The regular meeting of the Staff Senate was called to order on August 2, 2012 at 9:00 a.m. in the International Room, Morris University Center by Mike Hamil, President.


Excused: Gaffney, Herbeck, Mills

Absent: Bagaglio, Hicks, Sams

Guests: Renee Seganfredo, Dana Dain, V. John Caupert, Gretchen Fricke, Jo Gibson

Announcements: Mike Hamil congratulated Michael Pulley on winning the SUCAC election for the Employee Advisory Committee representative. Michael will have a report later, BOT meetings on campus this semester September 13 and November 8. Semester begins soon. September 6 meeting the Chancellor will attend and give a brief address.

Guest Speaker: T.R. Carr, SIUE Faculty Representative to SURES Members Advisory Committee (SURSMAC), and Director of the Department of PAPA (Public Administration and Policy Analysis)

T.R. gave a brief summary of the structure of each of the three committee regarding SURES. He went on to describe the committee he is on and some ideas they have been working on to help with the pension reform. He answered questions from the Senate.

Approval of Minutes: The June 7, 2012 minutes were approved as submitted. Bartholomew/Cobetto

Treasurer’s Report: Diane McKaig submitted a report of the Staff Senate Scholarship Fund. The report is filed with the minutes. Proceeds from the BBQ were $656.00. The Staff Senate is taking over the Employee Banquet. Plans will begin with the committee to have it in April again.

Old Business

Staff Appreciation Day: Mike Hamil reported a great turn out and hopes it will be an annual event. Fifteen prizes were given away and people didn’t have to be present to win one. Patrick Hundley donated $500.00 to the account for the event.

BBQ: Mike Hamil gave more details of how the event worked. Catering waived the out of building costs and charged for the cost of soda. There was a discussion about vegetarian options for next year.

Open Meetings Act (OMA): Vicki Kruse reported the link for the Open Meetings Act training is up on the Staff Senate Web Site. There are still members that have not filed their certificates with the Governance
Office. Committee members need to file their training certificates with the University Governance Office by December 2012.

Blue Light system: Mike Hamil reported that Parking and Traffic Committee is still researching the security system.

**New Business**

Nomination of Officers

- President Elect: Keith Becherer nominated Michelle Welter (Bill Dusenbery seconded).
- Secretary: Mike Hamil nominated Bill Dusenbery (Todd Bartholomew seconded).
- Treasurer: Cindy Cobetto nominated Diane McKaig (Todd Bartholomew seconded).

The closing of the nominations was approved (Dusenbery/Candela).

Nomination of Panel Chairs

- Negotiated & Prevailing: Kirt Ormesher nominated Todd Bartholomew (Tami Kershaw seconded).
- Open Range: Diane nominated Laura Scaturro, but Point of Order by Bill Dusenbery was made regarding the Chair needs to be a Senator and Laura is a Panel member, only. Diane McKaig nominated Rebecca Cooper (Laura Scaturro seconded).
- Professional/Administrative: Bill Dusenbery nominated Cindy Cobetto (Michelle Welter seconded).

Bill Dusenbery motioned to close the nominations. Cindy Cobetto seconded. The motion was approved.

**Ice Cream Cabaret**

The Call for Entertainment has been announced. Tickets are to be distributed today.

Cougar Welcome: The Senate will have a table at the Resource Fair on Monday and Tuesday August 20 and 21 to sell tickets for the Ice Cream Cabaret.

Karaoke: Mike Hamil is arranging to have Karaoke at the Ice Cream Cabaret.

Door Prizes: Laura Scaturro will coordinate the prizes again. Diane McKaig will contact Laura about prizes. Danita will donate some of her musical CD.

Volunteers: Contact Mike Hamil, Keith Becherer or Vicki Kruse. Keith requested for Senate members to come when they are available to work.

A sign-up sheet for the Ice Cream Cabaret will be sent out per a request.
Keith Becherer called a break.

