Pension FAQ – May 17, 2013

Who made the decision to negotiate a pension agreement?

- The decision to negotiate was arrived at after consulting with legal and legislative experts and reviewing research, which included hundreds of interviews with IEA members.
- The IEA Executive Committee and the IEA Board of Directors approved the decision for IEA to work with the union coalition to try to get an agreed-upon bill. Those bodies have been kept informed about progress throughout the process.

Explain "consideration:"

- Consideration occurs when one receives something of value in exchange for giving up something of value.
- The choice concepts in SB 2404 each have something one exchanges for something else.
- All choices have an overarching consideration of constitutionally protected and enforceable guaranteed funding by the state, and a Pension Stabilization Fund, which adds more money into paying off the unfunded liability of the pension systems.
- It is important to understand that under current law, the state is not constitutionally required to fund the pension systems at any particular amount.

Isn't losing access to State-provided healthcare a violation of the constitution?

- No. Access to State-provided healthcare/insurance is currently not guaranteed by the constitution. If SB 2404 is passed, State-provided healthcare would become a vested and enforceable contractual right, a status it does not have today.

Since I pay a portion of my salary to TRIP, why isn't continued access to TRIP contractual under the provisions of the Illinois Constitution?

- A law does not create contractual rights unless it specifically states that it does. The TRIP statute does not provide that it creates a contractual right to a state-provided program of health benefits, even though teachers make contributions to help fund TRIP during their active teaching careers.
- The TRIP statute further states that it may be amended by the state and is not intended to be a pension or retirement benefit protected by the pension clause of the state constitution.

Explain "three-year delay in 3 percent compounded COLA," "staggered COLA," "two-year freeze in non-consecutive years mean?"

- Current law says that when an employee retires, a compounded COLA kicks in the January after the retiree turns 61 years old. This is retroactive for each year that one has been retired. (Example: If someone retired at age 55, there

would be six years of retroactive COLA = 18 percent). This provision has not changed.

- Under SB 2404, if someone has already begun receiving a COLA, the staggered freeze would begin immediately in 2015. Year one: Freeze getting a COLA; Year 2: Again receive the 3 percent compounded COLA; Year 3: Freeze getting a COLA; Year 4 until death: Receive a 3 percent compounded COLA.

Why wasn't the IRTA called to the table to negotiate?

- The IRTA is not a labor union and thus is not part of the We Are One Coalition, the group that was called to negotiate by Sen. Pres. John Cullerton.
- The unions that comprise the We Are One Illinois coalition believe it is in the interests of all their members, active and retired, for the state pension systems to remain able to pay benefits and for the state to be able to deliver key services such as education, healthcare and public safety. IRTA has said it doesn't believe it has a stake in the pension discussion.
- Among the organizations of retired public employees who support SB 2404 are:
  - IEA Retired Council
  - IFT Retired Teachers Constituency Council
  - Retired State Employees Association
  - State University Annuitants Association
  - Illinois Alliance of Retired Americans
  - AFSCME Retirees Chapter 31

Please explain why the IEA prefers SB 2404 rather than SB 1:

- SB 1 significantly (and, we believe, in violation of the Illinois Constitution) lowers the benefits for active employees by raising the age required to work, adding employee contributions for all members and lowering the COLA for all (retired and active). And it does that without any of the consideration (as described above) found in 2404.
- SB 2404 aligns with the principles IEA has held from the beginning for pension legislation:
  - Must be constitutional;
  - Must be fair to all members;
  - Must stabilize the pension systems.

Why do we believe that the language in SB 2404 calling for "guaranteed funding" will be respected by future legislatures?

- SB 2404 specifically states that the state's obligation to fund the retirement systems is a contractual obligation protected and enforceable under the Illinois Constitution, including the pension clause.
- To amend or do away with it, the state would have to follow the same choice/consideration process it has been going through to make the changes included in SB 2404.

- It is extremely difficult to envision what consideration the state could constitutionally offer in exchange for modifying or doing away with the funding guarantee included in SB 2404.

Is there anything in SB 2404 that deals with those of us who have already submitted an irrevocable notice to retire in the next several years?

- An individual who, on or before Jan. 1, 2013, submitted an irrevocable notice to retire over the next several years pursuant to a CBA, will not have to choose between the active employee options.
- Instead, such a person will have to choose between the retiree options, during the Feb. 1, 2014, through May 31, 2014, election period included in SB 2404.
- The option selected will not go into effect until the person retires.

What is the Pension Stabilization Plan?

The state diverted money from the pension systems to other state needs, causing system underfunding and a crippling pension debt. Revenue that will reduce the state's pension debt is the key to stabilizing Illinois' pension systems.

The Pension Stabilization Plan uses pension bond payments, which the state currently makes to pay off pension obligation bonds (POBs), to supplement system funding. Over the next 30 years, when each set of bonds is paid off, the proposal would redirect those dollars, which are already included in the state budget, to be directed to the pension funds. This plan would direct $1.79 billion to the pension systems by 2033. This amount would be in addition to the state payments made under the guaranteed funding obligation.

What is the Cash Balance Plan?

The Cash Balance Plan is a benefit that would allow members selecting choice A to have 2% of their annual salary for the entirety of their career contributed to an account controlled and invested by either TRS or SURS. The retirement system would credit interest to that account annually. The interest would be tied, to some extent, to the actual investment performance of the pension fund. However, the interest credited to the account could never fall below 4% or exceed 10% in any given year. At the end of the participants' career, the member could receive up to 40% of the account balance in the form of a lump sum. Furthermore, the remaining 60% would be turned into an annuity to be paid annually.