement funding. Two of the big three auto manufacturers have declared bankruptcy as they have struggled to finance pensions for their employees. Most companies use programs created by the Federal Tax codes to encourage their employees to save for their own retirement.

Types of Private Retirement Funding

401(k)

- For-profit companies to help their employees meet their retirement goals
- Employer sponsored plan, but some employee responsibility to select investments
- Employee contributes tax deferred money (taxed when taken out)
- Max of $15,500, plus higher catch-up for employees over 50
- Employer is encouraged, and in some cases required, to contribute matching money
- Employer can create vesting period for their contributions to encourage employee retention
- Accounts are personal and can be transferred when the employee leaves
- Can be rolled over to a rollover IRA to save on fees or manage differently

403 (b)

- Similar to 401(k), but for non-profits and education

Roth 401(k)

- Similar to 401 (k)
- Taxes are paid immediately (no taxes when taken out)

IRA

- Account managed by individuals
- Individuals contribute after tax money to this account and are not taxed on the earnings until they are taken out

Roth IRA

- Same as IRA but non-deductible and no taxes taken out at retirement
- Income limits on annual contributions

Pros and Cons of Private Retirement Accounts

Pros

- Money managed externally
- Less administrative work and costs for employer
- Less liability for the employer than a traditional pension
- Rely heavily on employee commitment to contribute
- With larger-sized organization, administrative costs are much lower
- Employees assume risk and consequences of underfunding
- Long-term compounding of early investment works in employee's favor
- Allows employees to begin withdrawing at 59.5
- Employees can move to other jobs without risking retirement benefits

Cons

- Savings habits among Americans are relatively bad compared to previous generations
- Employees often save less than required to fund retirement
- Employer matching is often inadequate or limited
- Returns are not be guaranteed in most cases (only guarantee is with FDIC-backed products)
- Not as powerful for employee retention as a pension
- Not as popular in workforce or unions as a guaranteed pension
- Workforces expect government funded pension for government service

Illinois Pension Problems

Summary of Problems:

- Major structural problems causing our pension problems
- Legislators and Governors have underfunded required payments to pension program in the past
- By deferring payments, the pension funds have been used like a credit card
- Payment deferrals escalate future payments and eliminate positive compounding
- Missed payments also mean missed opportunities for ROI (Reverse Compounding)
- Pension liabilities are a form of state debt which worsens when contributions not made
- Increasing interest payments will create a much heavier burden for taxpayers in the future
- Payments to retirees are guaranteed even though the investments funding the pensions are market-based and not guaranteed
- Over generous pension benefits, that have proved to unsustainable in the private sector, still exist in the Illinois Government (as well as most governments throughout America)
- Benefits can be and have been upped over years (i.e. Expanded hazard pay to more than Police, Fire and Rescue workers) without adequate funding to pay for them—the Illinois Constitution allows benefits for existing employees to be increased but not decreased
- Illinois makes an agreement with each new employee to fund their pension at a specific required amount, but the state has not found a sustainable way that is insulated from political pressures and market conditions to accomplish this goal.

Timeline of Pensions

1950:

- TRS warns contributions "are far from adequate to meet the current requirements of the system"
- System's funding is "unsound."
- 23% funded

1970s:

- State funds five pension systems at 100%
- Debt grows because the funding comes with escalating benefit costs

1982-1988:

- State contributions to the pension systems drop to an average of 60 %
- That setup is ultimately dropped, and a flat payment is made each year into the systems.

-- 1989:

- GA approves a 40-year payment plan to fund pensions 100%
- 7 year phase-in period.
- law doesn't require set payments each year
- Funding guidelines are never met.

-- 1995:

- Gov. Edgar and GA 50-year plan to get the pensions as much as 90 % by 2045.
- The plan requires the state to put in a certain amount of money each year
- Ramps up funding each year
- Initial payments are smaller, requiring larger increases in later years

-- 2003:

- A downturn in investments puts the funds at just 48%
- $43 billion debt.

- Borrow $10 billion in pension bonds,
- Pays down pension debt and get the systems to 61 percent funded
- Some of the freed up cash is used to pay other state bills.

-- 2005:

- Blagojevich pushes for pension reforms recommended by a commission
- Would lower future pension costs for new state employees.
- Lawmakers approve some of the changes
- Raising the retirement age and service requirements not approved

-- 2006-2007:

- Blagojevich and fellow Democrats in the Legislature agree to cut pension payments for two years to help pay other budget needs
- Forces the state to increase more if its payments over the next several years to get back on the 50-year payment track.

-- 2008:

- The pension debt $42 billion,
- Systems combined 63 percent funded.
- AP analysis of national data calls Illinois worst pension debt in the country
- The debt grows by $3.6 billion in interest alone each year

--2009:

- After stock market plunge pension debt rises to $73 billion
- 54% funded

Other States' "Solutions"

Illinois is not the only state facing this problem, but we are in one of the worst holes. Here are what some other states have done or are trying to do:

Maine-

- Suggesting local school districts take responsibility for teacher pensions

California-

- Governor Schwarzenegger's efforts to move new employees to 401(k) have failed due to political pressure from unions

Nebraska-

- Past effort to use 401 (k) approach failed and was repealed.

Massachusetts-

- Agreement to close some loopholes that escalated employee pay

Michigan-

- Approves a bill to provide for incentives to older more experienced and expensive state employees to retire before the end of this fiscal year by providing an escalator in their retirement package, increasing their pension liability.

New York-

- Raising the minimum penalty free retirement age 62 (from 55)
- Penalty of up to 38 % for any employee who retires before 52.
- Requiring employees to continue contributing 3% salaries for their entire career (from 10 years).
- Increasing the minimum years of service required to 10 years (from 5).
- Capping discretionary overtime used to calculate pension benefits at $10,000 per year.

Rhode Island-

- Teachers lobby to increase sales tax avoid reduction of pension benefits due to underfunding

*Source: Background research, Mike Murray, Governor's Office

2005 Governor's Pension Commission Report

Intro: Pension reform committee met after falling to over $43 billion (2003) in pension liability and a funded ratio of 48.6% which was significantly more than any other state in the US.

Subjects discussed:

Amount and growth of unfunded liabilities
Current and future employee pension plans and contribution structure
How growing interest payments to pensions will hurt the State's financial condition

Members of Commission: Roland Burris, Mark Beaubien, Rich Bradley, Bill Brady, Andy Davis, Ronald Denard, Eric Langshur, Bob Molaro, Laurence Msall, Ronald Powell, Gerald Roper, Jeff Schoenberg, Paula Wolff

2004 Pension Liability-- $90 billion

TRS $50.9 billion
SURS $19.1 billion
SERS $18.4 billion
GARS $.2 billion
JRS $1.2 billion

Previous legislation referenced:

1995 Law--Created a plan to reach 90% funding by 2045.
2002 Early Retirement Incentive--

Causes of Underfunding Situation:

- Each of the previous 30 years, the state contributed less than the necessary amount
- State increased pension benefits by $5.8 billion since 1995 without a source of funding
- Between 1995-2003, state pension funds experience investment losses of $6.4 billion
- Underfunded during time of economic prosperity of late 1990s
- Costly increases in the 2002 Early Retirement Incentive and broader definition of enhanced benefit formula recipients

Guiding Commission Principles

- Honor pension obligations
- Pension payments should not be deferred
- Pension payments are real liabilities
- Significant underfunding hurts State's credit worthiness
- Pension Obligation Bonds use should be limited to (1) pay for Early Retirement Initiative or (2) make up for unfunded pension obligations
- New benefits need new sources of funding
- Local pension enhancement that uses State resources should follow State rules
- Create an on-going Pension Commission
- 1995 Law should be revisited annually

Recommendations	Reduced liability by 2045	Savings in State Contributions
No new benefits without funding	Not calculated	Not calculated
Late career raise pension liability limit	$19.47 Billion	$16.20 Billion
No SURS Money Purchase Pension	$4.73 Billion	$1.18 Billion
Age Limit 65 w/ 8 years of service	$30.9 Billion	$11.51 Billion
Limit automatic pension increase	$74.2 Billion	4.76 Billion
Narrow definition of hazard to police	$13.96 Billion	$1.36 Billion
1% employee contribution increase	Not calculated	$13.72 Billion

Other Ideas from the Commission for Analysis

- Move from a Defined Benefit Plan to a Defined Contribution Plan
- If next years revenues exceed this years revenues by more than 4% , the extra money minus the required budget stability funding can go toward pensions

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STATE SENATOR
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February 9, 2005

Commission Members:

First, let me reiterate my view that I believe the full commission should have voted on the main body of the commission's report. If we had been given the opportunity to vote, I would have voted against the report. These comments detail my opposition to the report.

On January 28, 2005, I voted to forward to the Governor and General Assembly for their consideration and examination various pension benefit changes that had been discussed but not fully agreed upon by the commissioners. I agree information should be forwarded to the Governor and General Assembly. I personally do not support the benefit changes as explained below. Detailed below is my opposition to the savings plan which I voted against at our meeting February 4, 2005. I believe this plan amounts to borrowing now from questionable savings at the expense of our children and grandchildren. Also detailed below are my thoughts on bonding and other issues.

Benefit Changes

It is my belief that the recommendations generally diminish benefits for new hires and violates numerous existing agreements between the State and its employees. Our State has negotiated with its employees, over the course of numerous years, a compensation package that encompasses everything from health insurance coverage, pension benefits, salary and salary increases, to life insurance coverage. It is my view that the State has a certain amount of money that it can utilize to fund this compensation package and by entering into an agreement with the employees, the State obligates itself to fund each element by the agreed upon terms.

Teachers, represented by their unions, have worked to create a retirement formula and a mechanism to fund that formula through years of negotiating. The retirement benefits negotiated for the teachers of our State were agreed upon by the members of the General Assembly, the Governor, and the members of that critical profession.

If this Administration wishes to avoid its responsibilities to fund our pension obligations, the Administration should have negotiated ways to alter those pension benefits by

agreeing upon different terms than contained in the accepted union contracts and should have communicated with all parties involved in the negotiating of benefits for teachers. Now that I have explained my philosophy, it should be clear why I cannot support recommending enacting the following changes or any related suggested options:

- Reducing cost-of-living raises on pension benefits for new hires from the current 3% to 2%.
- Raising the full retirement age for new hires from 60 up to 65.
- Limiting the alternative formula eligibility for new hires.
- Increasing employee contributions for pensions.
- Eliminating the "money purchase" formula for new hires and fixing the interest rate on the formula for existing employees.

Needed Reform

The end-of-career salary increases for superintendents do need to be addressed.

The 1995 Formula

I do not agree that we should change the formula adopted in 1995 if we are not improving it. It's shortsighted for us to reduce our contributions in the short run, and push the costs onto our children and grandchildren. There is no compelling, fiscally sound reason to lower our current goal of reaching 90% funding, or to stretch that out another 20 years into the future – going from 2045 to 2065.

I oppose changing the 1995 formula to create any plan to "recognize" future savings that may (or may not) occur under long-term reforms. That's just another attempt to allow the Governor to avoid systemic budget changes and address Illinois' lagging job creation. No matter how you spin it, we would simply be spending money now that we don't (and may never) have. The responsible course is to recognize savings **only** in the years in which those savings actually occur. To build a proposed budget – or to enact a budget – that under funds our pensions today, in hopes of receiving savings sometime in the future, is the height of irresponsibility. It's especially irresponsible to under fund pensions using "savings" that rely on reforms that have not passed and are probably not going to pass the General Assembly.

But, let's suppose that some of these reforms would happen to pass. Even then, the savings depend on the unlikely assumption that future legislators will not restore these benefit cuts at some point over the next 30-40 years. There are simply too many variables in these assumptions to serve as a sound foundation for today's state budgets. We have no accurate idea now how many future employees we will have in future years, what their salaries may be or how our investments will perform over the next 30-40 years. In fact, the loss of investment earnings from short-term underfunding could erase any savings from reforms that could occur. What is being proposed is not unlike the neglect of our predecessors whose underfunding of the pension systems led to our pension pressures

today. I believe it is poor public policy to "cash in" today on the long-term bet that these savings will indeed occur.

What we can guarantee, though, is that if we rush to spend these paper "savings" on expanded government spending, we will take on new costs and **never** see the savings materialize. We will only be digging ourselves a deeper hole. The **only** responsible course is to use any savings that do occur to whittle down our $35 billion in unfunded pension liabilities (the largest among any of the 50 states). Spending future savings today does nothing to cure this $35 billion albatross.

Bonding

I oppose bonding to fund the 2002 early-retirement liabilities unless the bonding is done strictly under the conservative conditions recommended by the Commission on Government Forecasting and Accountability (formerly the Illinois Economic and Fiscal Commission). Those conditions include a maximum bond repayment schedule of 10 years and compliance with our "debt responsibility" law. That will require level-principal payments. We must also require that 100% of any bonds should be competitively bid to eliminate the perception or reality of the possibilities of undue influence and corruption. Additionally, as recommended by the forecasting commission and discussed by this commission, all proceeds of any bonding should be directed to the pensions system and not used for the general state budget. (We already have had considerable budget relief from the almost $600 million in annual payroll costs that were eliminated with the early retirements.) Short of this type of responsible bonding plan, I believe we should cash fund this early retirement liability over the next 10 years or less.

I object to any plan to bond current-year contributions to allow increased government spending, as the State did with the $10 billion 2003 bonding program. I have not been persuaded that any bonding can be structured responsibly to bond any sizable portion of our $35 billion unfunded liability. In any event, reforms should not be used as a carte blanche to do more bonding that locks in undue burdens on future taxpayers and our children and grandchildren.

Dynamic-scoring principle or alternative funding

I concur with the recommendation to consider the dynamic-scoring principle (now called alternate funding formulas), though I believe we should only use this principle to drive increased contributions to our pension systems, and not as yet another excuse to under fund pensions below our current formula.

Defined-contribution plan

I have long advocated creating a defined-contribution plan. A defined-contribution plan offers the opportunity to lower and stabilize both the State's and employees' contributions, while offering employees a plan that allows personal responsibility, flexibility and portability. We should explore both a required defined-contribution plan

for new employees and an optional plan for existing and new employees. I understand that there would be some short-term added costs to the State with a new defined-contribution plan if newly hired employees were required to join the defined-contribution plan, or if substantial numbers of existing or new employees joined an optional defined-contribution plan. But I believe the long-term rewards to both the State and the employees may be worth the immediate costs to the State and merit detailed consideration.

Conclusion of Employee Represented Organizations

As a member of the labor community in Illinois, I applaud the Governor for convening the Pension Commission to focus on near-term State funding of pension liabilities. I believe we have identified key problems in addressing the future of each of the five State-funded pension plans and debated a number of scenarios that will assist the State in meeting its promises and obligations to its workforce. However, in solidarity with the working families employed by the State of Illinois, I cannot support the recommendations set forth by this Commission.

First and foremost, State employees in the five State employee pension funds have upheld their responsibility under the Pension Code by making their required contributions. Unfortunately, for the past thirty years, the State has not. In addition, through the collective bargaining process, State employees have agreed to higher pension contributions, wage freezes and an end to cashable sick leave to gain and maintain adequate pension benefits upon retirement. In addition, educators have previously agreed to higher contributions in the cost of upgrading their past service to gain pension improvements.

I appreciate that the report adopted by the Commissioners stressed numerous times that the current under-funding of the State pension plans is not the fault of State employees. Unfortunately, the solutions adopted by this Commission will in fact impact the very people who have already fulfilled their obligations.

In Exhibit A of the report, there is a recommendation that pay increases in the final average period of employment should be limited as determined by the Governor and the General Assembly unless fully funded by the local employer or employee.

