



# State Employee Retirement System of Illinois

Pension Reform Studies  
House Bill 6258  
December 18, 2012



**Gabriel Roeder Smith & Company**  
Consultants & Actuaries  
[www.gabrielroeder.com](http://www.gabrielroeder.com)



# House Bill 6258 – Opening Comments

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- ◆ This report presents the impact of House Bill 6258 (HB6258) on the State Employee's Retirement System of Illinois.
- ◆ All active employees, retirees and inactive members of SERS with a membership date prior to January 1, 2011 are affected by HB6258
- ◆ The effective date of the changes is July 1, 2013
- ◆ The provisions of HB6258 are as follows:
  - ▶ Cost of Living Adjustments
    - Delayed to the earlier of the attainment of age 67 or the 5th anniversary of retirement
    - Current retirees would retain automatic annual increases, but must meet new eligibility to receive next increase
    - The automatic annual increase would remain 3%, but only be applied to the first \$20,000 of pension for coordinated retirees and the first \$25,000 of pension for non-coordinated retirees



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- ◆ The provisions of HB6258 are as follows (Cont'd):

- ▶ Normal Retirement Age

- No change for employees who are at least age 45 on the date the law takes effect
- For employees who are under age 45, the bill increases the normal retirement age as follows:

- Regular Formula**

- At least 40 to 44 Age 61 w/ 8 years or Rule of 87

- At least 35 to 39 Age 63 w/ 8 years or Rule of 91

- Under 35 Age 65 w/ 8 years or Rule of 95

- Alternative Formula**

- Age 51 w/ 25 years or age 56 w/ 20 years

- Age 53 w/ 25 years or age 58 w/ 20 years

- Age 55 w/ 25 years or age 60 w/ 20 years

- ▶ Salary Limits

- Earnings are limited to the Social Security wage base for both contributions and pensionable earnings
- Limitation does not apply to earnings that are determined under an employment contract or collective bargaining agreement in effect on the effective date



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- ◆ The provisions of HB6258 are as follows (Cont'd):
  - ▶ Employee Contributions
    - Active employees contribute an additional 1% of salary in FY 2014 and an additional 2% of salary in FY 2015 and thereafter
  - ▶ State Contributions
    - Provides for increased annual employer contributions
    - The funded ratio target is 100% by the end of FY 2043



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- ◆ For this study the results are compared against the baseline, where the baseline represents the 6/30/2012 actuarial valuation results.
- ◆ The items developed for comparison are all based on projected amounts through 2045, and include:
  1. The total statutory contribution;
  2. The unfunded accrued liability;
  3. The funded ratio;
  4. The actuarial value of assets;
  5. The actuarial accrued liability;
  6. The employer normal cost;
  7. The payment toward amortization of the unfunded accrued liability.



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- ◆ The results in this report do not include the impact of retiree healthcare benefits. *The results are for the SERS pension plan only.*
- ◆ Wherever possible we have disclosed the major items valued within each study, however, each study is comprised of many complex parts and these projections represent approximations of the change in liabilities and costs that would occur under the given conditions.



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(\$ in Millions)										
Year	Statutory Contribution			Unfunded Accrued Liability			Funded Ratio			
	Baseline	HB6258	Change	Baseline	HB6258	Change	Baseline	HB6258	Change	
2013	\$ 1,578	\$ 1,578	\$ -	\$ 22,754	\$ 17,291	\$ (5,463)	34.3%	40.7%	6.4%	
2014	\$ 1,663	\$ 1,337	\$ (326)	\$ 23,298	\$ 17,547	\$ (5,751)	35.7%	41.9%	6.2%	
2015	\$ 1,757	\$ 1,369	\$ (388)	\$ 23,819	\$ 17,780	\$ (6,039)	37.1%	43.1%	6.0%	
2016	\$ 1,817	\$ 1,416	\$ (401)	\$ 24,577	\$ 18,238	\$ (6,339)	37.8%	43.6%	5.8%	
2017	\$ 1,874	\$ 1,464	\$ (410)	\$ 25,161	\$ 18,507	\$ (6,654)	38.9%	44.5%	5.6%	
2018	\$ 1,947	\$ 1,513	\$ (434)	\$ 25,720	\$ 18,751	\$ (6,969)	40.0%	45.5%	5.5%	
2019	\$ 2,012	\$ 1,564	\$ (448)	\$ 26,259	\$ 18,968	\$ (7,291)	41.0%	46.4%	5.4%	
2020	\$ 2,074	\$ 1,617	\$ (457)	\$ 26,779	\$ 19,151	\$ (7,628)	42.0%	47.4%	5.4%	
2025	\$ 2,406	\$ 1,893	\$ (513)	\$ 28,860	\$ 19,399	\$ (9,461)	46.4%	52.5%	6.1%	
2030	\$ 2,777	\$ 2,203	\$ (574)	\$ 29,492	\$ 18,013	\$ (11,479)	50.7%	59.1%	8.4%	
2035	\$ 3,460	\$ 2,526	\$ (934)	\$ 27,190	\$ 14,157	\$ (13,033)	57.2%	69.2%	12.0%	
2040	\$ 3,908	\$ 2,857	\$ (1,051)	\$ 19,912	\$ 6,754	\$ (13,158)	69.5%	85.8%	16.3%	
2045	\$ 4,379	\$ 504	\$ (3,875)	\$ 6,645	\$ -	\$ (6,645)	90.0%	100.0%	10.0%	
<b>Total Cont. Through 2045</b>	<b>\$ 94,446</b>	<b>\$ 66,716</b>	<b>\$ (27,730)</b>							
<b>Present Value of Total Cont.</b>	<b>\$ 28,568</b>	<b>\$ 21,935</b>	<b>\$ (6,633)</b>							



