State Employee Retirement System of Illinois

Pension Reform Studies

Senate Bill 1 House Amendment 3

May 14, 2013

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SB1-HA3 – Opening Comments

- Under Senate Bill 1 House Amendment 3 (SB1-HA3), Tier 1 active and retired members only are given a new benefit package, the details of which will be provided in the following pages
- Under this proposal, a new funding policy is also implemented

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SB1-HA3 – Opening Comments

- Provisions of SB1-HA3:
  - Applies to all Tier 1 active and retired members
  - Assumed to become effective as of June 30, 2013
  - Is comprised of the following provision changes:
    - Employee Contribution Changes
      - Tier 1 members' contributions are increased by 1% beginning July 1, 2013, and 2% beginning July 1, 2014, and beyond
    - Retirement Eligibility Changes
      - 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:

	New Eligibility Conditions	
Current Age	**Regular Formula**	**Alternative Formula**
At least 40 to 44	Age 61 w/ 8 years or Rule of 87	Age 51 w/25 years or age 56 w/20 years
At least 35 to 39	Age 63 w/ 8 years or Rule of 91	Age 53 w/25 years or age 58 w/20 years
Under 35	Age 65 w/ 8 years or Rule of 95	Age 55 w/25 years or age 60 w/20 years

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SB1-HA3 – Opening Comments

- Provisions of SB1-HA3 (Cont'd):
  - Pensionable Pay Cap
    - Pensionable pay is limited to the maximum of current pay and the current Tier 2 pay cap
    - The Tier 2 pay cap for calendar years 2012 and 2013 was $108,883 and $109,971, respectively
    - The pay cap grows at a rate equal to one-half of CPI. Therefore, under the SERS assumptions, the pay cap is assumed to grow at 1.5% (one-half of the CPI assumptions of 3.0%)

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SB1-HA3 – Opening Comments

- Provisions of SB1-HA3 (Cont'd):
  - COLA Changes (applies to both Tier 1 actives and retirees)
    - 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
    - COLA is based on 3% of a maximum annuity amount based on years of service at retirement
      - For a member covered under Social Security, the maximum annuity amount for determining COLA is equal to $800 times years of service. For example, a member retiring with 30 years of service would receive a maximum annual COLA increase equal to 3% of $24,000 or $720.
      - For a member not covered under Social Security, the maximum annuity amount for determining COLA is equal to $1,000 times years of service. For example, a member retiring with 30 years of service would receive a maximum annual COLA increase equal to 3% of $30,000 or $900.

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SB1-HA3 – Opening Comments

- Change in the Funding Policy
  - Currently, the State makes a level percent of pay contribution that will provide for a 90% funded ratio by the year 2045
  - The State's contribution is limited by a hypothetical amount determined assuming POB assets were not deposited into the fund in 2003
    - This maximum calculation applies through the year 2033
    - The maximum calculation has the effect of deferring contributions

SB1-HA3 – Opening Comments

- Change in the Funding Policy (Cont'd)
  - Under the new policy, beginning in FY 2015, the State will make a level percent of pay contribution based on ARC funding with a 30-year closed amortization period
    - The cost method is changed to Entry Age Normal
    - The maximum calculation no longer applies
    - For FY 2020 and beyond, the State will make additional contributions, under the Budget Stabilization Act, to the SERS trust of $189.4 million each year in addition to the ARC funding requirement until a funding target of 100% is reached
    - The additional contributions beginning in FY 2020 are not recognized in the asset value or annual contribution requirement until the year in which they are actually paid to the Fund
    - The percent of additional contributions allocated to SERS (18.94%) is based on the allocation of the 2003 POB proceeds

SB1-HA3 – Opening Comments

- Change in the Funding Policy (Cont'd)
  - Slide 12 compares the funded ratios under Baseline and SB1-HA3
    - Under Scenario 1, the funded ratio is projected to increase steadily from 40% in 2013 to 100% in 2044

SB1-HA3 – Opening Comments

- For each study the results are compared against the baseline, where the baseline represents the 6/30/2012 actuarial valuation results.
- Slides 11 and 12 contain a summary of the results
- Slides 13 through 15 contain a comparison of the projected funded ratio, UAL, and State contribution rate as a percent of pay
- Slides 16 through 18 contain the projection detail including the following:
  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.

