Senate Bill 1040 – Retirement Reform

Pension Side:

- Allows current school employees not in the hybrid plan to choose one of the following ***going forward***:

  - ✓ An increased contribution rate (to 5% or 8% -- see below), to retain the current multiplier of 1.5% for future years of service in the calculation of a pension.
  - ✓ Same existing contributions, but a reduced multiplier for future years of service (used to calculate their pension; from the current 1.5% of final average compensation (FAC) to 1.25% of FAC).
  - ✓ Freezing their benefits under the defined benefit system and going to defined contribution, with a 4% employer contribution to a 401k.

- Those in the basic system (hired before 1990, who did not choose to go into MIP) would pay 5% of salary if they choose the increased contributions to retain the existing 1.5% multiplier.

- Those who are in the MIP system (but not in the recently created hybrid system) would pay 8% of salary if they choose the increased contributions to retain existing 1.5% multiplier.

- Hybrid employees (those hired after July 1, 2010) remain in the hybrid plan at current contribution levels.

- Caps the salary amount that is used for calculating pension benefits for new employees at $100,000.

- Prohibits some types of compensation from counting toward calculating pension amounts ***going forward***. Those types are: tax-sheltered annuities, longevity pay and merit pay.

Health Care Side:

- The system would pay no more than 80% of the retiree health care premium for those who have a premium subsidy (current retirees and current employees hired before July 1, 2012).

- Requires most current employees to be at least 60 years old before they can receive retiree health care benefits. However, there would be a phase-in period for current employees; up until June 30, 2013, those who are not yet 60 could qualify if their age and years of service add up to 85 by that date.

- Retroactively applies a graded premium retiree subsidy coverage for all employees. Under current law, only employees hired since July 1, 2008 are in graded retiree health care premium coverage, but this bill retroactively applies graded premiums to all employees.

- Creates a 2% retiree 401k account for new employees -- they would have no retirement health care premium subsidy. Employees could contribute up to 2% of their salary to the account and have up to that amount matched. Note: since employers are presently paying for current retirees' health care on a cash basis (meaning it is not pre-funded), this is actually an additional cost to employers for the next 30 years, but after that, health care costs will begin to decline significantly.

- Maintains the 3% employee contribution for health care for current employees only. (As described above, new employees would instead pay the 2% into the health reimbursement account.)