



98TH GENERAL ASSEMBLY

State of Illinois

2013 and 2014

HB5535

by Rep. Ron Sandack

SYNOPSIS AS INTRODUCED:

40 ILCS 5/2-124

from Ch. 108 1/2, par. 2-124

40 ILCS 5/2-167 new

Amends the General Assembly Article of the Illinois Pension Code. Requires the General Assembly Retirement System to establish a self-directed retirement plan. Provides that on and after the effective date of the amendatory Act, an active participant's participation in the System shall be limited to participation in the self-directed retirement plan. Provides that an annuitant shall not receive an automatic increase in retirement annuity on or after the effective date of the amendatory Act unless, according to the most recent actuarial valuations, the total assets of the System are equal to or greater than 100% of the total actuarial liabilities of the System. Establishes a schedule for vesting in the self-directed retirement plan. Requires the Public Pension Division's retirement age matrix to proportionally discount the increase in statutory retirement age based on proximity to the currently established retirement age. Provides a new funding formula for State contributions, with a 100% funding goal through 2045 (determined using the projected unit credit actuarial cost method) and a 100% funding goal thereafter. Contains a nonacceleration provision.

LRB098 15801 RPM 50835 b

FISCAL NOTE ACT
MAY APPLY

PENSION IMPACT
NOTE ACT MAY
APPLY

1 AN ACT concerning public employee benefits.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Illinois Pension Code is amended by changing
5 Section 2-124 and by adding Section 2-167 as follows:

6 (40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

7 (Text of Section after amendment by P.A. 98-599)

8 Sec. 2-124. Contributions by State.

9 (a) The State shall make contributions to the System by
10 appropriations of amounts which, together with the
11 contributions of participants, interest earned on investments,
12 and other income will meet the cost of maintaining and
13 administering the System on a 100% funded basis in accordance
14 with actuarial recommendations ~~by the end of State fiscal year~~
15 ~~2044~~.

16 (b) The Board shall determine the amount of State
17 contributions required for each fiscal year on the basis of the
18 actuarial tables and other assumptions adopted by the Board and
19 the prescribed rate of interest, using the formula in
20 subsection (c).

21 (c) For State fiscal years 2016 through 2045, the minimum
22 contribution to the System to be made by the State for each
23 fiscal year shall be an amount determined by the System to be

1 sufficient to bring the total assets of the System up to 100%
2 of the total actuarial liabilities of the System by the end of
3 State fiscal year 2045. In making these determinations, the
4 required State contribution shall be calculated each year as a
5 level dollar amount over the years remaining to and including
6 fiscal year 2045 and shall be determined under the projected
7 unit credit actuarial cost method.

8 ~~For State fiscal years 2015 through 2044, the minimum~~
9 ~~contribution to the System to be made by the State for each~~
10 ~~fiscal year shall be an amount determined by the System to be~~
11 ~~equal to the sum of (1) the State's portion of the projected~~
12 ~~normal cost for that fiscal year, plus (2) an amount sufficient~~
13 ~~to bring the total assets of the System up to 100% of the total~~
14 ~~actuarial liabilities of the System by the end of State fiscal~~
15 ~~year 2044. In making these determinations, the required State~~
16 ~~contribution shall be calculated each year as a level~~
17 ~~percentage of payroll over the years remaining to and including~~
18 ~~fiscal year 2044 and shall be determined under the projected~~
19 ~~unit cost method for fiscal year 2015 and under the entry age~~
20 ~~normal actuarial cost method for fiscal years 2016 through~~
21 ~~2044.~~

22 For State fiscal years 2012 through 2015 ~~2014~~, the minimum
23 contribution to the System to be made by the State for each
24 fiscal year shall be an amount determined by the System to be
25 sufficient to bring the total assets of the System up to 90% of
26 the total actuarial liabilities of the System by the end of

1 State fiscal year 2045. In making these determinations, the
2 required State contribution shall be calculated each year as a
3 level percentage of payroll over the years remaining to and
4 including fiscal year 2045 and shall be determined under the
5 projected unit credit actuarial cost method.