Scenario A & B limits the pay increase to 3% and 5% respectively. This is unworkable for state employees represented by the Building Trade Unions and receiving the Prevailing Rate. These employees have no control over annual pay increases. Likewise, non-Prevailing Rate employees through the collective bargaining process could also receive pay increases in excess of 3%. While these employees vote to accept or reject the collective bargaining agreement, wages, like benefits, are negotiated rather than set arbitrarily. The problem of certain recipients receiving huge pay increases near retirement is isolated and most often managerial employees. There is no reason why all State employees should be penalized for the actions of a select few.

In a similar instance, wage increases and cost of living increases for members of the General Assembly and the Judiciary branch are set by the Compensation Review Board and cannot be lowered by either the General Assembly or Judiciary. Often times, one Chamber of the General Assembly has rejected the recommendations of the Compensation Review Board, only to have the other Chamber vote to accept the Report thereby granting pay increases to all participants in the plan. The pension benefits these participants receive should be based on their final period of employment. It is what they have legally earned.

The State should not implement a two-tier pension system for new hires. As a proponent of an equal days pay for an equal days work, it is unconscionable for labor to accept two workers doing the same job while one receives less compensation. A two-tier pension system for new hires is patently unfair. This would include a lower cost of living adjustment (COLA) than current plan participants receive. This scenario also includes the prohibitions of new hires from participating in the money purchase option under the State Universities Retirement System.

While labor agrees that sworn police officers should benefit from being enrolled in the Alternative Formula, we also believe that a number of State employees work under equally hazardous conditions. The danger is not any greater for an employee working as a barber, an electrician or an instructor in a State correctional facility than it is for

correctional officers. All employees working in a State correctional or developmental center face the same inherent dangers day in and day out. This danger does not distinguish employees by date of hire. . In addition, if the General Assembly and the Governor recognizes that other positions in the State are inherently more dangerous; future Governors and members of the General Assembly should have the latitude to recognize these dangers and place these workers in the Alternative Formula.

Increasing the employee contributions is the most unfair recommendation of all. The burden of adequately funding the pension plans should not fall on the very people who have been identified in this report as meeting their obligations.

This report makes numerous recommendations to the Governor and General Assembly that include different options to consider. Yet, one option that is not considered is the option of increased revenue to adequately fund the pension systems. For decades, in both good and bad economic times, the State did not fulfill its pension funding obligations. And now, the State is seeking reduced benefits, a two-tier system for new employees, and increased pension contributions by the very people who have loyally fulfilled their responsibilities.

Although this report recommends further study for Defined Contribution Plans, employee represented organizations will oppose any departure from the Defined Benefit Plan currently in use. It is true that many private industry employers have moved away from offering employees defined benefit pensions and instead offer Defined Contributions Plans as a means of retirement savings. However these plans are more risky and less secure due to volatility in the stock market and retirement benefits not being guaranteed.

In the past, some public employers have attempted to negotiate lower retirement contribution rates. But if this is allowed to occur, even for new hires, it will completely alter the stability of any of the programs. If the employer contribution level is lower, eventually the benefit levels will be too.

The various entities of labor organizations who represent State employees, teachers and university professionals know and understand that Illinois has a crisis in funding its pension obligations. We are also aware that this unfunded liability has a direct bearing on the State's creditworthiness. However, we believe that the State has made a promise through collective bargaining and legislation to its employees and educators and these promises should be kept. We believe that the only way to fully achieve the goal of 90% funding by 2045 is to fund a level percentage of payroll.

Simply, we believe that a promise made should be a promise kept.

Respectfully submitted.

Ronald E. Powell
President, Local 881 and
UFCW International Vice President

1110 Honeysuckle
Wheeling, Il 60090
1/14/05

The Honorable Roland Burris
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, Il 60601

Dear Mr. Mathias:

I am writing to ask you to support extending the early retirement option for educators. It is well known that a teaching career involves extreme dedication to the profession. The monetary reward is not equivalent to the amount of hard work that is put into a job which affects the future of our society. Teachers have the responsibility for preparing students to be productive members of society. Yet their rewards are few. Social security benefits are limited or not available. There is no justification for denying teachers a comfortable retirement after a long, arduous career.

Local school districts have been able to benefit from the early retirement option by replacing higher paid employees with those who are hired at a lower salary. This has helped to balance their finances which are not supported enough by the state which has not met the Constitutional obligation of funding 51 percent of the cost of education.

The ERO is needed. It is a fair way of saving local districts millions of dollars. It is one of the few incentives that draws good teachers into the field. It is good public policy. Teachers should not be punished because the state has failed to meet its obligations. To deny this benefit would be a moral injustice. It is necessary to extend the early retirement option.

Respectfully submitted,

David Platt

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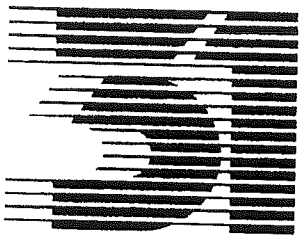

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Doris Clark

American Federation of State, County and Municipal Employees, AFL-CIO

January 25, 2005

The Honorable Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 E. Wacker, #500
Chicago IL 60601

Dear Chairman Burris:

We are writing to urge you to oppose the proposed benefit changes in the five state-funded pension plans being considered by the Governor's Pension Commission.

The Governor's Office of Management & Budget (OMB) would have you believe that a significant portion of the state's unfunded pension liabilities stems from recent benefit increases that were enacted by the General Assembly and signed by the Governor "with no funding source." This is simply not the case.

In fact, these pension increases were enacted as part of an agreed bill process where all parties--the State, the retirement system, and the unions representing employees participated in the give and take of negotiations to provide fair pension benefits to Illinois public employees and to fund those improvements.

Each of the benefit increases that applied broadly to public employees (SERS standard and alternative formula and TRS formula increases) were overwhelmingly approved by the General Assembly because they achieved a fair and reasonable level of future retirement benefits and also contained significant contributions from employees to help pay for those enhanced benefits.

State employees, through negotiations with their union (AFSCME), agreed to higher employee pension contributions, a wage freeze, an end to cashable sick leave, and significant changes in eligibility for fully subsidized retiree health benefits in order to win decent pension benefits. Similarly, teachers agreed to make higher paycheck contributions and to share in the cost of upgrading their past service to gain their pension benefit improvements.

The large pension payments coming due over the next several years to the state-funded pension systems result solely from the state's failure to make the

actuarially-required pension payments prior to FY 1996, and from the pension plan under-funding that was built into the beginning of the 50 year funding plan that began in FY 1996--the fifteen year "ramp" up to the required level percentage of payroll contribution rate. These payments owed to the state's pension funds are not driven by recent benefit changes (which brought pension benefits only up to a median level compared to other states), whose costs were substantially offset by enhanced employee contributions.

In this context we ask you to vote "no" on the following Governor's Pension Commission Recommendations:

1. No on a reduced COLA for new hires
2. No on eliminating the money purchase option for new hires
3. No on limiting the rate of interest applied to the current money purchase option
4. No on "local funding" for benefit increases in final year(s) due to salary increases over certain percentages
5. No on higher normal retirement ages for new hires
6. No on limiting SERS alternative formula application to new hires to peace officers only
7. No on increasing employee contributions for those on Alternative Formula
8. No on an across- the-board contribution increase for all current participants in all systems
9. No on a requirement that pension benefits have "a defined new funding source" or an "express sunset provision."

To the extent that pension benefits and contributions are now part of the collective bargaining process, we think that is the appropriate forum for the Governor to discuss these issues. Indeed, OMB Director John Filan himself publicly stated that he favored this approach in the early days of this Administration. The truth is that pension benefits in Illinois are not out of line with other states. Prior to 1998, for example, SERS benefits ranked 49th out of the fifty states. Now, although Illinois is 6th in per capita income among all states, SERS pension benefits are somewhat below the average for all states. And Illinois is dead last in the ratio of state employees to citizens.

We agree that the 1995 funding plan could be restructured. But the only fiscally sustainable answer is to eliminate the ramp and fund to the 90% target at a level percentage of payroll. This won't be easy to accomplish, but it is the only solution that can actually work. We must, however, stress that **funding for such a level percent of pay funding plan must come from revenue increases and not budget cuts.**

Defined Contribution plans, by their nature, cost more to administer and, on average, earn less than our current Defined Benefit pension plans. They do not save the state anything, except to the extent that they are structured to provide lower retirement benefits--something that is not warranted given current benefit levels. While the SURS may have had some unique reasons to need such an alternative to recruit senior, experienced university faculty, we are not persuaded that such an alternative for the other state pension systems makes sense.

We are open to discussing support for additional Pension Obligation Bonds, with the proceeds going to reduce the unfunded liabilities of the systems. Clearly economic conditions must be right, as they were two years ago when $10 billion of such bonds were snapped up in a matter of hours. POBs should be explored as a viable option to fund pension obligations at a lower interest rate than the systems currently charge on their unfunded liabilities, as part of a revised funding plan.

Please call us at 312-641-6060 if you wish to discuss these matters further.

Sincerely,

Henry Bayer
Executive Director

Hank Scheff
Director of Employee Benefits

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January 26, 2005

Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, IL 60601

Re: Recommendations & Concerns to Governor's Pension Commission

Dear Chairman Roland Burris:

I am writing to discuss the plans of the Governor's Pension Commission and the options for moving forward. First, please accept my sincere thanks for the many months of work and deliberation that has gone into the Commission. To be sure, there are few responsibilities more important than securing the deferred pay and retirement benefits of our members.

Second, allow me to share with you some of my concerns about the various options under consideration. On behalf of our members, we oppose the proposals that would involve a so-called "two-tier" system, which would penalize new hires with a reduced COLA, and/or no money purchase formula, and/or a higher retirement age, and so on. Besides, not solving the state's budgetary problems, these policies would likely violate the collective bargaining process and end up causing more harm than good.

Similarly, the proposals to increase employee contributions and to create new requirements, such as sunset provisions, are dead-ends. The appropriate forum to discuss ideas such as these is the collective bargaining process. Those involved know that our members (as well as the members of other unions) have been very flexible and given up benefits that our members receive in other states in order to arrive at a fair solution to the state fiscal difficulties. We do not see it as the role of this Commission to put forward recommendations that interfere with the collective bargaining efforts in which we have partnered with the state to arrive at a fair budgeting plan.

Finally, I would like to identify some common ground for moving forward:

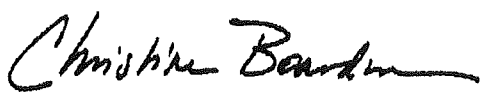
1. **Restructuring the 1995 funding plan:** While we do not favor ending the fundamental goals of the funding plan, we believe there are ways to improve it. For example, the plan must have a new revenue source and not force budget cuts elsewhere. We would appreciate further discussion about ways to enhance the revenue options so that we do not continue to under-fund the systems.

2. **Expanding Defined Benefit options**: Contrary to some of the propaganda emanating from the Governor of California and elsewhere, defined benefit plans provide the most cost effective way to deliver retirement security. These plans earn more, have lower administrative costs and lower fees than other options. The DB model is so sensible, that we propose expanding it, possibly in the form of legislation requiring all qualified Illinois employers to provide their employees with a DB plan or to contribute at least 9% of an employees' salary to an equivalent. Illinois could be a pioneer in allowing private sector employers to buy into the public system, thus diversifying the system's assets, making genuine retirement security available to all Illinois workers, and giving private sector employees a stake in the future of the state DB plans. While there may be technical difficulties involved in managing new, private sector employers and participants, they would not be unmanageable. The economies of scale that we achieve in the public sector would make DB plans more readily available and cheaper for employers through an innovative public-private partnership.

3. **Pension Obligation Bonds**: We support returning to the capital markets at the appropriate time to refinance the pension debt and lower costs for the State.

I am available for additional discussion on these ideas. Please feel free to call me at (312) 787-5868 or our Capital Stewardship Director, Bill Dempsey at (312)-233-8783 to discuss these options further.

Sincerely,



Christine Boardman
President, Local 73
Treasurer, SEIU State Council

Tom Balanoff
President, Local 1
President, SEIU State Council

A Union of Professionals

Illinois Federation of Teachers

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James E. Dougherty
PRESIDENT

Raymond Mackey
CHIEF OF STAFF

An affiliate of the AFT, AFL-CIO

January 27, 2005

Roland Burris, Chairman
Governor's Pension Task Force
35 E. Wacker, Ste. 500
Chicago, IL 60601

Dear Mr. Burris:

The IFT appreciates the gravity of the Governor's Pension Commission's charge to seek solutions to the pension funding crisis in Illinois. A number of options have been researched and reviewed. Several have been discarded. We agree with the Commission and its intent to not diminish pension benefits currently guaranteed under the Illinois Constitution.

More importantly, the Commission has recognized that the most important factor in this crisis is that the state failed to meet its funding obligations to the systems for many years prior to the 1995 pension funding reform act. Active members of each of these systems have been acknowledged for fulfilling their obligations to the systems during that period and since, and that is appreciated.

The state must meet the requirements of the ramp-up period provided in the 1995 pension funding law. In the current economic downturn, this has been difficult. The pension obligation bonds authorized in 2004 provided a very successful vehicle for the state to meet its funding requirements during the current year.

The IFT believes that the current law must be strictly enforced, and we will seek to ensure that its continuing appropriation requirements are met. Many ways to do this have been discussed, including issuing additional pension obligation bonds, reductions in pension benefits for new hires and additional contributions from members of the system.

The one solution that makes the most sense to us is increasing revenue, and unfortunately that has not been part of the Commission's discussions. I do not believe the governor's reluctance to support revenue enhancements at this time should deter the members of the Commission from recommending what they believe is the most effective way to deal with the serious problem facing the state today with respect to its long term pension debt.

A second Pension Obligation Bonding program is a potential short term solution that will ease the burden for those crafting the FY 06 budget. Based on the highly successful program in FY 05, this option may be the best solution short of a permanent new revenue stream. We believe the window is still open for another successful POB program and hope that avenue is pursued.

Some consideration has been given to changing the ramp schedule. This is only a partial solution since it merely puts off the state's responsibility to make up past shortfalls. In the end it will cost Illinois taxpayers more due to interest incurred in a longer pay-off period. It would also substantially reduce the current funding ratios of the systems from their already low levels. For these reasons, we do not believe this is a practical solution to the problem.

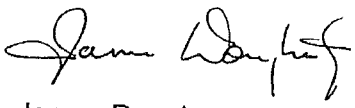
The Illinois Federation of Teachers is also adamantly opposed to requiring employees of its public pension systems to pay a second time for average benefits that are under-funded as a result of the state's own historical financial negligence to the systems. The problems confronting the administration today regarding its pension obligations are fundamentally revenue problems, not benefit problems. Solutions must be crafted which reflect that reality.

Therefore, the IFT asks each member of the Commission to vote NO on the following proposals:

1. Increases in contribution rates for current members in all systems and the SERS alternative formula without commensurate benefit increases
2. Reductions in benefits for new hires, including:
   - a raise in the normal retirement age
   - a reduction in the COLA
   - limitations in the SERS alternative formula to peace officers only
3. Elimination of or changes to the rate of interest for the money purchase formula (SURS)
4. "Sunset provisions" for new pension legislation that are simply intended to avoid pension protections specified in the Illinois Constitution
5. Limitations, including cost shifting, on end of career salary enhancements in which there are no safeguards against inequitable treatment of educational employees
6. Changing the current defined benefit plans to defined contribution plans. For basic economic security in retirement, members of TRS and SURS need the defined benefit since they are not coordinated with Social Security.

If I can be of further assistance, please feel free to contact me at your convenience.

Sincerely,



James Dougherty
President

JD/adw
iou34071afl/cio

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February 1, 2005

Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, IL 60601

Dear Roland Burris, Chairman:

Thank you for your service on the Governor's Pension Commission. Finally, we have a Governor that is willing to shine light on the condition of our five pension systems. Unfortunately, it is for the wrong reasons. The only fundamental problem with the retirement systems relates to funding, not over generous benefits.