SB1-HA3 – Opening Comments

- 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.

Summary of Results – SB1-HA3

Study	Baseline	SB1-HA3
Funding Policy	90% by 2045	100% ARC Funding Over 30 Years*
Actuarial Cost Method	Projected Unit Credit	Entry Age Normal
Accrued Liability as of June 30, 2012 ($ in billions)	$33.09	$28.74
Funded Ratio as of June 30, 2012	34.68%	39.93%
Total State Contributions 2013-2045 ($ in billions)	$94.45	$61.51
Present Value of Total State Contributions 2013-2045 ($ in billions)	$28.57	$21.50

**Plus Additional fixed annual contribution as defined by the Budget Stabilization Act*

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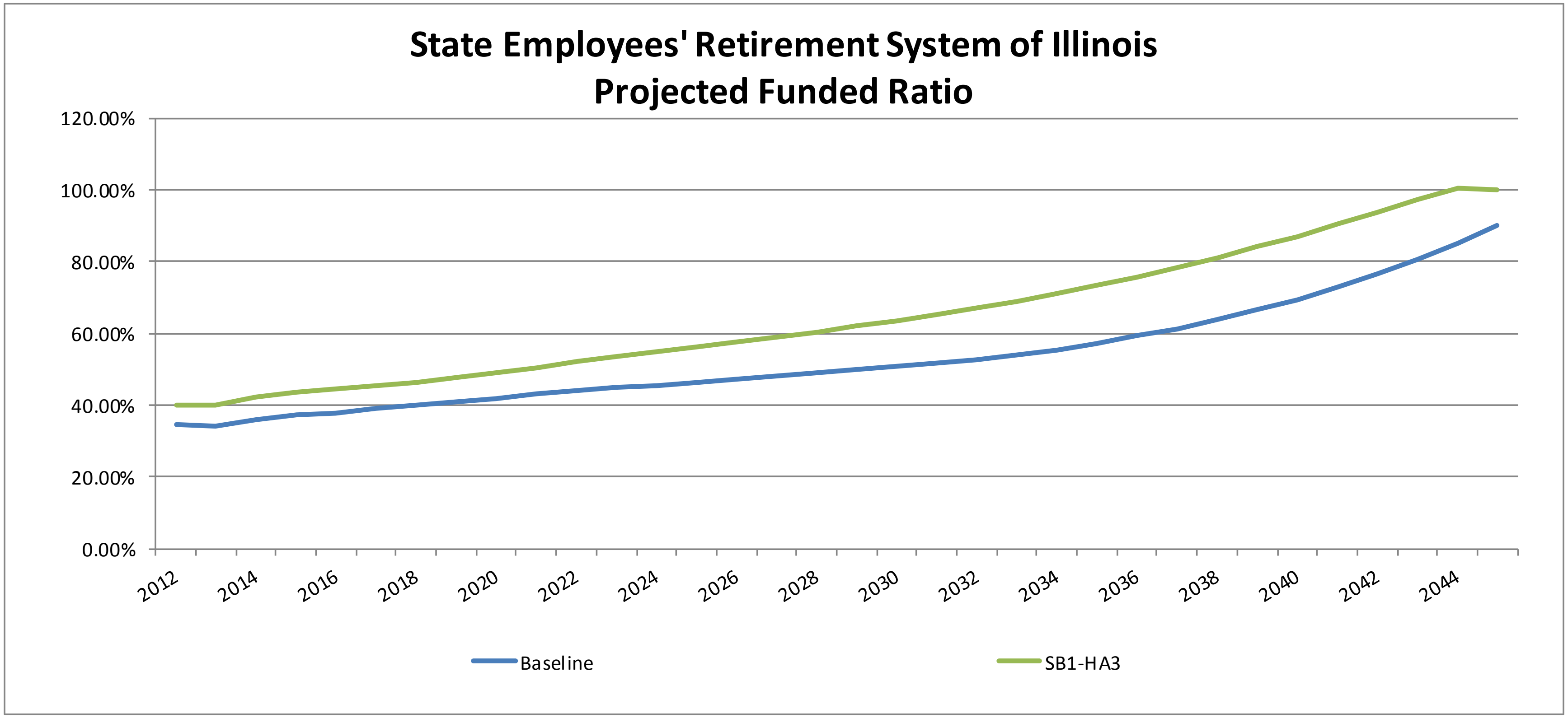
Summary of Results – SB1-HA3

