State Universities Retirement System of Illinois

Pension Reform Studies

HB 6258

December 20, 2012

GRS Gabriel Roeder Smith & Company
Consultants & Actuaries
www.gabrielroeder.com

Reform Studies – Opening Comments

- This report contains one scenario for HB 6258
  - Effective date of July 1, 2013
  - Tier 1 benefit changes
  - Increase in Tier 1 employee contribution rates of 2% of pay
  - Establishes a Cash Balance Plan for new hires and Tier 2 employees (if they elect to opt in)
  - Self Managed Plan (SMP) closed to new hires after effective date
    - Current SMP members at the effective date remain in SMP under HB 6258
  - Establishes employer contributions (currently employers do not contribute) for 65 SURS employers
  - Changes State's funding policy to normal cost plus 30-year level percentage of payroll amortization of the unfunded liability attributable to the cost of benefits prior to July 1, 2013 (100% funded in 2043)
  - Establishes State and Employer Funding Enforcement

Reform Studies – HB 6258 Changes

- Tier 1 benefit changes
  - Caps pensionable earnings at the Social Security Taxable Wage Base (SSTWB). Members with current pay in excess of the SSTWB will be grandfathered and have their pay capped at their current pay at the effective date.
  - Increases normal retirement age for members retiring on or after July 1, 2013
    - Current retirement eligibility
      - Any age with 30 years
      - Age 60 with 8 years
      - Age 62 with 5 years
    - No change if age 45 or older at effective date
    - 1 year delay if age 40 - 45 at effective date (31 years, 61/8, 63/5)
    - 3 year delay if age 35 - 40 at effective date (33 years, 63/8, 65/5)
    - 5 year delay if younger than age 35 (35 years, 65/8, 67/5)
    - Delays also apply to early retirement eligibility (currently 55/8)

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Reform Studies – HB 6258 Changes

- Tier 1 benefit changes
  - Automatic Annual Increases (AAI) in Annuity
    - Impacts both current and future retirees
    - Members with an annuity of $25,000 or less receive a 3% compounded AAI
    - Members with an annuity of more than $25,000 receive a non-compounded AAI of $750.
    - $25,000 cap does not increase in future years
    - First increase is payable at the earlier of:
      - January 1 following the attainment of age 67
      - January 1 following the 5th anniversary of the annuity start date
      - Current retirees will have their benefits frozen until eligibility conditions (i.e. January 1 following the earlier of age 67 and the 5th anniversary of the annuity start date) are met
  - Increase in employee contribution rate of 1% of payroll in FY 2014 and an additional 1% increase in FY 2015. Members will contribute 2% of pay additional beginning in FY 2015.
    - Increased employee contributions are "carved out" of the money purchase benefit and Portable Plan lump sum calculations

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Reform Studies – HB 6258 Changes

- Cash Balance Plan
  - Tier 2 members (may opt in) and new hires (mandatory, SMP no longer offered)
    - 8% employee contribution (9.5% Police and Firefighters)
    - 6.2% notional employer contribution
      - Up to 1% of pay deducted from accounts and used to pay disability benefits
    - Interest credit
      - Floor crediting rate equal to the greater of the average 30-year Treasury Bond rate and 4% (assumed treasury rate); plus
      - Additional credit if SURS 1 year and SURS 5 year average investment returns are both in excess of the 30-year Treasury bond rate (or 4%) equal to:
        - 2/3 of the excess of the SURS 1 year return over the assumed treasury rate
      - Maximum crediting rate equal to 10%
      - Interest stops accruing when member starts receiving an annuity payment under the plan

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Reform Studies – HB 6258 Changes

- Cash Balance Plan
  - Benefits are annuitized at retirement
    - Life annuity payable. May elect 50%, 75% or 100% survivor annuities as options.
    - Annuitization factor based on assumed future investment returns equal to the average 30-year treasury bond yield over the 5 fiscal years prior to the calculation of the retirement annuity plus 200 basis points but not less than 4% nor more than 8%
    - May begin collecting benefits at the later of age 59 ½ and date of termination
    - 3% non-compounded (simple) AAI payable beginning the January 1 after the annuity start date.
    - Refunds are equal to the amount of employee contributions only. No interest or employer contributions are payable.

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Reform Studies – HB 6258 Changes

- Employer Funding Requirement
  - Employers begin to contribute to the System in fiscal year 2014 (currently employers do not make contributions)
    - 65 current SURS employers
    - Employers will contribute a rate of 0.5% of payroll beginning in FY 2014. The rate will increase by 0.5% of payroll each fiscal year until a total rate equal to employer normal cost is reached.
    - Any normal cost not paid for by the employers during the phase in period will be paid for by the State.
    - Employers will contribute an amount to amortize the unfunded liability attributable to the cost of benefits accrued on or after July 1, 2013. The unfunded liability is to be amortized as a level percentage of payroll over a 30-year open period.
    - The System will maintain separate accounts for each employer.

