

FY 2012 LEGISLATIVE SESSION PENSION PRESENTATION



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

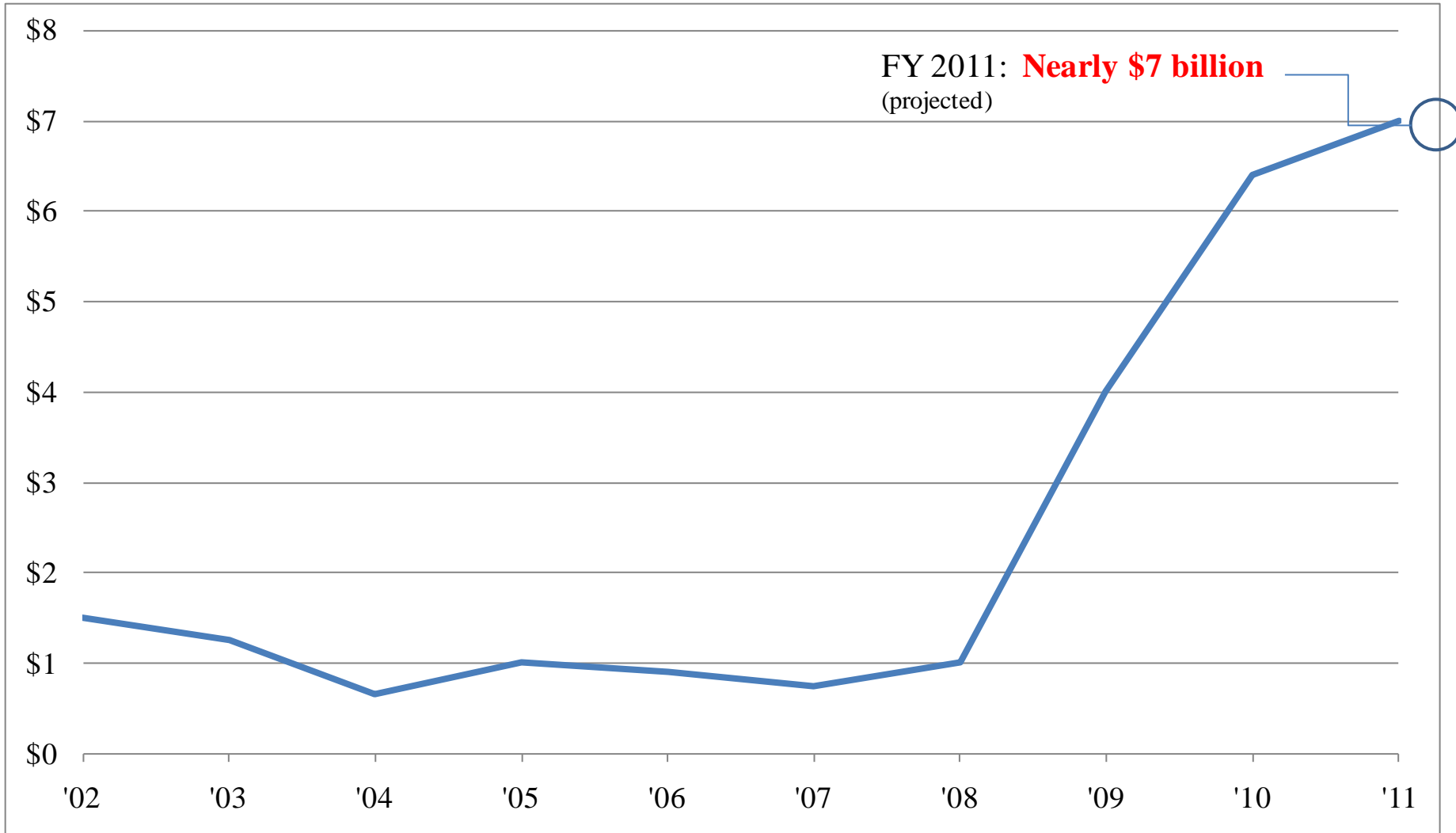
State of Illinois – Fiscal Crisis Continues

