Agenda for JJCAA Insurance Committee Meeting

April 22, 2013 – 12:30pm, JJC Main Campus, T-1000 Conference Room.

Committee Members: John Peterson, Chair; John Corradetti, Curt Hieggelke, Sandra Hopper, Chuck Kramer, Jerry Lewis, Maureen Peterson, Pat Neff, Mary Ann Oetter, Mel Oetter, Walter Zaida, Jerry Zeborowski

1. Congratulations to Maureen Peterson, the new insurance committee chair!

2. Retiree health premiums headed for court – Pages 533-535 & 539-540

3. Senate Bills (SB)

- **Part B of SB1**

a) **Either take (a) CIP and a reduced COLA {lesser of 3% simple interest or ½ of CPI – Consumer Price Index at simple interest} or (b) a 3% COLA compounded and no CIP.**

b) **Present employees will pay 1.25% of their gross pay to CIP. There is a yearly 1.08% escalator if needed – SB1673**

c) **The CC District and retirees will match the employees' contributions so that each group contributes 1/3.**

d) **CIP is not covered under the pension clause.**

- **SB 2404 (Holmes) & HB 3162 – Supported by SUAA – see Page 541**
  1. **Ironclad Funding Guarantee.**
  2. **Pension Stabilization Fund.**
  3. **Present worker SURS contribution will increase from 8% to 10%.**
- **SB35 (Biss)–companion bill to HB 3411. Probably will be Part A of SB 1.**

4. House Bills (HB)

- **HB 3411(Nekritz) companion bill to SB 35. Perhaps will be Part A of SB 1.**

a) **The existing 3% compounded COLA would be replaced with a COLA of no more than $600 or $750, depending if one receives Social Security. No one would receive a COLA until after January 1, 2017.**

b) **Employees would contribute an additional 2% of salary to SURS.**

c) **Pensions would be based on salaries below SS wage base ($113,000).**

- **HB 3162 (Hoffman). Companion to SB 2404. SUAA supported. (Page 541)**

5. Institute of Government & Public Affairs (IGPA). See Page 542. igpa.uillinois.edu/system/files/Six-Simple-Steps-for-Reforming-SURS.pdf

6. Old and New Business – JJCAA insurance committee and annual meeting is July 9th. Future insurance committee meetings will be August 12, October 21, & December 9. There will be no meeting on June 17.

7. Legislative Committee Report.

7. Adjournment.

Thursday, April 11, 2013

(Reuters) - The Illinois Supreme Court agreed on Thursday to determine whether healthcare for retired state workers is protected under the state constitution, stepping into the debate over reining in the state's huge public pension costs.

The high court accepted a direct appeal of a March 19 ruling by Sangamon County Circuit Court Associate Judge Steven Nardulli, who found that state-sponsored retiree health benefits, unlike pensions, are not protected by the Illinois Constitution.

Illinois' efforts to deal with nearly $100 billion in unfunded pension liabilities have been hampered in part by a restriction in the state's constitution, which calls participation in a pension plan "an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

Nardulli's ruling raised questions about how state lawmakers might deal with retiree health programs, which were underfunded by $33.3 billion at the end of fiscal 2011, according to the state, and are not specifically mentioned in the state constitution.

At least one pension-reform proposal in the state legislature relies on health benefits as part of the pension fix. The plan, supported by Senate President John Cullerton, would use retiree health benefits as a lever for inducing workers and retirees to agree to a cut in cost-of-living adjustments on their pension payments. Under the plan, workers who insist on keeping their cost-of-living increases would lose their retiree health benefits.

The Senate already has passed a measure that takes this approach with the Teachers Retirement System, the largest of Illinois' five state pension funds.

The bill would offer continuation of state-sponsored retiree health care to employees and retirees who agree to accept less than the current annual 3 percent compounded cost-of-living adjustment to their pensions. Teachers who would not agree to the cost-of-living cut would not be eligible for state-backed health coverage.

If Nardulli's ruling is overturned by the Supreme Court, the state's options for reforming pensions would be limited. An approach that relies solely on changes to pensions is both politically difficult and legally vulnerable. Union leaders have said they would sue, on constitutional grounds, to prevent implementation of any cuts to pension benefits.

The state supreme court is unlikely to hear oral arguments on the medical benefits case before September, court spokesman Joe Tybor said. The Democrat-controlled legislature is attempting to pass a fix for the worst-funded public pension system among states during its spring session that ends May 31.