Reform Studies – Opening Comments

- 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.

Reform Studies – Opening Comments

- 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 (excluding SMP contributions and any debt service);
  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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Reform Studies – Key Results

- Key results
  - A portion of the total cost is shifted from the State to the employers.
    - Employers contribute about 1.5% of the total (State plus employer) contribution in fiscal year 2014
    - Employers contribute about 9.7% of the total contribution in fiscal year 2043
  - Compared to the baseline, there is a decrease in the total statutory contributions of about $21 billion through 2045 and an increase in the funded ratio in 2043 from 81% to 100%.
    - The State contribution decreases by $27 billion
    - Employer contributions increase by $6 billion
  - Establishing a contribution requirement for the employers may create a Governmental Accounting Standards Board (GASB) liability under Statements 67 and 68 for the individual employers

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Reform Studies – Key Assumptions

- Key assumptions (used in the baseline under current provisions and/or Scenario 1 under HB 6258)
  - CPI increase of 2.75% (Tier 2 COLA of 1.375%)
  - Social Security Taxable Wage Base increases at 3.75% annually
  - Total payroll increases at 3.75% annually
  - Investment return assumption of 7.75%
  - Same retirement, mortality, termination, disability and salary increase assumptions used in the actuarial valuation as of June 30, 2012 unless otherwise noted
  - Accelerated retirement rates at first eligibility for Tier 1 members with delayed retirement under HB 6258
  - Contributions and benefits are based on pensionable (capped) payroll
    - Payroll cap is $108,883 in 2012 for Tier 2 members (baseline)
    - Payroll cap is equal to the greater of pay at the effective date and SSTWB for Tier 1 members. No payroll cap applies to the cash balance plan. (HB 6258)
  - We have assumed that the total net normal cost will ultimately be transferred to the 65 SURS employers (HB 6258)

Reform Studies – Key Assumptions

- Key assumptions (used in the cash balance plan)
  - 100% of Current Tier 2 members opt into the cash balance plan
  - Cash balance assumed interest crediting rate of 6.50%
  - Cash balance assumed annuitization factors based on an investment return rate of 6.00% and 3% simple COLA
  - Members in the cash balance plan retire in accordance with the retirement rates used for current Tier 1 members beginning at age 60
  - 5.2% notional employer contribution to member accounts. 1% assumed to be used for disability benefits. (Total employer rate of 6.2%.)
    - 1% employer contribution for disability is assumed to be paid outside of the trust for purposes of this analysis. Therefore, actuarial value of assets and actuarial accrued liability do not include disability benefits. Total employer contribution does include assumed cost of disability benefits.

Scenario 1

HB 6258

	($ in Millions)								
	Total Statutory Contribution (State and Employer) (excluding SMP and debt service)			Unfunded Accrued Liability			Funded Ratio		
Year	Baseline	Impact	Change	Baseline	Impact	Change	Baseline	Impact	Change
2013	$ 1,399	$ 1,403	$ 4	$ 20,230	$ 15,371	$ (4,858)	41.2%	48.1%	6.9%
2014	$ 1,504	$ 1,170	$ (333)	$ 20,338	$ 15,307	$ (5,032)	43.0%	49.7%	6.7%
2015	$ 1,577	$ 1,148	$ (429)	$ 20,542	$ 15,420	$ (5,122)	44.4%	50.6%	6.3%
2016	$ 1,587	$ 1,165	$ (422)	$ 21,130	$ 15,905	$ (5,226)	44.6%	50.4%	5.8%
2017	$ 1,613	$ 1,206	$ (408)	$ 21,495	$ 16,144	$ (5,351)	45.3%	50.8%	5.5%
2018	$ 1,671	$ 1,234	$ (437)	$ 21,819	$ 16,364	$ (5,455)	46.0%	51.3%	5.3%
2019	$ 1,713	$ 1,265	$ (447)	$ 22,116	$ 16,561	$ (5,555)	46.7%	51.7%	5.0%
2020	$ 1,756	$ 1,298	$ (458)	$ 22,383	$ 16,733	$ (5,650)	47.4%	52.2%	4.9%
2025	$ 1,980	$ 1,493	$ (486)	$ 23,164	$ 17,072	$ (6,092)	50.4%	55.1%	4.6%
2030	$ 2,221	$ 1,747	$ (474)	$ 22,719	$ 16,100	$ (6,619)	54.3%	60.5%	6.2%
2035	$ 2,521	$ 2,062	$ (459)	$ 20,369	$ 12,951	$ (7,417)	60.4%	70.5%	10.1%
2040	$ 2,818	$ 2,443	$ (375)	$ 15,016	$ 6,332	$ (8,684)	71.3%	86.9%	15.6%
2045	$ 3,164	$ 270	$ (2,894)	$ 5,331	$ (65)	$ (5,396)	90.0%	100.1%	10.1%
Total Cont. Through 2045	**$ 73,457**	**$ 54,573**	**$ (18,884)**						
Present Value of Total Cont.	**$ 22,523**	**$ 17,307**	**$ (5,216)**						