Estimated Accumulated Unpaid GRF Vouchers

TOTAL ACCOUNTS PAYABLE

At end of fiscal year

Dollars in Billions

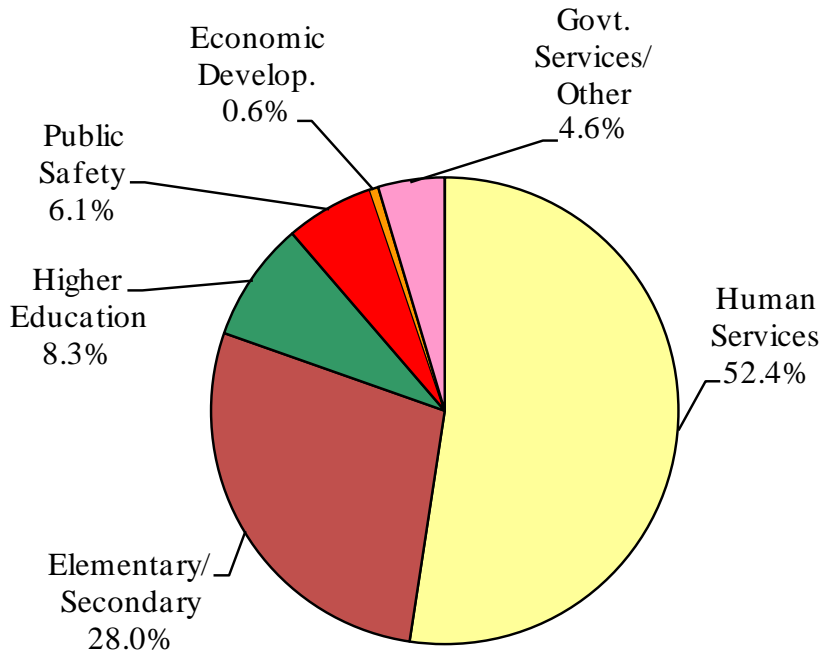


State of Illinois by Sector

General Fund Appropriations

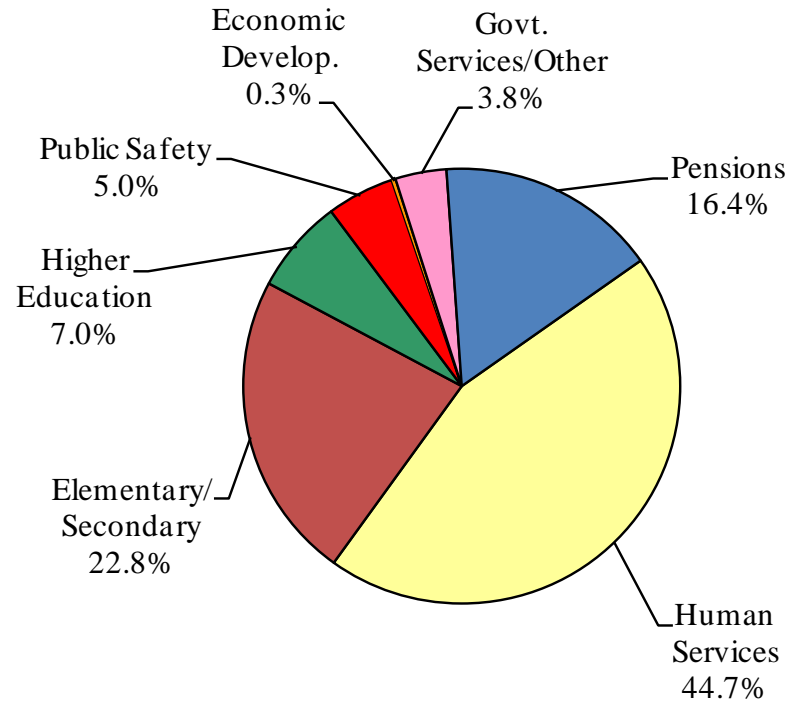
(does not include bond payments or statutory transfers)