As you may know, SUAA represents future annuitants (current faculty and staff) and current annuitants of the State Universities Retirement System. Increasingly, our growth is due to current faculty and staff who are concerned about what will happen with their retirement plan.

I urge you to oppose proposed changes as outlined in the draft presented to the commission at the last meeting on Friday, January 28, 2005.

In the interest of time we will outline a few reasons why we oppose changes in benefits while supporting new funding alternatives.

Benefits

Many, including our organization, have worked hard over the years to improve retirement benefits. Even with this hard work our systems are described as only average when compared nationally. Does that mean that now we want to set up future retirees with something less than average, or "below average?" This could have several long term impacts: inability to attract skilled professionals and become less competitive in the world job market, lower morale, and reduced loyalty. Our colleges and universities

make huge contributions to the growth and economy of the State because they have been able to attract talented and committed faculty-staff. Illinois cannot afford a "below average" retirement system.

Funding

It is refreshing to read in the draft document that the State of Illinois' admits its failure to properly fund the systems. This should be the real focal point for the commission. The systems did their job by regularly providing actuarial tables for the unfunded liability that needed to be funded. It is past Governors and General Assemblies that determined other priorities that meant adequate pension system funding was never given priority.

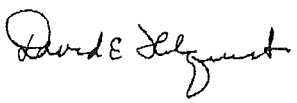
We applaud the determination in the mid 90's that led to legislation that finally developed a payment system to get to 90% of funding. Again, it was a half step plan that stretched out payments over 50 years, transferring significantly higher unfunded liabilities to future taxpayers, Governors and General Assemblies. These funding challenges were not caused by the hundreds of thousands of employees throughout Illinois. Employees have consistently paid their share of the contributions to the system. It is the State not providing its share of the funding that caused the problem; so it should be the responsibility of the State to solve the problem but not at participant/employee expense.

We do support legislation that allows using bonds to move the systems toward full funding. The central question is why should system participants be penalized for the failure of the State of Illinois to fund its share of retirement benefits? In our private lives we periodically have to look at our priorities and hold off on new purchases. Perhaps at this time, the State needs to take care of old obligations before it can take on all of its new initiatives. It is the right thing to do.

We wish to continue a dialog toward resolution of the funding problem. Every dollar not invested in the retirement system today will cost the State $3.13 in fifteen years. We are open to creative suggestions such as the bonding program last year that has paid dividends. Can we put our collective heads together to find a resolution to funding while maintaining the integrity of the current systems?

We challenge you to find solutions to the pension systems funding requirements and maintain or even improve future benefits. The State of Illinois and its employees will be better for it.

Sincerely,



David Hilquist
President

Illinois Education Association-NEA

February 2, 2005

Dear Pension Task Force Members:

The IEA appreciates the gravity of the Commission's charge to seek solutions to the pension funding problem in Illinois and looks forward to working with you on this issue.

However, the problem is not benefits -- Retirement benefits paid to teachers and other state employees are in the middle of their counterparts in other states.

As you know, the IEA has consistently voiced strong opposition to any reduction in benefits for current participants or new hires and to any increase in pension contributions by active members.

Increasing active members' pension contributions is "simply a tax increase" on teachers to pay for inaction by previous General Assemblies.

After all, teachers and other state employees did not create this pension funding crisis. We paid our required contributions while during the '90s, the state did not. It's time for the state to meet its pension obligations and make the payments.

Therefore, we are also opposed to any reduction in the current pension funding plan. We supported the last Pension Obligation Bond program and would be receptive to another program which would turn the "soft" debt of the pension systems into a "hard" debt.

If we can be of further assistance, please feel free to contact us at your convenience.

Sincerely,

Anne Davis

Anne Davis
President

PATRICIA BURKE
2619 POPLAR VIEW BEND
ELGIN, IL. 60120

Dear Mr. Burris,

February 5, 2005

I am writing to you regarding the Early Retirement Option for teachers. I am a teacher with over 30 years of experience. I have been planning my retirement for the past 3 years. I will turn 55 shortly after the ERO is due to expire. Therefore, this situation seriously impacts myself and my family.

The Early Retirement Option is a key benefit, not only for teachers, but to the school districts around the state of Illinois. Because the state has not fully funded education, the ERO allows districts to deal with the funding crisis. Many of the education associations have negotiated agreements that have adjusted some concerns so that only the teachers who truly deserve this benefit are entitled to it. Personally, I am not taking any bonus. I would just like to have the ability to buy one year of service with my unused sick days and retire within the six month period of my 55th birthday.

I was alarmed to read the study from the Government Performance Project that states that Illinois has the largest unfunded pension liability in the nation. It also says that the state has poor long-term budget planning. I am concerned that the state legislature has failed to fully fund the pension. I have dutifully been paying my share and upgrade for many years. I expected that the state had been matching its portion of the benefit. Now the teachers are being penalized for things that are not in their control.

I urge you to come to some resolution of this issue sooner rather than later, as it affects many teachers in the state. There are many good reasons to extend ERO. This benefit is not only good for teachers, but school communities as well.

Thank you for your kind consideration.

Respectfully,
Patricia L. Burke
Patricia L. Burke
IEA Member
Community Unit School District #300

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February 9, 2004

TO: Governor's Pension Commission

FR: David Hilquist, SUAA President

RE: Statement for Appendix

This memo is in response to an invitation by the commission to provide comments as it relates to retirement system "recommendations, items for examination and consideration." I want to thank you for giving us the opportunity to voice our concerns one more time and the promise to include our remarks in the report appendix.

We do not support the recommendation for the new funding mechanisms as described; the arbitrary withholding any future pension legislation if there is not a funding stream; nor the benefit cuts proposed. Below is an explanation.

First, the funding "considerations" in the proposed pension plan changes are just so much smoke and mirrors. It appears the commission is looking for ways to divert tax dollars for other purposes. It is wrong to take future projected "savings" and spend them now in other program areas. This is no different than past Governors actions that got us where we are today- with serious under funding. We hope that this debate will result in determining what the right thing is.

Second, the benefit "considerations" are a direct affront to all retirement system participants. All systems have clearly established benefits negotiated, deliberated and agreed to by all parties. This process has provided assurance of a certain quality of life once retirement is reached. Why would you want to do less (employees pay half) for employees that are being asked to take over heavier work loads for those that have left and not been replaced?

Third, the recommendation to withhold any pension legislation, if there is not a funding stream, is unfair. To purposefully inhibit the deliberative process of State Government as it relates to retirement systems is dangerous. The democratic and due processes are at stake here and infringement of these rights may be unconstitutional.

If these "considerations" come to pass, we predict that in 10, 15 or 25 years, future legislators will be facing the same problems of today but again, on a much larger scale.

We recommend that at the very least the State continue the 1995 funding plan and not at employees/retirees expense as proposed. State employees and retirees have always paid their full obligations to the retirement system and should not be penalized.

We call for the State of Illinois to clearly state that full payment to the retirement systems is a priority and stop the games. The security of over a half a million voting employees and retirees should be important to those that govern our great State.

Again, thank you for the opportunity to make a statement.

January 21, 2005

To the Members of the Governor's Pension Commission:

Thank you for this chance to share our views on funding public pension systems properly. We applaud the commission's efforts in understanding issues that confront Illinois pension systems. We are appreciative of the substantial efforts made to continue the state's unblemished record of complying with the 50-year funding law. In particular, we note the issuance of pension obligation bonds that will have a continuing impact on state contribution requirements for many years to come.

Together we have learned much. From our perspective, the principal problem has been neglect of responsibilities. The neglect spanned five decades, beginning during World War II and continuing into the mid-90s.

You have asked us to share recommendations for meeting the state's current pension funding requirements. For reasons outlined in this letter, the only solution we recommend is continued compliance with the existing funding law.

Benefits

We are dismayed with the focus on benefit reductions because the approach falls far short of meeting existing responsibilities. It is, in fact, the unfunded liability that drives increased funding requirements. If all of the proposed new employee benefit reductions were implemented for new members, state contributions would still be high because the state is responsible for the existing unfunded liability and the constant compounding of interest on the unpaid principal.

Current benefit levels are not out of line. All parties and the analysis by the commission's actuaries agree TRS benefits are essentially middle-of-the road. In fact, TRS members pay more than teachers in other non-Social Security states. Under the proposals before you now, current members will pay more for the same benefits. New participants will pay the increased rate but receive lower benefits.

Other problems would arise from the individual benefit reduction proposals. Capping benefit increases for new hires at two percent on the first $24,000 means members will lose purchasing power rapidly upon retirement. The TRS money purchase feature is a standard element of good plan design and is fair to members and the state. It is based on a statutory six percent interest rate that is set well below our actuarial assumption and the experience of the past 20 years.

Remember, too, that TRS members are not covered by Social Security. The state has consistently opposed coverage for the very sound reason that mandatory coverage

increases the total pension/retirement cost. As a result, the TRS plan is far more efficient. The efficiency comes at the cost of the loss of the Social Security safety net. As a result, one should be extremely skeptical of any defined contribution proposal that overlooks the member's essential economic security.

Funding

In addition to benefit reductions, you are being asked to consider extending the current 50-year funding period. New funding scenarios were prepared for today's meeting that extend the funding period to 70 years. In other words, the funding program would not be complete until a teacher entering the system this year is 82 years old.

It does not take an actuary to conclude that extending the funding period will not save the state money in the long run. The interest clock will continue to run. You cannot fund the pension systems at whatever level is convenient and expect pension funding obligations to go away.

Efficiency and effectiveness

TRS continues ongoing efforts to minimize state funding requirements through careful administration and wise investment of available assets.

- The FY2006 funding request reflects a $12 million reduction by matching the contribution rate from federal funds with the rate paid through the state contribution.
- TRS has exceeded actuarial earnings assumptions when measured over both 10- and 20-year periods. Last year's 16.5 percent investment return resulted in an $18 million reduction in the FY2006 contribution request.
- Our careful control of administrative expenses is demonstrated by overall costs that rank below our sister systems in Illinois and nationwide.

Our recommendation is based on our understanding of the history of state funding. That history shows the state has consistently changed the rules whenever the cost of past irresponsibility grew too great. In an attached perspective, we review some of these past choices. I am hopeful that it will help explain why we urge you to stay the course and comply with the funding law.

Sincerely,

Jon Bauman
Executive Director

Attachment: Perspective on State Retirement System Funding
cc: John Frigo, Office of Management and Budget
Lance Weiss, Deloitte Consulting LLP
Howard Freidin, Deloitte Consulting LLP

Perspectives on State Retirement System Funding

Years ago, the state had to pick between saving for pensions to be paid another day and paying for programs that many thought were of immediate importance.

So, money owed the pension systems for benefits being earned went to fund other programs.

Years went by. State funding needs increased faster than state revenue. Pension funding needs grew because state contributions were too low to cover actual costs, much less the interest on previously unpaid contributions. This caused unfunded liabilities to grow, slowly at first, and then much more rapidly. This is very similar to the amount due on a credit card growing when only minimum payments are made.

At one time, state law called on the state to contribute 120 percent of member contributions. This standard was never met.

A seven-year phase-in was enacted in 1989 (Public Act 86-0273) as part of a pension funding reform law. The purpose of the phase-in, or ramp, was to build increased contributions into the state budget over time and avoid the fiscal shock of doing it all at once. Additional funding under PA 86-0273 began in FY1990, in the amount of $30 million, or half the amount specified by the new law.

The 1989 law had no teeth. State contributions were based on whatever had been appropriated the previous year, not the amounts certified by the retirement systems as the amounts required by the funding law. This was the era of "level funding."

In 1994, another funding law was enacted, but it had teeth. Public Act 88-0593 contained a continuing appropriation requirement. Funding was not an option and the General Assembly has faithfully followed this mandate every year since enactment. (This act is often called the 1995 law because the funding requirements first became effective on July 1, 1995.)

By the time the 1995 law was enacted, the systems' unfunded liabilities had grown dramatically. The ramp was 15 years instead of seven because the difference between what the systems were getting and what they needed had grown so much higher. While the ramp spared short-term budget pain, it legalized continued under funding for the next 50 years.

Now we are discussing funding for FY2006, the 11th step on the 15-year ramp. The required contributions are high, and they will continue to increase as anticipated in the 1995 funding law. The ultimate funding levels would have been lower if the unfunded liabilities had not grown so large by 1995 and if the ramp had been shorter. The ramp allows the unfunded liabilities to grow since the required contributions are lower than required under a more standard actuarial funding method.

What has changed since the 1995 funding law? Three things:

1. Asset valuation method: FY1999 and subsequent funding requirements were reduced because assets were valued at market rather than book value.

2. Benefit increases: Illinois pensions were brought closer to national averages. State employees and teachers paid significant portions of the costs. The state pays for about 25 percent of the cost of increasing teacher benefits to the 2.2 formula.

3. Revenue decline / Pension obligation bonds (POBs): State revenues suffered in the wake of the economic downturn that began the new century. While state retirement system assets also declined, they did not cause the increased funding requirements. These were largely due to the ramp. In 2003, the state issued pension obligation bonds to help fund the retirement systems. Appropriations to the retirement systems were reduced by the amount the state owed as debt service. The state contribution for TRS for FY2006 is actually $290 million less than would have been required absent the POBs.

What has not changed?

The state's responsibility to fund pensions as promised did not change.

ADVISORY COMMISSION ON PENSION BENEFITS

COMMISSION REPORT AND

RECOMMENDATIONS

FOR GOVERNOR ROD BLAGOJEVICH AND

THE ILLINOIS GENERAL ASSEMBLY

November 1, 2005

LETTER FROM COMMISSION CHAIR ROLAND BURRIS

November 1, 2005

Governor Rod Blagojevich
207 State Capitol
Springfield, Illinois 62706

General Assembly
Illinois State Senate
Illinois House of Representatives
Springfield, Illinois 62706

The Honorable Governor Blagojevich and Members of the Illinois General Assembly:

The Advisory Commission on Pension Benefits (the "Commission") was mandated under Senate Bill 27 to "consider and make its recommendations concerning changing the age and service requirements, automatic annual increase benefits, and employee contribution rates of the State-funded retirement systems and other pension-related issues as determined by the Commission. On or before November 1, 2005, the Commission shall report its findings and recommendations to the Governor and the General Assembly."

The Commission met five times between September 23 and October 27, 2005. After extensive and productive discussions of the State Retirement Systems, the Commission crafted several recommendations for your consideration. The final vote on these recommendations was 13-2 in favor of the recommendations; the recommendations and votes are attached hereto. The Commission's recommendations do not affect earned pension benefits of current State employees or pension benefits being received by current retirees.

Respectfully submitted,

Roland Burris
Advisory Commission on Pension Benefits, Chair

COMMISSION MEMBERSHIP

Membership in the Advisory Commission on Pension Benefits consists of the following individuals:

- The Honorable Roland Burris, Chair
- *Representative Bob Molaro
- *Senator Jeff Schoenberg
- Representative Jim Watson
- Senator John Jones
- Executive Director Jon Bauman (TRS)
- Executive Director Bob Knox (SERS)
- Executive Director Dan Slack (SURS)
- Director John Filan
- Hank Scheff (AFSCME)
- Rich Frankenfeld (IEA)
- Ed Smith (LIUNA)
- Jim Dougherty (IFT)
- Brian Rainville (Teamsters)
- Tom Balanoff (SEIU)

* Denotes current members of the Commission on Government Forecasting and Accountability (formerly Illinois Economic and Fiscal Commission).