6 For State fiscal years 1996 through 2005, the State
7 contribution to the System, as a percentage of the applicable
8 employee payroll, shall be increased in equal annual increments
9 so that by State fiscal year 2011, the State is contributing at
10 the rate required under this Section.

11 Notwithstanding any other provision of this Article, the
12 total required State contribution for State fiscal year 2006 is
13 \$4,157,000.

14 Notwithstanding any other provision of this Article, the
15 total required State contribution for State fiscal year 2007 is
16 \$5,220,300.

17 For each of State fiscal years 2008 through 2009, the State
18 contribution to the System, as a percentage of the applicable
19 employee payroll, shall be increased in equal annual increments
20 from the required State contribution for State fiscal year
21 2007, so that by State fiscal year 2011, the State is
22 contributing at the rate otherwise required under this Section.

23 Notwithstanding any other provision of this Article, the
24 total required State contribution for State fiscal year 2010 is
25 \$10,454,000 and shall be made from the proceeds of bonds sold
26 in fiscal year 2010 pursuant to Section 7.2 of the General

1 Obligation Bond Act, less (i) the pro rata share of bond sale
2 expenses determined by the System's share of total bond
3 proceeds, (ii) any amounts received from the General Revenue
4 Fund in fiscal year 2010, and (iii) any reduction in bond
5 proceeds due to the issuance of discounted bonds, if
6 applicable.

7 Notwithstanding any other provision of this Article, the
8 total required State contribution for State fiscal year 2011 is
9 the amount recertified by the System on or before April 1, 2011
10 pursuant to Section 2-134 and shall be made from the proceeds
11 of bonds sold in fiscal year 2011 pursuant to Section 7.2 of
12 the General Obligation Bond Act, less (i) the pro rata share of
13 bond sale expenses determined by the System's share of total
14 bond proceeds, (ii) any amounts received from the General
15 Revenue Fund in fiscal year 2011, and (iii) any reduction in
16 bond proceeds due to the issuance of discounted bonds, if
17 applicable.

18 Beginning in State fiscal year 2046, the minimum State
19 contribution for each fiscal year shall be the amount needed to
20 maintain the total assets of the System at 100% of the total
21 actuarial liabilities of the System.

22 ~~Beginning in State fiscal year 2045, the minimum State~~
23 ~~contribution for each fiscal year shall be the amount needed to~~
24 ~~maintain the total assets of the System at 100% of the total~~
25 ~~actuarial liabilities of the System.~~

26 Amounts received by the System pursuant to Section 25 of

1 the Budget Stabilization Act or Section 8.12 of the State
2 Finance Act in any fiscal year do not reduce and do not
3 constitute payment of any portion of the minimum State
4 contribution required under this Article in that fiscal year.
5 Such amounts shall not reduce, and shall not be included in the
6 calculation of, the required State contributions under this
7 Article in any future year until the System has reached a
8 funding ratio of at least 90% ~~100%~~. A reference in this Article
9 to the "required State contribution" or any substantially
10 similar term does not include or apply to any amounts payable
11 to the System under Section 25 of the Budget Stabilization Act.

12 Notwithstanding any other provision of this Section, the
13 required State contribution for State fiscal year 2005 and for
14 fiscal year 2008 and each fiscal year thereafter ~~through State~~
15 ~~fiscal year 2014~~, as calculated under this Section and
16 certified under Section 2-134, shall not exceed an amount equal
17 to (i) the amount of the required State contribution that would
18 have been calculated under this Section for that fiscal year if
19 the System had not received any payments under subsection (d)
20 of Section 7.2 of the General Obligation Bond Act, minus (ii)
21 the portion of the State's total debt service payments for that
22 fiscal year on the bonds issued in fiscal year 2003 for the
23 purposes of that Section 7.2, as determined and certified by
24 the Comptroller, that is the same as the System's portion of
25 the total moneys distributed under subsection (d) of Section
26 7.2 of the General Obligation Bond Act. In determining this

