

**SB: 1292**

**Pension System Modernization  
Two-Tier System**

# Governor's Ground-Breaking Reforms



- Existing Employees and Retirees Keep their Current Benefits.
- Newly-hired Employees will be part of a Modernized System.

# New Hire Modernized System



- Retirement age will be higher.
- Closely match social security and other public pension systems.
- Cost-of-living increases will be capped.

# COLA (Proposed)



- The lesser of 3% or  $\frac{1}{2}$  Consumer Price Index Increase
- Simple Interest

## *Rationale:*

Housing costs are constant for most retirees and do not adjust with inflation.

## *Other states:*

- Florida- 3%
- California- 2%
- New York- The lesser of 3% or  $\frac{1}{2}$  Consumer Price Index Increase
- Pennsylvania- COLA determined at pension boards discretion
- Texas- No required COLA
- Wisconsin- No COLA (Increases determined by investments)

# COLA (Current Law)



SURS	SERS	TRS	JRS	GARS
3%	3% After 60 or if retiring "under rule of 85"	3% at age 61	3%	3% after age 60

\*All compounding interest



# Retirement Age (Proposed)

- Social Security age, currently 67, with 10 years of service
- Benefit reduced 6% for every year before 67
- Exception: Age 62 with 35 years of service

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## *Rationale:*

Pension system should be aligned with Social Security.

## *Other States*

- Iowa 65
- Indiana 65
- Virginia 65
- Several state pensions in European Nations 68-70



# Retirement Age (Current Law)

SURS	SERS	TRS	JRS	GARS
<ul style="list-style-type: none"><li>•55 w/ 8+ years</li><li>•62 w/ 5+ years</li><li>•Any age with 30 years</li></ul>	<ul style="list-style-type: none"><li>•60 w/ 8+ years</li><li>•Age + Service = 85</li><li>•55-60 w/ 25-30 years <i>(reduced 6% for each year under 60)</i></li></ul>	<ul style="list-style-type: none"><li>•62 w/ 5+ years</li><li>•60 w/ 10+ years</li><li>•55 w/ 20+ years</li><li>•55 w/ 35+ years</li></ul>	<ul style="list-style-type: none"><li>•55 w/ 26+ years</li><li>•60 w/ 10+ years</li><li>•62 w/ 6+ years</li><li>•55 w/ 10+ years <i>(reduced 6% for each year under 60)</i></li></ul>	<ul style="list-style-type: none"><li>•55 w/ 8 years</li><li>•62 w/ 4 years</li></ul>

# Multiplier (Proposed)



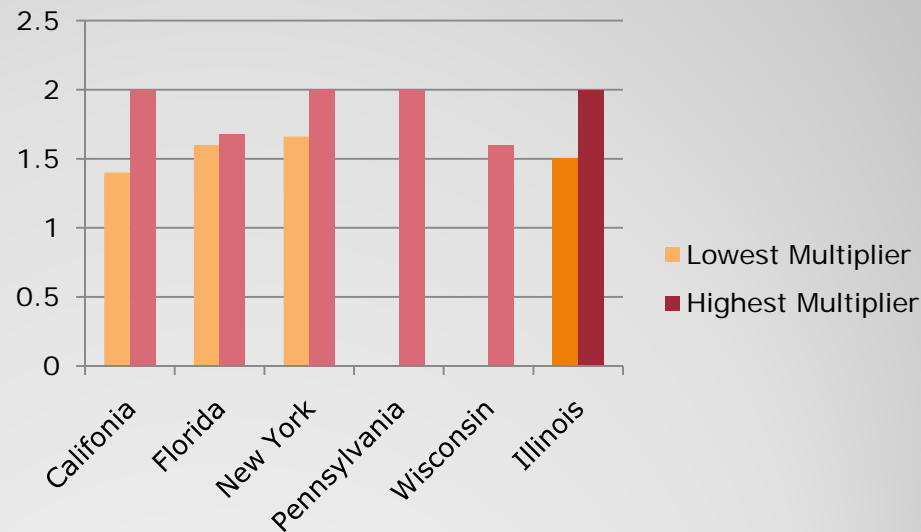
- 2% for each year of service for those not receiving Social Security
- 1.5% for each year of service for those receiving Social Security
- Maximum 70%, 52.5%

## *Rationale:*

Multiplier must adjust for longer average career as the average lifespan lengthens.

