

# **FY 2012 LEGISLATIVE SESSION PENSION PRESENTATION**



**Presented to the BOARD OF TRUSTEES by Katherine Laing  
July 21, 2011**

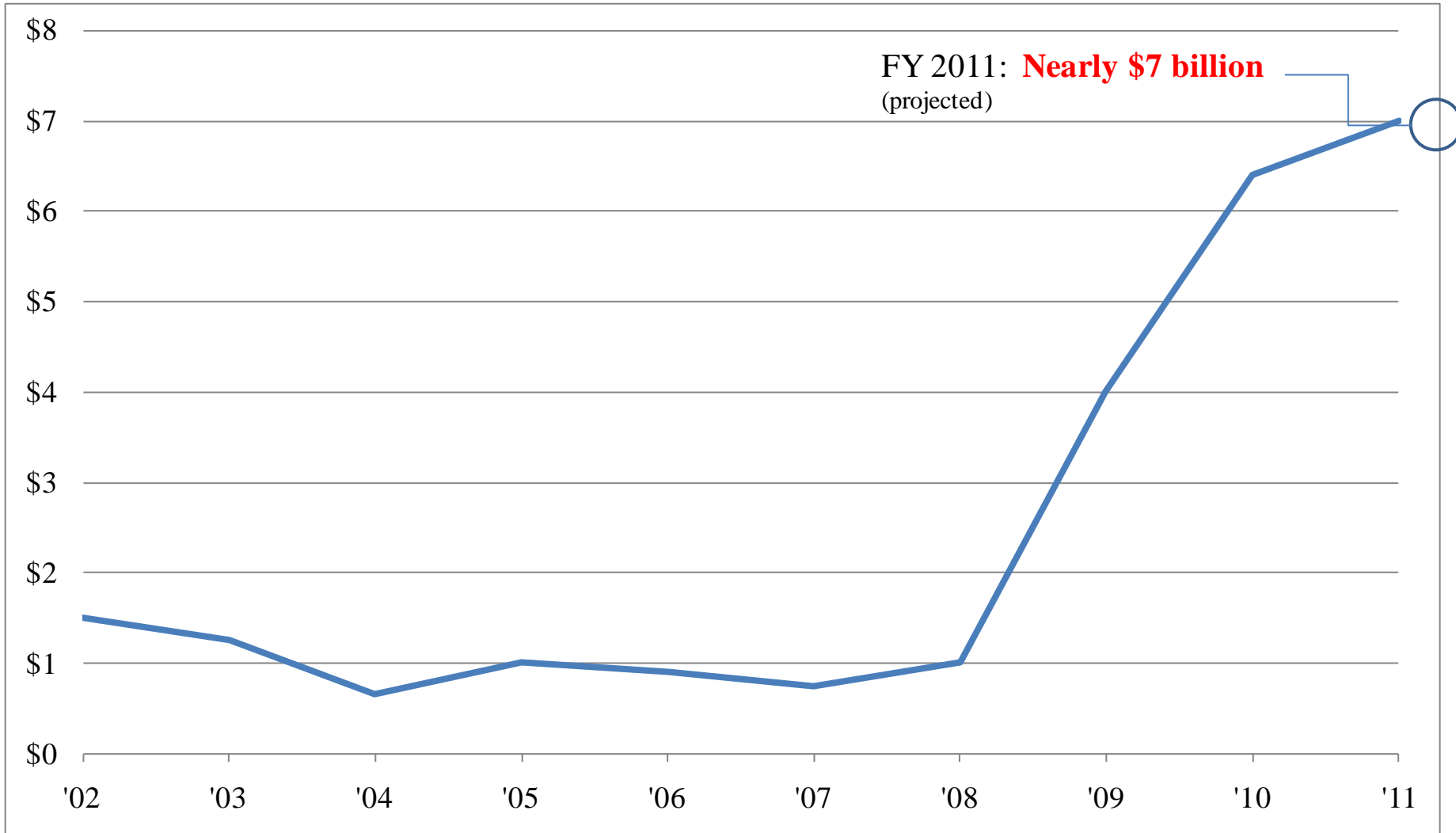
# State of Illinois – Fiscal Crisis Continues