# House Bill 6258

(\$ in Millions)

Year	Actuarial Value of Assets			Actuarial Accrued Liability			Unfunded Accrued Liability		
	Baseline	HB6258	Change	Baseline	HB6258	Change	Baseline	HB6258	Change
2013	\$ 11,883	\$ 11,883	\$ -	\$ 34,637	\$ 29,174	\$ (5,463)	\$ 22,754	\$ 17,291	\$ (5,463)
2014	\$ 12,944	\$ 12,672	\$ (272)	\$ 36,242	\$ 30,219	\$ (6,023)	\$ 23,298	\$ 17,547	\$ (5,751)
2015	\$ 14,055	\$ 13,490	\$ (565)	\$ 37,874	\$ 31,270	\$ (6,604)	\$ 23,819	\$ 17,780	\$ (6,039)
2016	\$ 14,946	\$ 14,082	\$ (864)	\$ 39,523	\$ 32,320	\$ (7,203)	\$ 24,577	\$ 18,238	\$ (6,339)
2017	\$ 16,024	\$ 14,857	\$ (1,167)	\$ 41,185	\$ 33,364	\$ (7,821)	\$ 25,161	\$ 18,507	\$ (6,654)
2018	\$ 17,130	\$ 15,645	\$ (1,485)	\$ 42,850	\$ 34,396	\$ (8,454)	\$ 25,720	\$ 18,751	\$ (6,969)
2019	\$ 18,254	\$ 16,449	\$ (1,805)	\$ 44,513	\$ 35,417	\$ (9,096)	\$ 26,259	\$ 18,968	\$ (7,291)
2020	\$ 19,385	\$ 17,267	\$ (2,118)	\$ 46,164	\$ 36,418	\$ (9,746)	\$ 26,779	\$ 19,151	\$ (7,628)
2025	\$ 25,009	\$ 21,404	\$ (3,605)	\$ 53,869	\$ 40,803	\$ (13,066)	\$ 28,860	\$ 19,399	\$ (9,461)
2030	\$ 30,361	\$ 25,972	\$ (4,389)	\$ 59,853	\$ 43,985	\$ (15,868)	\$ 29,492	\$ 18,013	\$ (11,479)
2035	\$ 36,405	\$ 31,861	\$ (4,544)	\$ 63,595	\$ 46,018	\$ (17,577)	\$ 27,190	\$ 14,157	\$ (13,033)
2040	\$ 45,438	\$ 40,912	\$ (4,526)	\$ 65,350	\$ 47,666	\$ (17,684)	\$ 19,912	\$ 6,754	\$ (13,158)
2045	\$ 59,818	\$ 49,929	\$ (9,889)	\$ 66,463	\$ 49,929	\$ (16,534)	\$ 6,645	\$ -	\$ (6,645)





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(\$ in Millions)

