

— From the Department of Government Relations —

SB 512 Amendment #2 Reduction in Current Member Benefits

The **IEA is OPPOSED** to any proposal that changes the pension benefits of those currently in the classroom or in our schools.

This is unconstitutional.

The amendment explicitly violates the Illinois Constitution. In Article XIII, Section 5 of the Constitution (the "Pension Protection Clause"), it is stated,

"Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

- We believe increasing the contributions for a member to maintain their current pension benefit package is a direct violation of this clause since it would be a change of a contractual relationship.
- Forcing members to make a choice among "options", knowing that each option would amount to a smaller or a costlier pension benefit than they would otherwise be entitled to, would constitute a violation of the "Pension Protection Clause."

The proposal does not solve the funding issue.

- Our members have never missed a pension contribution. To force members to pay more so that the state can abrogate its responsibility once again is wrong.
- We are opposed to the creation of a defined contribution plan since our members in TRS do not receive Social Security for their years as an educator, thus not having any reliable safety net through their retirement years.
- Additionally, creating a defined contribution plan would divert much needed contributions for the current defined benefit plan and **would harm the financial stability of the plan.**

Creates another Pension Funding Ramp

The legislation creates another pension funding ramp. The proposal delays for three years a level and more predictable payment plan.

The increased member contributions will not stabilize pension funding since the proposed pension ramp will allow for the state to reduce its contribution equal to that of the increased member contribution.

History of Pension Reforms Resulting In More Underfunding

The ramping up of retirement systems contributions has proven not to work in Illinois. And the legislature's past practice of enacting benefit changes while reducing pension contributions perpetuates the funding problem we find ourselves in.

- In 1988, the General Assembly adopted a 7 year ramp and found that it could not afford the year-to-year increases in contributions. Thus, a 15 year ramp was adopted in 1995.
- In 2003, the state sold \$10 billion in Pension Obligation Bonds and used those bonds to make pension payments for part of two consecutive fiscal years.
- In 2005, the legislature passed pension benefit reforms while underfunding all of the state retirement systems by \$2.3 billion.
- Early in 2011, after passing the major Two-Tier pension reform legislation, the legislature forced the state retirement systems to recertify the FY 11 pension payment, taking into account the Two-Tier pension cuts that were enacted. This action allowed the legislature to capture \$300 million in savings for a program that had yet to be implemented.

Constitutional Alternatives

The IEA can support constitutional alternatives to address the funding problem.

SB 512 Proposal

SB 512 is an assault on our members' rights under the Illinois Constitution. The proposal provides that benefits already earned will be kept but the bill gives our members three unenviable options for their benefits going forward:

1. To remain in the current pension plan members will pay more to keep their benefits:
 - **The employee contribution for TRS members who elect to stay in Tier 1 would increase to 13.77% of salary (from 9.4% of salary currently) beginning July 1, 2013 until June 30, 2016. Beginning on July 1, 2016 the contribution would likely increase to 15.77% and remain capped at that amount thereafter. The amendment also increases the contribution rates for those in SURS to 15.31% of salary during the same period (currently, 8% of salary). The final increase in contributions for SURS would likely put the member's contribution at 17.31% of salary beginning in July 1, 2016 and remain capped at that amount thereafter. It is understood that after the first three years of the contribution increase, that the recalculation, as required by the amendment, will force member's contributions up to the maximum amounts specified in this paragraph.**
2. To choose participation in the 2-tier pension benefit plan that passed last year (**retirement at age 67**, reduced COLA, reduced final average salary). The member would be required to pay 6% of salary (currently, 9.4% of salary in TRS).
3. The option to participate in a defined contribution plan (401-K style plan). The member would pay 6% of salary and so would the state. Members would be required to direct their own investments.

Additional information:

- Tier 1 members will have a choice every 3 years as to whether or not they will stay in their current plan. Over the first two election periods the member contribution will increase. So the cost of staying in Tier 1 will become more and more expensive until the Tier 1 member may not be able to afford the plan.
- Members who fail to elect will default into Tier 2.
- Current Tier 2 members can elect to participate in the defined contribution plan.

The legislation impacts the Teachers' Retirement System (TRS), the State Universities Retirement System (SURS), the General Assembly Retirement System (GARS), and the State Employees' Retirement System (SERS), along with numerous Chicago pension funds.