## Estimated Accumulated Unpaid GRF Vouchers

TOTAL ACCOUNTS PAYABLE

*At end of fiscal year*

Dollars in Billions

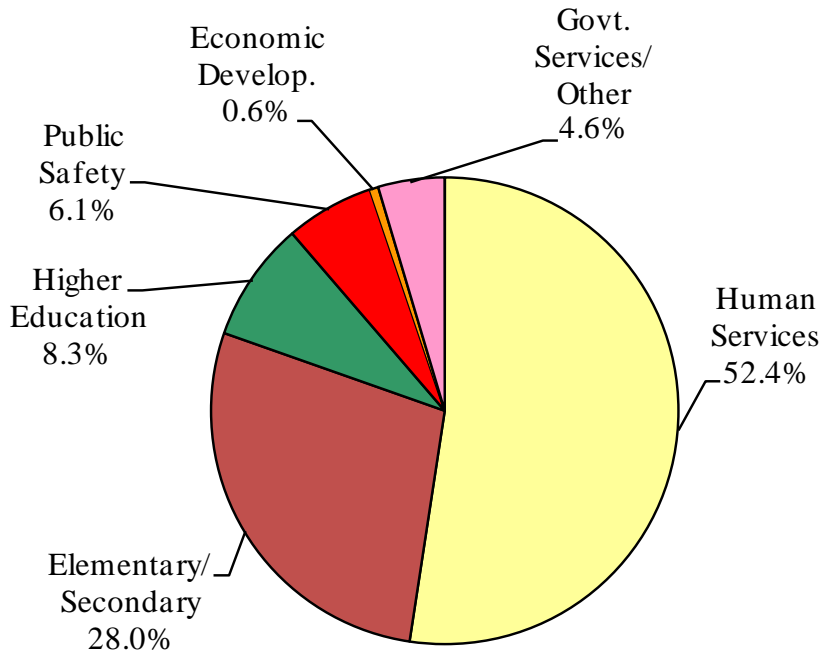


# State of Illinois by Sector

## General Fund Appropriations

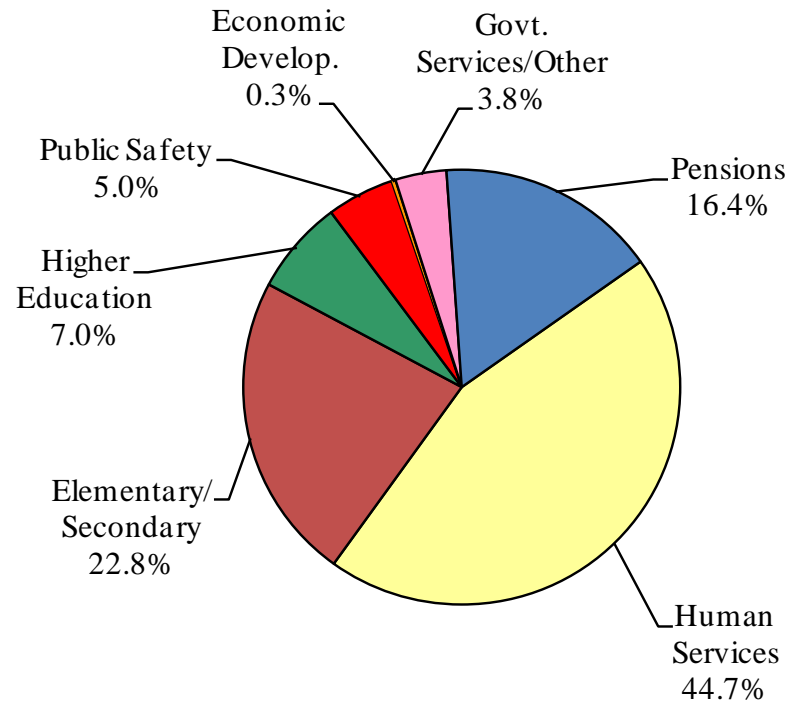
(does not include bond payments or statutory transfers)

