State Universities Annuitants Association
SUAA
217 East Monroe Street, Suite 100
Springfield, Illinois 62701
voice: 217.523.4040 fax: 217.523.4044
Email: suaa@suaa.org Website: www.suaa.org

SUAA Mini Briefing

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This Mini Briefing is a compilation of the Budget Bills and an analysis of each. The information will be helpful as the Legislature moves forward. The Legislators are due to be called back to Springfield as there is still unfinished business.

The following is a Facebook posting and also found on Representative Greg Harris's website. This is the most comprehensive explanation of the Budget that SUAA has found:

Balanced Budget Details

GREG HARRIS·FRIDAY, JULY 7, 2017

Yesterday, the House overrode the total veto of the Governor and passed the first balanced budget for Illinois in 3 years. This was despite of the continual efforts of Gov. Rauner, his cronies and their dark money Super-PACs from trying to derail all progress in the House and Senate to reach agreement. The volume of misinformation and the hateful, often violent messaging has been breathtaking. I cannot express enough thanks to both the Democratic and Republican members of the Senate who took an early lead in moving this forward and to my Democratic and Republican colleagues in the House who put State before politics and party to get the job done.

Here are details of what the balanced budget package contains:

· Cuts over $3 billion from current spending levels.

· Pays down $8 billion of our backlog of old bills.

· Closes tax loopholes.

· Spends less than the Governor's introduced budget.

· $1.4 billion in pension reform savings

· Same income tax rate as the Republican proposed tax increase (yes. The same)

· $350 million more for K-12 education, as well as $50 million increase for early childhood education.

· Restores Research and Development Tax Credit and expands to the Manufacturing Equipment tax credit to attract new businesses and jobs to Illinois

There are 3 bills in the budget package: SB6, the spending plan which can be seen here: Balanced Budget Spending Plan, the revenue package which can be seen here: Balanced Budget Revenue Plan, and the Budget Implementation Bill (BIMP) which can be seen here: BIMP Language

Here are more details on some of the major items in each:

Balanced Budget Plan

· $1 billion in savings from across the board budget reductions to state operations and bureaucracy

· $350 million increase for Elementary and Secondary Education as part of the Evidence Based Model of school funding reform

· $50 million increase for Early Childhood Education

· Increase in proration for Student Transportation to 84.6%

· Full funding for Bilingual Education

· $3.2 million increase for Agricultural Education

· $15 million increase to After School Programs

· $8.5 million increase to Soil and Water Conservation Districts

· $10 million increase to Cooperative Extension Services, County Fair and Agricultural Societies

· $19 million in Job Training Grants

· Both State and Federal LIHEAP fully funded

· MAP grants increased by 10%

· Operations of colleges, universities and community colleges funded at 90% of FY15 levels

· Fully fund Community Care Program for seniors (CCP). No funding for Governor's proposed CRP program

· $10 million increase in Meals on Wheels for Seniors

· Fully funds Medicaid

· Fully funds pension and group health

· Provides rate increases for disability, home service, senior services, mental health, substance abuse and SLF workers

· Restores childcare assistance to 185% of FPL and restores access to families enrolled in education or training programs cut by the Governor

· Fully funds Domestic Violence Shelters

· Increases funding for violence prevention, mental health, substance abuse, services for at-risk youth, after school programs and Ceasefire

· Restores Governor's cuts to DD programs, Epilepsy Program, Autism Program, Teen Reach, Immigrant Integration and Welcoming Centers, Arc of Illinois, Homelessness Prevention and Homeless Youth services, Children's Place, Youth Summer jobs and others

· Increases funding for HIV/AIDS and Breast and Cervical Cancer screening and treatment

· Funds the new Chicago Veteran's Home

Revenue Plan

· Individual Income Tax Rate of 4.95%, Corporate Tax Rate of 7%, the same rates as in the House/Senate GOP proposal

· Corporate Tax Loopholes closed: QPAI deduction, Combined Reporting, Outer Continental Shelf

· Means tests Education Expense Tax Credit, Property Tax Credit and Standard Exemption for high-income earners ($250,000 per year individual/$500,000 per year joint)

· Modernizes State Tax Lien Act and Revised Uniform Unclaimed Property Tax Act to increase revenue

· Doubles Earned Income Tax Credit (EITC) to provide tax relief for low and moderate income families

· Increases the Education Tax Credit by 50%

· Adds a Research and Development (R&D) Tax Credit

· Expands the Manufacturing, Machinery and Equipment Tax Credit to include graphic arts

· Creates a Classroom Supplies Tax Credit of up to $250 for teachers who use personal income to purchase classroom supplies

BIMP Bill

· Increases the Personal Needs Allowance for developmentally disabled individuals to $60 per month

· Creates a Community Care Program Task Force to work with all stakeholders to develop recommendations on strategies to reduce costs and liabilities, modernize and increase efficiencies of the CCP program

