Illinois Education Association-NEA
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FACT SHEET

— From the Department of Government Relations —

SB 16/ HB 4027 (Cullerton,Durkin)
Pension Benefit Cuts to TRS and SURS Members

IEA Position - OPPOSE

The legislation tries to use a legal argument that benefits can be diminished if a participant in the retirement system is given "consideration" or in other words, something in exchange for having their pension cut. This is a framework that Senate President Cullerton has been a believer in for a number of years. The IEA does not support this framework since it clearly forces our members to make a choice that is not in their interest. Both choices that the legislation presents to Tier 1 participants cuts the value of our members' Teachers' Retirement System (TRS) or State Universities Retirement System (SURS) constitutionally protected pensions. Note that all of the "added items" are intended to make a bad proposal seem enticing and distract from the main goal of this legislation. The sole purpose of this is to cut the pensions of hardworking educators so that the state can stop contributing its full share to TRS and SURS to safeguard the retirement of hundreds of thousands of educators statewide. Yet again, the governor and many in the General Assembly are blaming educators for the pension funding difficulties created by current and past elected officials.

<u>Benefit Cut Proposal</u>:

Tier 1 TRS and SURS members are forced to choose between:

Choice 1

- Giving up their 3% compounded cost of living adjustment (COLA) in retirement and accept a COLA that is the lessor of 3% OR ½ CPI, on the originally granted annuity (Currently, the Tier 2 simple COLA). The dramatically reduced COLA would not be payable until either age 67 or after five years of retirement, whichever occurs first.

  <u>In Exchange For</u>

- Allowing future increases in salary to be included in one's pension calculation.
  - Add on: pay a reduced contribution rate of 8.1% of salary vs the current 9% rate and receive 10% of previously contributed employee contributions.

Choice 2

- Keep your constitutionally protected 3% compounded COLA.

  <u>In Exchange For</u>

- Any future salary increases will not be used in the calculation of one's annuity.

To summarize the implications of this proposal, if a member that chooses to keep their COLA with a current salary of $50,000, then the teachers' pensionable salary amount will remain at $50,000 even if his or her actual salary is $75,000 at retirement. The forced choice period would be conducted between Jan. 1, 2018 and March 31, 2018. For those who don't make a choice, the default is Choice 2 and all choices would be effective July 1, 2018. This choice is also applied to four of the five state funded retirement plans: (State Employees Retirement System (SERS), State Universities Retirement System (SURS), General Assembly Retirement System (GARS), and the Teachers' Retirement System (TRS). It does not apply to the Judges Retirement System (JRS).

Other items in the bill include the implementation of a defined contribution (DC) plan that resembles a 401k style plan and the legislation creates a hybrid pension plan that gives Tier 2 members, if they choose, a base pension and a 401k style DC plan. This hybrid plan would also be the new default pension plan for future TRS and SURS members. The hybrid plan would create a Tier 3 and would allow IMRF employers to participate in the Tier 3 plan. It is important to know that this plan would be subject to change whenever the General Assembly decides it would like to cut the benefits of active participants even deeper. <u>The language in the bill basically is drafted to eradicate the application of the "Pension Protection Clause" in the Illinois Constitution for Tier 3 participants.</u> This would absolutely remove any certainty for these future IEA members.

<u>Shifts Pension Costs to Schools, Community Colleges and Universities</u>

<u>Replaces the existing 6% salary cap related to Final Average Salary (FAS) with the Consumer Price Index (CPI)</u>: Beginning July 1, 2018, any raise beyond CPI in a school year used to determine a member's final average salary, the employers (school districts, community colleges and universities) must pay the associated pension costs to either SURS or TRS. For example, if a teacher near retirement is granted a 2% raise and CPI is 1%, the school district must pay all pension costs associated with the 1% salary difference to TRS. **The proposal does exempt current collective bargaining agreements if they were signed prior to the enactment of this legislation.**

Beginning July 1, 2018, any salary above ($140,000) in a given school year, the employers (school districts, community colleges and universities) must pay the associated pension costs to the state pension systems.

<u>Optional Pension "Buy Out"</u>

Adds language to provide that the State shall offer a pension "buy out" plan for <u>vested inactive</u> employees of SERS, SURS, and TRS.

Provides that January 1, 2018, (and each year annually thereafter) the SERS, SURS and TRS pension systems shall calculate the *net present value* of the pension benefits for each eligible person and offer them an opportunity to elect to receive an accelerated pension benefit payment equal to <u>70% of the net present value</u> of his/her pension benefits in lieu of receiving any pension benefit.

Provides that an election by an "eligible person"-- (vested, inactive, not yet drawing a pension) of an accelerated lump sum payout, his or her credits under the pension system are terminated. <u>However, the existing service credit shall still be used to determine retiree health insurance benefits.</u>