**FY 2011**



**\$25.5 Billion\***

**FY 2012**

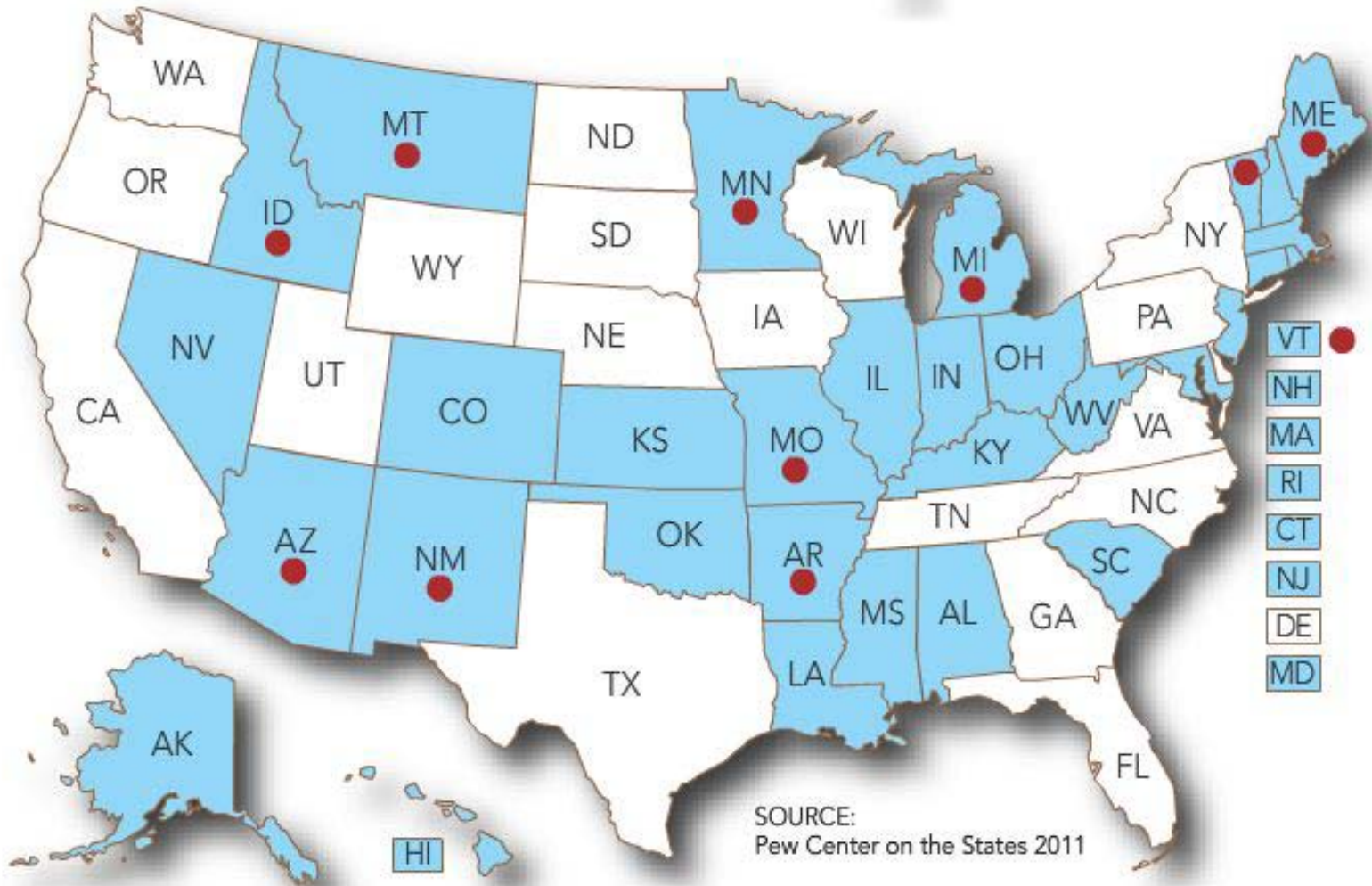


**\$29.9 Billion\***

\*ESTIMATED.

