COOK COUNTY PENSION COMMITTEE MEETING

December 4, 2012

Bridget Gainer
Chairman, Cook County Subcommittee on Pensions
Cook County Commissioner – Tenth District

Meeting Agenda

- Resolution Number 313151
  - Update on Springfield legislation Senate Bill 1673
    - Richard Ingram, Executive Director – Illinois Teachers Retirement Fund
  - Cash Balance Plans
    - What are they?
  - Current Plan Comparison
  - Public Speakers

Senate Bill 1673 (Amendment #5)

House Sponsor – Mike Madigan
Senate Sponsor – Kwame Raoul

- Two major components:
  - Consideration:
    - Tier I employees and Tier I retirees elect 1 of 2 options that will impact benefit calculations and eligibility for retiree health insurance.
  - Creation of the Cash Balance Plan

SB 1673 Gives State Employees & Retirees Two Options To Consider

	Option 1	Option 2
Who	Employees and Retirees	Employees and Retirees
COLA	3% Simple; delayed COLA that will begin the January 1st following the earliest of age 67 or the 5th anniversary of the annuity start date	3% Compounded; no delay in receiving
Health care	Eligible to participate in their applicable retiree healthcare plan.	Not eligible to participate in applicable retiree healthcare plans.
Pay Increases	No changes	Increases in pay to Tier 1 employees and Tier 1 retirees who return to active service will NOT increase the member's pensionable earnings.

Link to bill: http://www.ilga.gov/legislation/97/SB/09700SB1673ham005.htm

Cash Balance Plans

Illinois General Assembly via SB1673 included a cash balance plan.

- Employees first participating on or after July 1, 2013 are automatically enrolled in the newly created Cash Balance Plan.
- Members, including Tier 1 employees who elect Option 1, may elect to make additional contributions into an optional Cash Balance Plan at 2.0% of pay.

- Three types of contributions to pension:
  - Employee contributes % of salary
  - Pay Credit: Employer contributes % of an individual's salary into a notional account.
    - Employer contribution no longer tied to a multiplier or percent of total payroll.
  - Interest credit. Employee's notional account receives a credit based on market yield. There is typically a floor: minimum amount, usually tied to 30 year T-bonds and a ceiling: the minimum + a share in the upside if there are higher returns.
- At Retirement:
  - Employee can purchase an annuity in the private market
  - Employee can take lump sum or opt to receive a monthly annuity.

Comparing Types of Pension Plans

Defined Benefit vs. Defined Contribution vs. Cash Balance

Defined Benefit

- A defined benefit pension plan guarantees an employee a monthly pension benefit annuity upon retirement until their death. Many defined benefit plans allow for the pension benefit to be transferred to a surviving spouse or dependent, but this varies from plan to plan.
- The retirees are paid by a pension fund which consists of money from the employer and employee. The pension fund is generally invested by an asset manager whose main responsibility is investment and growth of the fund.

Defined Contribution

- Defined Contribution plans or 401k plans. The employer and employee both contribute an established amount into the employee's defined contribution plan.
- The employee then works with an investment manager to invest his funds. When the employee retires he receives whatever monies have accumulated in the plan. Withdrawals are limited only by tax provisions.

Cash Balance

- A cash balance plan is a "hybrid" DB/DC plan. In a typical cash balance plan, a participant's account is credited three ways, the EE contribution, a "pay credit" (such as 5 percent of compensation from his or her employer) and a guaranteed annual interest
- If investment returns were higher than assumed for a specific period of time a formula allows for employee's to receive an increased investment credit.
- Participant can decide to take annuity or lump sum payout at retirement.

Comparing Types of Pension Plans

Defined Benefit vs. Defined Contribution vs. Cash Balance

	Defined Benefit	Defined Contribution	Cash Balance
Employee Contributions	Yes	Yes	Yes
Employer Contributions	Yes	Yes	Yes
Retiree Healthcare Provided	Yes (Cook County)	Not usually (out of pocket)	TBD
Who Carries Investment Risk?	Employer	Employee	Employee & Employer
Who Carries Longevity Risk?	Employer	Employee	Employee

County (via OpenPensions.org) vs. State via SB1673 vs. City

	Type of Plan	Funded Status Goal	Changes For?	Employee Contribution	COLA	Retirement Age	Retiree Healthcare
Cook County via OpenPensions .org	Maintains a defined benefit plans *Highlights portability	80% by 2045	Current employees and retirees	1% increase *Based on the statutorily required multiplier the County would pay an additional $15mm	Changes from a 3% compounding to 3% simple or ½ CPI Delay COLA to earlier of age 67 or 5 years after retirement	Retirement age increased 5 years to 65 over a 10 year period, starting in 2013 (or 55 with 30 years of service)	Retiree healthcare will be made permanent, will continue to be subsidized between 45% – 50%
City	Maintains a defined benefit plan *Highlights portability		Current employees and retirees	5% five year phase-in Increase (1% a year)	Freezing COLA for ten years.	Increase 5 years to 67	City has committed to partner with retirees on health care provisions
State SB 1673 Amendment #3	Maintains a defined benefit plans Creates a cash balance plan	100% by 2043	Current employees and retirees	No Change	Changes from a 3% compounding to 3% simple or ½ CPI Delay COLA to earlier of age 67 or 5 years after retirement	No Change	Employees and Retirees will choose between accepting a reduced COLA and staying in the healthcare plan or keeping the same system, but not being eligible for healthcare.

*Creates over $5.2 billion dollars worth of savings for Cook County within 15 years and $65-$85 billion in savings for the State of Illinois by 2045