- Under SB1-HA3
  - The changes combined :
    - **Decreased** the accrued liability by $4.35 billion
    - **Decreased** the total State contributions through 2045 by $32.94 billion and **decreased** the present value of those contributions by $7.07 billion

Summary of Results – SB1-HA3

Projected funded ratios



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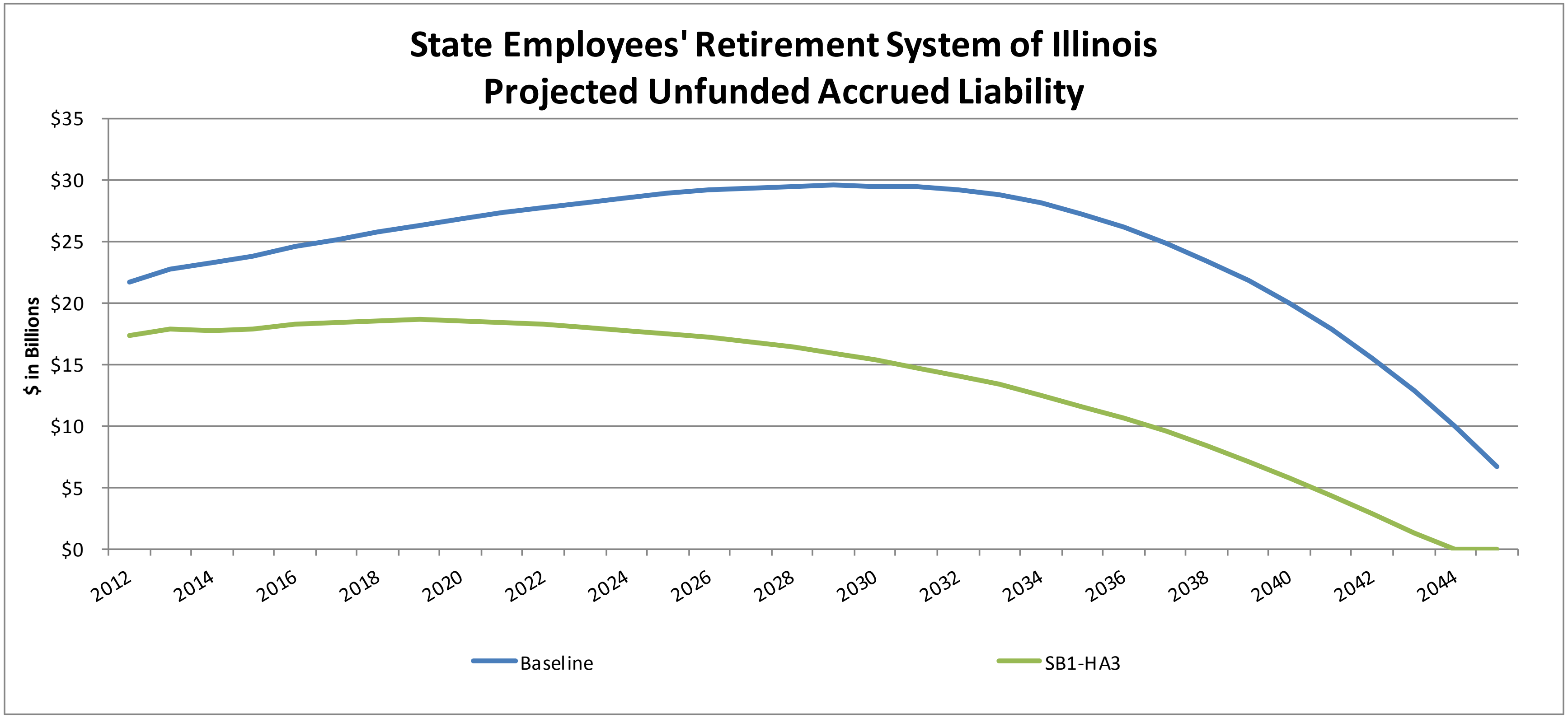
Summary of Results – SB1-HA3