78 percent of states' pension liabilities were funded

**VIEW** Pensions | Retiree Health Care



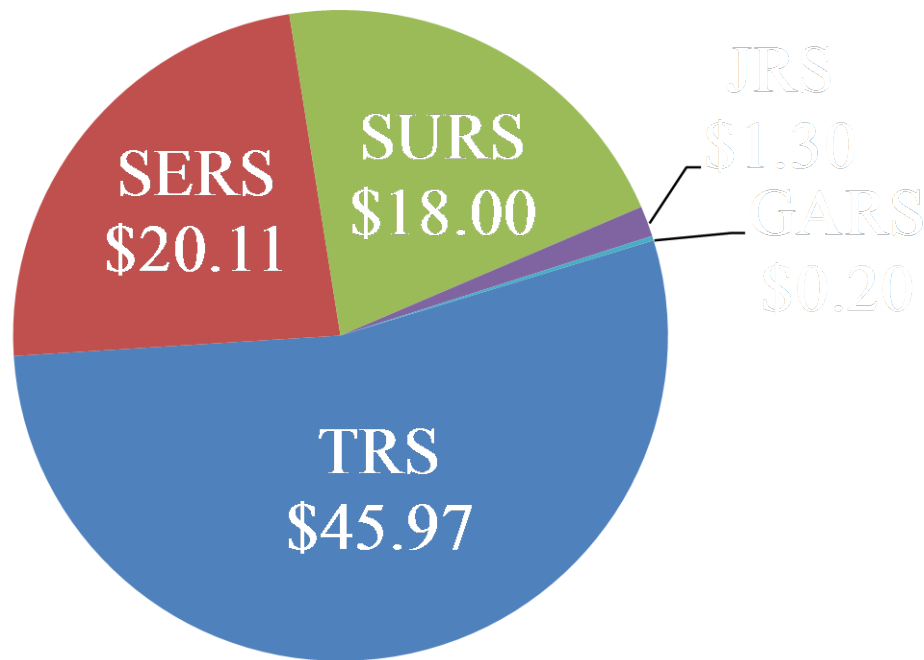
SOURCE:  
Pew Center on the States 2011

**MAP LEGEND**  Less than 80% funded  
 Dropped below 80% in 2009

# State of Illinois

## Unfunded Pension Liability

Estimated as of June 30, 2010  
(Dollars in Billions)