FY 2011



\$25.5 Billion*

FY 2012

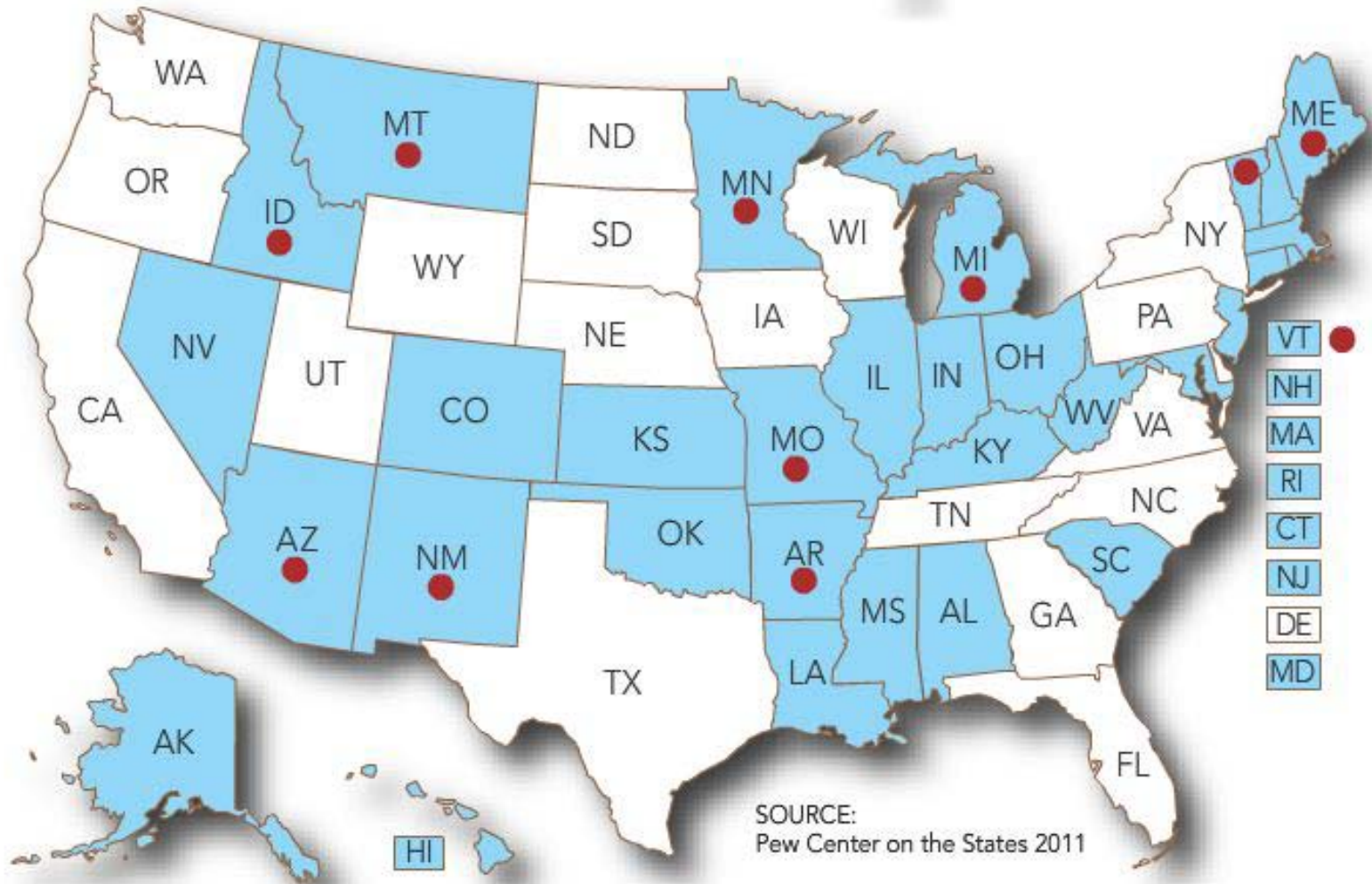


\$29.9 Billion*

*ESTIMATED.