Projected unfunded accrued liability



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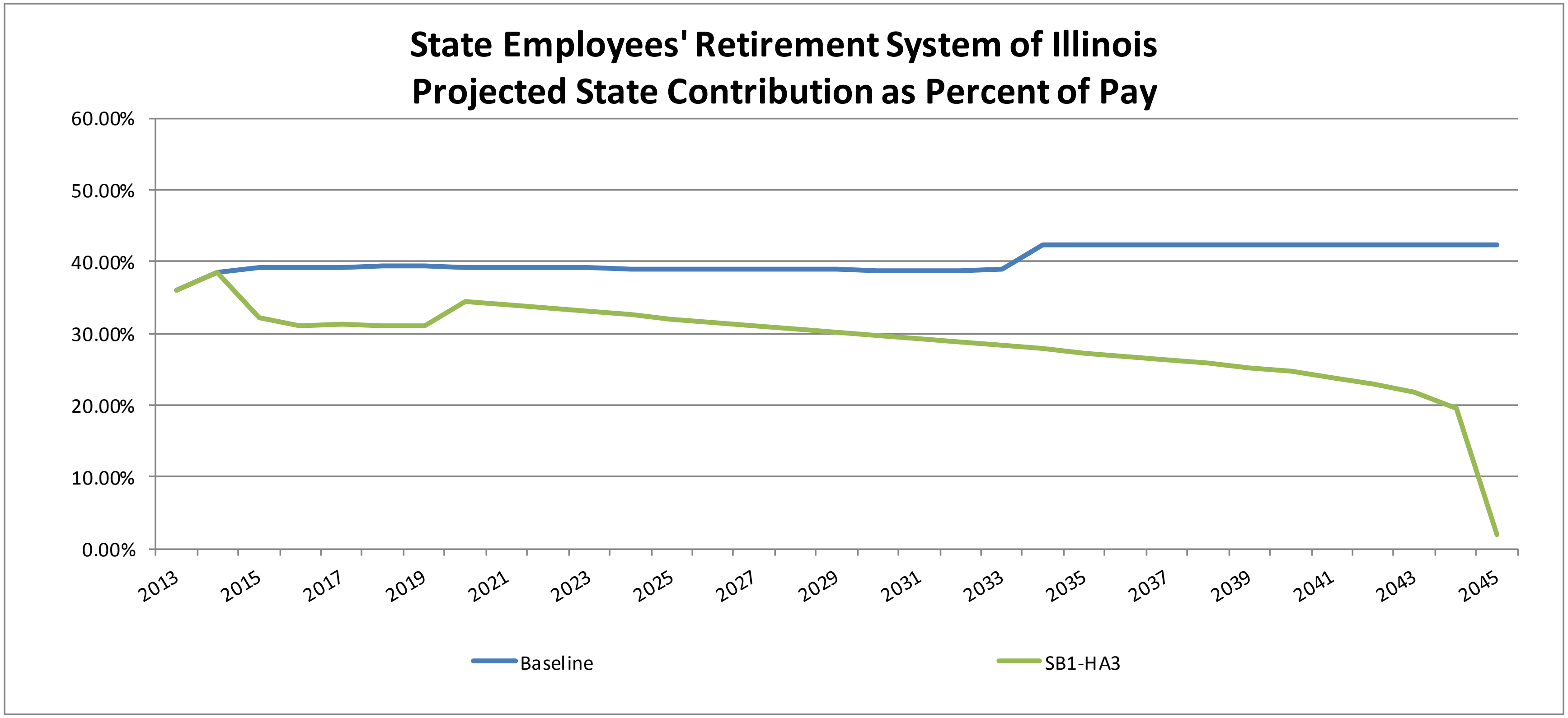
Summary of Results – SB1-HA3

Projected State contribution as percent of pay



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SB1-HA3

New funding policy; New Tier 1 Provisions; Tier 2 plan for current Tier 2 members and all new entrants.