COMMISSION RECOMMENDATIONS

The Advisory Commission on Pension Benefits recognizes that the nature of funding the State of Illinois Pension Systems is a significant issue that affects both employees and the State as a whole. This issue mandates the full involvement and participation by both labor and management. Therefore, this Commission suggests that the Governor and General Assembly adopt an agreed bill process to ensure the full participation of labor and management and that the agreed bill should include the following:

RECOMMENDATIONS

1. The Commission recommends that the State adopt means by which to dedicate revenues in excess of a specific target percentage of growth towards the additional funding of the pension systems when those targets are met, and establish a minimum when those targets are not met.

2. The Commission recommends that if the State sells certain assets, then 100% of the resulting revenues should be dedicated towards reducing liabilities, including the Pension Systems' unfunded liabilities, as a component part of a broader plan to reduce those unfunded liabilities.

3. The Commission recommends that the General Assembly consider creating incentives for employees to continue working beyond the year when they achieve the maximum pension percentage as a means to reduce the State's pension costs.

4. The Commission recommends that the General Assembly consider the issuance of Pension Obligation Bonds as quickly as practicable as a financing instrument to reduce the State's pension costs, as long as (1) there are favorable market conditions and (2) the issuance of such POBs is a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

5. The Commission recommends that the General Assembly should explore new revenue sources dedicated to reducing the Pension Systems' debt, as a component part of a broader plan to reduce the Pension Systems' unfunded liabilities.

6. The Commission affirms the significance of the benefit reforms achieved in the 2005 Spring legislative session, and also affirms that, at the present time, most SERS, TRS and SURS benefits and employee contributions are comparable to other public pension systems in the United States. The Commission further recommends that the General Assembly should regularly review, as part of the agreed bill process as well as their normal budgetary review process, the affordability of the Pension Systems' plan provisions regarding benefits and make an affirmative determination thereon.

COMMISSION VOTES ON RECOMMENDATIONS

- The Honorable Roland Burris, Chair - Yes
- Representative Bob Molaro - Yes
- Senator Jeff Schoenberg - Yes
- Representative Jim Watson - No
- Senator John Jones - No
- Executive Director Jon Bauman (TRS) - Yes
- Executive Director Bob Knox (SERS) - Yes
- Executive Director Dan Slack (SURS) - Yes
- Director John Filan - Yes
- Hank Scheff (AFSCME) - Yes
- Rich Frankenfeld (IEA) - Yes
- Ed Smith (LIUNA) - Yes
- Jim Dougherty (IFT) - Yes
- Brian Rainville (Teamsters) – Yes
- Tom Balanoff (SEIU) – Yes

Final Vote Count: 13-2 in favor of the Commission Recommendations

California
https://www.calpers.ca.gov/mss-publication/pdf/xkfz8ga3khXN4_pub-6-2008%2011%201.pdf

50 with 5 years credited service

Service Credit x Benefit Factor x Final Compensation
Service credit = years worked
Benefit Factor = 2% at 55; 2% at 60; 1.4% at 65
Final Compensation = 12 – 36 months when your salary was the highest

Max 2% COLA (based on the Consumer Price Index rate of inflation)

5% employee contribution

Florida
https://www.rol.frs.state.fl.us/

30 years of service or 62 and vested (6 years credible service)

1.60% X AFC X years of service at age 62 or 30 years of service
1.63% X AFC X years of service at age 63 or 31 years of service
1.65% X AFC X years of service at age 64 or 32 years of service
1.68% X AFC X years of service at age 65 or 33 years of service

Set 3% COLA

Couldn't find info on employee contribution

Iowa
http://www.ipers.org/members/index.html

Age 65
Age 62 if you have 20 or more years of covered employment
Rule of 88

Multiplier x (highest 3-year average salary) = annual retirement benefit (the multiplier is based on years of service)

No traditional COLA – do have dividend payments (based on a formula)

Employee Contribution:
4.10% - July 1, 2008–June 30, 2009
4.30% - July 1, 2009–June 30, 2010
4.50% - July 1, 2010–June 30, 2011

Missouri
http://www.molagers.org/

Rule of 80, 60 years of age (firefighters and police officers – 55 years)

BENEFIT FACTOR x FINAL AVERAGE SALARY x YEARS OF CREDITED SERVICE = LIFETIME MONTHLY BENEFIT

Different Potential Benefit Factors:
L-1 (1.00%)
L-3 (1.25%)
LT-4(65): 1.00% for life + 1.00% until age 65
LT-5(65): 1.25% for life + 0.75% until age 65
L-6 (2.00%)
L-7 (1.50%)
LT-8(65): 1.50% for life + 0.50% until age 65
L-11 (2.50%) available only to members not participating in Social Security
L-12 (1.75%)
LT14(65): 1.75% for life + 0.25% until age 65

Couldn't find info on COLA

4% contribution

New York
http://www.osc.state.ny.us/retire/publications/vo1522.htm#chapter7

Age 55, with 30 years of service or age 62

20 years = 1.66% FAS x credited service
20-30 years = 2% FAS, x credited service
-For each year of credited service beyond 30 years, you will receive 1.5 % of your FAS.

COLA payments are calculated based on 50 percent of the annual rate of inflation, measured at the end of the fiscal year (on March 31). In addition, the COLA cannot be less than 1 percent or greater than 3 percent of your pension

Employees contribute 3% for ten years

Pennsylvania
http://www.sers.state.pa.us/sers/cwp/browse.asp?a=15&sersNav=|

Age 60 or 50 with 3 years of service (depending on classification) or any age with 35 years of service

2% x class of service multiplier x years of credited service x final average salary = max. annual retirement allowance

COLA determined at the discretion of the pension board

Most employees contribute 6.25%

Texas
http://www.ers.state.tx.us/htdocs/retirement/planning/default.aspx

60 with five years of credible service

Final Average Salary x 2.3% per year of service = Standard Annuity

No required COLA

Employees contribute 6%

Wisconsin
http://etf.wi.gov/members/benefits_retirement.htm

55; 50 for those with some protective employment category service

1.6% x final average monthly earnings x credible service x age reduction multiplier = monthly annuity

No COLA, but potential annuity increase based on investment results

Employees contribute 5%

Indiana
http://www.in.gov/perf/files/paag_1-23-09.pdf

Age 65 with 10 years of service; age 60 with 15 years of service, Rule of 85

Determined by age, years of service, final average salary

COLA determined at the discretion of the General Assembly

No employee contribution

Ohio
https://www.opers.org/members/traditional/index.shtml

60 with 5 years of service, or 30 years of credit

2.2% FAS x first 30 years of service. For service over 30 years, use 2.5% FAS for each year.

COLA is a fixed 3%

Employees contribute 10% earnable salary

THE GOVERNOR'S PENSION COMMISSION

Pension Reform Report and Recommendations

(including Summary of May 2004 Interim Report)

February 11, 2005

THE GOVERNOR'S PENSION COMMISSION:

PENSION REFORM REPORT AND RECOMMENDATIONS

FOR GOVERNOR ROD BLAGOJEVICH

February 11, 2005

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EXECUTIVE SUMMARY

The Governor's Pension Commission was mandated by Governor Rod Blagojevich to review the financial condition of the State of Illinois' Retirement Systems and make recommendations focused on improving the Systems' financial condition and affordability. The Commission's recommendations do not affect earned pension benefits of current State employees or pension benefits being received by current retirees.

The Commission has studied the causes of the Retirement Systems' current underfunded position, the pension plan provisions, the use of Pension Obligation Bonds, other types of pension plans, alternative funding formulas, and related issues. The Commission established a set of guiding principles for State pension funding. Based on those principles, it developed specific recommendations for changes to State pension plan provisions and pension funding in order to ameliorate the Retirement Systems' poor financial status.

Initial estimates from the Retirement Systems' actuaries and consultants from Deloitte Consulting LLP indicate that implementing some of the Commission's recommendations could reduce the Retirement Systems' actuarial accrued liability in 2045 by $145.5 billion, or 28%, from $521.5 billion to $376.0 billion. Additionally, the total expected State contribution for 2006-2045 could be reduced by $54.2 billion, or 20%, from $275.1 billion to $220.9 billion.

I. INTRODUCTION

The Illinois Retirement Systems currently provide pension benefits to approximately 647,000 members in five retirement systems. Over the past thirty years, the State has funded pensions significantly below necessary contribution levels each year, and has added pension benefits without sufficient dollars set aside to pay for these benefits. The combination of these factors has caused the retirement systems to be in a severely underfunded position. As a result, the State's underfunded pension liabilities are significantly greater than those of any other state, as reflected in the following chart:

State	2003 Unfunded Liabilities ($ millions)	Rank
Texas	$22,613	46th
California	25,545	47th
New York	28,302	48th
Ohio	29,650	49th
ILLINOIS	**$43,104**	**50th**

Source: Wilshire Associates 2004

The State of Illinois issued $10 billion of Pension Obligation Bonds in June of 2003 to reduce its funds' increasing liabilities. Proceeds from the bond sales provided the balance of fiscal year 2003 and 2004 State pension contributions in the amount of $2.16 billion, as well as an additional immediate contribution of over $7.3 billion toward reducing the five public employee retirement systems' unfunded liabilities. The infusion of $7.3 billion on July 3, 2003 reduced the retirement systems' unfunded liability from $43 billion to approximately $34 billion, and increased the funded ratio from 48.6 percent on June 30, 2003 to over 57 percent just three days later.

Despite the positive effects of the $10 billion pension obligation bond revenues on the funding status of the retirement systems, the State pension funds still face grave financial challenges. In fact, Illinois State government's unfunded pension debt is significantly greater than all of the State's bonded debt combined. Governor Rod Blagojevich convened the Governor's Pension Commission in the spring of 2004 in order to address continuing concerns over the long-term liabilities of the State's five pension systems.

II. THE PENSION COMMISSION MANDATE AND HISTORY

Governor Blagojevich's mandate to the Pension Commission is:

> To review the financial condition of the Illinois State Pension Systems and provide recommendations for improving their financial condition. Areas for consideration include:
>
> - The amount and growth of the retirement systems' unfunded liabilities;
> - Current and future employee pension plans and contribution structures; and
> - The effect of the pension funds' financial condition on the State's overall current and future financial condition.
>
> Recommendations should focus on improving the affordability of the State's retirement systems.

The Governor's Pension Commission met six times between April 16 and May 24, 2004, to focus on near-term State funding of pension liabilities. The members of that iteration of the Pension Commission unanimously agreed that an adequate analysis of the

important public policy issue of unfunded State pension obligations must consider benefit and contribution changes as well as funding strategies. However, in the interest of producing timely recommendations on immediate funding issue, and given the Commission's desire not to interfere with on-going collective bargaining negotiations, it was decided to issue an interim report on near-term funding strategy in May 2004.[1]

III. CURRENT COMMISSION MEMBERSHIP

Membership in the Governor's Pension Commission (the "Commission") consists of the following individuals:

- The Honorable Roland Burris, Interim Chair, is a partner in Burris, Wright, Slaughter & Tom, LLC has held numerous offices in Illinois including Comptroller and Attorney General;
- *Representative Mark Beaubien represents Illinois' 52nd District and is the Budget Negotiator for the House Republicans;
- Representative Rich Bradley represents Illinois' 40th District and is the Chairman of the House Personnel and Pensions Committee;
- Senator Bill Brady represents Illinois' 44th District and is the Minority Spokesperson of the Senate Insurance and Pensions & Investments Committees;
- Andy Davis is Chairman and CEO of Rock Island Company of Chicago, and the Vice-Chairman of the Chicago Stock Exchange;

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[1] A summary of the Interim Report is attached in Appendix A.

- Ronald Denard is Vice President of Finance and Administration at SoftSheen-Carson, a L'OREAL USA Company;
- Eric Langshur is President and Chief Executive Office of TLContact Inc. and the former President of Bombardier Aerospace CAS;
- *Representative Bob Molaro represents Illinois' 21st District and was Chairman of the former Pension Laws Commission;
- Laurence Msall is President of The Civic Federation;
- Ronald Powell is President of United Food and Commercial Workers #881 and Vice President of United Food and Commercial Workers International;
- Gerald Roper is President and Chief Executive Officer of the Chicagoland Chamber of Commerce;
- *Senator Jeff Schoenberg represents Illinois' 9th District and is Chairman of the Senate Appropriations II Committee, Vice Chairman of the Senate Appropriations III Committee and is Co-Chair of the Commission on Government Forecasting and Accountability (former IEFC); and
- Paula Wolff is a Senior Executive at Chicago Metropolis 2020.

* Denotes current members of the Commission on Government Forecasting and Accountability (formerly Illinois Economic and Fiscal Commission).

IV. STRUCTURE OF THIS REPORT

The next five sections of this report outline the Commission's analysis and recommendations. Section V provides an overview of the pension systems and the causes of the current underfunding situation. Section VI details the principles that guided

this Commission's work. Section VII discusses the Commission's recommended changes to pension plan provisions and Section VIII discusses the Commission's recommended changes to pension funding. The Commission also reviewed the use of Pension Obligation Bonds, other types of pension plans and alternative funding formulas, which are discussed in Sections IX and X.

V. OVERVIEW OF THE PENSION SYSTEMS AND FUNDING PROBLEMS

The Retirement Systems of Illinois consist of five distinct plans, which have accrued liabilities of approximately $90 billion as of June 30, 2004. Three of these plans represent over 98% of the State's pension liabilities: the Teachers' Retirement System ("TRS"), State Universities Retirement System ("SURS") and the State Employees' Retirement System ("SERS"). As of June 30, 2004, TRS accounted for $50.9 billion in estimated liabilities ($19.4 billion of which was unfunded); SURS $19.1 billion ($6.5 billion of which was unfunded); and SERS, $18.4 billion ($8.4 billion of which was unfunded). The other two plans, the General Assembly Retirement System ("GARS"), $0.2 billion ($0.1 billion of which was unfunded) and the Judges Retirement System ("JRS") $1.2 billion ($0.6 billion of which was unfunded), have generated relatively small obligations. State funding payments are currently determined by the 1995 funding law described below and the 2002 Early Retirement Incentive ("ERI") program.

The 1995 Funding Law

By 1995, the retirement systems' unfunded liability had grown to approximately $20 billion. Public Act 88-593 (the "1995 law") made a number of changes to public

employee pensions, the most significant of which was the adoption of a funding schedule. The General Assembly established a funding ratio objective of 90% of liabilities for the State funded retirement systems, to be achieved by 2045. From FY2011 through FY2045, the required contribution would be a level percent of payroll required to reach 90% funding by FY2045. For FY1996 through FY2010, the contribution percent would increase in equal increments to the rate required in FY2011.

The Causes of the Current Underfunding Situation

The Commission has identified and analyzed several factors and their relationship to the current underfunding of the State pension systems, noting the following:

- For each of the past thirty years, annual State contributions have been less than the necessary amount (the interest and current costs) determined by the retirement systems' actuaries. Since 1995, and through June 2003, the contribution shortfall totaled $10.6 billion. This increased the amount of underfunding;
- The State increased pension benefits by $5.8 billion since 1995, and through June 2003, without introducing sufficient funding to pay the related costs. This also increased the amount of underfunding;
- The employees within the various State pension systems have met their obligations by paying the contributions as determined in accordance with the Illinois Pension Code;
- Since 1995, and through June 2003, the State pension funds experienced investment losses of $6.4 billion;

- After implementation of the 1995 law, annual funding decisions adhered to a fixed, ramped-up payment schedule, but did not adjust for the cyclical opportunity provided by the long 1990s economic expansion to contribute in excess of the fixed payment amounts provided for in the 1995 funding law; and
- State pensions were under-funded in an exceptionally strong economic environment, while benefits – most notably, costly increased benefits included in the 2002 Early Retirement Incentive program and, also, enhanced benefits formulas – were added. A downturn in the economy followed the expansion, and pension systems' earnings declined while costs of new benefits increased.