1 maximum for State fiscal years 2008 through 2010, however, the
2 amount referred to in item (i) shall be increased, as a
3 percentage of the applicable employee payroll, in equal
4 increments calculated from the sum of the required State
5 contribution for State fiscal year 2007 plus the applicable
6 portion of the State's total debt service payments for fiscal
7 year 2007 on the bonds issued in fiscal year 2003 for the
8 purposes of Section 7.2 of the General Obligation Bond Act, so
9 that, by State fiscal year 2011, the State is contributing at
10 the rate otherwise required under this Section.

11 (d) For purposes of determining the required State
12 contribution to the System, the value of the System's assets
13 shall be equal to the actuarial value of the System's assets,
14 which shall be calculated as follows:

15 As of June 30, 2008, the actuarial value of the System's
16 assets shall be equal to the market value of the assets as of
17 that date. In determining the actuarial value of the System's
18 assets for fiscal years after June 30, 2008, any actuarial
19 gains or losses from investment return incurred in a fiscal
20 year shall be recognized in equal annual amounts over the
21 5-year period following that fiscal year.

22 (e) For purposes of determining the required State
23 contribution to the system for a particular year, the actuarial
24 value of assets shall be assumed to earn a rate of return equal
25 to the system's actuarially assumed rate of return.

26 (Source: P.A. 97-813, eff. 7-13-12; 98-599, eff. 6-1-14.)

1 (40 ILCS 5/2-167 new)

2 Sec. 2-167. Self-directed retirement plan; end of service
3 credit.

4 (a) For the purposes of this Section:

5 "Active participant" means a participant in the System
6 who does not receive an annuity from the System.

7 "Automatic increase in retirement annuity" means an
8 automatic increase in retirement annuity that is granted
9 under this Article.

10 "Consumer price index-u" means the index published by
11 the Bureau of Labor Statistics of the United States
12 Department of Labor that measures the average change in
13 prices of goods and services purchased by all urban
14 consumers, United States city average, all items, 1982-84 =
15 100.

16 "Employer" means the State.

17 "Pensionable salary" means the amount of salary,
18 compensation, or earnings used by the System to calculate
19 the amount of an individual's retirement annuity.

20 (b) On and after the effective date of this amendatory Act
21 of the 98th General Assembly, an active participant's
22 participation in the System shall be limited to participation
23 in a self-directed retirement plan established under
24 subsection (f) of this Section.

25 All service credit under the System (including service

1 under any participating system if the participant elects to use
2 the reciprocal provisions of Article 20) shall be considered
3 for purposes of vesting in the benefits provided prior to the
4 effective date of this Section, but only service earned and
5 contributions made before that effective date shall be
6 considered in determining the amount of those benefits. In lieu
7 of receiving any such benefits, an active participant may elect
8 to have an account balance established in his or her
9 self-directed plan account in an amount equal to the amount of
10 the contribution refund that the participant would be eligible
11 to receive if he or she withdrew from service on the effective
12 date of this Section and elected a refund of contributions,
13 except that this hypothetical refund shall include interest at
14 the effective rate for the respective years. The System shall
15 make these transfers of assets to the self-directed plan as
16 tax-free transfers in accordance with Internal Revenue Service
17 guidelines.

18 (c) The pensionable salary of an active participant shall
19 not exceed the pensionable salary of that participant as of the
20 effective date of this amendatory Act of the 98th General
21 Assembly.

22 (d) An annuitant shall not receive an automatic increase in
23 retirement annuity on or after the effective date of this
24 amendatory Act of the 98th General Assembly unless, according
25 to the most recent actuarial valuations, the total assets of
26 the System are equal to or greater than 100% of the total

1 actuarial liabilities of the System.

