



# THE STATE OF ILLINOIS

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**The plans:**

Illinois has four large state-administered pension systems, two smaller state-administered systems, and a smattering of locally-administered systems. The state also maintains four retiree health plans. This analysis focuses primarily on three of the large state-administered systems – the Illinois State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System (SURS) – which make up 75 percent of public pension active membership in the state.

**The impact of the crisis:**

As a result of the economic crisis, the amount required to amortize the unfunded liabilities increased dramatically for all Illinois plans. For SERS, the required payment jumped from 5 percent to 19 percent of payroll. For TRS, the increase was similar, with the unfunded liability payment going from 8 percent to 22 percent of payroll. SURS was hit hardest, with its unfunded liability payment jumping from 3 percent to 22 percent. Although much of the increase in costs can be attributed to the drop in asset values, some of the increase was due to a change in assumptions by the plans – a drop in the discount rate and in the assumed payroll growth used in the amortization of the unfunded liabilities. Over the crisis period, the three systems continued to pay 100 percent of their statutory annual required contribution (ARC), although the statutory amount was consistently below the GASB ARC over that period. For the state as a whole, the economic crisis increased the share of state and local budgets devoted to pensions from 5.5 percent to 13.8 percent.

**The impact of pension plan reforms:**

In the wake of the financial crisis, Illinois made major cuts to pension benefits for new hires. Benefit changes for all three systems included tightening retirement eligibility requirements, lengthening the vesting period and average salary period, and decreasing the COLA cost-of-living adjustment. For TRS and SURS, these changes reduce the projected employer's contribution to 0 percent of payroll by 2046. For SERS, the changes reduce the contribution from 14 percent to 5 percent. A key element in the projected pension costs for the SERS, TRS, and SURS will be each plan's ability to stick with their funding schedules. If the three systems adhere to their current funding goals – a 90 percent funded ratio by 2045 – and assumed returns are realized, the share of state and local budgets devoted to pensions is projected to drop from 13.8 percent today to 8.3 percent by 2046.

**Total state costs:**

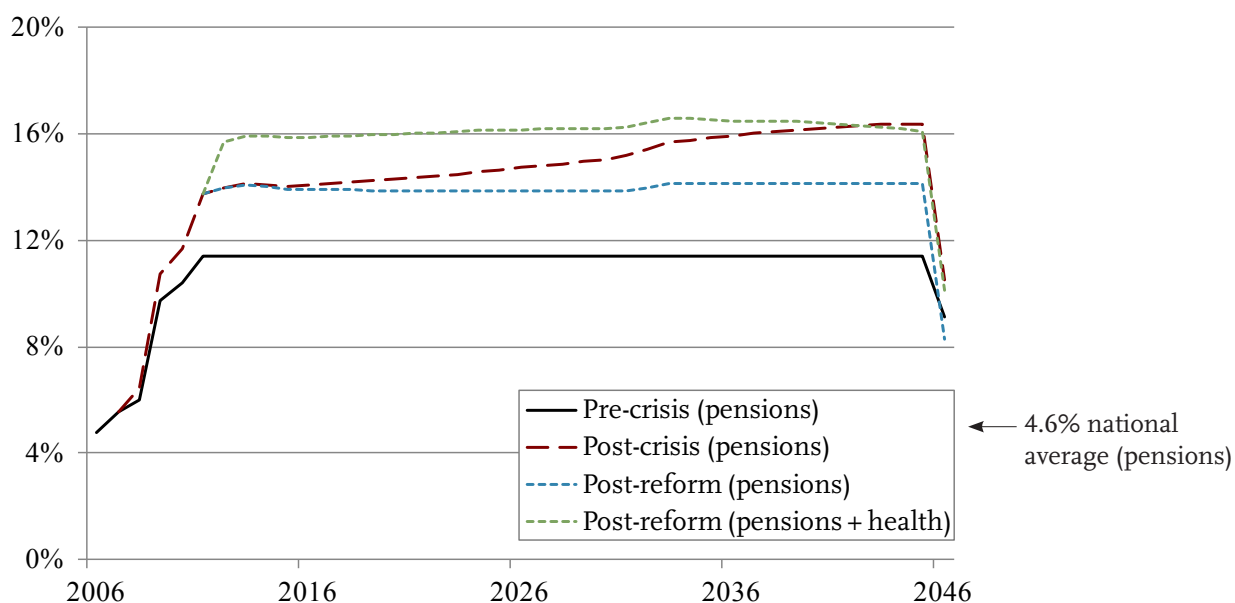
Illinois state government also provides retiree health benefits, which amounted to about 1.6 percent of state and local budgets prior to the crisis, and are projected to grow to 1.8 percent by 2046. When retiree health and pension costs are combined, Illinois' total retirement benefit costs as a percent of state and local budgets equaled 7.1 percent prior to the crisis, increased to 15.5 percent during the crisis, and are projected to drop to 10.1 percent in 2046 after pension reforms.