As a result of the above, the unfunded liability grew to $43 billion by June of 2003. Additional factors that contributed to the growth in unfunded liabilities include:

- The gradual extension by the State of the Alternative (enhanced) Formula to approximately 5,380 employees brought the total number of employees covered by the Alternative Formula to 24,845, thus increasing liabilities;
- Significant market upturns since 1995 followed by downturns resulted in reduced investment returns, thus increasing unfunded liabilities; and
- The 2002 Early Retirement Initiative increased liabilities and certified contributions.

VI. GUIDING COMMISSION PRINCIPLES

The Commission emphasized that pension funding decisions should be consistent with fundamental values of the people of Illinois and the capacity of the State economy to prosper, adopting the following principles:

- The State must fully honor its pension obligations;
- Under no circumstance should pension payments be deferred;
- The availability of State revenues is impacted by the stages of the business cycle, and pension funding decisions should be adjusted accordingly;
- Pension funding decisions must take into account the feedback between those decisions and Illinois' economic growth;
- Pension-funding choices should not damage State creditworthiness and its capacity to raise funds in capital markets. Unfunded Illinois pension benefits are real state liabilities that directly impact the State's creditworthiness and are greater than the State's bonded debt for all other purposes;
- The State pension systems are currently significantly underfunded. State government must address this issue;
- Any new benefits must have new funding sources to support them when enacted;
- Changes should be designed to simplify the systems and be applied equally to all systems where applicable that are the responsibility of the State of Illinois;
- Changes must be in compliance with Illinois' Constitutional provisions regarding pension benefits;
- The use of Pension Obligation Bonds must be limited to alleviating past underfunding;
- Local employer pension enhancement decisions that impact state resources must adhere to principles incorporated in State law and be paid for by the employing entities; and

- An on-going Pension Commission should be created, staffed by the Governor's Office of Management and Budget, to serve as a review mechanism for all suggested changes to pension laws.

VII. CHANGES IN PENSION PLAN PROVISIONS

When reviewing potential changes to employee pension plans, the Commission felt it important to again note that the current underfunding is not the fault of the State employees -- the employees within the various State pension systems have always paid their contributions in accordance with the Illinois Pension Code. To that end, the Commission's recommendations do not affect earned pension benefits of current State employees or pension benefits being received by current retirees.

Although the Commissioners agree with the conclusions of various actuaries that many of the basic benefits to State employees under the pension systems are comparable with national public retirement systems norms, there are certain provisions that are not consistent with general public retirement system practices. Therefore, the Commission recommends consideration of the following changes to pension plan provisions. Estimated savings attributable to pension plan changes below are included in Appendix B. These changes could reduce the Retirement Systems' actuarially accrued liability in 2045 by up to $145 billion and reduce the total expected State contributions between FY2006 through FY2045 by up to $54 billion:

1) The General Assembly must not adopt any new pension benefit without a new funding source identified at the point of adoption. In addition, an explicit sunset provision must be attached to any new pension benefit;
2) For purposes of State pension liability, pay increases in the final average period of employment should be limited as determined by the Governor and the General Assembly, unless fully funded by the local employer or employee. A possible limitation on pay increases in the final average period of employment for purposes of pension liability would be limited to 5%;
3) Eliminate the money purchase pension plan option under SURS, for new hires only;
4) Define more precisely the rate of interest applied to the current money purchase option under SURS. Using the long-term rate of return, but not to exceed the most recent five-and ten-year rates of return, reduce the interest rate on money purchase for current participants to 6%;
5) Increase the eligibility requirements for new employees to receive unreduced benefits by changing the minimum age to 65 with 8 years of service;
6) Limit automatic annual pension increases for new hires only to 2%, limited to the first $12,000 of annual pension for members covered by Social Security and $24,000 for members not covered by Social Security;
7) Limit employee groups eligible for Alternative (enhanced) Retirement Formula benefits, for new hires only to Sworn Police Officers only;
8) Increase the employee contribution rate for those employees receiving alternative retirement formula benefits; and
9) Increase employee contributions to the SERS, SURS, TRS, JRS and GARS by 1%.

Additional options can be found in Appendix C. Estimates of these options have not been provided as of the date of this report. Upon receiving estimates, the Commission may issue a supplemental report regarding these options.

VIII. CHANGES IN PENSION FUNDING

The Commission recommends that the 1995 law be revisited and analyzed for potential revisions, and that any changes to the 1995 law should be reviewed annually. When crafting the 1995 legislation, the members of the General Assembly along with the actuaries were making assumptions 50 years into the future. Additionally, the 1995 law stated that that law would be reviewed and adjusted every five years.

As a result, the Commission urges that if the General Assembly were to implement the $52 billion in savings identified in Section VII, or some significant portion thereof, the Commission would support the following changes to the 1995 law. It is critical to note, however, that under no circumstances does the Commission support disregarding any payments into the State pension systems.

Specific options, recommendations and observations for changes in funding include:

1. The 1995 funding plan should be amended to reflect the $146 billion reduction in accrued liabilities $54 billion in reduced State contributions resulting from the recommended pension plan changes outlined in the previous section.

2. Consistent with the 1995 funding plan, the revised funding plan should incorporate the following principles:
    a. Reflect the 1995 funding plan's goal of a 90% funded ratio by 2045;
    b. Provide for a ramping of contributions to a constant percent of payroll by 2011 (and including the 2002 ERI amendment to the 1995 funding plan); and
    c. Provide for continuing appropriation authority for pension contributions.
3. Any savings produced by the proposed pension plan changes, or any significant portion thereof, should be proportionately allocated for the required contributions from 2006 through 2045, and should parallel to the existing funding structure. Reflecting the pension plan changes and savings recommended in this report, and applying the guidelines in paragraphs 1 and 2 above, the Commission hereby recommends the attached representative example of the revised funding plan presented as Appendix D.

IX. PENSION OBLIGATION BONDS

In 2003, Pension Obligation Bonds ("POBs") were issued to help fund the State pension systems. Notwithstanding anything else in this report, the Commission recommends that the issuance of additional POBs be explored as a viable option contingent upon the following:

- POBs should not be issued until and unless there are structural changes made to the pension plans similar to those recommended in Section VII of this report ; and
- All POB proceeds should be used to reduce the unfunded liability.

The Commission presents two possible uses of POBs:

- To correspond with the amount and duration of the liability created by the Early Retirement Initiative of 2002; and
- To reduce unfunded pension obligations if market conditions are favorable and would sustain such an issuance.

X. ADDITIONAL TOPICS FOR ANALYSIS

The Governor's Pension Commission continues to study the concepts of defined contribution plans and dynamic scoring, described below. It is also gathering data to estimate the financial impact of those options listed in Section XII for which savings estimates were not yet available. The Commission will forward its findings to Governor Blagojevich when they become available.

Defined Contribution Plans

The Commission considered an option recommending that the State replace all or part of its current Defined Benefit plans with Defined Contribution plans. However, the Commission strongly believes that this concept will require additional study. Defined contribution plans can significantly reduce unfunded liabilities. Once the State gets the current pension debt levels under control, a Defined Contribution Plan should be strongly considered in the near term for newly hired employees and current employees who voluntarily opt out of defined benefit programs.

Alternative Funding Formulas

Capital and population are mobile, seeking their most advantageous location, especially within an area with a common currency. Illinois, as a result, is in constant competition

with other States for jobs and economic growth. State fiscal policy choices must take into account the feedback between its tax and spending decisions and economic growth.

In the 1990's, when the Illinois economy was strong and revenues were robust, the State failed to direct additional revenues towards the underfunding of the State pension systems to remedy the problem and close the underfunding gap. The Commission heard testimony and discussed principles relating to structuring a mechanism to ensure that there is an overfunding of the State pension systems when the Illinois business cycle is more prosperous. Diane Swonk, Chief Economist of Mesirow Financial and former Chief Economist of Bank One twice appeared before the Pension Commission to discuss the Principle of Dynamic Scoring.

Ms. Swonk explained that overfunding of the pension systems should occur during robust economic times to counter less funding during periods of an economic downturn. However, Ms. Swonk withheld endorsing specific triggers that should precipitate the State's overfunding of the systems. The Commission agrees that the Governor and the General Assembly should make pension funding decisions which are adjusted if and when revenues are impacted by the stages of the business cycle. However, specific economic triggers that would result in the funding adjustments should be explored further. When State revenues exceed the previous year's revenues, the State should utilize a prescribed percentage to pay more into funding the pension systems. Conversely, it is critical to establish a funding floor so that a minimum amount is always contributed towards the systems, even during down economic periods.

Finally, Mr. James Hacking, Executor Director of the State Universities Employment System, introduced a reserve concept similar to the State's Rainy Day Fund. Mr. Hacking's reserve concept basically stated that if, just prior to the start of any state fiscal year the estimated general funds revenues for the next succeeding state fiscal year exceed the current fiscal year's estimated general funds revenues by more than 4%, then a portion of that amount of the general funds revenues, reduced by any amount that is required by law to be transferred to the Budget Stabilization Fund, shall be distributed to the five state contributory retirement systems.

APPENDIX A

The May 2004 Interim Report of the Pension Commission made the following recommendations:

The proposed FY2005 budget funds $2 billion of the $2.5 billion mandated State payment to the pension funds out of general revenue. To fund the remaining $0.5 billion FY2005 obligation, ten out of the eleven total members of the Commission identified four options that can be used singly or in combination:

- Use part of the better-than-expected present-value savings that resulted from the extraordinarily beneficial market interest rates when the 2003 Pension Obligation Bonds were sold;
- Execute another Pension Obligation Bond program to take advantage of market interest rates that are still significantly below expected longer-term asset yields;
- Reschedule the funding mandated in the Early Retirement Incentive program to make it more in line with other State pension funding; and/or
- Fund the remaining contribution out of general revenues.

Note: Commissioner Laurence Msall filed a dissenting report relating to the May 2004 Interim Report, however, he fully supports the Commission's overall findings as reflected in this consolidated February 11, 2005 Pension Reform Report and Recommendations.

APPENDIX B

CHANGES IN PENSION PLAN PROVISIONS

Options Selected for Consideration

Draft estimates have been provided by the Retirement Systems' actuaries and consultants from Deloitte Consulting LLP. Both the total accrued pension liability reductions ($145 billion) and total expected State contribution reductions ($54 billion) are as stated in Section VII of the Report for the below combination of options. However, the actuaries and consultants caution that the individual draft projections for each of the below recommendations are interdependent upon one another and will vary depending on which combination of recommendations are adopted. Therefore, the individual draft projections for each of the below recommendations are presented for illustrative purposes only, while the total liability reductions and contribution reductions remain as stated in Section VII of the Report. In addition, variations of those changes will not necessarily produce similar results.

1) The General Assembly must not adopt any new pension benefit without a new funding source identified at the point of adoption. In addition, an explicit sunset provision must be attached to any new pension benefit;

2) For purposes of State pension liability, pay increases in the final average period of employment should be limited as determined by the Governor and the General Assembly, unless fully funded by the local employer or employee. Possible limitations on pay increases in the final period of employment include:

   Limit increases to 5%. This is estimated to reduce accrued liabilities in the year 2045 by $19.47 billion, and to save $16.20 billion in State contributions.

3) Eliminate the money purchase pension plan option under SURS, for new hires only. This is estimated to reduce accrued liabilities in the year 2045 by $4.73 billion, and to save $1.18 billion in State contributions;

4) Define more precisely the rate of interest applied to the current money purchase option under SURS. Options include:

   Use the long-term rate of return, but not to exceed the most recent five-and ten-year rates of return. For example, reducing the interest rate on money purchase for current participants to 6% is estimated to reduce accrued liabilities in the year 2045 by $2.25 billion, and to save $5.47 billion in State contributions.

5) Increase the eligibility requirements for new employees to receive unreduced benefits. Options include:

   Change the minimum age to 65 with 8 years of service. This is estimated to reduce accrued liabilities in the year 2045 by $30.90 billion, and to save $11.51 billion in State contributions.

6) Limit automatic annual pension increases for new hires only. Options include:

   Automatic annual pension increase of 2%, limited to the first $12,000 of annual pension for members covered by Social Security and $24,000 for members not covered by Social Security. Reducing the automatic annual increase to 2% for new hires only is estimated to reduce accrued liabilities in the year 2045 by $74.20 billion, and to save $4.76 billion in State contributions.

7) Limit employee groups eligible for Alternative (enhanced) Retirement Formula benefits, for new hires only. Options include:

   Sworn Police Officers only. This is estimated to reduce accrued liabilities in the year 2045 by $13.96 billion, and to save $1.36 billion in State contributions.

8) Increase the employee contribution rate for those employees receiving alternative retirement formula benefits; and

9) Increase employee contributions to the SERS, SURS, TRS, JRS and GARS by:

   1%. This is estimated to save $13.72 billion in State contributions between 2006 and 2045.

APPENDIX C

CHANGES IN PENSION PLAN PROVISIONS

Additional Options for Consideration

1) For purposes of State pension liability, pay increases in the final average period of employment should be limited as determined by the Governor and the General Assembly, unless fully funded by the local employer or employee. Additional possible limitations on pay increases in the final period of employment include:

   - Limit increases to 3%.
   - Limit increases for employees with 25-30 years of service to the actual average salary increase for all employees over that time period.
   - Limit increases to the lesser of Consumer Price Index or 5%.

2) Define more precisely the rate of interest applied to the current money purchase option under SURS. Additional option includes:

   Use the long-term rate of return, but not to exceed either of the two most recent five-year rates of return.

3) Increase the eligibility requirements for new employees to receive unreduced benefits. Additional options include:

   - Change the minimum age to 62 with 30 years of service.
   - Change the minimum age to 60 with 35 years of service.
   - Change the minimum age to that age at which the member qualifies for an unreduced Social Security benefit.

4) Limit automatic annual pension increases for new hires only. Additional options include:

   - Automatic annual pension increase matches the Consumer Price Index or some comparable index, but is no higher than 4% and no lower than 1%, limited to the first $12,000 of annual pension for members covered by Social Security and $24,000 for members not covered by Social Security.
   - Automatic annual pension increase of 60% of CPI or some comparable index but no greater than 3%, limited to the first $12,000 of annual pension for members covered by Social Security and $24,000 for members not covered by Social Security.