The meeting resumed.

Reports

Ex Officio Reports

SUCSAC: Michael Pulley gave a report of the first meeting he attended. He submitted a report from IRSI (Illinois Retirement Security Initiative) and handed out some copies. The report is filed with the minutes. SURS reported that in June and July combined, 2390 people retired.

The state approved the SURS budget $1.4 billion for the upcoming year. 18 weeks and 40% of your highest pay... they have to put money in your annuity, working on data base for employees to monitor this

Pension reform will be on the ballot this year. Please, check web site for more information: ilretirementsecurity.org

The SURS Advocate will only be online, webinars available on the SURS website. The Pilot programs of Civil Service System have been converted into the regular system, but are considered ‘custom.’ They will be tracked on the e test. CS is considering merging pipefitters and the refrigeration mechanics which could change seniorities. Refrigeration mechanic requires a certification while Pipefitters classification does not.

Michael reported that the draft of the Civil Service audit will come out this week. Web Sites to get current information about the state and pension news are: IBHE website, SURS, SUCS, Illinois Gov. Web site and University of Illinois. The next SUCSAC meeting will be in October and will include the Council of Councils annual meeting. Michael Pulley gave a brief summary of the Council of Councils.

Michael thanked everyone for their support in his election to this seat.

Personnel: No report.

SURS: No report.

Keith Becherer reported on the ex officio seats. Those serving are Sherrie Senkfor as designee for the Vice Chancellor for Administration, Debra Bayne for SURS and newly elected EAC representative Michael W. Pulley for SUCSAC will continue. Debra Bayne from Human Resources will be included in the communications as SURS representative.

Panel Reports

Negotiated and Prevailing: Todd Bartholomew reported that there are discussions going on about a department becoming union.

Open Range: No report.
Professional: No report.

Satellite Campus Reports

Alton: No report.

E. St. Louis: William Dusenbery congratulated Shrylene C. Langston has been made the new Assistant Director for the East St. Louis Center. Head Start program is finishing up their recruitment for kids. There are changes happening with building sites.

Standing Committees

UPBC: Keith Becherer reported that Kathleen Gardner will still be a staff representative and Alan Gaffney is done with his term and will be replaced soon. Sept 6 Tim Schoenecker will have the annual PowerPoint presentation about the budget.

Public Relations: No report.

Newsletter - Next one will be out in September.

Policy Review Committee: Todd Bartholomew reported that Jeff Hicks is interested in remaining on this committee. Diane McKaig reported that Policy Review Committee is meeting with Sherrie Senkfor on August 8

Scholarship Committee: Fall award will be presented on September 6. The Chair seat is vacant. Danita Mumphard volunteered her help and to learn more about the chair position.

Fundraising Committee: William Dusenbery reported the wine tasting will have an Argentinean theme dinner, Saturday, May 11, tickets will be $75.00, sixty tickets available for sale. The committee will work with the Foundation to finalize plans regarding tax deduction. Bill is looking for other activities during the day too to recognize SIUE.

Goals Committee: September meeting will have a brief one page executive summary for everyone.

Other: A question was asked about the UQC replacement for Scott Gluntz since he will be leaving the University. Keith Becherer is aware and will follow up.

There was a question about paid time off for community volunteering? It was noted that State funds cannot support non-profit organization.

Todd Bartholomew introduced V. John Caupert, Director over the Ethanol Research Center at University Park.

Mike Hamil announced the special meeting for electing officers and Panel Chairs directly following the regular meeting.
Adjournment: William Dusenbery made a motion to adjourn. Cindy Cobetto seconded. The meeting was adjourned at 11:00 a.m.