# PENSION AND RETIREE HEALTH COSTS: PRE- AND POST-CRISIS

## ILLINOIS: TOTAL PENSION AND RETIREE HEALTH COSTS

FIGURE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



Note: Budget = general own source revenues of all Illinois state/local governments. Retiree health costs assumed pay-as-you-go.

TABLE I. EMPLOYER PENSION AND RETIREE HEALTH COSTS AS PERCENT OF BUDGET, BY PLAN

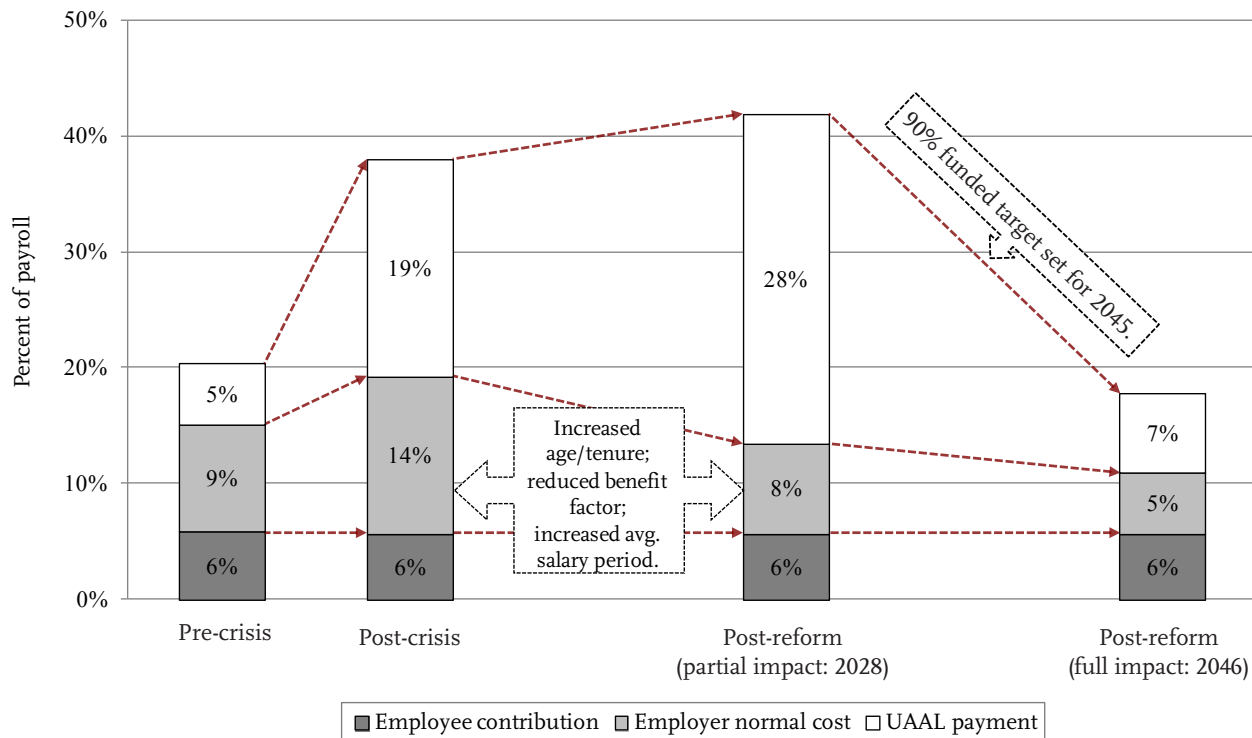
Plan	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
Total pensions	5.5%	13.8%	13.9%	8.3%
Illinois SERS	0.7	1.8	2.0	0.7
Illinois TRS	1.9	3.6	3.5	0.4
Illinois SURS	0.5	1.5	1.5	0.3
Other pension plans <sup>a</sup>	2.4	6.9	6.9	6.9
Total retiree health	1.6	1.7	2.4	1.8
Illinois state employees	1.2	1.2	1.5	0.9
Illinois teachers	0.4	0.5	0.8	0.8
Illinois community college employees	0.0	0.0	0.1	0.1
Total	7.1	15.5	16.3	10.1