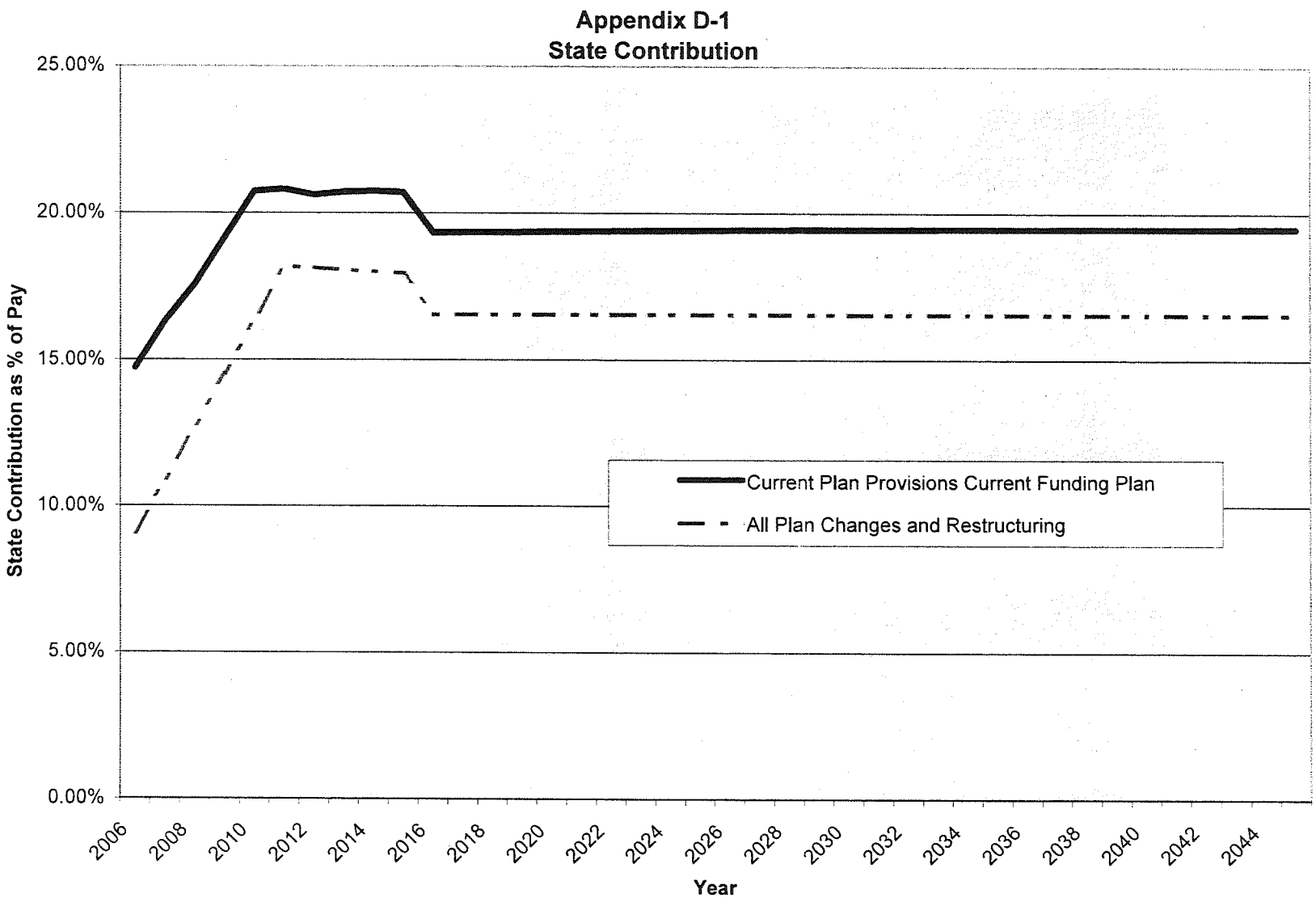
5) Limit employee groups eligible for Alternative (enhanced) Retirement Formula benefits, for new hires only. Additional option includes:

Sworn Police Officers and others only if the recipient pays the full additional costs;

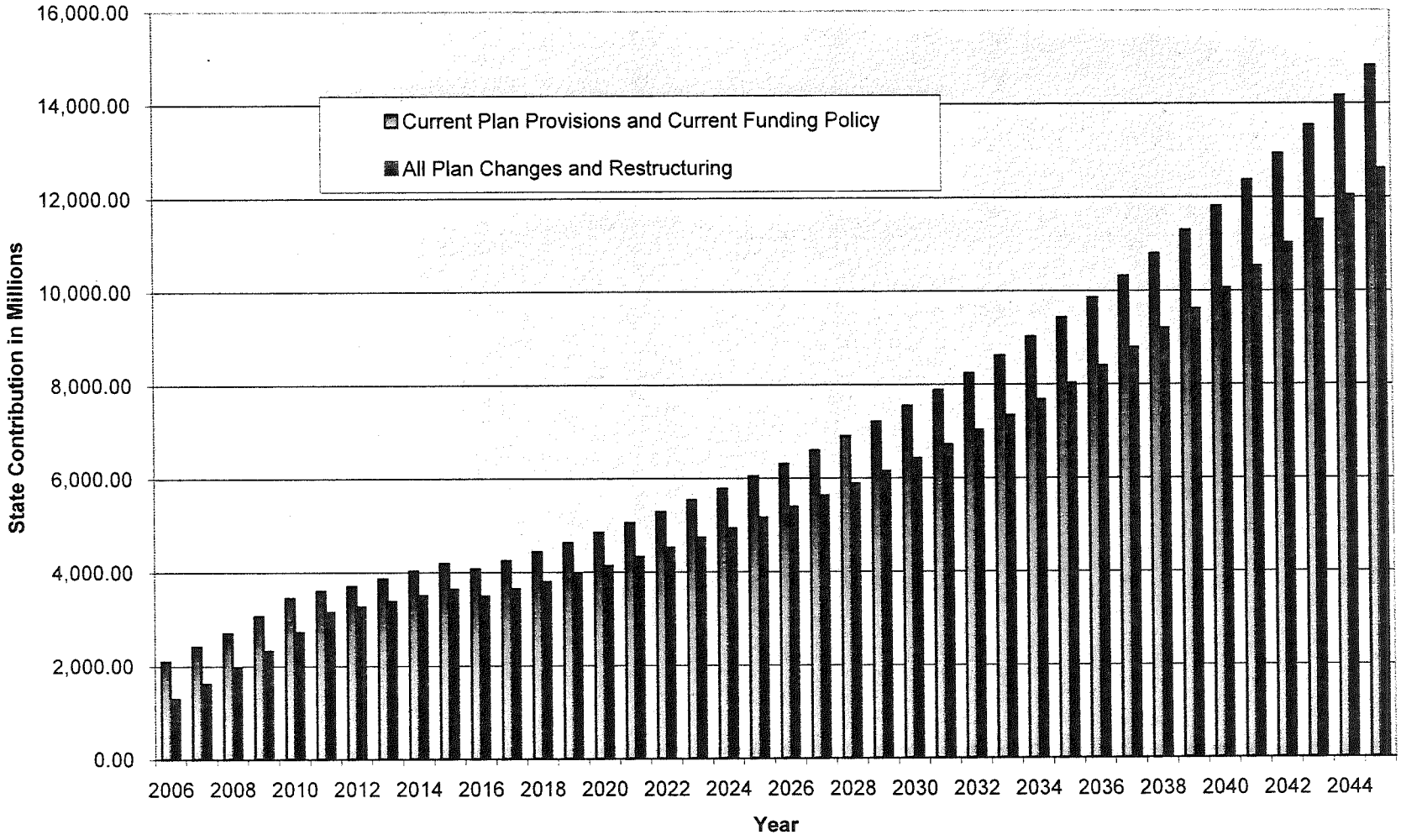
6) Increase employee contributions to the SERS, SURS, TRS, JRS and GARS by:

- ½% per year for the next four years.
- ¼% per year for the next two years.
- 5% of applicable rate (e.g., 8% becomes 8.4%)
- Adjust increased employee contributions to reflect the actual increased cost of underlying benefits.

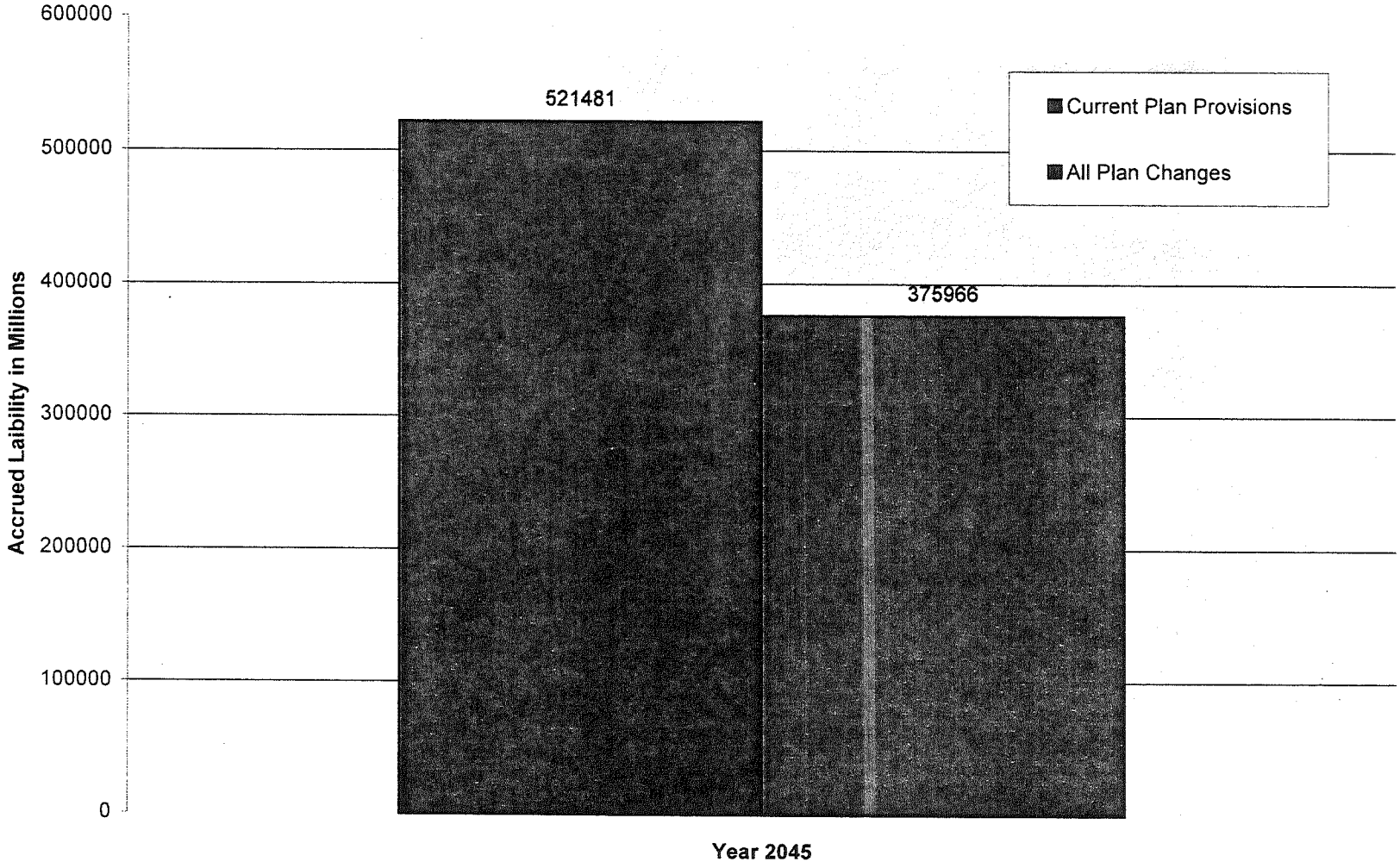
Estimates of these options have not been provided as of the date of this report. Upon receiving estimates, the Commission may issue a supplemental report regarding these options.


Appendix D-1
State Contribution
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
State Contribution as % of Pay
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024
2026
2028
2030
2032
2034
2036
2038
2040
2042
2044
Year
Current Plan Provisions Current Funding Plan
All Plan Changes and Restructuring

Appendix D-2
State Contribution



Appendix D-3
Gross State Pension Liability in 2045



BILL BRADY
STATE SENATOR
44TH LEGISLATIVE DISTRICT

February 9, 2005

Commission Members:

First, let me reiterate my view that I believe the full commission should have voted on the main body of the commission's report. If we had been given the opportunity to vote, I would have voted against the report. These comments detail my opposition to the report.

On January 28, 2005, I voted to forward to the Governor and General Assembly for their consideration and examination various pension benefit changes that had been discussed but not fully agreed upon by the commissioners. I agree information should be forwarded to the Governor and General Assembly. I personally do not support the benefit changes as explained below. Detailed below is my opposition to the savings plan which I voted against at our meeting February 4, 2005. I believe this plan amounts to borrowing now from questionable savings at the expense of our children and grandchildren. Also detailed below are my thoughts on bonding and other issues.

Benefit Changes

It is my belief that the recommendations generally diminish benefits for new hires and violates numerous existing agreements between the State and its employees. Our State has negotiated with its employees, over the course of numerous years, a compensation package that encompasses everything from health insurance coverage, pension benefits, salary and salary increases, to life insurance coverage. It is my view that the State has a certain amount of money that it can utilize to fund this compensation package and by entering into an agreement with the employees, the State obligates itself to fund each element by the agreed upon terms.

Teachers, represented by their unions, have worked to create a retirement formula and a mechanism to fund that formula through years of negotiating. The retirement benefits negotiated for the teachers of our State were agreed upon by the members of the General Assembly, the Governor, and the members of that critical profession.

If this Administration wishes to avoid its responsibilities to fund our pension obligations, the Administration should have negotiated ways to alter those pension benefits by

agreeing upon different terms than contained in the accepted union contracts and should have communicated with all parties involved in the negotiating of benefits for teachers. Now that I have explained my philosophy, it should be clear why I cannot support recommending enacting the following changes or any related suggested options:

- Reducing cost-of-living raises on pension benefits for new hires from the current 3% to 2%.
- Raising the full retirement age for new hires from 60 up to 65.
- Limiting the alternative formula eligibility for new hires.
- Increasing employee contributions for pensions.
- Eliminating the "money purchase" formula for new hires and fixing the interest rate on the formula for existing employees.

Needed Reform

The end-of-career salary increases for superintendents do need to be addressed.

The 1995 Formula

I do not agree that we should change the formula adopted in 1995 if we are not improving it. It's shortsighted for us to reduce our contributions in the short run, and push the costs onto our children and grandchildren. There is no compelling, fiscally sound reason to lower our current goal of reaching 90% funding, or to stretch that out another 20 years into the future – going from 2045 to 2065.

I oppose changing the 1995 formula to create any plan to "recognize" future savings that may (or may not) occur under long-term reforms. That's just another attempt to allow the Governor to avoid systemic budget changes and address Illinois' lagging job creation. No matter how you spin it, we would simply be spending money now that we don't (and may never) have. The responsible course is to recognize savings **only** in the years in which those savings actually occur. To build a proposed budget – or to enact a budget – that under funds our pensions today, in hopes of receiving savings sometime in the future, is the height of irresponsibility. It's especially irresponsible to under fund pensions using "savings" that rely on reforms that have not passed and are probably not going to pass the General Assembly.

But, let's suppose that some of these reforms would happen to pass. Even then, the savings depend on the unlikely assumption that future legislators will not restore these benefit cuts at some point over the next 30-40 years. There are simply too many variables in these assumptions to serve as a sound foundation for today's state budgets. We have no accurate idea now how many future employees we will have in future years, what their salaries may be or how our investments will perform over the next 30-40 years. In fact, the loss of investment earnings from short-term underfunding could erase any savings from reforms that could occur. What is being proposed is not unlike the neglect of our predecessors whose underfunding of the pension systems led to our pension pressures

today. I believe it is poor public policy to "cash in" today on the long-term bet that these savings will indeed occur.

What we can guarantee, though, is that if we rush to spend these paper "savings" on expanded government spending, we will take on new costs and **never** see the savings materialize. We will only be digging ourselves a deeper hole. The **only** responsible course is to use any savings that do occur to whittle down our $35 billion in unfunded pension liabilities (the largest among any of the 50 states). Spending future savings today does nothing to cure this $35 billion albatross.

Bonding

I oppose bonding to fund the 2002 early-retirement liabilities unless the bonding is done strictly under the conservative conditions recommended by the Commission on Government Forecasting and Accountability (formerly the Illinois Economic and Fiscal Commission). Those conditions include a maximum bond repayment schedule of 10 years and compliance with our "debt responsibility" law. That will require level-principal payments. We must also require that 100% of any bonds should be competitively bid to eliminate the perception or reality of the possibilities of undue influence and corruption. Additionally, as recommended by the forecasting commission and discussed by this commission, all proceeds of any bonding should be directed to the pensions system and not used for the general state budget. (We already have had considerable budget relief from the almost $600 million in annual payroll costs that were eliminated with the early retirements.) Short of this type of responsible bonding plan, I believe we should cash fund this early retirement liability over the next 10 years or less.