Approved as submitted September 6, 2012 by the Staff Senate
University Governance/Vicki Kruse
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portfolio values. If you have one of the IOP funds that tell you a positive
return for FY 13, if your average of the IOP funds that tell you a positive return
for FY 14, if you have one of the IOP funds that tell you a positive return
for FY 15, if you have one of the IOP funds that tell you a positive return
for FY 16, if you have one of the IOP funds that tell you a positive return
for FY 17, if you have one of the IOP funds that tell you a positive return
you may receive no distribution next year unless the earnings and
losses are distributed this year. Unfortunately, after these distributions, 20% endowment now
accrued from prior years earnings, approximately 210 endowments (59%) made
spendable earnings accounts because they had enough funds in their reserves
so that their was a loss, many endowment funds received distributions into their

How did my endowment fund(s) perform this year?
ISSUE BRIEF
HJRCA 49: A CONSTITUTIONAL AMENDMENT REGARDING THE RULES GOVERNING PENSION BENEFIT INCREASES
REVISED, JUNE 2012

I. INTRODUCTION

Illinois’ significant, unfunded pension liability, which now totals $83 billion across the five public retirement systems for which the state has responsibility, remains one of the most poorly understood core issues confronting lawmakers. Many assume that, since this $83 billion deficit exists in state’s public retirement systems it must be caused by either overly generous or unaffordable pension benefits. The data, however, clearly show that nothing could be further from the truth. The primary cause of the $83 billion unfunded liability is the state’s now decades-long practice of intentionally borrowing revenue from promised contributions to the retirement systems, in order to subsidize the cost of delivering current public services. Today, the state finds itself faced with an unrealistic repayment plan to the retirement systems and a structural deficit. Many see the state’s yearly pension contributions as crowding out core services like education and human services. The growing pension contributions combined with a limited General Revenue Fund has led many to call for major pension reforms.

II. HOW BORROWING PRIMARILY CREATED THE UNFUNDED LIABILITIES

As shown in Figure 1, insufficient employer contributions, of which the state pays the vast majority, have been the primary source of underfunding for the five state retirement systems. From FY1996-FY2011, unfunded liabilities grew by $64.19 billion. Excluding salaries, which actually caused a decrease in the aggregate unfunded liability, the top two drivers of underfunding were insufficient employer contributions and investment losses during the Great Recession. Insufficient employer contributions account for 44 percent of growth in unfunded liabilities, and investment returns account for 22 percent of total growth. In contrast, benefit increases account for less than ten percent of the growth. Given the small role benefit increases played in creating the problem, it is unfair to target benefits in order to reducing the existing unfunded liability.
Figure 1
Growth in Unfunded Liabilities for the Five State Systems
FY1996–FY2011 ($ Billions)


Borrowing from the pension systems to cover service delivery benefitted taxpayers in the past by artificially keeping the price of those services below actual costs. However, the schedule established for repayment of the debt owed to the pension systems is straining current fiscal resources. Nothing inherent in the pension systems—neither benefit costs nor design—has been the primary cause of either underfunding or the growing strain on current fiscal resources that is "crowding out" services. Borrowing against the pensions was the primary cause of the systems' underfunding, and repayment of that borrowing is causing the current fiscal stress.

Indeed, the repayment of debt owed to the pension systems is responsible for all the growth in the annual pension payments in FY2013 from FY2012 levels. Consider that, in FY2012 the state's total pension contribution to the five retirement systems was $4.135 billion. Of that amount, only $1.6 billion—or about 38.7 percent—was the "normal cost" of covering benefits promised to current workers. The $2.535 billion balance—over 60 percent of the entire FY2012 pension contribution—was repayment of pension debt. In FY2013, the total pension contribution increased by 23 percent from FY2012 levels to $5.09 billion, all of which is increased debt service. In fact, the normal cost of covering promised benefits to workers in FY2013 actually decreased by $100 million from FY2012 levels to $1.5 billion.