78 percent of states' pension liabilities were funded

VIEW Pensions | Retiree Health Care



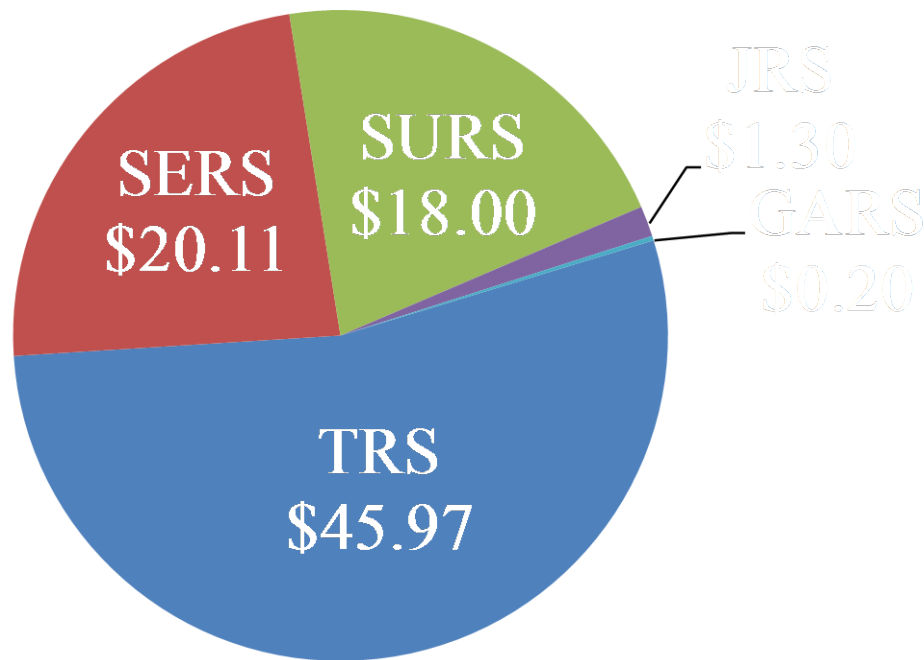
SOURCE:
Pew Center on the States 2011

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)