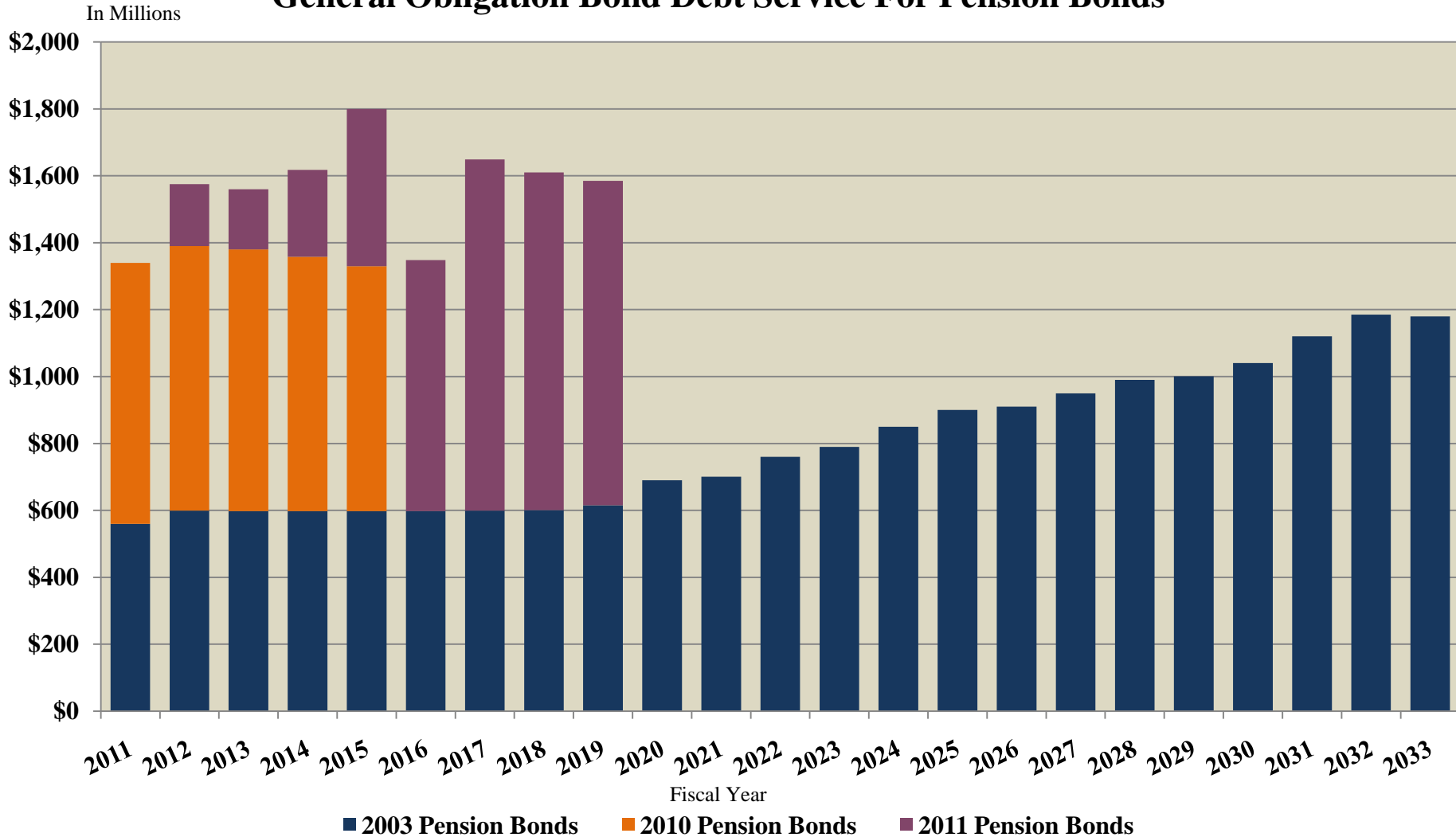


**\$85.6 Billion\***  
**Asset/Liability Ratio 38.3%**

\*Market Value

# In the past decade, the State has issued over \$17B in Pension Bonds and had Funding Holidays

## General Obligation Bond Debt Service For Pension Bonds



Source: Illinois Office of the Comptroller Records

# **There Have Been a Number of Changes in Recent Years**

## **Timeline of Pension Changes**

### **University employees are NOT eligible for Social Security**

#### **1994: PA88-0593**

- Created a 50-year plan designed to increase pension funding incrementally to 90%.

#### **1998: PA090-0448**

- Creation of Self Managed Program option.

#### **2003: PA93-0002**

- Authorized the State to issue \$10 billion in general obligation bonds.

#### **June 1, 2005: PA94-0004**

- Money Purchase Option – provides for the State Comptroller (rather than the SURS Board) to determine the effective rate of interest for purposes of calculating the money-purchase formula.
- **Limits pay increase to 6%.**
- **Eliminate the Money Purchase Program option under SURS for those hired on or after July 1, 2005.**
- Specifies enacting new benefit increases must also specify the funding source.
- Suspended payments required under PA88-0593 for FY06 and FY07 and instead fixed specific contribution amounts. This is referred to as a pension holiday.

#### **2009: PA96-0006**

- This legislation, among other things, eliminated the current Governor-appointed Board of Trustees of the State Universities Retirement System.