· Authorizes direct deposit (instead of transfers) of tax receipts to Local Government Distributive, Public Transit and Downstate Public Transit funds

· Provides the AMTRAK operating subsidy

· Authorizes $8 billion in payments for the backlog of old bills at the Comptroller's Office

o $1.2 billion in interfund borrowing to be repaid within 24 months

o $300 million in fund sweeps from a selection of funds

o Provides up to $6 billion GO Bond authorization for back bill payment, to be repaid via a level principle method

o Allows Drug Rebate Fund funds to be used for Medicaid payments

o Anticipates $2 billion in Federal matching funds for Medicaid payments

o This is in addition to over $800 million in existing cash in the Commitment to Human Services and Educational Assistance Funds which are appropriated in SB6 to pay back bills of social service agencies and higher education

· Authorizes MPEA to restructure its debt and pay back remaining deficiency payment to the State ($42 million) and a creates a reserve fund to protect against future shortfalls

· Implements several pension reforms to reduce costs and help stabilize several pension systems

o Requires contributions from State Pensions Fund to SURS to be a portion of the certified contribution rather than in addition to them.

o Authorizes GRF share of SERS to be appropriated directly

o Implements a limited cost shift for high salary SURS/TRS employees whose salaries exceed that of the Governor.

o Requires recertification of the state systems to reflect Nov 1, 2017 changes

o Includes the Chicago Municipal and Laborers Pension Reform proposal from SB14

o Provides clarifying language for Chicago Firefighters Fund regarding COLAs for members in or after 1955 through 1965

o Implements a Tier 3 defined benefit plan for Tier 2 members (if they elect) and future non-covered hires in SERS, SURS and TRS

· In FY18 only, allows Governor to reserve up to 5% in OSF amounts appropriated (does not include Common School Fund, General Revenue Common School Special Account, Educational Assistance Fund, Fund for the Advancement of Education, Commitment to Human Service Fund or Bond Stabilization Fund)

· In FY18 only, authorizes 4% transferability between operation lines for Executive Branch agencies (does not include other constitutional offices, legislative or judicial branches)

· Establishes a Maintenance of Effort (MOE) for Special Education in local school districts

· Extends FY17 lapse period by 1 month to allow agencies extra time to process FY17 vouchers

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Tier III Hybrid Plan – SURS analysis

SB 42 creates the FY 2018 Budget Implementation Act for the purpose of making changes in state programs that are necessary to implement the state budget. It authorizes the use of money in the State Pensions Fund as part of the FY 2018 state contribution to SURS. It also makes the following changes to SURS:

<u>Tier III Hybrid Plan</u>

SB 42 creates a Tier III hybrid plan for new participants of SURS on or after the implementation date of the Tier III hybrid plan and current Tier II participants who irrevocably elect to participate in the Tier III hybrid plan. The Tier III hybrid plan does not apply to participants in the Self-Managed Plan. Individuals who first become participants of SURS on or after the implementation date of the Tier III hybrid plan (and who are not participants in the Self-Managed Plan) can irrevocably elect to participate in Tier II within 30 days after becoming a participant. The implementation date of the Tier III hybrid plan means the earliest date upon which the SURS Board of Trustees authorizes members of SURS to begin participating in the

Tier III hybrid plan. SURS must endeavor to make such participation available as soon as possible after the effective date of the legislation and must establish an implementation date by board resolution.

Stated differently, individuals who first become participants of SURS on or after the implementation date of the Tier III hybrid plan will have the option to participate in: the Tier III hybrid plan, the Tier II plan, or the Self-Managed Plan. Current Tier II participants will have the option to elect to participate in the Tier III hybrid plan.

For the defined benefit portion of the Tier III hybrid plan:

- Final average salary (FAS) equals the average monthly (or annual) salary during the period of service in which earnings were the highest during the last 120 months (or 10 years) of service.
- Pensionable earnings are capped at the federal Social Security Wage Base.
- Age and service credits for retirement are the normal Social Security retirement age applicable to that member, but no earlier than age 67, with 10 years of service credit.
- Retirement annuities are calculated using the following formula: 1.25 percent x each year of service credit x FAS.
- Automatic annual increases are applied beginning one year after retirement, calculated at ½ of the percentage increase in the CPI-W.
- Survivor benefits are equal to 66 2/3 percent of the member's retirement annuity on the date of death, or 66 2/3 percent of the member's earned annuity without an age reduction if the member was not retired on the date of death.
- Employee contributions are equal to the lower of 6.2 percent of salary or the normal cost of benefits under the defined benefit portion of the plan.

For the defined contribution portion of the Tier III hybrid plan:

- Employee contributions are equal to a minimum of 4 percent of salary.
- Employer contributions for employees with at least one year of service with the same employer are equal to a rate that may be set for individual employees, but no higher than 6 percent of salary and no lower than 2 percent of salary.
- The participant vests in employer contributions when they are paid into his or her account.
- The plan must provide a variety of investment options (including investments handled by the Illinois State Board of Investment) and a variety of options for payouts to retirees and their survivors.