So how did Illinois become subject to a debt repayment schedule that increases so significantly that it not only crowds out funding for services but also is virtually unattainable long-term? The answer is simple: the problem was self-inflicted. Public Act (P.A.) 88-0593, passed in FY1995, created a fifty-year plan for all five state retirement systems aimed at addressing the underfunding of the pension systems that existed at that time. By the end of FY1994, Illinois lawmakers had borrowed so much against the pension systems to fund services that the overall funded ratio of all five systems was just 54.5 percent, and there was a cumulative unfunded liability of $17 billion. However, the funding plan under P.A. 88-0593 heavily back loaded repayment of the aggregate unfunded liability. Under the design of that repayment schedule, the retirement systems' aggregate unfunded liability will actually continue to grow through FY2029. Unfortunately, most pension reforms introduced to date ignore this reality and focus on reducing retirement benefits rather than solving the debt problem by restructuring the repayment plan.

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House-Joint Resolution Constitutional Amendment (HJRCA) 49 is a key example of this misguided approach to dealing with the state’s unfunded liability. This legislation would add Section 5.1 to Article XIII of the Illinois Constitution, which covers all public employee retirement systems (state and local) in Illinois. HJRC 49 would create a constitutional requirement that any pension benefit increases would require three-fifths (3/5) approval by both houses of the General Assembly. This would make it far more difficult for the legislature to enhance retirement benefits for public workers in Illinois. HJRC 49—its own a Constitutional amendment also requiring a 3/5 vote—passed the House by the required majority on April 18, 2012, and the Senate on May 3, 2012. That means HJRC 49 will go to the public on November 2012 as a separate ballot initiative.

Advocates justify their support for HJRC 49 by claiming the proposed amendment represents a positive step towards ensuring the fiscal health of Illinois’ public retirement systems. However, this rationale is misguided for two key reasons. First and foremost, while the amendment may prevent future legislatures from passing benefit enhancements without the accompanying and necessary funding, HJRC 49 does not reduce the state systems’ current $83 billion unfunded liability by even one cent. HJRC 49 fails to address the real fiscal issue caused by the state’s oversized pension debt—how to amortize the $83 billion debt owed to the five state-sponsored retirement systems in a feasible way. Second, implementing a Constitutional amendment that hinders the ability of legislators to institute benefit increases would make it nearly impossible to rectify the problems associated with the reduced benefit tier that lawmakers created in 2010—Section IV details deficiencies of the second benefit tier.

III. WHAT WOULD HJRC 49 DO?

Under HJRC 49, anything that enhances pension benefits (with the exception of salary increases and appropriation bills) would require 3/5 approval by either the General Assembly or a local governing body. This proposed Constitutional change would apply to all levels of state and local governments. Determining which pension enhancements would require the new 3/5 approval hinges on three terms defined in HJRC 49: “benefit increase,” “emolument increase,” and “beneficial determination.”

HJRC 49 restricts lawmakers’ ability to increase pension benefits, which can currently be done by a simple majority vote. The new requirement would mandate that 3/5 of both houses of the General Assembly would have to approve any piece of legislation that increased pension benefits for it to become law. HJRC 49 specifies that benefit increases include “but are not limited to, any changes that (i) increase the amount of the pension or annuity that a member could receive upon retirement, or (ii) reduce or eliminate the eligibility requirements or other terms or conditions a member must meet to receive a pension or annuity upon retirement.” Any changes that expand the class of persons eligible to join a retirement system would also count as “benefit increases” under HJRC 49. The legislation specifies, however, that on their own, salary increases do not constitute a benefit increase.