#### **2011: Administrative Action**

- Reduction of Money Purchase Program investment earnings calculation; July 1, 2012

# State Universities Retirement System (PA 96-0889)

## Comparison for Defined Benefit Plan (Traditional and Portable Plans)

(Any member who elects the Self-Managed Plan is Tier 1, regardless of their date of first employment)

	Tier 1 Members First Employed Prior to January 1, 2011	Tier 2 Non-SMP Members First Employed On or After January 1, 2011
<b>Minimum Vesting</b>	5 years of service	10 years of service
<b>Normal Retirement Age (without age reduction)</b>	Age 62, with at least 5 years Age 60, with at least 8 years <b>At any age with at least 30 years</b>	<b>Age 67, with at least 10 years of service</b>
<b>Earliest Retirement Age (with age reduction)</b>	Age 55, with at least 8 years of service	Age 62, with at least 10 years of service
<b>Retirement Benefits</b>	Greater of the benefits computed under all applicable methods. Money Purchase method available only to those employed prior to 7/1/2005.	Greater of the benefits computed under all applicable methods.
<b>Age Reduction</b>	1/2 of 1% for each month under age 60	1/2 of 1% for each month under age 67
<b>Final Rate of Earnings (FRE)</b>	<ul style="list-style-type: none"> <li><b>Average earnings during 4 high consecutive academic years; or</b></li> <li>The average of the last 48 months prior to termination (if applicable)</li> </ul>	<b>The average earnings of the highest 96 consecutive months (8 yrs) during the last 120 months (10 yrs) of service.</b>
<b>FRE Limits</b>	Limited to 20% year over year increases in earnings for years in the FRE period.	<ul style="list-style-type: none"> <li>The same 20% annual increase limit; and</li> <li><b>Average is limited to a maximum of \$106,800 for 2011, which is increased annually thereafter by the lesser of 3% or by one-half of the Consumer Price Index for the preceding year.</b></li> </ul>
<b>Retirement Benefit AAI (Automatic Annual Increase)</b>	The AAI (annual cost of living increase) is 3%, compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.
<b>Survivor Benefits</b>	An eligible survivor receives a minimum of 50% of the member's earned retirement annuity.	An eligible survivor receives 66 2/3% of the participant's earned retirement annuity.
<b>Survivor AAI</b>	The AAI (annual cost of living increase) is 3%, compounded annually.	The AAI is calculated using the lesser of 3% or one-half of the consumer price index. The increase will not be compounded.



# SB 512

## Current Employee Benefit Reform

- The bill required participants who earned service prior to January 1, 2011 (Tier 1 participants, current employees) to make an election to participate under one of the following benefit formulas:
  - Option I: The traditional or portable benefit package;
  - Option II: The revised benefit package (Tier 2); or
  - Option III: The self-managed plan.
- Change is irrevocable.
- Would lift current Tier 1 employee contributions from 6% to:

• <b>SURS</b>	<b>15.31%</b>
• TRS	13.77%
• SERS	14.70%
• General Assembly	24.89%
• Judges	N/A
- **Rate would be adjusted every three years.**
- State contribution 6%
- Does not address current unfunded liability.