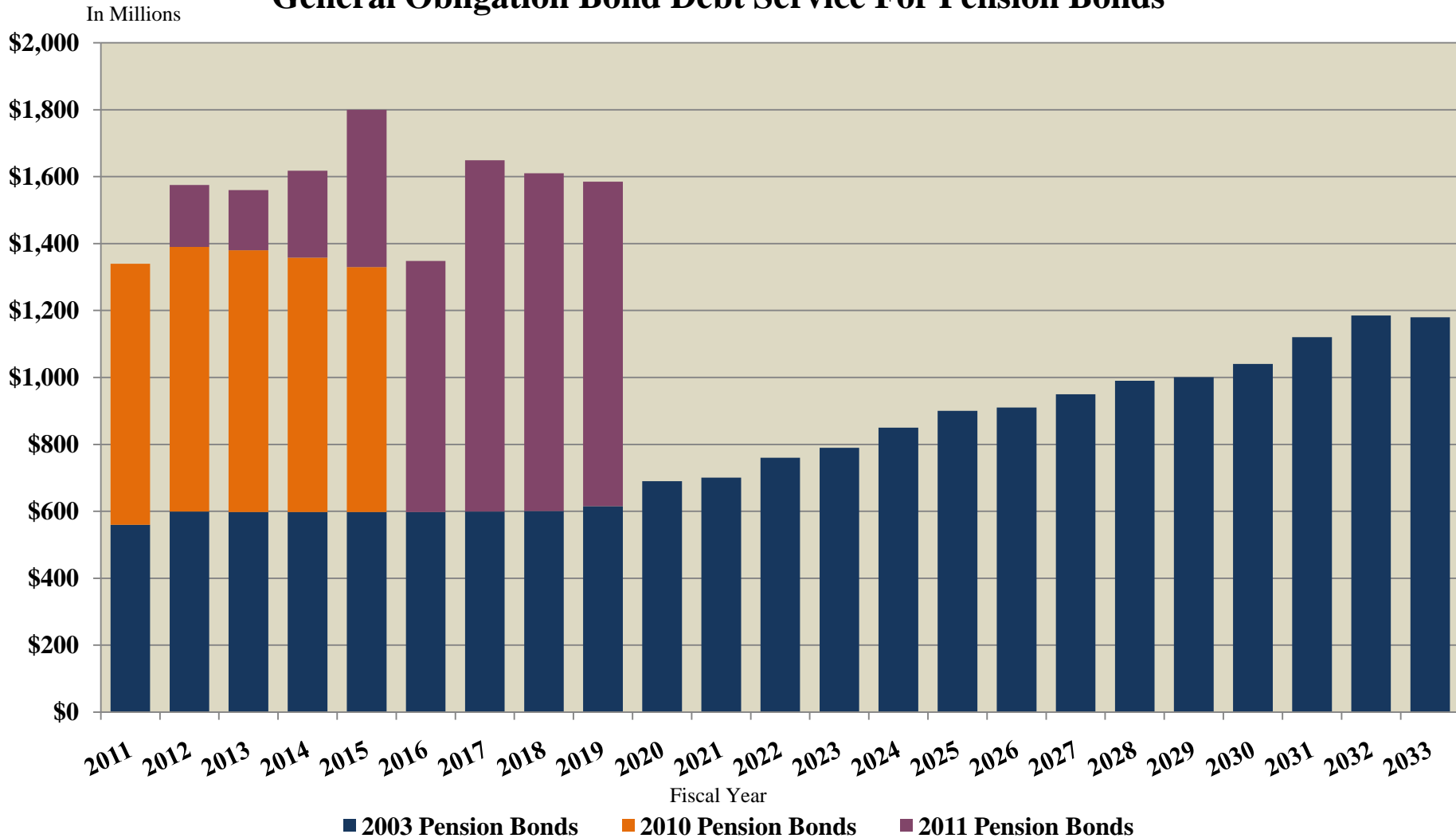


\$85.6 Billion*
Asset/Liability Ratio 38.3%

*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 <u>Prior to</u> January 1, 2011	Tier 2 Non-SMP Members First Employed <u>On or After</u> January 1, 2011
Minimum Vesting	5 years of service	10 years of service
Normal Retirement Age (without age reduction)	Age 62, with at least 5 years Age 60, with at least 8 years At any age with at least 30 years	Age 67, with at least 10 years of service
Earliest Retirement Age (with age reduction)	Age 55, with at least 8 years of service	Age 62, with at least 10 years of service
Retirement Benefits	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.
Age Reduction	1/2 of 1% for each month under age 60	1/2 of 1% for each month under age 67
Final Rate of Earnings (FRE)	<ul style="list-style-type: none"> Average earnings during 4 high consecutive academic years; or The average of the last 48 months prior to termination (if applicable) 	The average earnings of the highest 96 consecutive months (8 yrs) during the last 120 months (10 yrs) of service.
FRE Limits	Limited to 20% year over year increases in earnings for years in the FRE period.	<ul style="list-style-type: none"> The same 20% annual increase limit; and 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.
Retirement Benefit AAI (Automatic Annual Increase)	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.
Survivor Benefits	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.
Survivor AAI	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:

• SURS	15.31%
• 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

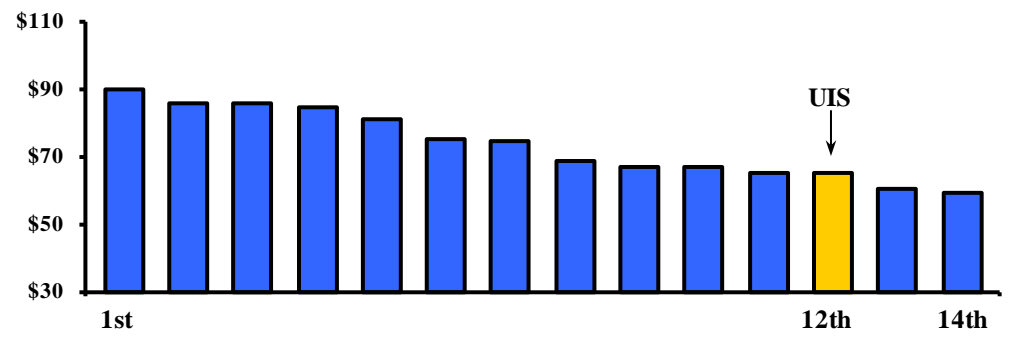
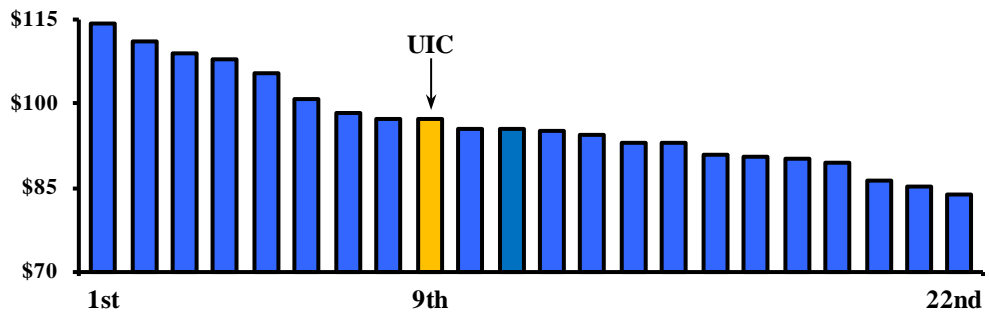
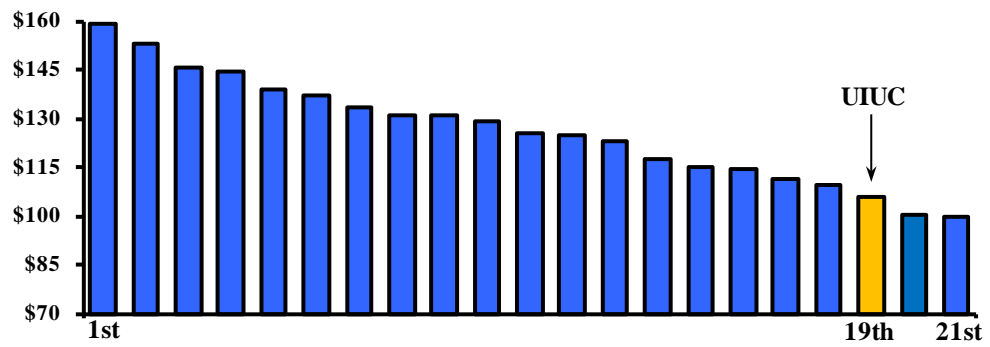
- Private sector employees are generally covered by Social Security. Employers pay 6.2% and employees pay 4.2%.
- **Most employees covered by state of Illinois pension systems are not eligible for Social Security.**