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Scenario 1

HB 6258

($ in Millions)

Year	Total Net Normal Cost: Baseline	Total Net Normal Cost: Impact	Total Net Normal Cost: Change	Portion to Amortize the UAL: Baseline	Portion to Amortize the UAL: Impact	Portion to Amortize the UAL: Change	Total Statutory Contribution (State and Employer) (excluding SMP and debt service): Baseline	Total Statutory Contribution (State and Employer) (excluding SMP and debt service): Impact	Total Statutory Contribution (State and Employer) (excluding SMP and debt service): Change
2013	$ 416	$ 416	$ -	$ 983	$ 987	$ 4	$ 1,399	$ 1,403	$ 4
2014	$ 409	$ 296	$ (113)	$ 1,095	$ 874	$ (221)	$ 1,504	$ 1,170	$ (333)
2015	$ 401	$ 260	$ (140)	$ 1,177	$ 888	$ (289)	$ 1,577	$ 1,148	$ (429)
2016	$ 392	$ 253	$ (139)	$ 1,194	$ 912	$ (282)	$ 1,587	$ 1,165	$ (422)
2017	$ 383	$ 245	$ (138)	$ 1,230	$ 961	$ (269)	$ 1,613	$ 1,206	$ (408)
2018	$ 375	$ 238	$ (137)	$ 1,296	$ 997	$ (300)	$ 1,671	$ 1,234	$ (437)
2019	$ 367	$ 231	$ (136)	$ 1,345	$ 1,034	$ (311)	$ 1,713	$ 1,265	$ (447)
2020	$ 360	$ 225	$ (135)	$ 1,396	$ 1,073	$ (323)	$ 1,756	$ 1,298	$ (458)
2025	$ 332	$ 205	$ (127)	$ 1,647	$ 1,288	$ (359)	$ 1,980	$ 1,493	$ (486)
2030	$ 316	$ 202	$ (113)	$ 1,905	$ 1,545	$ (360)	$ 2,221	$ 1,747	$ (474)
2035	$ 302	$ 213	$ (89)	$ 2,219	$ 1,850	$ (369)	$ 2,521	$ 2,062	$ (459)
2040	$ 296	$ 237	$ (59)	$ 2,521	$ 2,205	$ (316)	$ 2,818	$ 2,443	$ (375)
2045	$ 331	$ 270	$ (61)	$ 2,834	$ -	$ (2,834)	$ 3,164	$ 270	$ (2,894)
Total Through 2045	**$ 11,013**	**$ 7,690**	**$ (3,322)**	**$ 62,445**	**$ 46,883**	**$ (15,562)**	**$ 73,457**	**$ 54,573**	**$ (18,884)**
Present Value of Total	**$ 4,211**	**$ 2,904**	**$ (1,307)**	**$ 18,312**	**$ 14,403**	**$ (3,909)**	**$ 22,523**	**$ 17,307**	**$ (5,216)**

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Scenario 1

HB 6258

($ in Millions)