<sup>a</sup> Includes one large state-administered municipal plan – Illinois Municipal Retirement System – and two small state-administered plans to cover judges and the general assembly.

Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances* and *State and Local Public-Employee Retirement Systems*.

STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS (SERS)

FIGURE 2. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

Funding method and history

- Set by statute
- Actuarially determined

In 1995, the Illinois legislature mandated a statutory ARC be phased in by 2010 to achieve 90-percent funded ratio by 2045.

Plan design changes

- Cut COLA: new hires only
- Increased employee contribution
- Increased age/tenure eligibility: new hires only
- Increased average salary period: new hires only
- Reduced benefit factor
- None

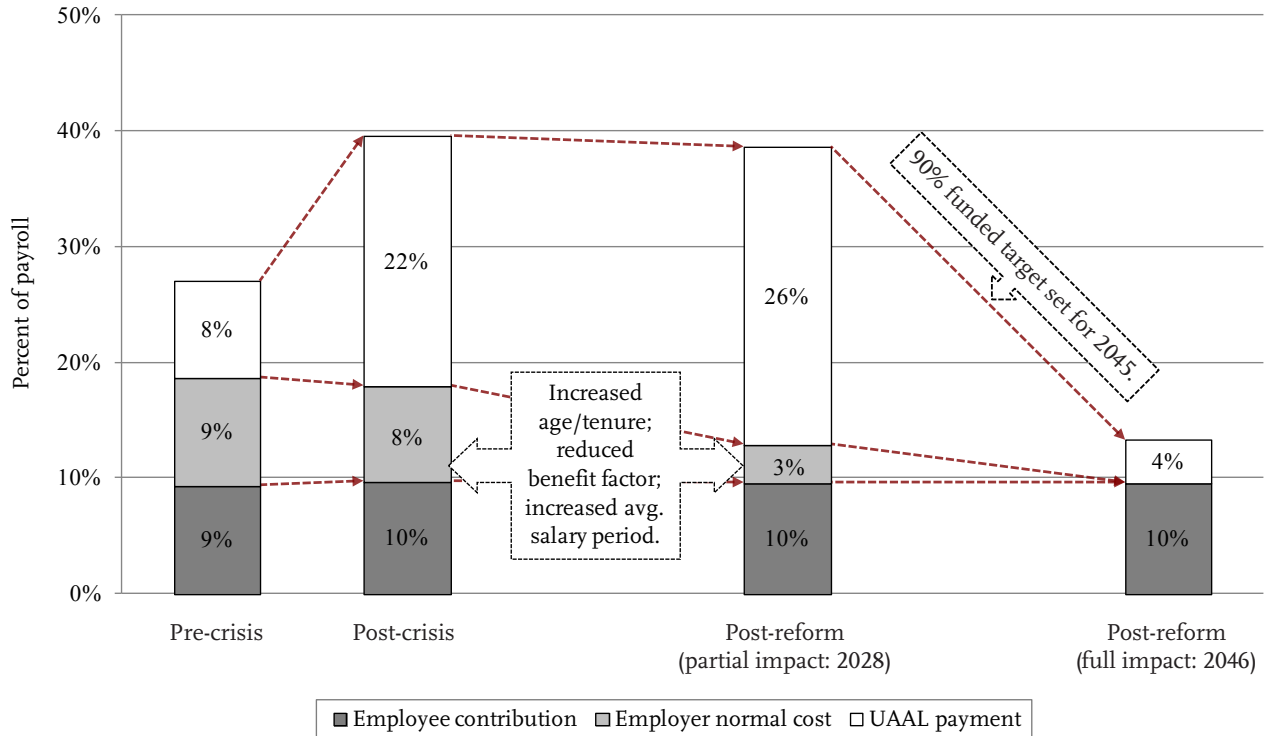
TABLE 2. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	54.2 %	35.5 %	-	-
Employer ARC rate	14.5	32.3	36.1	12.1
Percent of ARC paid	43.6	87.5	100	100
<b>Assumptions</b>				
Discount rate	8.50	7.75	7.75	7.75
Payroll growth	3.7	3.0	3.0	3.0
Amortization period	38 yrs.	34 yrs.	17 yrs.	0 yrs.