($ in Millions)

	Statutory Contribution			Unfunded Accrued Liability			Funded Ratio		
Year	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**
2013	$ 1,578	$ 1,578	$ -	$ 22,754	$ 17,849	$ (4,905)	34.3%	40.0%	5.7%
2014	$ 1,663	$ 1,663	$ -	$ 23,298	$ 17,742	$ (5,556)	35.7%	42.3%	6.6%
2015	$ 1,757	$ 1,447	$ (310)	$ 23,819	$ 17,831	$ (5,988)	37.1%	43.8%	6.7%
2016	$ 1,817	$ 1,433	$ (384)	$ 24,577	$ 18,194	$ (6,383)	37.8%	44.4%	6.6%
2017	$ 1,874	$ 1,479	$ (395)	$ 25,161	$ 18,359	$ (6,802)	38.9%	45.5%	6.6%
2018	$ 1,947	$ 1,514	$ (433)	$ 25,720	$ 18,502	$ (7,218)	40.0%	46.5%	6.5%
2019	$ 2,012	$ 1,550	$ (462)	$ 26,259	$ 18,621	$ (7,638)	41.0%	47.5%	6.5%
2020	$ 2,074	$ 1,777	$ (297)	$ 26,779	$ 18,516	$ (8,263)	42.0%	49.1%	7.1%
2025	$ 2,406	$ 1,890	$ (516)	$ 28,860	$ 17,487	$ (11,373)	46.4%	56.2%	9.8%
2030	$ 2,777	$ 2,014	$ (763)	$ 29,492	$ 15,342	$ (14,150)	50.7%	63.6%	12.9%
2035	$ 3,460	$ 2,137	$ (1,323)	$ 27,190	$ 11,594	$ (15,596)	57.2%	73.3%	16.1%
2040	$ 3,908	$ 2,212	$ (1,696)	$ 19,912	$ 5,764	$ (14,148)	69.5%	87.2%	17.7%
2045	$ 4,379	$ 200	$ (4,179)	$ 6,645	$ -	$ (6,645)	90.0%	100.0%	10.0%
Total Cont. Through 2045	**$ 94,446**	**$ 61,506**	**$ (32,940)**						
Present Value of Total Cont.	**$ 28,568**	**$ 21,502**	**$ (7,066)**						

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SB1-HA3

New funding policy; <u>New Tier 1 Provisions</u>; Tier 2 plan for current Tier 2 members and all new entrants.

($ in Millions)

	Employer Normal Cost			Portion to Amortize the UAL			Required State Contribution		
Year	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**
2013	$ 554	$ 348	$ (206)	$ 1,024	$ 1,230	$ 206	$ 1,578	$ 1,578	$ -
2014	$ 573	$ 318	$ (255)	$ 1,090	$ 1,345	$ 255	$ 1,663	$ 1,663	$ -
2015	$ 582	$ 277	$ (305)	$ 1,175	$ 1,170	$ (5)	$ 1,757	$ 1,447	$ (310)
2016	$ 590	$ 280	$ (310)	$ 1,227	$ 1,153	$ (74)	$ 1,817	$ 1,433	$ (384)
2017	$ 597	$ 282	$ (315)	$ 1,277	$ 1,197	$ (80)	$ 1,874	$ 1,479	$ (395)
2018	$ 603	$ 284	$ (319)	$ 1,344	$ 1,230	$ (114)	$ 1,947	$ 1,514	$ (433)
2019	$ 607	$ 287	$ (320)	$ 1,405	$ 1,263	$ (142)	$ 2,012	$ 1,550	$ (462)
2020	$ 610	$ 289	$ (321)	$ 1,464	$ 1,488	$ 24	$ 2,074	$ 1,777	$ (297)
2025	$ 591	$ 298	$ (293)	$ 1,815	$ 1,592	$ (223)	$ 2,406	$ 1,890	$ (516)
2030	$ 551	$ 314	$ (237)	$ 2,226	$ 1,700	$ (526)	$ 2,777	$ 2,014	$ (763)
2035	$ 504	$ 344	$ (160)	$ 2,956	$ 1,793	$ (1,163)	$ 3,460	$ 2,137	$ (1,323)
2040	$ 492	$ 385	$ (107)	$ 3,416	$ 1,827	$ (1,589)	$ 3,908	$ 2,212	$ (1,696)
2045	$ 540	$ 427	$ (113)	$ 3,839	$ (227)	$ (4,066)	$ 4,379	$ 200	$ (4,179)
Total Through 2045	**$ 18,209**	**$ 10,916**	**$ (7,293)**	**$ 76,237**	**$ 50,590**	**$ (25,647)**	**$ 94,446**	**$ 61,506**	**$ (32,940)**
Present Value of Total	**$ 7,018**	**$ 3,801**	**$ (3,217)**	**$ 21,550**	**$ 17,701**	**$ (3,849)**	**$ 28,568**	**$ 21,502**	**$ (7,066)**