I object to any plan to bond current-year contributions to allow increased government spending, as the State did with the $10 billion 2003 bonding program. I have not been persuaded that any bonding can be structured responsibly to bond any sizable portion of our $35 billion unfunded liability. In any event, reforms should not be used as a carte blanche to do more bonding that locks in undue burdens on future taxpayers and our children and grandchildren.

Dynamic-scoring principle or alternative funding

I concur with the recommendation to consider the dynamic-scoring principle (now called alternate funding formulas), though I believe we should only use this principle to drive increased contributions to our pension systems, and not as yet another excuse to under fund pensions below our current formula.

Defined-contribution plan

I have long advocated creating a defined-contribution plan. A defined-contribution plan offers the opportunity to lower and stabilize both the State's and employees' contributions, while offering employees a plan that allows personal responsibility, flexibility and portability. We should explore both a required defined-contribution plan

for new employees and an optional plan for existing and new employees. I understand that there would be some short-term added costs to the State with a new defined-contribution plan if newly hired employees were required to join the defined-contribution plan, or if substantial numbers of existing or new employees joined an optional defined-contribution plan. But I believe the long-term rewards to both the State and the employees may be worth the immediate costs to the State and merit detailed consideration.

Conclusion of Employee Represented Organizations

As a member of the labor community in Illinois, I applaud the Governor for convening the Pension Commission to focus on near-term State funding of pension liabilities. I believe we have identified key problems in addressing the future of each of the five State-funded pension plans and debated a number of scenarios that will assist the State in meeting its promises and obligations to its workforce. However, in solidarity with the working families employed by the State of Illinois, I cannot support the recommendations set forth by this Commission.

First and foremost, State employees in the five State employee pension funds have upheld their responsibility under the Pension Code by making their required contributions. Unfortunately, for the past thirty years, the State has not. In addition, through the collective bargaining process, State employees have agreed to higher pension contributions, wage freezes and an end to cashable sick leave to gain and maintain adequate pension benefits upon retirement. In addition, educators have previously agreed to higher contributions in the cost of upgrading their past service to gain pension improvements.

I appreciate that the report adopted by the Commissioners stressed numerous times that the current under-funding of the State pension plans is not the fault of State employees. Unfortunately, the solutions adopted by this Commission will in fact impact the very people who have already fulfilled their obligations.

In Exhibit A of the report, there is a recommendation that pay increases in the final average period of employment should be limited as determined by the Governor and the General Assembly unless fully funded by the local employer or employee.

Scenario A & B limits the pay increase to 3% and 5% respectively. This is unworkable for state employees represented by the Building Trade Unions and receiving the Prevailing Rate. These employees have no control over annual pay increases. Likewise, non-Prevailing Rate employees through the collective bargaining process could also receive pay increases in excess of 3%. While these employees vote to accept or reject the collective bargaining agreement, wages, like benefits, are negotiated rather than set arbitrarily. The problem of certain recipients receiving huge pay increases near retirement is isolated and most often managerial employees. There is no reason why all State employees should be penalized for the actions of a select few.

In a similar instance, wage increases and cost of living increases for members of the General Assembly and the Judiciary branch are set by the Compensation Review Board and cannot be lowered by either the General Assembly or Judiciary. Often times, one Chamber of the General Assembly has rejected the recommendations of the Compensation Review Board, only to have the other Chamber vote to accept the Report thereby granting pay increases to all participants in the plan. The pension benefits these participants receive should be based on their final period of employment. It is what they have legally earned.

The State should not implement a two-tier pension system for new hires. As a proponent of an equal days pay for an equal days work, it is unconscionable for labor to accept two workers doing the same job while one receives less compensation. A two-tier pension system for new hires is patently unfair. This would include a lower cost of living adjustment (COLA) than current plan participants receive. This scenario also includes the prohibitions of new hires from participating in the money purchase option under the State Universities Retirement System.

While labor agrees that sworn police officers should benefit from being enrolled in the Alternative Formula, we also believe that a number of State employees work under equally hazardous conditions. The danger is not any greater for an employee working as a barber, an electrician or an instructor in a State correctional facility than it is for

correctional officers. All employees working in a State correctional or developmental center face the same inherent dangers day in and day out. This danger does not distinguish employees by date of hire. . In addition, if the General Assembly and the Governor recognizes that other positions in the State are inherently more dangerous; future Governors and members of the General Assembly should have the latitude to recognize these dangers and place these workers in the Alternative Formula.

Increasing the employee contributions is the most unfair recommendation of all. The burden of adequately funding the pension plans should not fall on the very people who have been identified in this report as meeting their obligations.

This report makes numerous recommendations to the Governor and General Assembly that include different options to consider. Yet, one option that is not considered is the option of increased revenue to adequately fund the pension systems. For decades, in both good and bad economic times, the State did not fulfill its pension funding obligations. And now, the State is seeking reduced benefits, a two-tier system for new employees, and increased pension contributions by the very people who have loyally fulfilled their responsibilities.

Although this report recommends further study for Defined Contribution Plans, employee represented organizations will oppose any departure from the Defined Benefit Plan currently in use. It is true that many private industry employers have moved away from offering employees defined benefit pensions and instead offer Defined Contributions Plans as a means of retirement savings. However these plans are more risky and less secure due to volatility in the stock market and retirement benefits not being guaranteed.

In the past, some public employers have attempted to negotiate lower retirement contribution rates. But if this is allowed to occur, even for new hires, it will completely alter the stability of any of the programs. If the employer contribution level is lower, eventually the benefit levels will be too.

The various entities of labor organizations who represent State employees, teachers and university professionals know and understand that Illinois has a crisis in funding its pension obligations. We are also aware that this unfunded liability has a direct bearing on the State's creditworthiness. However, we believe that the State has made a promise through collective bargaining and legislation to its employees and educators and these promises should be kept. We believe that the only way to fully achieve the goal of 90% funding by 2045 is to fund a level percentage of payroll.

Simply, we believe that a promise made should be a promise kept.

Respectfully submitted.

Ronald E. Powell
President, Local 881 and
UFCW International Vice President

1110 Honeysuckle
Wheeling, Il 60090
1/14/05

The Honorable Roland Burris
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, Il 60601

Dear Mr. Mathias:

I am writing to ask you to support extending the early retirement option for educators. It is well known that a teaching career involves extreme dedication to the profession. The monetary reward is not equivalent to the amount of hard work that is put into a job which affects the future of our society. Teachers have the responsibility for preparing students to be productive members of society. Yet their rewards are few. Social security benefits are limited or not available. There is no justification for denying teachers a comfortable retirement after a long, arduous career.

Local school districts have been able to benefit from the early retirement option by replacing higher paid employees with those who are hired at a lower salary. This has helped to balance their finances which are not supported enough by the state which has not met the Constitutional obligation of funding 51 percent of the cost of education.

The ERO is needed. It is a fair way of saving local districts millions of dollars. It is one of the few incentives that draws good teachers into the field. It is good public policy. Teachers should not be punished because the state has failed to meet its obligations. To deny this benefit would be a moral injustice. It is necessary to extend the early retirement option.

Respectfully submitted,

David Platt

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American Federation of State, County and Municipal Employees, AFL-CIO

January 25, 2005

The Honorable Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 E. Wacker, #500
Chicago IL 60601

Dear Chairman Burris:

We are writing to urge you to oppose the proposed benefit changes in the five state-funded pension plans being considered by the Governor's Pension Commission.

The Governor's Office of Management & Budget (OMB) would have you believe that a significant portion of the state's unfunded pension liabilities stems from recent benefit increases that were enacted by the General Assembly and signed by the Governor "with no funding source." This is simply not the case.

In fact, these pension increases were enacted as part of an agreed bill process where all parties--the State, the retirement system, and the unions representing employees participated in the give and take of negotiations to provide fair pension benefits to Illinois public employees and to fund those improvements.

Each of the benefit increases that applied broadly to public employees (SERS standard and alternative formula and TRS formula increases) were overwhelmingly approved by the General Assembly because they achieved a fair and reasonable level of future retirement benefits and also contained significant contributions from employees to help pay for those enhanced benefits.

State employees, through negotiations with their union (AFSCME), agreed to higher employee pension contributions, a wage freeze, an end to cashable sick leave, and significant changes in eligibility for fully subsidized retiree health benefits in order to win decent pension benefits. Similarly, teachers agreed to make higher paycheck contributions and to share in the cost of upgrading their past service to gain their pension benefit improvements.

The large pension payments coming due over the next several years to the state-funded pension systems result solely from the state's failure to make the

actuarially-required pension payments prior to FY 1996, and from the pension plan under-funding that was built into the beginning of the 50 year funding plan that began in FY 1996--the fifteen year "ramp" up to the required level percentage of payroll contribution rate. These payments owed to the state's pension funds are not driven by recent benefit changes (which brought pension benefits only up to a median level compared to other states), whose costs were substantially offset by enhanced employee contributions.

In this context we ask you to vote "no" on the following Governor's Pension Commission Recommendations:

1. No on a reduced COLA for new hires
2. No on eliminating the money purchase option for new hires
3. No on limiting the rate of interest applied to the current money purchase option
4. No on "local funding" for benefit increases in final year(s) due to salary increases over certain percentages
5. No on higher normal retirement ages for new hires
6. No on limiting SERS alternative formula application to new hires to peace officers only
7. No on increasing employee contributions for those on Alternative Formula
8. No on an across- the-board contribution increase for all current participants in all systems
9. No on a requirement that pension benefits have "a defined new funding source" or an "express sunset provision."

To the extent that pension benefits and contributions are now part of the collective bargaining process, we think that is the appropriate forum for the Governor to discuss these issues. Indeed, OMB Director John Filan himself publicly stated that he favored this approach in the early days of this Administration. The truth is that pension benefits in Illinois are not out of line with other states. Prior to 1998, for example, SERS benefits ranked 49th out of the fifty states. Now, although Illinois is 6th in per capita income among all states, SERS pension benefits are somewhat below the average for all states. And Illinois is dead last in the ratio of state employees to citizens.

We agree that the 1995 funding plan could be restructured. But the only fiscally sustainable answer is to eliminate the ramp and fund to the 90% target at a level percentage of payroll. This won't be easy to accomplish, but it is the only solution that can actually work. We must, however, stress that **funding for such a level percent of pay funding plan must come from revenue increases and not budget cuts.**

Defined Contribution plans, by their nature, cost more to administer and, on average, earn less than our current Defined Benefit pension plans. They do not save the state anything, except to the extent that they are structured to provide lower retirement benefits--something that is not warranted given current benefit levels. While the SURS may have had some unique reasons to need such an alternative to recruit senior, experienced university faculty, we are not persuaded that such an alternative for the other state pension systems makes sense.

We are open to discussing support for additional Pension Obligation Bonds, with the proceeds going to reduce the unfunded liabilities of the systems. Clearly economic conditions must be right, as they were two years ago when $10 billion of such bonds were snapped up in a matter of hours. POBs should be explored as a viable option to fund pension obligations at a lower interest rate than the systems currently charge on their unfunded liabilities, as part of a revised funding plan.

Please call us at 312-641-6060 if you wish to discuss these matters further.

Sincerely,

Henry Bayer
Executive Director

Hank Scheff
Director of Employee Benefits

SEIU
Stronger Together

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January 26, 2005

Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, IL 60601

Re: Recommendations & Concerns to Governor's Pension Commission

Dear Chairman Roland Burris:

I am writing to discuss the plans of the Governor's Pension Commission and the options for moving forward. First, please accept my sincere thanks for the many months of work and deliberation that has gone into the Commission. To be sure, there are few responsibilities more important than securing the deferred pay and retirement benefits of our members.

Second, allow me to share with you some of my concerns about the various options under consideration. On behalf of our members, we oppose the proposals that would involve a so-called "two-tier" system, which would penalize new hires with a reduced COLA, and/or no money purchase formula, and/or a higher retirement age, and so on. Besides, not solving the state's budgetary problems, these policies would likely violate the collective bargaining process and end up causing more harm than good.

Similarly, the proposals to increase employee contributions and to create new requirements, such as sunset provisions, are dead-ends. The appropriate forum to discuss ideas such as these is the collective bargaining process. Those involved know that our members (as well as the members of other unions) have been very flexible and given up benefits that our members receive in other states in order to arrive at a fair solution to the state fiscal difficulties. We do not see it as the role of this Commission to put forward recommendations that interfere with the collective bargaining efforts in which we have partnered with the state to arrive at a fair budgeting plan.

Finally, I would like to identify some common ground for moving forward:

1. **Restructuring the 1995 funding plan:** While we do not favor ending the fundamental goals of the funding plan, we believe there are ways to improve it. For example, the plan must have a new revenue source and not force budget cuts elsewhere. We would appreciate further discussion about ways to enhance the revenue options so that we do not continue to under-fund the systems.

2. **Expanding Defined Benefit options**: Contrary to some of the propaganda emanating from the Governor of California and elsewhere, defined benefit plans provide the most cost effective way to deliver retirement security. These plans earn more, have lower administrative costs and lower fees than other options. The DB model is so sensible, that we propose expanding it, possibly in the form of legislation requiring all qualified Illinois employers to provide their employees with a DB plan or to contribute at least 9% of an employees' salary to an equivalent. Illinois could be a pioneer in allowing private sector employers to buy into the public system, thus diversifying the system's assets, making genuine retirement security available to all Illinois workers, and giving private sector employees a stake in the future of the state DB plans. While there may be technical difficulties involved in managing new, private sector employers and participants, they would not be unmanageable. The economies of scale that we achieve in the public sector would make DB plans more readily available and cheaper for employers through an innovative public-private partnership.

3. **Pension Obligation Bonds**: We support returning to the capital markets at the appropriate time to refinance the pension debt and lower costs for the State.

I am available for additional discussion on these ideas. Please feel free to call me at (312) 787-5868 or our Capital Stewardship Director, Bill Dempsey at (312)-233-8783 to discuss these options further.

Sincerely,

Christine Boardman
President, Local 73
Treasurer, SEIU State Council

Tom Balanoff
President, Local 1
President, SEIU State Council

A Union of Professionals

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James E. Dougherty
PRESIDENT

Raymond Mackey
CHIEF OF STAFF

An affiliate of the AFT, AFL-CIO

January 27, 2005

Roland Burris, Chairman
Governor's Pension Task Force
35 E. Wacker, Ste. 500
Chicago, IL 60601

Dear Mr. Burris:

The IFT appreciates the gravity of the Governor's Pension Commission's charge to seek solutions to the pension funding crisis in Illinois. A number of options have been researched and reviewed. Several have been discarded. We agree with the Commission and its intent to not diminish pension benefits currently guaranteed under the Illinois Constitution.

More importantly, the Commission has recognized that the most important factor in this crisis is that the state failed to meet its funding obligations to the systems for many years prior to the 1995 pension funding reform act. Active members of each of these systems have been acknowledged for fulfilling their obligations to the systems during that period and since, and that is appreciated.

The state must meet the requirements of the ramp-up period provided in the 1995 pension funding law. In the current economic downturn, this has been difficult. The pension obligation bonds authorized in 2004 provided a very successful vehicle for the state to meet its funding requirements during the current year.

The IFT believes that the current law must be strictly enforced, and we will seek to ensure that its continuing appropriation requirements are met. Many ways to do this have been discussed, including issuing additional pension obligation bonds, reductions in pension benefits for new hires and additional contributions from members of the system.

The one solution that makes the most sense to us is increasing revenue, and unfortunately that has not been part of the Commission's discussions. I do not believe the governor's reluctance to support revenue enhancements at this time should deter the members of the Commission from recommending what they believe is the most effective way to deal with the serious problem facing the state today with respect to its long term pension debt.