State Funding Changes

SB 42 requires the state to make additional contributions to SURS in FY 2018, FY 2019 and FY 2020 equal to 2 percent of the total payroll of each employee who participates in the Tier III hybrid plan or who participates in the Tier II plan in lieu of the Tier III hybrid plan.

SB 42 requires any change in an actuarial assumption that increases or decreases the required state contribution and first applies in FY 2018 or thereafter to be implemented in equal annual amounts over a five-year period beginning in the state fiscal year in which the change first applies to the required state contribution.

SB 42 requires any change in an actuarial assumption that increases or decreases the required state contribution and first applied to the state contribution in FY 2014, FY 2015, FY 2016 or FY 2017 to be implemented as already applies in state fiscal years before 2018 and, in the portion of the five-year period beginning in the state fiscal year in which the actuarial change first applied that occurs in state fiscal year 2018 or thereafter, by calculating the change in equal annual amounts over that five-year period and then implementing it at the resulting annual rate in each of the remaining fiscal years in that five-year period.

SB 42 requires recertification of the amount of the required state contribution for FY 2018, based on the changes made by the legislation.

Employer Funding Changes

SB 42 requires each employer under SURS to contribute the following amounts:

- In FY 2018, FY 2019 and FY 2020, the normal cost of the defined benefit plan, minus the employee contribution, for each employee of the employer who participates in the Tier III hybrid plan or participates in the Tier II plan in lieu of the Tier III hybrid plan; or
- Beginning in FY 2021, the normal cost of the defined benefit plan, minus the employee contribution, plus 2 percent, for each employee of the employer who participates in the Tier III hybrid plan or participates in the Tier II plan in lieu of the Tier III hybrid plan; plus;
- Beginning in FY 2018, the amount for that fiscal year to amortize any unfunded actuarial accrued liability attributable to the defined benefits of the employer's employees who first became participants on or after the implementation date of the Tier III hybrid plan and the

employer's employees who were previously Tier II participants but elected to participate in the Tier III hybrid plan, determined as a level percentage of payroll over a 30-year rolling amortization period.

Stated differently, beginning in FY 2018, the employer will be responsible for: (1) the employer normal cost of the defined benefits of Tier III hybrid plan participants and the employer normal cost of the defined benefits of participants who would have been in the Tier III hybrid plan but elected to participate in the Tier II plan; and (2) the unfunded liability of the defined benefits of Tier III hybrid plan participants, participants who would have been in the Tier III hybrid plan but elected to participate in the Tier II plan, and participants who currently participate in the Tier II plan but elect to participate in the Tier III hybrid plan. Additionally, beginning in FY 2021, the employer will pay a 2 percent surcharge for Tier III hybrid plan participants and participants who would have been in the Tier III hybrid plan but elected to participate in the Tier II plan.
SB 42 requires SURS to create and maintain individual employer accounts for this purpose.
SB 42 also requires the employer to pay the employer normal cost of the portion of an employee's earnings that exceeds the amount of salary set for the governor, for academic years beginning on or after July 1, 2017.

Effective Date

SB 42 takes effect immediately upon becoming law.

Status:

Public Act 100-0023 (Effective July 6, 2017)

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SB 6 appropriates $1,587,985,000 for the FY 2018 state contribution to SURS. Of this amount, $1,372,985,000 comes from the General Revenue Fund and $215,000,000 comes from the State Pensions Fund. The certified state contribution to SURS for FY 2018 is $1,753,685,000. (Please note: SB 42 requires recertification of the FY 2018 state contribution by November 1, 2017.)

SB 6 also appropriates $4,133,336 for the FY 2018 state contribution to the College Insurance Program (CIP), which provides health insurance to community college retirees. This amount is equal to the certified contribution for FY 2018.

SB 6 takes effect immediately upon becoming law.

Status: Public Act 100-0021 (Effective July 6, 2017)

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HB 4045 is currently on Third Reading in the Senate. Third Reading Deadline Established as June 30, 2017.

This is the pension reform bill. It is possible that there will be a Senate Floor Amendment added to HB 4045 which could

- Create a Tier III Hybrid retirement plan for newly hired.
- Create a Tier I and Tier II Voluntary Defined Contribution Plan
- Create a Tier I Voluntary Accelerated Pension Benefit. A buyout equal to 70% of the present value of the person's annuity.

At this time there has not been any coordination with Social Security for the implementation of a Tier III Hybrid Retirement Plan. In addition, there has not been an analysis of how much money the State would save by introducing the Hybrid Plan for Tier III.

The unknown savings is included in the BIMP Bill – SB 42.

SFA #1 would most likely include a cost shift to the employer which would eliminate the State's responsibility for Tier III employees defined contribution/defined benefit plan.

Tier III employees have not been hired yet.