Sources: Actuarial valuations and CRR calculations.

TEACHERS' RETIREMENT SYSTEM OF THE STATE OF ILLINOIS (TRS)

FIGURE 3. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



KEY FACTS

Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

Funding method and history

- Set by statute
- Actuarially determined

In 1995, the Illinois legislature mandated a statutory ARC be phased in by 2010 to achieve 90-percent funded ratio by 2045.

Plan design changes

- Cut COLA: new hires only
- Increased employee contribution
- Increased age/tenure eligibility: new hires only
- Increased average salary period: new hires only
- Reduced benefit factor
- None

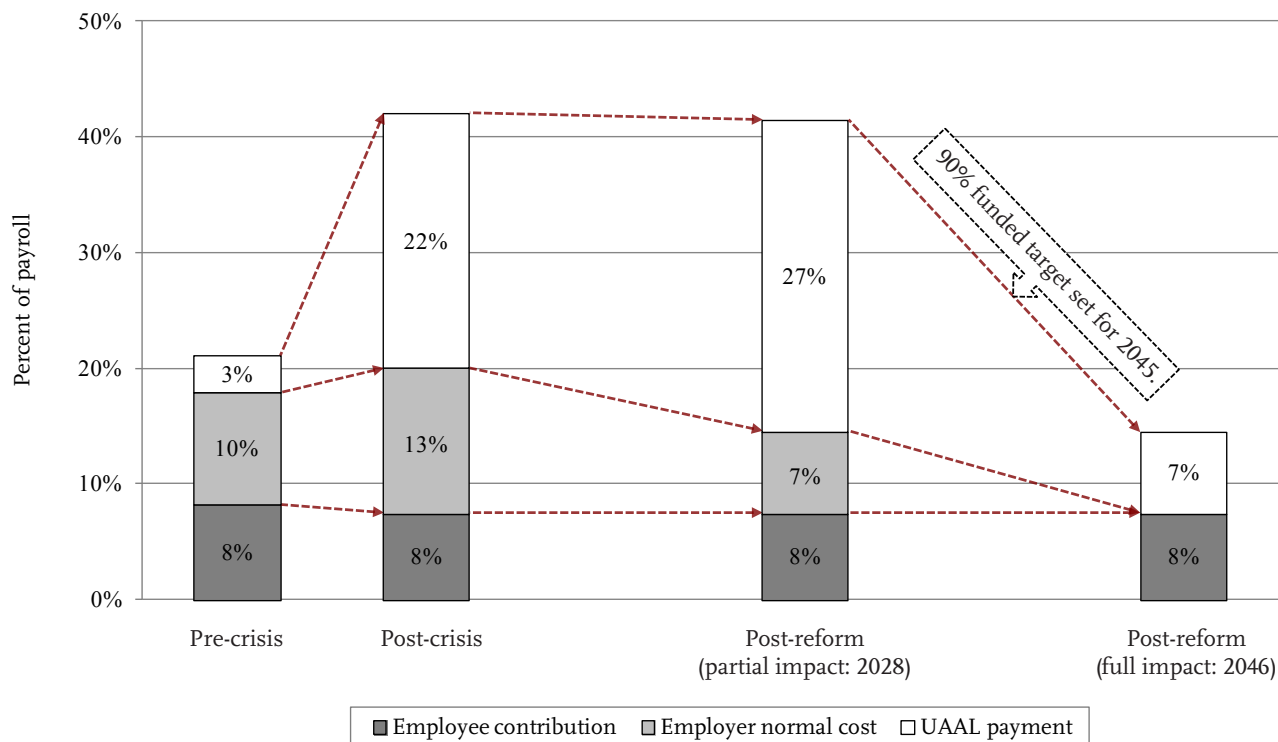
TABLE 3. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	63.8 %	46.5 %	-	-
Employer ARC rate	17.7	29.8	29.0	3.8
Percent of ARC paid	39.8	84.7	100	100
<b>Assumptions</b>				
Discount rate	8.5	8.5	8.5	8.5
Payroll growth	4.6	1.3	1.3	1.3
Amortization period	38 yrs.	34 yrs.	17 yrs.	0 yrs.