2 (e) The retirement age of active participants who are
3 ineligible to retire as of the effective date of this
4 amendatory Act of the 98th General Assembly shall be increased
5 according to a schedule developed, as soon as practicable after
6 the effective date of this amendatory Act of the 98th General
7 Assembly, by the Public Pension Division of the Department of
8 Insurance. The schedule of retirement ages adopted by
9 administrative rule of the Division shall, at a minimum, ensure
10 (i) that persons who first become active participants on or
11 after the effective date of this amendatory Act of the 98th
12 General Assembly are not eligible to retire until reaching the
13 Social Security Normal Retirement Age and (ii) that persons who
14 are active participants but ineligible to retire as of the
15 effective date of this amendatory Act of the 98th General
16 Assembly remain ineligible to retire until reaching age 59. The
17 Division's schedule shall also provide for the adjustment of
18 retirement ages using a matrix (i) that takes into account the
19 current statutory retirement age for various classes of persons
20 and service credit accrued by those persons as of the effective
21 date of this amendatory Act of the 98th General Assembly and
22 (ii) that proportionally discounts the increase in statutory
23 retirement age based on proximity to the currently established
24 retirement age. The minimum retirement age established under
25 this subsection (e) shall not apply to active participants with
26 respect to participation in a self-directed retirement plan

1 established under subsection (f) of this Section.

2 (f) As soon as practicable after the effective date of this
3 amendatory Act of the 98th General Assembly, the System shall
4 establish a self-directed retirement plan that allows
5 individuals who are active participants and individuals who
6 become active participants on or after the effective date of
7 this amendatory Act of the 98th General Assembly the
8 opportunity to accumulate assets for retirement through a
9 combination of employee and employer contributions that may be
10 invested in mutual funds, collective investment funds, or other
11 investment products and used to purchase annuity contracts,
12 either fixed or variable or a combination thereof. The plan
13 must be qualified under the Internal Revenue Code of 1986.

14 At any time after withdrawal from service, a participant in
15 the self-directed plan shall be entitled to a benefit that is
16 based on the account values attributable to his or her
17 participant contributions and the vested percentage of
18 employer contributions, as well as any investment returns
19 attributable to those contributions. A participant becomes
20 vested in the employer's contributions credited to his or her
21 account according to the following schedule:

22 (1) if the participant has completed less than 2 years
23 of service under the System (including service under any
24 participating system if the participant elects to use the
25 reciprocal provisions of Article 20), 0%;

26 (2) if the participant has completed at least 2 but

1 less than 3 years of such service, 25%;

2 (3) if the participant has completed at least 3 but
3 less than 4 years of such service, 50%;

4 (4) if the participant has completed at least 4 but
5 less than 5 years of such service, 75%; and

6 (5) if the participant has completed at least 5 years
7 of such service, 100%.

8 At the time of taking a benefit under the self-directed plan,
9 any employer contributions that have not vested, and the
10 investment returns attributable to those unvested employer
11 contributions, shall be forfeited. Employer contributions that
12 are forfeited shall be held in escrow by the company investing
13 those contributions and shall be used, as directed by the
14 System, for future allocations of employer contributions.

15 (g) Each active participant in the System shall participate
16 in the self-directed retirement plan established under
17 subsection (f) and, in lieu of the contributions otherwise
18 provided for in this Article, shall contribute 8% of his or her
19 salary, earnings, or compensation, whichever is applicable, to
20 the plan. The employer of each of those active participants
21 shall contribute 7% of salary to that plan on behalf of the
22 participant.

23 (h) The provisions of this amendatory Act of the 98th
24 General Assembly apply notwithstanding any other law,
25 including Section 1-160 of this Code. If there is a conflict
26 between the provisions of this amendatory Act of the 98th

1 General Assembly and any other law, the provisions of this
2 Section shall control.

3 Section 95. No acceleration or delay. Where this Act makes
4 changes in a statute that is represented in this Act by text
5 that is not yet or no longer in effect (for example, a Section
6 represented by multiple versions), the use of that text does
7 not accelerate or delay the taking effect of (i) the changes
8 made by this Act or (ii) provisions derived from any other
9 Public Act.