Illinois Education Association-NEA

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FACT SHEET

— From the Department of Government Relations —

Budget Impact on Pensions FAQ

1. **Where there pension changes in the new FY 18 State budget?**

   Yes, there were changes made to pensions in SB 42, one of the three budget bills that make up the FY18 State budget.

2. **How does SB 42 impact pensions?**
   Within Senate Bill 42, the budget implementation bill, the General Assembly created a third tier for new hires under most pension systems, including State Universities Retirement System (SURS), Teachers' Retirement System (TRS) and State Employees' Retirement System (SERS). The Illinois Municipal Retirement Fund (IMRF) is not included. This third tier attempts to fix some of Tier II's problems. There are several other significant components of the proposal that improved upon the current pension system and several counterproductive ideas that were omitted, for example, a consideration option for Tier I members.
3. **Does the new pension proposal create a third tier?**
   Yes. SURS and TRS members who first become participants of the pension systems on or after a to-be-determined implementation date (likely no earlier than July 1, 2018) will have the option to:
   1) Be in a new hybrid benefit, known as Tier III, or
   2) Elect to be part of the current Tier II.

   Also, existing Tier II members will have the option of joining Tier III. The retirement systems shall establish procedures for making these elections which, once made, will be irrevocable. The Tier III plan is a combined defined benefit (DB), often referred to as a pension plan, and defined contribution (DC) plan. Under the DB part, the member's contribution will be no more than 6.2 percent of salary, but may be less depending upon a system's determination of the annual normal cost of benefits. The member's contribution drops from the 9 percent of salary required under Tiers I and II. Beginning with the 2020-21 year, all employer costs (normal and any unfunded liability) for a Tier III member will be picked up by the member's employer and not the state (prior to that date, the state will contribute 2 percent of each Tier III member's salary to each system with the Tier III member's employer picking up the rest, if any exists). Under the DC part, the member must minimally contribute 4 percent of salary, while his/her employer must contribute at least 2 percent and could contribute up to 6 percent of salary.

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4. **What are the benefits of Tier II or Tier III?**

- In both Tier II and Tier III, the cost of living adjustments (also known as COLA), retirement age and years of service are essentially the same.
- The pensionable salary of a member that chooses Tier III is higher than the salary of a Tier II member. It is equal to the Social Security Wage Base -- $127,200 in 2017 vs. Tier II being $112,408.42 in 2017.
- Under Tier III, members' DB contribution decreases to no more than 6.2 percent (so they are receiving equivalent benefit value for their contribution as opposed to Tier II), although each service year is worth 1.25 percent as opposed to 2.2 percent under Tier II.
- In addition to the DB contributions, Tier III members will have the benefit of minimally 6 percent of salary/year going into a DC plan.
- For some employees, depending on anticipated length of service and other factors, Tier II may be preferable to Tier III. For those who don't want any stock market risk in their retirement, they can keep a strictly defined-benefit plan under Tier II.
- For those who prefer the portability of a DC plan, or see the combined package as preferable, they can opt in to Tier III.

5. **How are Tier 1 participants and retirees impacted by the changes?**
   The pension legislation has no impact on Tier I members, including retirees. The creation of the Tier III plan does not divert state dollars from TRS or SURS to the defined contribution plan. It requires that the employers fund the defined contribution plan and any liabilities attributable to the DB plan for Tier III members, if any exists.
6. **What impact will this legislation have on local school districts?**
   For SURS and TRS, the bill contains language that local employers, rather than the state, would be responsible for the employer's normal and any unfunded liability costs of the defined benefit plan for Tier III employees, plus at least 2 percent of salary for the employer DC contribution. See FAQ 3 above.
7. **Did the IEA support the pension changes?**
   The IEA and all the unions within the We Are One Illinois labor coalition took a position of neutrality. We knew pension legislation of some kind was going to have to pass for there to be a budget. So, we worked to ensure the unconstitutional consideration model, which had been a part of SB 16 was not included. Additionally, we worked to make sure end of career salary increases which could be used for calculating one's pension were not reduced from 6 percent to the consumer price index. Such a reduction would minimally have impacted local bargaining.
8. **What role do the systems have in the creation of the DC option?**
   The legislation requires the systems to implement a DC option for Tier III participants. This option will provide future teachers the ability to invest their retirement savings in mutual funds and other investment options similar to their 403(b) savings plans. The Tier III option will not be available until the DC plan is approved by the IRS.