Sources: Actuarial valuations and CRR calculations.

## STATE UNIVERSITIES RETIREMENT SYSTEM OF ILLINOIS (SURS)

FIGURE 4. PENSION COSTS AS PERCENT OF PAYROLL: PRE-CRISIS, POST-CRISIS, AND POST-REFORM



### KEY FACTS

#### Structure of retirement system

- Social Security coverage
- Defined benefit
- Defined contribution/hybrid

#### Funding method and history

- Set by statute
- Actuarially determined

In 1995, the Illinois legislature mandated a statutory ARC be phased in by 2010 that would result in 90-percent funded ratio by 2045.

#### Plan design changes

- Cut COLA: new hires only
- Increased employee contribution
- Increased age/tenure eligibility: new hires only
- Increased average salary period: new hires only
- Reduced benefit factor
- None

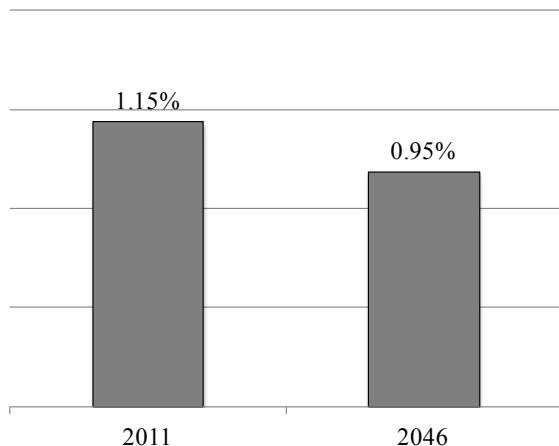
TABLE 4. PENSION FINANCES AND ACTUARIAL ASSUMPTIONS

Item	Pre-crisis	Post-crisis	Post-reform	
			2028	2046
<b>Plan finances</b>				
Funded ratio	58.5 %	44.3 %	-	-
Employer ARC rate	18.6	34.5	33.9	6.8
Percent of ARC paid	48.8	61.4	100	100
<b>Assumptions</b>				
Discount rate	8.50	7.75	7.75	7.75
Payroll growth	4.4	2.4	2.4	2.4
Amortization period	38 yrs.	34 yrs.	17 yrs.	0 yrs.

Sources: Actuarial valuations and CRR calculations.

## ILLINOIS STATE EMPLOYEES GROUP INSURANCE PROGRAM (SEGIP)

RETIREE HEALTH AS PERCENT OF BUDGET



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

*Retiree health funding and costs*

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5.6 percent by 2019.
- Employer contribution: Pays 100 percent of insurance premiums for employees hired before 1998. Employees hired later receive 5 percent of the premium per year of service, up to 100 percent.

AVERAGE ANNUAL BENEFIT



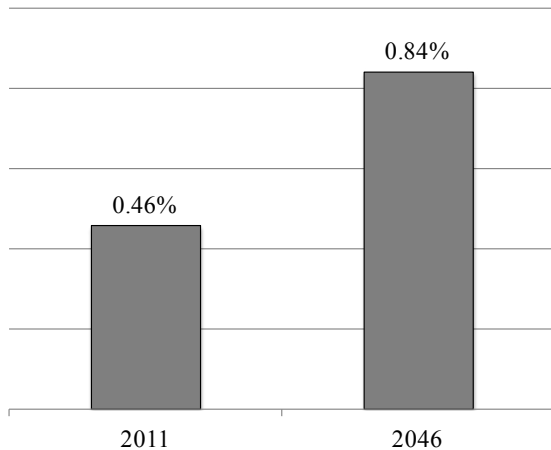
Source: CRR calculations from plan actuarial valuations.

