

November 2017 HCAA Legislative Committee Report

Pension Changes in the FY2018 Budget: Short-Term Savings and Long-Term Costs

Center for Tax and Budget Accountability (CTBA) October 10, 2017

The changes made to Illinois public pension systems in Public Act (PA) 100-0023 (introduced as Senate Bill 42), the Budget Implementation Act, or BIMP, passed on July 6, 2017, and include two primary elements. First, the BIMP creates a new Tier 3 level of benefits for public sector workers. Second, the BIMP permits the state to smooth out the fiscal impact of the actuarial reduction in the assumed rate of return generated by the state's five pension systems.

While proponents of the changes suggest they will give the state immediate and long-term fiscal relief from growing pension costs, this analysis of the changes indicates that the hoped for fiscal relief may not materialize.

Tier 3 is a new hybrid defined benefit-defined contribution plan that all Tier 2 and new employees will be able to opt into. The FY2018 budget is predicated on Tier 3 saving \$500 million for the state; however, analysis by the State University Retirement System suggests that this number will be lower, and will continue to be slight for the foreseeable future. Moreover, much of the savings result from cost-shifting to local units of government.

The five-year assumption smoothing will result in savings in FY2018 for the state. However, it essentially amounts to additional borrowing against pension liabilities, and therefore will increase long-term costs. The Teachers Retirement System estimates that for each dollar of up-front savings, there will be three dollars of long-term costs.

Legislation to Watch

We are watching the tax bill on the federal level. There is a provision in at least one version that would place a new federal tax on pensions. This is not good news, especially in IL where the funding of pensions is already an issue.

GOP Tax Overhaul Could Hit State and Local Pension Plans with Federal Tax

(News Article from Route 50)

By [Bill Lucia](#), Senior Reporter

November 21, 2017

WASHINGTON — State and local government pension plans would be confronted with new costs and complications under the Republican tax bill the U.S. House approved last week. Some, but not all, public pension investments would become subject to what's known as the [Unrelated Business Income Tax](#), or UBIT, if the current version of the House bill were to be enacted. The proposed change to how the tax is applied would make it so state and local government pension plans are treated in a way that is similar to private sector pensions, or nonprofit organizations.

Read more here: <http://www.route fifty.com/finance/2017/11/state-local-pension-plans-gop-tax-proposals/142729/>

How the Tax Bills Would Hit Higher Ed

(News article from Inside Higher Ed)

On eve of vote on Senate tax reform plan, we compare it to the House version, which would hurt students and families more. Both would hit colleges and universities hard by imposing new taxes and constraining state budgets.

By [Andrew Kreighbaum](#)

November 30, 2017

As Republican leaders in the Senate lobbied to [secure the votes](#) needed for a drastic overhaul of the U.S. tax system, higher education leaders and student groups have continued to [keep the spotlight](#) on provisions in both houses of Congress that would significantly affect -- and, they believe, badly hurt -- institutions and college-goers alike. Both tax reform plans would for the first time tax the income of college endowments by targeting the largest endowments at private institutions -- a "disastrous precedent for universities and indeed, for all charitable organizations," said Mary Sue Coleman, president of the Association of American Universities, in a statement this week. But the effects of the two bills on students and colleges are wide-ranging.

Read more here: <https://www.insidehighered.com/news/2017/11/30/how-senate-and-house-tax-bills-would-hit-higher-education>

General Assembly Updates

Veto session wrapped up with several issues to be worked on through next year. Sexual harassment, not surprisingly, was the biggest issue as veto session ended.

First Reading is published by the Illinois General Assembly Legislative Research Unit. "It summarizes bills as they passed both houses of the General Assembly," plus other interesting facts. Click here to view recent bills

summaries: <http://www.ilga.gov/commission/lru/Oct2017FirstRdg.pdf>

Key Dates

- November 27 – December 4, 2017 Filing period for established party candidates
- December 5 – December 11, 2017 Filing period for objections to nomination petitions
- The House stands adjourned until January 23, 2018 or until the Call of the Speaker.
- The Senate stands adjourned until January 30, 2018 or until the Call of the President.
- January 31, 2018 Governor's State of the State
- February 14, 2018 Governor's Budget Address
- March 20, 2018 Primary Election Day