Year	Baseline Actuarial Accrued Liability			HB6258 Actuarial Accrued Liability			Change Actuarial Accrued Liability		
	Active/Inactive	Retiree	New Entrant	Active/Inactive	Retiree	New Entrant	Active/Inactive	Retiree	New Entrant
2013	\$ 14,622	\$ 20,010	\$ 6	\$ 11,673	\$ 17,495	\$ 6	\$ (2,949)	\$ (2,515)	\$ -
2014	\$ 16,379	\$ 19,841	\$ 22	\$ 13,041	\$ 17,155	\$ 22	\$ (3,338)	\$ (2,686)	\$ -
2015	\$ 18,186	\$ 19,636	\$ 52	\$ 14,430	\$ 16,788	\$ 52	\$ (3,756)	\$ (2,848)	\$ -
2016	\$ 20,035	\$ 19,394	\$ 95	\$ 15,831	\$ 16,394	\$ 95	\$ (4,204)	\$ (3,000)	\$ -
2017	\$ 21,916	\$ 19,114	\$ 155	\$ 17,238	\$ 15,971	\$ 155	\$ (4,678)	\$ (3,143)	\$ -
2018	\$ 23,820	\$ 18,797	\$ 234	\$ 18,641	\$ 15,521	\$ 234	\$ (5,179)	\$ (3,276)	\$ -
2019	\$ 25,737	\$ 18,442	\$ 334	\$ 20,038	\$ 15,045	\$ 334	\$ (5,699)	\$ (3,397)	\$ -
2020	\$ 27,655	\$ 18,050	\$ 459	\$ 21,416	\$ 14,544	\$ 458	\$ (6,239)	\$ (3,506)	\$ (1)
2025	\$ 36,722	\$ 15,550	\$ 1,598	\$ 27,478	\$ 11,731	\$ 1,594	\$ (9,244)	\$ (3,819)	\$ (4)
2030	\$ 43,643	\$ 12,304	\$ 3,905	\$ 31,475	\$ 8,625	\$ 3,886	\$ (12,168)	\$ (3,679)	\$ (19)
2035	\$ 47,008	\$ 8,718	\$ 7,869	\$ 32,573	\$ 5,631	\$ 7,814	\$ (14,435)	\$ (3,087)	\$ (55)
2040	\$ 46,092	\$ 5,381	\$ 13,878	\$ 30,725	\$ 3,178	\$ 13,762	\$ (15,367)	\$ (2,203)	\$ (116)
2045	\$ 41,498	\$ 2,823	\$ 22,142	\$ 26,461	\$ 1,523	\$ 21,944	\$ (15,037)	\$ (1,300)	\$ (198)



# House Bill 6258

(\$ in Millions)											
Year	Employer Normal Cost			Portion to Amortize the UAL			Required State Contribution				
	Baseline	HB6258	Change	Baseline	HB6258	Change	Baseline	HB6258	Change		
2013	\$ 554	\$ 405	\$ (149)	\$ 1,024	\$ 1,173	\$ 149	\$ 1,578	\$ 1,578	\$ -		
2014	\$ 573	\$ 377	\$ (196)	\$ 1,090	\$ 960	\$ (130)	\$ 1,663	\$ 1,337	\$ (326)		
2015	\$ 582	\$ 345	\$ (237)	\$ 1,175	\$ 1,024	\$ (151)	\$ 1,757	\$ 1,369	\$ (388)		
2016	\$ 590	\$ 351	\$ (239)	\$ 1,227	\$ 1,065	\$ (162)	\$ 1,817	\$ 1,416	\$ (401)		
2017	\$ 597	\$ 357	\$ (240)	\$ 1,277	\$ 1,107	\$ (170)	\$ 1,874	\$ 1,464	\$ (410)		
2018	\$ 603	\$ 363	\$ (240)	\$ 1,344	\$ 1,150	\$ (194)	\$ 1,947	\$ 1,513	\$ (434)		
2019	\$ 607	\$ 369	\$ (238)	\$ 1,405	\$ 1,195	\$ (210)	\$ 2,012	\$ 1,564	\$ (448)		
2020	\$ 610	\$ 373	\$ (237)	\$ 1,464	\$ 1,244	\$ (220)	\$ 2,074	\$ 1,617	\$ (457)		
2025	\$ 591	\$ 383	\$ (208)	\$ 1,815	\$ 1,510	\$ (305)	\$ 2,406	\$ 1,893	\$ (513)		
2030	\$ 551	\$ 395	\$ (156)	\$ 2,226	\$ 1,808	\$ (418)	\$ 2,777	\$ 2,203	\$ (574)		
2035	\$ 504	\$ 421	\$ (83)	\$ 2,956	\$ 2,105	\$ (851)	\$ 3,460	\$ 2,526	\$ (934)		
2040	\$ 492	\$ 464	\$ (28)	\$ 3,416	\$ 2,393	\$ (1,023)	\$ 3,908	\$ 2,857	\$ (1,051)		
2045	\$ 540	\$ 521	\$ (19)	\$ 3,839	\$ (17)	\$ (3,856)	\$ 4,379	\$ 504	\$ (3,875)		
<b>Total Through 2045</b>	<b>\$ 18,209</b>	<b>\$ 13,553</b>	<b>\$ (4,656)</b>	<b>\$ 76,237</b>	<b>\$ 53,163</b>	<b>\$ (23,074)</b>	<b>\$ 94,446</b>	<b>\$ 66,716</b>	<b>\$ (27,730)</b>		
<b>Present Value of Total</b>	<b>\$ 7,018</b>	<b>\$ 4,743</b>	<b>\$ (2,275)</b>	<b>\$ 21,550</b>	<b>\$ 17,192</b>	<b>\$ (4,358)</b>	<b>\$ 28,568</b>	<b>\$ 21,935</b>	<b>\$ (6,633)</b>		