Nardulli's ruling dismissed class-action challenges to a 2012 Illinois law that gave the state the ability to raise health care premiums for retirees.

The American Federation of State, County and Municipal Employees Council 31 and other unions had backed the lawsuit, arguing that retiree health care coverage carried the same constitutional protection as pensions. They also contended the 2012 law would saddle state and university retirees with unaffordable premium increases.

The House and Senate have passed bills addressing pieces of the pension reform puzzle and are seeking a comprehensive fix before the legislature ends its spring session on May 31.

Pensions are devouring an ever-increasing share of state revenue. That is a worry for the state's bondholders, as well as vendors, school districts and others doing business with a state that is running as much as a year behind on $9 billion in unpaid bills. Studies have shown Illinois' five pension plans have the lowest funding ratio of any state in the nation.

(Reporting by Karen Pierog; Editing by Bob Burgdorfer)

We Are One Illinois Supports HB 3162 and SB 2404!

The We Are One Illinois union coalition is proud to announce its support for House Bill 3162 and Senate Bill 2404, identical bills that contain essential pieces of the coalition's framework plan. Unlike many other proposals, HB 3162 and SB 2404 are fair and constitutional. The bills have three parts:

1. An Ironclad Funding Guarantee. For decades, Illinois politicians shorted payments to the pension systems, even as public workers faithfully and consistently paid their fair share. To ensure that today's politicians cannot repeat the mistakes of their predecessors, HB 3162 and SB 2404 contain an ironclad funding guarantee. If the state fails to make its full payment, the retirement systems – or their members – can sue to ensure proper payment.

2. The Pension Stabilization Fund. HB 3162 and SB 2404 dedicate revenue to pay down the state's pension debt. In short, revenue currently being used to pay off the state's pension obligation bonds would be committed to the pension systems after the bonds are paid off.

3. Shared Sacrifice. Public employees are not to blame for Illinois' pension problem, but they are willing to be part of the solution. With an ironclad funding guarantee to ensure pension shortfalls will never happen again, Tier 1 employees would be prepared to contribute an additional 2% of salary, phased in over the next two years, for their retirement.

Institute of Government & Public Affairs (IGPA)
Six Simple Steps Reforming SURS (March 12, 2013)
For the full text see
<igpa.uillinois.edu/system/files/Six-Simple-Steps-for-Reforming-SURS.pdf>

STEP #1
The retirement annuity of current and future retirees will increase annually by one-half of the unadjusted percentage increase (but not less than zero) in the consumer price index-u in the previous twelve months, compounded upon the preceding year's annuity.

STEP #2
Going forward, Effective Rate of Interest (ERI) for all purposes, including the money purchase benefit formula, portable lump sum refunds, purchase of service credits and returns of excess contribution will be set to a value equivalent to 75 basis points above the interest paid by 30-year U.S. Treasury Bonds.

STEP #3
Universities and colleges will contribute up to 6.2% of the pension eligible payroll of their employees to fund the annual normal cost. The cost shift will be transitioned at a rate of 0.5% of pensionable pay per year for the first eleven years and 0.7% the twelfth year.

STEP #4
All employees enrolled in the Tier I defined benefit program will contribute an additional 2% of pay towards pension cost at a rate of an additional 0.5% of pay a year for the next four years. The additional employee contribution will not be included in the calculation of benefits under the Money Purchase Plan.

STEP #5
In return for the above cost-shifting, the state shall be required to amortize the current unfunded liabilities of SURS in accordance with a payment schedule that steadily improves the funding ratio and is calculated based on a straight line amortization of the current unfunded liabilities with a reasonable closed amortization period. Furthermore, the state shall be contractually obligated to contribute to the pension system each year the full amount of all its payment obligations. If the state fails to make full payment, the pension system or any of its members may take legal action to compel the state to make that payment.

STEP #6
Any new employee who becomes a member of SURS will participate in a hybrid plan comprising a defined benefit (DB) and an individual defined contribution (DC) plan. The current retirement plans—Tier II plan and Self-Managed Plan—will no longer be offered to new employees. Any employee who is currently a member of SURS can elect to terminate participation in their current plan and elect to have retirement benefits of future creditable service provided under the new retirement plan. The irrevocable choice must be made during the six-month period following the effective date of the new plan.