SB1-HA3

New funding policy; <u>New Tier 1 Provisions</u>; Tier 2 plan for current Tier 2 members and all new entrants.

	($ in Millions)								
	Actuarial Value of Assets			Actuarial Accrued Liability			Unfunded Accrued Liability		
Year	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**	**Baseline**	**SB1-HA3**	**Change**
2013	$ 11,883	$ 11,883	$ -	$ 34,637	$ 29,732	$ (4,905)	$ 22,754	$ 17,849	$ (4,905)
2014	$ 12,944	$ 12,987	$ 43	$ 36,242	$ 30,729	$ (5,513)	$ 23,298	$ 17,742	$ (5,556)
2015	$ 14,055	$ 13,889	$ (166)	$ 37,874	$ 31,720	$ (6,154)	$ 23,819	$ 17,831	$ (5,988)
2016	$ 14,946	$ 14,502	$ (444)	$ 39,523	$ 32,696	$ (6,827)	$ 24,577	$ 18,194	$ (6,383)
2017	$ 16,024	$ 15,294	$ (730)	$ 41,185	$ 33,653	$ (7,532)	$ 25,161	$ 18,359	$ (6,802)
2018	$ 17,130	$ 16,081	$ (1,049)	$ 42,850	$ 34,583	$ (8,267)	$ 25,720	$ 18,502	$ (7,218)
2019	$ 18,254	$ 16,865	$ (1,389)	$ 44,513	$ 35,486	$ (9,027)	$ 26,259	$ 18,621	$ (7,638)
2020	$ 19,385	$ 17,838	$ (1,547)	$ 46,164	$ 36,354	$ (9,810)	$ 26,779	$ 18,516	$ (8,263)
2025	$ 25,009	$ 22,426	$ (2,583)	$ 53,869	$ 39,913	$ (13,956)	$ 28,860	$ 17,487	$ (11,373)
2030	$ 30,361	$ 26,809	$ (3,552)	$ 59,853	$ 42,151	$ (17,702)	$ 29,492	$ 15,342	$ (14,150)
2035	$ 36,405	$ 31,841	$ (4,564)	$ 63,595	$ 43,435	$ (20,160)	$ 27,190	$ 11,594	$ (15,596)
2040	$ 45,438	$ 39,109	$ (6,329)	$ 65,350	$ 44,873	$ (20,477)	$ 19,912	$ 5,764	$ (14,148)
2045	$ 59,818	$ 47,574	$ (12,244)	$ 66,463	$ 47,574	$ (18,889)	$ 6,645	$ -	$ (6,645)

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Assumptions and Additional Commentary

- 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.

Assumptions and Additional Commentary

- Changes in Plan Design may impact retirement and termination behavior. No changes in retirement rates or 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.*

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Disclosures

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- This presentation shall not be construed to provide tax advice, legal advice or investment advice.
- The actuaries submitting this presentation (Alex Rivera and Paul Wood) 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 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

- 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.