Year	Actuarial Value of Assets – Baseline	Actuarial Value of Assets – Impact	Actuarial Value of Assets – Change	Actuarial Accrued Liability – Baseline	Actuarial Accrued Liability – Impact	Actuarial Accrued Liability – Change	Unfunded Accrued Liability – Baseline	Unfunded Accrued Liability – Impact	Unfunded Accrued Liability – Change
2013	$ 14,200	$ 14,200	$ -	$ 34,430	$ 29,571	$ (4,858)	$ 20,230	$ 15,371	$ (4,858)
2014	$ 15,346	$ 15,107	$ (239)	$ 35,684	$ 30,413	$ (5,271)	$ 20,338	$ 15,307	$ (5,032)
2015	$ 16,380	$ 15,825	$ (555)	$ 36,921	$ 31,245	$ (5,677)	$ 20,542	$ 15,420	$ (5,122)
2016	$ 16,999	$ 16,151	$ (848)	$ 38,130	$ 32,056	$ (6,074)	$ 21,130	$ 15,905	$ (5,226)
2017	$ 17,806	$ 16,700	$ (1,106)	$ 39,302	$ 32,844	$ (6,458)	$ 21,495	$ 16,144	$ (5,351)
2018	$ 18,608	$ 17,236	$ (1,373)	$ 40,427	$ 33,600	$ (6,828)	$ 21,819	$ 16,364	$ (5,455)
2019	$ 19,386	$ 17,762	$ (1,624)	$ 41,502	$ 34,323	$ (7,179)	$ 22,116	$ 16,561	$ (5,555)
2020	$ 20,137	$ 18,280	$ (1,857)	$ 42,519	$ 35,012	$ (7,507)	$ 22,383	$ 16,733	$ (5,650)
2025	$ 23,565	$ 20,914	$ (2,651)	$ 46,729	$ 37,986	$ (8,743)	$ 23,164	$ 17,072	$ (6,092)
2030	$ 26,949	$ 24,613	$ (2,336)	$ 49,668	$ 40,713	$ (8,955)	$ 22,719	$ 16,100	$ (6,619)
2035	$ 31,101	$ 30,960	$ (141)	$ 51,470	$ 43,912	$ (7,558)	$ 20,369	$ 12,951	$ (7,417)
2040	$ 37,366	$ 42,079	$ 4,713	$ 52,382	$ 48,411	$ (3,971)	$ 15,016	$ 6,332	$ (8,684)
2045	$ 47,981	$ 54,911	$ 6,930	$ 53,312	$ 54,846	$ 1,534	$ 5,331	$ (65)	$ (5,396)

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Scenario 1

HB 6258

	($ in Millions)								
	Baseline Total Statutory Contributions			Impact Total Statutory Contributions			Change Total Statutory Contributions		
Year	Defined Benefit	SMP	Total	Defined Benefit	SMP	Total	Defined Benefit	SMP	Total
2013	$ 1,399	$ 44	$ 1,443	$ 1,403	$ 40	$ 1,443	$ 4	$ (4)	$ -
2014	$ 1,504	$ 48	$ 1,552	$ 1,170	$ 41	$ 1,211	$ (334)	$ (7)	$ (341)
2015	$ 1,577	$ 49	$ 1,626	$ 1,148	$ 39	$ 1,187	$ (429)	$ (10)	$ (439)
2016	$ 1,587	$ 50	$ 1,637	$ 1,165	$ 38	$ 1,203	$ (422)	$ (12)	$ (434)
2017	$ 1,613	$ 52	$ 1,665	$ 1,206	$ 36	$ 1,242	$ (407)	$ (16)	$ (423)
2018	$ 1,671	$ 54	$ 1,725	$ 1,234	$ 35	$ 1,270	$ (437)	$ (19)	$ (455)
2019	$ 1,713	$ 56	$ 1,769	$ 1,265	$ 34	$ 1,300	$ (448)	$ (22)	$ (469)
2020	$ 1,756	$ 58	$ 1,814	$ 1,298	$ 34	$ 1,332	$ (458)	$ (24)	$ (482)
2025	$ 1,980	$ 68	$ 2,048	$ 1,493	$ 28	$ 1,522	$ (487)	$ (40)	$ (526)
2030	$ 2,221	$ 78	$ 2,299	$ 1,747	$ 22	$ 1,769	$ (474)	$ (56)	$ (530)
2035	$ 2,521	$ 90	$ 2,611	$ 2,062	$ 14	$ 2,076	$ (459)	$ (76)	$ (535)
2040	$ 2,818	$ 107	$ 2,924	$ 2,443	$ 8	$ 2,450	$ (375)	$ (99)	$ (474)
2045	$ 3,164	$ 127	$ 3,292	$ 270	$ 4	$ 274	$ (2,894)	$ (123)	$ (3,018)
Total Cont. Through 2045	**$ 73,457**	**$ 2,621**	**$ 76,078**	**$ 54,573**	**$ 733**	**$ 55,306**	**$ (18,884)**	**$ (1,887)**	**$ (20,771)**
Present Value of Total Cont.	**$ 22,523**	**$ 767**	**$ 23,289**	**$ 17,307**	**$ 351**	**$ 17,658**	**$ (5,216)**	**$ (415)**	**$ (5,631)**

Defined benefit under HB 6258 includes the Tier 1 plan and cash balance plan. SMP under HB 6258 includes the contributions for members that were current SMP members at the effective date and remain in SMP.