# SURS / Average Pension

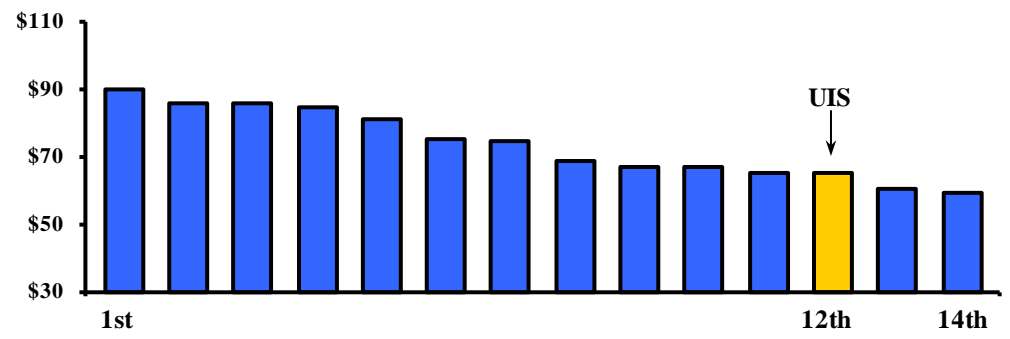
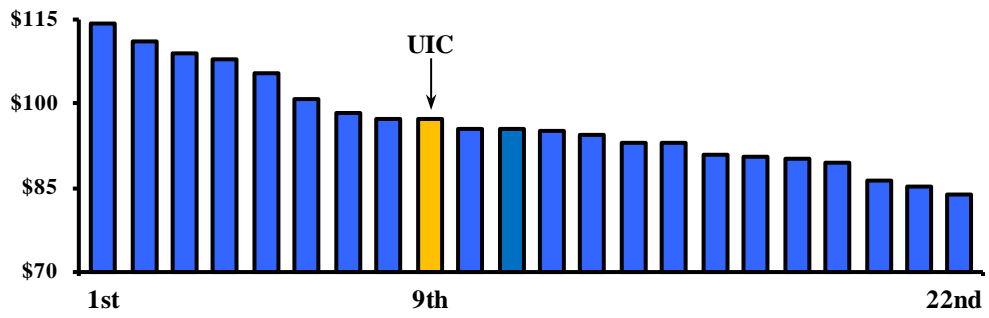
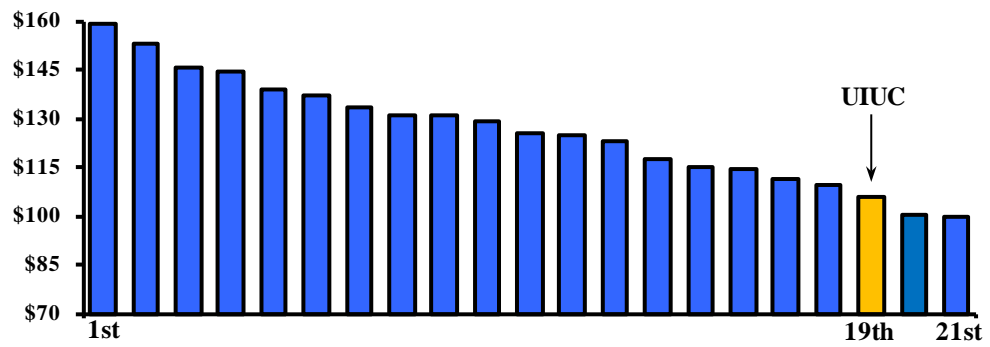
- Private sector employees are generally covered by Social Security. Employers pay 6.2% and employees pay 4.2%.
- **Most employees covered by state of Illinois pension systems are not eligible for Social Security.**

Pension System		Average Annual Pension
SERS	State Employees' Retirement System	\$27,012
SURS	State Universities Retirement System	\$31,308
TRS	Teachers' Retirement System	\$41,532
GARS	General Assembly Retirement System	\$47,052
JRS	Judges' Retirement System	\$104,208

