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STATE OF ILLINOIS
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NEWS

Legislators Propose Innovative New Legislation on State Pension Reform

Bill Aims to End Long Impasse on Illinois' Most Critical Issue Before Legislature Adjourns

Date: Dec. 5, 2012

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SPRINGFIELD – With the problem growing more serious by the day, a number of state legislators today proposed an innovative plan aimed at ending the long, bitter impasse over Illinois' most pressing fiscal challenge: skyrocketing pension costs.

A diverse coalition of House members at a Statehouse news conference today announced the introduction of House Bill 6258, which offers a balanced plan to simultaneously bring state pension costs under control for the long term and provide retirement security for hundreds of thousands of state workers and teachers.

The Nekritz-Biss legislation includes pieces from previous reform proposals with some new ideas, including:

- Creating a new 30-year pension payment plan, making the state pay its employer share with a new funding right that can be enforced through court action
- Allowing cost-of-living pension increases only for the first $25,000 of an employee's pension
- Increasing employees' retirement age from one to five years, depending on their current age
- Increasing employees' pension contributions
- Placing new hires in a cash balance plan that combines the best features of defined contribution (or 401(k)) plans and defined benefit plans
- Further limiting legislators' pension increases
- Gradually shifting teacher pension costs from the state to the school districts that determine salaries
- Further paying down pension debt with revenues freed ups when existing pension obligation notes are paid off

Both say the new version demonstrates their commitment to seeing this issue no longer delayed but resolved in a meaningful way. They're calling for action before the current Legislature's term ends on Jan. 9 and have included ideas from various stakeholders in an effort to reach agreement.

“Daniel and I understand this is a difficult issue for all of us, and we do not approach it lightly,” Nekritz said. Nekritz, D-Northbrook, is chairwoman of the House Personnel and Pensions Committee and a key pension negotiator. “We have supported other reform legislation and would definitely consider other good ideas moving forward. But we must continue to push this issue forward and not let excuses get in the way of progress. Hopefully, this bill moves the conversation in the right direction because we must not let the pension problem ruin this great state.”

"The pension debate has featured too much finger-pointing and progress has been disappointingly slow," Biss said. "At the same time, many stakeholders have offered constructive suggestions. This bill contains ideas drawn from business, labor, and civic groups as well as our colleagues in the General Assembly. We believe that it is a roadmap for solving this problem in January, and we stand ready to work with anyone to do so and build a better Illinois." Biss, D-Evanston, is a former mathematics professor who developed the cash balance plan that was included in pension bills considered earlier in the year.

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House Bill 6258: A Comprehensive Solution for Illinois' Pension Problem

Overview: House Bill 6258 aims to end the long, bitter impasse over pension reform at the state Capitol by combining what has been proposed by business, labor, legislators and civic groups with some new ideas. The bill makes necessary changes to some benefits to preserve the health of the systems going forward but also provides new protections, including a historic guarantee that the state will never again shirk its funding obligations.

<u>Stabilizing the System: Reforms for Tier 1 Members</u> (public employees hired before 2011)

- Cost-of-living adjustments apply only to the first $25,000 of the employees' pension
  - That limit is reduced to the first $20,000 for employees eligible for Social Security
- COLAs are delayed until the employee turns 67 or five years after retirement, whichever comes first
  - This applies to all employees and retirees who are currently receiving COLAs
- Retirement age is increased by:
  - No increase for employees age 46 and older
  - One year for employees age 40 to 45
  - Three years for employees age 35 to 39
  - Five years for employees age 34 and younger
- Employees would be required to contribute more toward their pensions by:
  - One percent during the first year the legislation is in effect (not before Fiscal Year 2014)
  - Two percent thereafter
- Pensionable salary – the amount of salary that counts toward a pension – is limited to the higher of the Social Security wage base or the participant's salary when the legislation becomes law

<u>Predictability, Fairness, and Local Control: Reforms for Tier 2 Members</u> (public employees hired since 2011)

- All new employees in the Teachers Retirement System and State University Retirement System are placed in a cash balance plan
  - Employees are guaranteed a minimum defined benefit but employers have predictable costs and are protected from investment risk -- this combines the best features of defined contribution (or 401(k)) plans and defined benefit plans
  - Local school districts can negotiate the generosity and cost of the benefit with employees
- TRS and SURS employees hired before the effective date can choose to remain in Tier 2 or join the cash balance plan
- COLAs for General Assembly Retirement System members will match those of Tier 2 members in the other pension systems

<u>Ensuring the Benefit Will Be There: Employer Contributions and Funding Guarantees</u>

- Schools and colleges/universities will assume employer costs at a rate of 0.5 percent of payroll per year, with the state still responsible for all previously incurred costs
- Employer contributions will be on a 30-year level-funding plan to achieve 100 percent funding
- Employer contributions will be enforced through court action or intercept of other state funds
- Revenue currently being used to repay pension obligation bonds will be used to pay down our unfunded liability once the pension obligation bonds are paid off
  - This amounts to $693.5 million per year beginning in Fiscal Year 2016, plus an additional $900 million per year beginning in FY 2020, plus $1.1 billion per year beginning in FY 2034