## *Other States*

- California 1.4-2%
- Florida 1.6-1.68%
- New York 1.66-2%
- Pennsylvania 2%
- Wisconsin 1.6%





# Multiplier (Current Law)

SURS	SERS	TRS	JRS	GARS
<ul style="list-style-type: none"><li>•1.67% if covered by Social Security</li><li>•2.2% if not covered by Social Security</li></ul>	<ul style="list-style-type: none"><li>•1.67% if covered by Social Security</li><li>•2.2% if not covered by Social Security</li></ul>	<ul style="list-style-type: none"><li>•1.67% for 1st 10 years</li><li>•1.9% for 2<sup>nd</sup> 10 years</li></ul>	<ul style="list-style-type: none"><li>•3.5% for the first 10 years</li><li>•5.0% for each year over 10</li></ul>	<ul style="list-style-type: none"><li>•3% for first 4 years</li><li>•3.5% for next 2 years</li></ul>
<b>Maximum 75%</b>	<b>Maximum 75%</b>	<ul style="list-style-type: none"><li>•2.1% for 3<sup>rd</sup> 10 years</li><li>•2.3% for each year over 30</li></ul> or <ul style="list-style-type: none"><li>•2.2% for all service earned after July 1, 1998</li></ul> <b>Maximum 75%</b>	<b>Maximum 85%</b>	<ul style="list-style-type: none"><li>•4.0% for next 2 years</li><li>•5% for each year over 12</li></ul> <b>Maximum 85%</b>



## Final Average Pay (Proposed)

- Average of the highest 8 consecutive years of the last 10 years of service
- Final year cannot exceed the Final Average Pay by more than 25%
- Wage can be no greater than the lesser of maximum covered by Social Security or \$150,000\*

*\*Number adjusted annually based on lesser of 3% or ½ CPI Increase*

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### *Other States:*

New York 3 consecutive years

Pennsylvania 3 consecutive years out of final 10

California 3 years consecutive years

North Carolina 4 years consecutive years

# Final Average Pay (Current Law)



SURS	SERS	TRS	JRS	GARS
Average of highest 4 consecutive years of last 10 years of service	Average of highest 4 consecutive years of last 10 years of service	Average of highest 4 consecutive years of last 10 years of service	Last Day of Service	Last Day of Service

# Employee Contributions (Proposed)



- 7%
  - 3% + contribution to social security
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## *Other States:*

- Ohio 10%
- Pennsylvania 6.25%
- California 5% + contribution to social security

# Employee Contribution (Current Law)



SURS	SERS	TRS	JRS	GARS
8%	4% + S.S.	9.4%	8.5%	11.5%
	8%			

# Other Proposed Major Changes



## ***Sick/Vacation Time***

- A member cannot convert any unused vacation or sick time toward service.

## ***Purchasing Credit***

- Pregnancy-Purchase up to two years of credit. Employee contributions, employer costs, and interest accrued required.
- Military (Returning more than 6 months after discharge)- Purchase up to two years of credit. Employee contributions, employer costs, and interest accrued required.
- Military (returning w/in 6 months of discharge)- Establish credit without contribution.

## ***Compensation Base***

- Base compensation for regularly scheduled work. Bonuses not included.

# The Need for Reform



- Modern plan should reflect increased life expectancy
- Pension system should be aligned with Social Security
- Pensions should be competitive with other States
- Pensions should be comparable to what is available in the private sector

# Status



- House sponsor Rep. McCarthy.
- House amendments 1 & 2 filed 5/12/09 & 5/14/09.
- Latest draft includes proposed updates and changes to all five systems.
- Implements Governor Quinn's planned reform.
- Do pass: 6-4 vote on 5/14/09, House Personnel & Pensions Committee.