Illinois pension reform becomes law; major provisions do not affect IMRF

In an attempt to address the state’s financial crisis, Governor Pat Quinn signed pension reform legislation into law on December 5, 2013.

For the state-funded, non-IMRF pension systems, the law places caps on cost-of-living adjustments for members and retirees. It also phases in a later retirement age for current workers.

The major provisions of this law do not apply to IMRF. The law will not affect the cost-of-living adjustments or retirement age of either current or future IMRF members, nor will it have any effect on the benefits retirees receive. However, two minor provisions will affect future—but not current—IMRF members.

The new law goes into effect on June 1, 2014, but it faces legal challenge from several groups of state workers and retirees.

Why didn’t pension reform apply to IMRF?
“The reason behind pension reform for the state-funded systems lies in the state’s budget crisis,” says IMRF Executive Director Louis Kosiba. “The state, ever since at least 2008, has had an unbalanced budget, and revenues were down with the recession. The state has not fully recovered.”

He notes that the 2013 pension reform legislation “doesn’t include IMRF because IMRF is not state-funded. But there is another aspect of it, and that aspect is that IMRF is well-funded.”

“Newspaper headlines frequently talk about public pensions without making distinctions. Illinois has a number of public pensions. Each one has a different funding mechanism—we have the state-funded ones, we have IMRF, we have Cook County-funded, we have Chicago-funded, and then we have the local police and fire pension funds. IMRF has the best funding mechanism in the state,” Kosiba explains.

Impact on future IMRF members
For members who join IMRF on or after June 1, 2014:

- Any sick or vacation time paid out at retirement will not be applied to pensionable salary.
- Unused, unpaid sick leave cannot be converted to service credit.

“Currently, when you have unused, unpaid sick leave at the time you retire, you can obtain up to one year of service credit with IMRF. It is an incentive for people not to use sick leave needlessly, but it can cost units of government money,” Kosiba says.

Additionally, employees of certain non-governmental organizations (Illinois Municipal League, Illinois Association of Park Districts, Township Officials of Illinois, United Counties Council of Illinois) who begin employment after June 1, 2014, will no longer be able to participate in IMRF.

“They’re not a traditional unit of government—they’re actually in one sense trade organizations representing their membership,” Kosiba says. “The General Assembly’s feeling was that those entities are no longer eligible to participate.”

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Impact on other retirement systems
For the General Assembly Retirement System (GARS), State Employees’ Retirement System (SERS), State Universities Retirement System (SURS), and Teachers’ Retirement System (TRS), the pension reform bill:

- Establishes a funding schedule and allows the retirement system to take legal action if the state of Illinois fails to make required payments.
- Reduces the portion of a retiree’s pension that is eligible for a cost-of-living adjustment.
- Places a cap on future retirees’ pensionable salary.
- Increases the retirement age on a sliding scale for workers age 45 and younger.
- Reduces the amount current members contribute to their retirement by 1% of salary.
- Allows a limited number of workers to opt into a 401(k) plan instead of a defined benefit plan.

Impact of legal challenge
The Illinois Retired Teachers Association and Illinois Association of School Administrators filed suit against the new law on December 27, 2013, declaring it to be an unconstitutional diminishment of benefits for retirees. On January 2, 2014, the Retired State Employees Association also filed suit. More lawsuits are likely to follow.

“The basic reason for challenging these reforms is that they affect the benefits of people already in retirement, and that they affect the benefits for people currently participating,” Kosiba explains.

Back in 1970, Illinois voters approved a revised constitution that included an amendment “which essentially provides that the pension benefit is a contractual right which cannot be diminished,” he says.

“The current challenge alleges that the constitution has been violated. The counter-argument is that there are new funding guarantees and a reduction in employee costs, which would warrant a change in the contract. If the public pension is a contractual right, we need to remember that in contract law, contracts can be amended, and contracts can be affected by new circumstances. So, it’s going to be interesting as to what the Illinois Supreme Court is going to do.”

In response to these legal challenges, the court may issue a Stay Order. The Stay Order would suspend implementation of the legislation’s provisions. At this time, we do not know if the IMRF-related provisions would be stayed or if they would go into effect on June 1, 2014.

If pension reform is found constitutional
Even if the Illinois Supreme Court finds the new pension reform law constitutional, Kosiba does not expect future pension reform efforts to apply to IMRF. The state is under financial pressures, and those pressures do not apply to IMRF.

“One of the major costs for the five state-funded systems is the compounding of their 3% cost-of-living adjustment (COLA). IMRF has never had a 3% compounded COLA. The other thing we don’t have is health insurance,” he says. “The result is, I would not anticipate the next wave of reform including IMRF. It will probably include the Chicago systems, and it might include the Cook County systems. They have the compounding of COLAs too; we don’t.”

A bright future
Kosiba emphasizes that IMRF is in strong financial shape going forward. “IMRF is financially secure; we’re not dependent upon any one employer; we set sound actuarial contribution rates; we have policing authority which we exercise when necessary; we have 96% of the money we need to pay benefits (that’s our funding level); and our annuitant reserve is always 100% funded.”
Learn the answers to your questions—attend a free IMRF retirement planning workshop

We now have the full schedule for our 2014 retirement planning workshops! Keep in mind that these workshops can benefit you no matter how close you are to retirement. We recommend attending a workshop as soon as you’re vested, then a second time five years before your earliest possible retirement date, and once more when you’re ready to retire. But the closer you are to retirement, the more important it is that you register today and reap the rewards! Openings fill quickly, and most of our attendees learn so much that they wish they’d taken the time to attend one sooner.

Workshop topics include:
- How and when to file for retirement
- How earnings and service affect your retirement benefit calculations
- What situations exist to purchase past service credit

Who should attend?
- New members who want to learn about benefits
- Members within five years of retirement
- Spouses, partners, or others who assist with your retirement planning

To register and search for all types of workshops in your area, sign in to your Member Access account at www.imrf.org, and click “Find a Workshop”

Take 15 minutes now and be confident in your future

When you receive your 2013 Member Personal Statement of Benefits, take a moment to look it over. Resolving a problem now may save you time and aggravation when you’re ready to retire. Make especially sure to review the front and back pages of your statement for accuracy.

When are statements sent?
IMRF generally starts mailing 2013 member statements in February. If you already received your statement but didn’t have a chance to look at it then, you can find it in your Member Access account under the “Documents” tab.

What’s on your statement?
Your annual Personal Statement of Benefits provides detailed information about the benefits available to you as an inactive IMRF member, including retirement and survivor benefits. This statement includes your IMRF account activity for 2013 as well as an overview of past earnings, contributions, and employers. Pay special attention to this information to confirm that your wages, contributions, and service credit were properly applied to your IMRF account.

Questions?
If you have any questions or concerns about your account information, please feel free to talk to an IMRF Member Services Representative at 1-800-ASK-IMRF (1-800-275-4673). A representative will be glad to help you understand your statement or make any necessary corrections to your personal information. ✦
New User ID and password rules for Member Access

Based on your feedback, we have streamlined the Member Access sign in and registration process. We changed our rules to put you more in control of your User ID and password creation, while still making sure that your account information is secure and protected.

You can request your registration key online at www.imrf.org/myimrf, or call a Member Services Representative at 1-800-ASK-IMRF (1-800-275-4673).

Why have a Member Access account?
Member Access helps you stay up to date with all your important IMRF benefits.

With Member Access you can:

- Manage your account.
- Review important documents.
- Plan your finances.
- Communicate with IMRF.