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

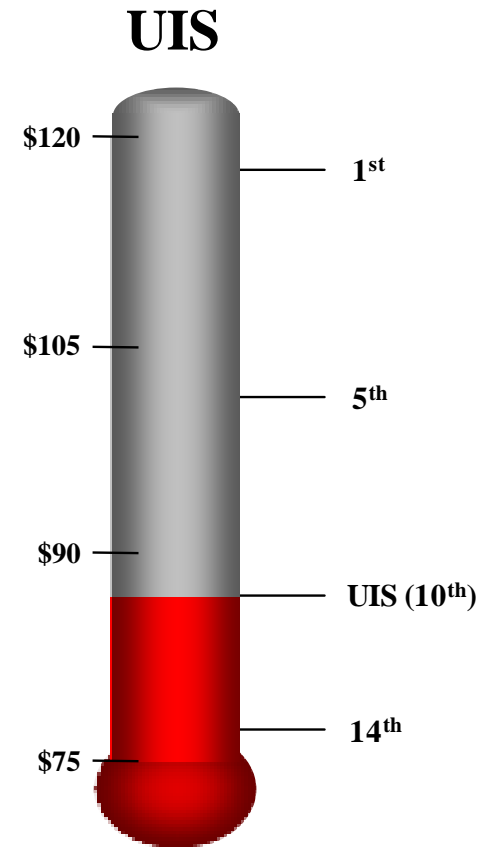
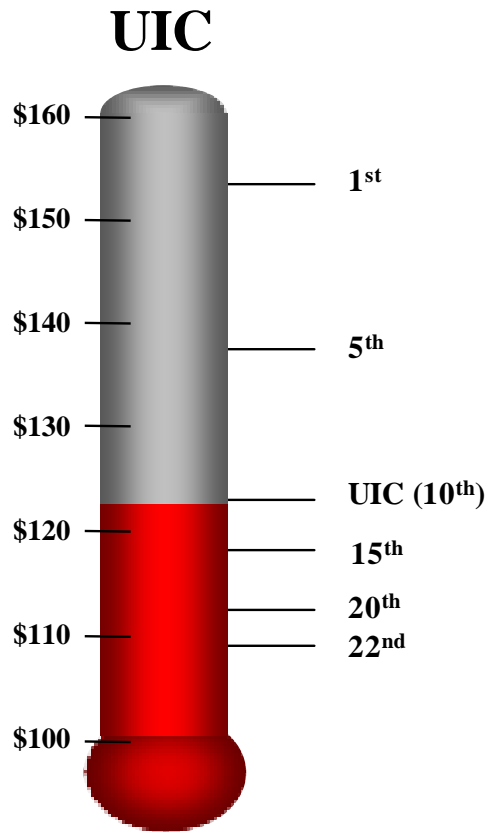
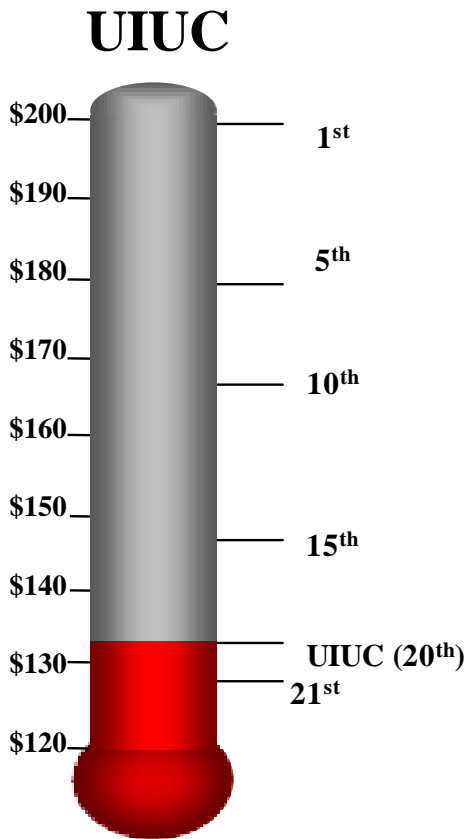
(Dollars in Thousands)



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
UIUC	\$26,880	6	8	8	9
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