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Scenario 1

HB 6258

($ in Millions)									
	Baseline Statutory Contributions (including SMP)			Impact Statutory Contributions (including SMP)			Change Statutory Contributions (including SMP)		
Year	State	Employer	Total	State	Employer	Total	State	Employer	Total
2013	$ 1,443	$ -	$ 1,443	$ 1,443	$ -	$ 1,443	$ -	$ -	$ -
2014	$ 1,552	$ -	$ 1,552	$ 1,193	$ 18	$ 1,211	$ (359)	$ 18	$ (341)
2015	$ 1,626	$ -	$ 1,626	$ 1,149	$ 38	$ 1,187	$ (477)	$ 38	$ (439)
2016	$ 1,637	$ -	$ 1,637	$ 1,144	$ 59	$ 1,203	$ (493)	$ 59	$ (434)
2017	$ 1,665	$ -	$ 1,665	$ 1,161	$ 81	$ 1,242	$ (504)	$ 81	$ (423)
2018	$ 1,725	$ -	$ 1,725	$ 1,165	$ 105	$ 1,270	$ (560)	$ 105	$ (455)
2019	$ 1,769	$ -	$ 1,769	$ 1,170	$ 130	$ 1,300	$ (599)	$ 130	$ (469)
2020	$ 1,814	$ -	$ 1,814	$ 1,174	$ 157	$ 1,332	$ (640)	$ 157	$ (482)
2025	$ 2,048	$ -	$ 2,048	$ 1,288	$ 234	$ 1,522	$ (760)	$ 234	$ (526)
2030	$ 2,299	$ -	$ 2,299	$ 1,545	$ 224	$ 1,769	$ (754)	$ 224	$ (530)
2035	$ 2,611	$ -	$ 2,611	$ 1,850	$ 227	$ 2,076	$ (761)	$ 227	$ (535)
2040	$ 2,924	$ -	$ 2,924	$ 2,205	$ 245	$ 2,450	$ (719)	$ 245	$ (474)
2045	$ 3,292	$ -	$ 3,292	$ -	$ 274	$ 274	$ (3,292)	$ 274	$ (3,018)
Total Cont. Through 2045	**$ 76,078**	**$ -**	**$ 76,078**	**$ 48,823**	**$ 6,483**	**$ 55,306**	**$ (27,254)**	**$ 6,483**	**$ (20,771)**
Present Value of Total Cont.	**$ 23,289**	**$ -**	**$ 23,289**	**$ 15,897**	**$ 1,761**	**$ 17,658**	**$ (7,392)**	**$ 1,761**	**$ (5,631)**

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Assumptions and Additional Commentary

- 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.
- All calculations are based on the June 30, 2012 actuarial valuation results including the provisions of SURS and actuarial assumptions in effect on June 30, 2012.
- CPI is assumed to increase at 2.75%.
- All present value calculations are as of June 30, 2012.
- Previous asset gains and losses are phased-in to each projection.
  - No future gains or losses are assumed
- All contributions are determined as a percent of capped payroll.
- 15% of new hires are assumed to participate in the Self Managed Plan (SMP) under the baseline only. Under HB 6258 all new hires participate in the cash balance plan.
- No contributions for unfunded liability attributable to service on or after July 1, 2013 for employers are assumed in this analysis.
- Significant administrative changes would need to occur if separate accounts were established and maintained for each employer and gains and losses separately tracked.
- No additional administrative expenses were assumed in this analysis.

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Disclosures

- 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 actuaries submitting this presentation (Leslie Thompson, Amy Williams and Lance Weiss) are members of the American Academy of Actuaries and meet 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 SURS. 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

- 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 SURS 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.

Cliff Notes ($ in Millions)

Study Number	Description	Total Contributions through 2045	(Savings)/Cost compared to Baseline	(Savings)/Cost compared to Baseline (PV)	Comments and Observations
Baseline	No Changes	$76,078			Total Contribution is made by the State and there are no benefit changes
1	State Portion of Contribution	$48,823	($27,254)	($7,392)	The total State Contribution decreases as a result of shifting normal cost contributions to employers and benefit changes including an increase in employee contributions for Tier 1 members.
	Employer Portion of Contribution	$6,483	$6,483	$1,761	Employers begin to make contributions in fiscal year 2014 of 0.5% of pay. Contributions increase by 0.5% per year until total net normal cost is contributed by employers.
	Total State Plus Employer	$55,306	($20,771)	($5,631)	Total contributions from the State and Employer decrease compared to the baseline. The funded ratio is 100% in 2043 compared to a funded ratio of 90% in 2045 under the baseline.

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