*Benefits and membership*

- Benefit eligibility: Members of IL SERS, TRS, JRS, GARS and SURS (not receiving benefits via CIP) who retire and begin to receive retirement benefits immediately are eligible to continue medical enrollment as retirees.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 119,849
- Beneficiaries: 83,352
- Most recent actuarial valuation: 6/30/11

**TEACHER'S RETIREMENT INSURANCE PROGRAM OF THE STATE OF ILLINOIS (TRIP)**

RETIREE HEALTH AS PERCENT OF BUDGET



Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

*Retiree health funding and costs*

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5.6 percent by 2019.
- Employer contribution: The state and school districts contributed 38 percent of the cost of benefit payments in 2011.

AVERAGE ANNUAL BENEFIT



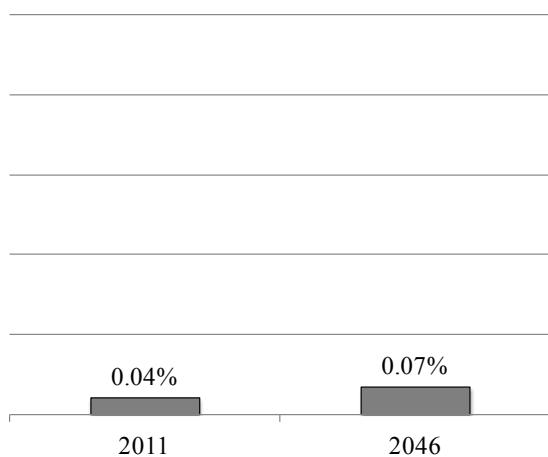
Source: CRR calculations from plan actuarial valuations.

*Benefits and membership*

- Benefit eligibility: Members of IL TRS who retire with at least eight years of creditable service and begin to receive retirement benefits are eligible for benefits.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 162,127
- Beneficiaries: 59,358
- Most recent actuarial valuation: 6/30/11

COLLEGE INSURANCE PROGRAM OF THE STATE OF ILLINOIS (CIP)

RETIREE HEALTH AS PERCENT OF BUDGET

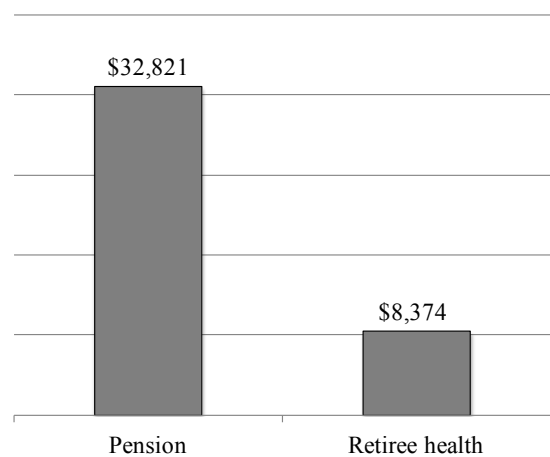


Sources: CRR calculations from plan actuarial valuations; and U.S. Census Bureau, *State and Local Government Finances*.

*Retiree health funding and costs*

- Funding method: Pay-as-you-go.
- Medical inflation rate: 9 percent, drops to 5.6 percent by 2019.
- Employer contribution: Employers contributed 31 percent of the cost of benefits in 2011.

AVERAGE ANNUAL BENEFIT



Source: CRR calculations from plan actuarial valuations.

*Benefits and membership*

- Benefit eligibility: All members receiving benefits from SURS who have been full-time employees of a community college district or an association of a community college and who paid the required active member CIP contributions prior to retirement.
- Benefits for Medicare-eligible retirees: Secondary coverage provided by the plan.
- Active employees: 22,603
- Beneficiaries: 5,240
- Most recent actuarial valuation: 6/30/11