A second Pension Obligation Bonding program is a potential short term solution that will ease the burden for those crafting the FY 06 budget. Based on the highly successful program in FY 05, this option may be the best solution short of a permanent new revenue stream. We believe the window is still open for another successful POB program and hope that avenue is pursued.

Some consideration has been given to changing the ramp schedule. This is only a partial solution since it merely puts off the state's responsibility to make up past shortfalls. In the end it will cost Illinois taxpayers more due to interest incurred in a longer pay-off period. It would also substantially reduce the current funding ratios of the systems from their already low levels. For these reasons, we do not believe this is a practical solution to the problem.

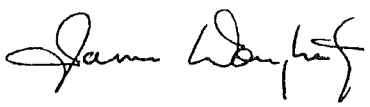
The Illinois Federation of Teachers is also adamantly opposed to requiring employees of its public pension systems to pay a second time for average benefits that are under-funded as a result of the state's own historical financial negligence to the systems. The problems confronting the administration today regarding its pension obligations are fundamentally revenue problems, not benefit problems. Solutions must be crafted which reflect that reality.

Therefore, the IFT asks each member of the Commission to vote NO on the following proposals:

1. Increases in contribution rates for current members in all systems and the SERS alternative formula without commensurate benefit increases
2. Reductions in benefits for new hires, including:
    - a raise in the normal retirement age
    - a reduction in the COLA
    - limitations in the SERS alternative formula to peace officers only
3. Elimination of or changes to the rate of interest for the money purchase formula (SURS)
4. "Sunset provisions" for new pension legislation that are simply intended to avoid pension protections specified in the Illinois Constitution
5. Limitations, including cost shifting, on end of career salary enhancements in which there are no safeguards against inequitable treatment of educational employees
6. Changing the current defined benefit plans to defined contribution plans. For basic economic security in retirement, members of TRS and SURS need the defined benefit since they are not coordinated with Social Security.

If I can be of further assistance, please feel free to contact me at your convenience.

Sincerely,



James Dougherty
President

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STATE UNIVERSITIES ANNUITANTS ASSOCIATION AND FOUNDATION
Serving retirees, spouses and survivors from the public Universities and Community Colleges of Illinois

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February 1, 2005

Roland Burris, Chairman
Burris, Wright, Slaughter & Tom, LLC
35 East Wacker, Suite 500
Chicago, IL 60601

Dear Roland Burris, Chairman:

Thank you for your service on the Governor's Pension Commission. Finally, we have a Governor that is willing to shine light on the condition of our five pension systems. Unfortunately, it is for the wrong reasons. The only fundamental problem with the retirement systems relates to funding, not over generous benefits.

As you may know, SUAA represents future annuitants (current faculty and staff) and current annuitants of the State Universities Retirement System. Increasingly, our growth is due to current faculty and staff who are concerned about what will happen with their retirement plan.

I urge you to oppose proposed changes as outlined in the draft presented to the commission at the last meeting on Friday, January 28, 2005.

In the interest of time we will outline a few reasons why we oppose changes in benefits while supporting new funding alternatives.

Benefits

Many, including our organization, have worked hard over the years to improve retirement benefits. Even with this hard work our systems are described as only average when compared nationally. Does that mean that now we want to set up future retirees with something less than average, or "below average?" This could have several long term impacts: inability to attract skilled professionals and become less competitive in the world job market, lower morale, and reduced loyalty. Our colleges and universities

make huge contributions to the growth and economy of the State because they have been able to attract talented and committed faculty-staff. Illinois cannot afford a "below average" retirement system.

Funding

It is refreshing to read in the draft document that the State of Illinois' admits its failure to properly fund the systems. This should be the real focal point for the commission. The systems did their job by regularly providing actuarial tables for the unfunded liability that needed to be funded. It is past Governors and General Assemblies that determined other priorities that meant adequate pension system funding was never given priority.

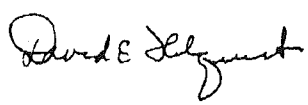
We applaud the determination in the mid 90's that led to legislation that finally developed a payment system to get to 90% of funding. Again, it was a half step plan that stretched out payments over 50 years, transferring significantly higher unfunded liabilities to future taxpayers, Governors and General Assemblies. These funding challenges were not caused by the hundreds of thousands of employees throughout Illinois. Employees have consistently paid their share of the contributions to the system. It is the State not providing its share of the funding that caused the problem; so it should be the responsibility of the State to solve the problem but not at participant/employee expense.

We do support legislation that allows using bonds to move the systems toward full funding. The central question is why should system participants be penalized for the failure of the State of Illinois to fund its share of retirement benefits? In our private lives we periodically have to look at our priorities and hold off on new purchases. Perhaps at this time, the State needs to take care of old obligations before it can take on all of its new initiatives. It is the right thing to do.

We wish to continue a dialog toward resolution of the funding problem. Every dollar not invested in the retirement system today will cost the State $3.13 in fifteen years. We are open to creative suggestions such as the bonding program last year that has paid dividends. Can we put our collective heads together to find a resolution to funding while maintaining the integrity of the current systems?

We challenge you to find solutions to the pension systems funding requirements and maintain or even improve future benefits. The State of Illinois and its employees will be better for it.

Sincerely,



David Hilquist
President

Illinois Education Association-NEA

February 2, 2005

Dear Pension Task Force Members:

The IEA appreciates the gravity of the Commission's charge to seek solutions to the pension funding problem in Illinois and looks forward to working with you on this issue.

However, the problem is not benefits -- Retirement benefits paid to teachers and other state employees are in the middle of their counterparts in other states.

As you know, the IEA has consistently voiced strong opposition to any reduction in benefits for current participants or new hires and to any increase in pension contributions by active members.

Increasing active members' pension contributions is "simply a tax increase" on teachers to pay for inaction by previous General Assemblies.

After all, teachers and other state employees did not create this pension funding crisis. We paid our required contributions while during the '90s, the state did not. It's time for the state to meet its pension obligations and make the payments.

Therefore, we are also opposed to any reduction in the current pension funding plan. We supported the last Pension Obligation Bond program and would be receptive to another program which would turn the "soft" debt of the pension systems into a "hard" debt.

If we can be of further assistance, please feel free to contact us at your convenience.

Sincerely,

Anne Davis

Anne Davis
President

PATRICIA BURKE
2619 POPLAR VIEW BEND
ELGIN, IL. 60120

February 5, 2005

Dear Mr. Burris,

I am writing to you regarding the Early Retirement Option for teachers. I am a teacher with over 30 years of experience. I have been planning my retirement for the past 3 years. I will turn 55 shortly after the ERO is due to expire. Therefore, this situation seriously impacts myself and my family.

The Early Retirement Option is a key benefit, not only for teachers, but to the school districts around the state of Illinois. Because the state has not fully funded education, the ERO allows districts to deal with the funding crisis. Many of the education associations have negotiated agreements that have adjusted some concerns so that only the teachers who truly deserve this benefit are entitled to it. Personally, I am not taking any bonus. I would just like to have the ability to buy one year of service with my unused sick days and retire within the six month period of my 55th birthday.

I was alarmed to read the study from the Government Performance Project that states that Illinois has the largest unfunded pension liability in the nation. It also says that the state has poor long-term budget planning. I am concerned that the state legislature has failed to fully fund the pension. I have dutifully been paying my share and upgrade for many years. I expected that the state had been matching its portion of the benefit. Now the teachers are being penalized for things that are not in their control.

I urge you to come to some resolution of this issue sooner rather than later, as it affects many teachers in the state. There are many good reasons to extend ERO. This benefit is not only good for teachers, but school communities as well.

Thank you for your kind consideration.

Respectfully,
Patricia L. Burke
Patricia L. Burke
IEA Member
Community Unit School District #300

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February 9, 2004

TO: Governor's Pension Commission

FR: David Hilquist, SUAA President

RE: Statement for Appendix

This memo is in response to an invitation by the commission to provide comments as it relates to retirement system "recommendations, items for examination and consideration." I want to thank you for giving us the opportunity to voice our concerns one more time and the promise to include our remarks in the report appendix.

We do not support the recommendation for the new funding mechanisms as described; the arbitrary withholding any future pension legislation if there is not a funding stream; nor the benefit cuts proposed. Below is an explanation.

First, the funding "considerations" in the proposed pension plan changes are just so much smoke and mirrors. It appears the commission is looking for ways to divert tax dollars for other purposes. It is wrong to take future projected "savings" and spend them now in other program areas. This is no different than past Governors actions that got us where we are today- with serious under funding. We hope that this debate will result in determining what the right thing is.

Second, the benefit "considerations" are a direct affront to all retirement system participants. All systems have clearly established benefits negotiated, deliberated and agreed to by all parties. This process has provided assurance of a certain quality of life once retirement is reached. Why would you want to do less (employees pay half) for employees that are being asked to take over heavier work loads for those that have left and not been replaced?

Third, the recommendation to withhold any pension legislation, if there is not a funding stream, is unfair. To purposefully inhibit the deliberative process of State Government as it relates to retirement systems is dangerous. The democratic and due processes are at stake here and infringement of these rights may be unconstitutional.

If these "considerations" come to pass, we predict that in 10, 15 or 25 years, future legislators will be facing the same problems of today but again, on a much larger scale.

We recommend that at the very least the State continue the 1995 funding plan and not at employees/retirees expense as proposed. State employees and retirees have always paid their full obligations to the retirement system and should not be penalized.

We call for the State of Illinois to clearly state that full payment to the retirement systems is a priority and stop the games. The security of over a half a million voting employees and retirees should be important to those that govern our great State.

Again, thank you for the opportunity to make a statement.

January 21, 2005

To the Members of the Governor's Pension Commission:

Thank you for this chance to share our views on funding public pension systems properly. We applaud the commission's efforts in understanding issues that confront Illinois pension systems. We are appreciative of the substantial efforts made to continue the state's unblemished record of complying with the 50-year funding law. In particular, we note the issuance of pension obligation bonds that will have a continuing impact on state contribution requirements for many years to come.

Together we have learned much. From our perspective, the principal problem has been neglect of responsibilities. The neglect spanned five decades, beginning during World War II and continuing into the mid-90s.

You have asked us to share recommendations for meeting the state's current pension funding requirements. For reasons outlined in this letter, the only solution we recommend is continued compliance with the existing funding law.

Benefits

We are dismayed with the focus on benefit reductions because the approach falls far short of meeting existing responsibilities. It is, in fact, the unfunded liability that drives increased funding requirements. If all of the proposed new employee benefit reductions were implemented for new members, state contributions would still be high because the state is responsible for the existing unfunded liability and the constant compounding of interest on the unpaid principal.

Current benefit levels are not out of line. All parties and the analysis by the commission's actuaries agree TRS benefits are essentially middle-of-the road. In fact, TRS members pay more than teachers in other non-Social Security states. Under the proposals before you now, current members will pay more for the same benefits. New participants will pay the increased rate but receive lower benefits.

Other problems would arise from the individual benefit reduction proposals. Capping benefit increases for new hires at two percent on the first $24,000 means members will lose purchasing power rapidly upon retirement. The TRS money purchase feature is a standard element of good plan design and is fair to members and the state. It is based on a statutory six percent interest rate that is set well below our actuarial assumption and the experience of the past 20 years.

Remember, too, that TRS members are not covered by Social Security. The state has consistently opposed coverage for the very sound reason that mandatory coverage

increases the total pension/retirement cost. As a result, the TRS plan is far more efficient. The efficiency comes at the cost of the loss of the Social Security safety net. As a result, one should be extremely skeptical of any defined contribution proposal that overlooks the member's essential economic security.

Funding

In addition to benefit reductions, you are being asked to consider extending the current 50-year funding period. New funding scenarios were prepared for today's meeting that extend the funding period to 70 years. In other words, the funding program would not be complete until a teacher entering the system this year is 82 years old.

It does not take an actuary to conclude that extending the funding period will not save the state money in the long run. The interest clock will continue to run. You cannot fund the pension systems at whatever level is convenient and expect pension funding obligations to go away.

Efficiency and effectiveness

TRS continues ongoing efforts to minimize state funding requirements through careful administration and wise investment of available assets.

- The FY2006 funding request reflects a $12 million reduction by matching the contribution rate from federal funds with the rate paid through the state contribution.
- TRS has exceeded actuarial earnings assumptions when measured over both 10- and 20-year periods. Last year's 16.5 percent investment return resulted in an $18 million reduction in the FY2006 contribution request.
- Our careful control of administrative expenses is demonstrated by overall costs that rank below our sister systems in Illinois and nationwide.

Our recommendation is based on our understanding of the history of state funding. That history shows the state has consistently changed the rules whenever the cost of past irresponsibility grew too great. In an attached perspective, we review some of these past choices. I am hopeful that it will help explain why we urge you to stay the course and comply with the funding law.

Sincerely,

Jon Bauman
Executive Director

Attachment: Perspective on State Retirement System Funding
cc: John Frigo, Office of Management and Budget
Lance Weiss, Deloitte Consulting LLP
Howard Freidin, Deloitte Consulting LLP

Perspectives on State Retirement System Funding

Years ago, the state had to pick between saving for pensions to be paid another day and paying for programs that many thought were of immediate importance.

So, money owed the pension systems for benefits being earned went to fund other programs.

Years went by. State funding needs increased faster than state revenue. Pension funding needs grew because state contributions were too low to cover actual costs, much less the interest on previously unpaid contributions. This caused unfunded liabilities to grow, slowly at first, and then much more rapidly. This is very similar to the amount due on a credit card growing when only minimum payments are made.

At one time, state law called on the state to contribute 120 percent of member contributions. This standard was never met.

A seven-year phase-in was enacted in 1989 (Public Act 86-0273) as part of a pension funding reform law. The purpose of the phase-in, or ramp, was to build increased contributions into the state budget over time and avoid the fiscal shock of doing it all at once. Additional funding under PA 86-0273 began in FY1990, in the amount of $30 million, or half the amount specified by the new law.

The 1989 law had no teeth. State contributions were based on whatever had been appropriated the previous year, not the amounts certified by the retirement systems as the amounts required by the funding law. This was the era of "level funding."

In 1994, another funding law was enacted, but it had teeth. Public Act 88-0593 contained a continuing appropriation requirement. Funding was not an option and the General Assembly has faithfully followed this mandate every year since enactment. (This act is often called the 1995 law because the funding requirements first became effective on July 1, 1995.)

By the time the 1995 law was enacted, the systems' unfunded liabilities had grown dramatically. The ramp was 15 years instead of seven because the difference between what the systems were getting and what they needed had grown so much higher. While the ramp spared short-term budget pain, it legalized continued under funding for the next 50 years.

Now we are discussing funding for FY2006, the 11th step on the 15-year ramp. The required contributions are high, and they will continue to increase as anticipated in the 1995 funding law. The ultimate funding levels would have been lower if the unfunded liabilities had not grown so large by 1995 and if the ramp had been shorter. The ramp allows the unfunded liabilities to grow since the required contributions are lower than required under a more standard actuarial funding method.

What has changed since the 1995 funding law? Three things:

1. Asset valuation method: FY1999 and subsequent funding requirements were reduced because assets were valued at market rather than book value.

2. Benefit increases: Illinois pensions were brought closer to national averages. State employees and teachers paid significant portions of the costs. The state pays for about 25 percent of the cost of increasing teacher benefits to the 2.2 formula.

3. Revenue decline / Pension obligation bonds (POBs): State revenues suffered in the wake of the economic downturn that began the new century. While state retirement system assets also declined, they did not cause the increased funding requirements. These were largely due to the ramp. In 2003, the state issued pension obligation bonds to help fund the retirement systems. Appropriations to the retirement systems were reduced by the amount the state owed as debt service. The state contribution for TRS for FY2006 is actually $290 million less than would have been required absent the POBs.

What has not changed?

The state's responsibility to fund pensions as promised did not change.