# House Bill 6258

(\$ in Millions)

Year	Baseline Employer Normal Cost			HB6258 Employer Normal Cost			Change Employer Normal Cost		
	Tier 1	Tier 2	Total	Tier 1	Tier 2	Total	Tier 1	Tier 2	Total
2013	\$ 548	\$ 6	\$ 554	\$ 399	\$ 6	\$ 405	\$ (149)	\$ -	\$ (149)
2014	\$ 558	\$ 15	\$ 573	\$ 361	\$ 15	\$ 377	\$ (197)	\$ -	\$ (196)
2015	\$ 562	\$ 20	\$ 582	\$ 325	\$ 20	\$ 345	\$ (237)	\$ -	\$ (237)
2016	\$ 565	\$ 25	\$ 590	\$ 326	\$ 25	\$ 351	\$ (239)	\$ -	\$ (239)
2017	\$ 565	\$ 32	\$ 597	\$ 325	\$ 32	\$ 357	\$ (240)	\$ -	\$ (240)
2018	\$ 563	\$ 40	\$ 603	\$ 322	\$ 40	\$ 363	\$ (241)	\$ -	\$ (240)
2019	\$ 558	\$ 49	\$ 607	\$ 320	\$ 49	\$ 369	\$ (238)	\$ -	\$ (238)
2020	\$ 551	\$ 59	\$ 610	\$ 315	\$ 59	\$ 373	\$ (236)	\$ -	\$ (237)
2025	\$ 475	\$ 116	\$ 591	\$ 268	\$ 115	\$ 383	\$ (207)	\$ (1)	\$ (208)
2030	\$ 361	\$ 190	\$ 551	\$ 206	\$ 189	\$ 395	\$ (155)	\$ (1)	\$ (156)
2035	\$ 221	\$ 283	\$ 504	\$ 140	\$ 281	\$ 421	\$ (81)	\$ (2)	\$ (83)
2040	\$ 103	\$ 389	\$ 492	\$ 79	\$ 385	\$ 464	\$ (24)	\$ (4)	\$ (28)
2045	\$ 40	\$ 500	\$ 540	\$ 26	\$ 495	\$ 521	\$ (14)	\$ (5)	\$ (19)



# Assumptions and Additional Commentary

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- ◆ All calculations are based on the June 30, 2012, actuarial valuation results including the provisions of SERS in effect on June 30, 2012.
- ◆ CPI is assumed to increase at 3.0%.
- ◆ All present value calculations are as of June 30, 2012.
- ◆ Previous asset gains and losses are phased-in to each projection.
- ◆ All contributions are determined as a percent of capped payroll.
- ◆ Salary limitation is assumed to be applied starting in Plan Year 2015.
- ◆ Social Security Wage Base is assumed to increase by 4.0%, per year.
- ◆ Tier 2 population changed slightly as a result of delayed Tier 1 retirement.



# Assumptions and Additional Commentary

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- ◆ Changes in Plan Design may impact retirement and termination behavior. Retirement rates were adjusted to reflect accelerated retirement when members under the age of 45 members first become eligible. No changes in termination rates were assumed.
- ◆ Plan design changes apply to all Tier 1 members. Changes to Tier 1 benefits apply *to all years of service*. This is not an endorsement for or against changing benefits for current members. This is also not a comment on the contractual or constitutional implications of changing benefits for current members. It is for illustrative purposes only.
- ◆ *The results in this presentation are for the SERS pension plan only. The impact on the retiree healthcare plan is out of scope of this study.*



# Disclosures

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- ◆ Circular 230 Notice: Pursuant to regulations issued by the IRS, to the extent this presentation concerns tax matters, it is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or (ii) marketing or recommending to another party any tax-related matter addressed within. Each taxpayer should seek advice based on the individual's circumstances from an independent tax advisor.
- ◆ This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- ◆ The actuary submitting this presentation (Alex Rivera) is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.
- ◆ The results summarized in this report involve actuarial calculations that require assumptions about future events. The major actuarial assumptions used in this analysis were provided by and are the responsibility of SERS. We are unable to judge the reasonableness of some of these assumptions without performing a substantial amount of additional work beyond the scope of the assignment.



# Disclosures

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- ◆ Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; and changes in plan provisions or applicable law.
- ◆ Additional information regarding actuarial assumptions and methods, and important additional disclosures are provided in the full actuarial valuation report of SERS as of June 30, 2012.
- ◆ If you need additional information to make an informed decision about the contents of this presentation, or if anything appears to be missing or incomplete, please contact us before relying on this presentation.