# FY 2011 Faculty Salary Competitive Standing among IBHE Peers

## UIUC, UIC and UIS

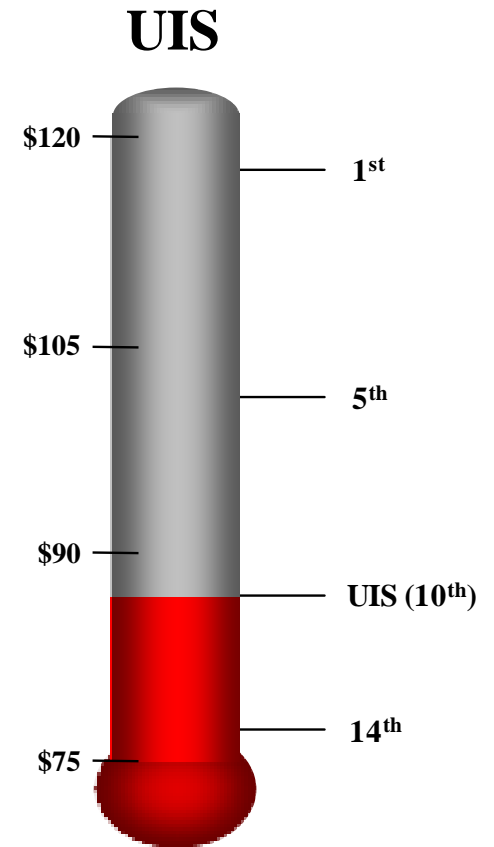
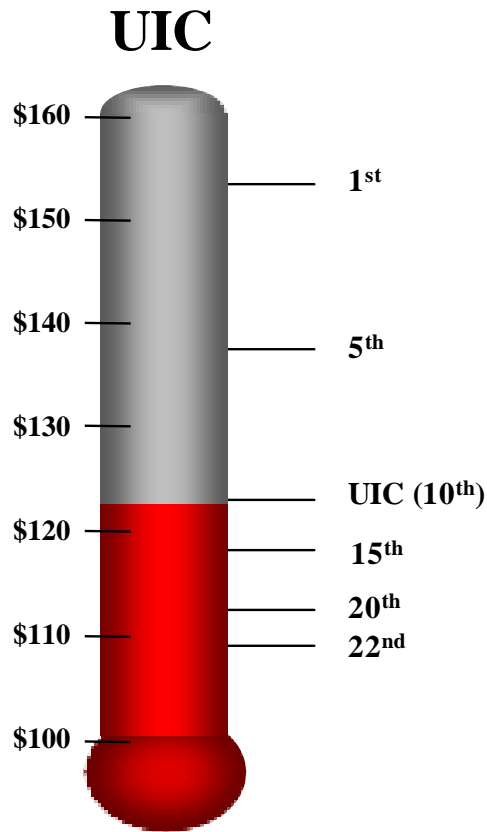
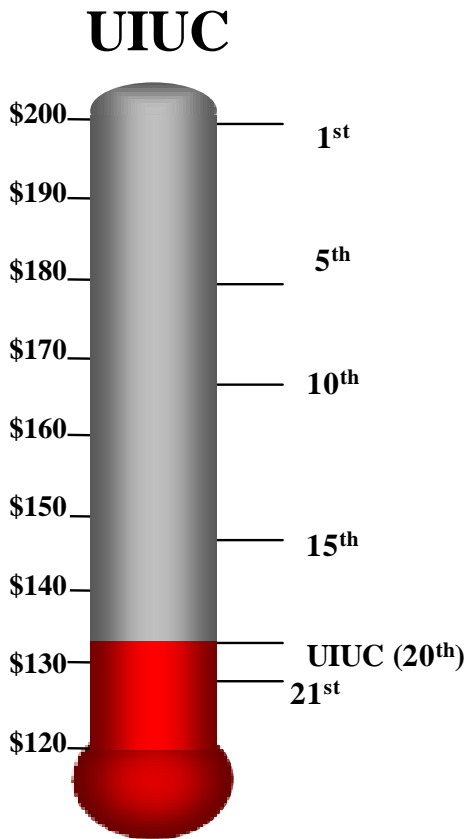
(Dollars in Thousands)



# FY 2011 Faculty Average Total Compensation

## U of I Campuses and IBHE Peer Groups

(Dollars in Thousands)



# Faculty Total Compensation

## (Salary and Employer Contributions to Benefits)

### Big Ten Institutions – FY 2011

(Assistant Professor and Above)

Institution	Ave. Benefit	Rank	Total Compensation		
			2% State Decrease	4% State Decrease	6% State Decrease
			Rank	Rank	Rank
Minnesota	\$37,230	3	3	3	3
Michigan State	\$32,344	8	7	7	7
Wisconsin	\$33,618	5	5	5	5
Purdue	\$27,158	9	9	9	8
Northwestern	\$39,183	1	1	1	1
Indiana	\$28,017	11	11	11	11
Iowa	\$25,973	10	10	10	10
Nebraska	\$25,012	12	12	12	12
<b>UIUC</b>	<b>\$26,880</b>	<b>6</b>	<b>8</b>	<b>8</b>	<b>9</b>
Michigan	\$28,462	2	2	2	2
Penn State	\$26,718	4	4	4	4
Ohio State	\$25,501	7	6	6	6

# SUMMARY

- State Fiscal Crisis Continues
- Illinois Pensions Underfunded
- +40% of University of Illinois employees eligible to retire based on years of service or age
- Impact of pension benefit changes on total compensation competitiveness is a major and growing concern
- IGPA Pension Summit in October 2011