The amendment defines the terms “emolument increase” and “beneficial determination” in an attempt to clarify which pension increases will be restricted under the Constitution. Both terms require 3/5 approval by a retirement system’s governing body, which can be the General Assembly or local government depending on the system. An emolument increase is defined in HJRC 49 as “the creation of a new or enhancement of an existing advantage, profit or gain that an official or employee receives by virtue of holding office or employment, including, but not limited to, compensated time off, bonuses, incentives, or other forms of compensation.” A beneficial determination “means an interpretation or application of pension or other laws by the governing body, or an appointee or employee of the governing body, that reverses or suspends a previous interpretation or application and either (i) results in an increase in the amount of the pension or annuity received by a member of a pension or retirement system or (ii) results in a person becoming eligible to receive a pension or annuity from the pension or retirement system.” This aspect of the amendment would restrict the ability of retirement systems’ board of trustees to amend their respective systems’ administrative rules. For example, a change to the definition of “salary” in all likelihood would trigger the aforementioned 3/5 rule. However, a beneficial determination under HJRC 49 does not include “a beneficial determination mandated by a final decision of a court of
competent jurisdiction.” In other words, if a court decides to interpret a pension law differently and changes it, that would be constitutionally permissible.

Despite the definitions contained in HJRCA 49, ambiguity surrounding what will trigger the 3/5 rule nonetheless exists. For example, it is unclear whether stipends or incentives that would ultimately lead to a salary increase amount to benefit increases, thus necessitating 3/5 approval by both houses of the General Assembly. A specific example of this issue was discussed during a House Committee hearing on HJRCA 49. That hearing considered whether incentives for employees to obtain a higher education degree would constitute a benefit increase, since once an employee completed a graduate degree his or her salary would increase. When asked if that situation would trigger the 3/5 requirement, Speaker Madigan’s legal counsel responded that it would not be possible to know without seeing an employee’s actual contract or collective bargaining agreement. Such a response indicates the complexity and potential legal issues that would flow from HJRCA 49’s implementation. The uncertainty surrounding language used in HJRCA 49 is of extra concern because once passed, changing any aspect of it would require yet another Constitutional amendment.

Given that there are nearly 7,000 local governments in Illinois, the impact of the supermajority-voting requirement could be costly in both the amount of time that will have to be spent on pension benefit analysis, and whether those supermajority-voting requisites applied to various changes made to the retirement plans for all units of government. Another related question that remains unanswered is which government entity will be charged with regulation of the amendment—an enormous task given the thousands of public employers and retirement systems affected by HJRCA 49.

Subsection (d) of HJRCA 49 specifies that any governing body—such as school districts, universities, or police stations—may freely impose restrictions on pension benefit increases that exceed the extent of those contained in HJRCA 49. The State Universities Annuitants Association, summed up why this part of HJRCA 49 is especially worrisome, “[it] would grant unprecedented powers to government that will undermine protections contained in the Pension Protection Clause and eliminate the uniform laws that now exist for State employee benefits and obligations in the Illinois Pension Code.”

IV. HJRCA 49 & RECTIFYING TIER-II

Public Acts 96-0889 and 96-1495 passed in 2010, created a reduced benefit tier, commonly known as Tier-II, for all public retirement systems in Illinois. All public employees in Illinois hired on or after January 1, 2011, are automatically in Tier-II. 11 Key benefit reductions implemented under Tier-II include: increasing the age at which a person is eligible to retire with full benefits; reducing retirees’ cost-of-living adjustment (COLA); creating maximum benefit limitations; and increasing the time period used to determine the final average salary. The total value of the Tier-II benefit for a downstate teacher is, for example, approximately one-third the total value of the Tier-I benefit. 14

Of all the pension cuts implemented under Tier-II, the changes to the COLA are the most troubling from a public policy standpoint. The Tier-II COLA is simple. With a simple COLA, the original pension benefit is increased by a statutorily set percentage. In contrast, a compounded COLA, which is what a Tier-I retiree receives, is one in which the adjustment is made on the previous year’s pension benefit. Figure 2 provides an example of the difference between a compounded and simple COLA. Since a simple COLA is an adjustment on the base pension, a person’s pension benefit does not keep pace with inflation.

<table>
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<td>Compounded vs. Simple Cost-of-Living Adjustment</td>
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A more significant impact though is the percentage by which Tier-II retirees’ pensions are adjusted. In addition to being simple, the Tier-II COLA is the lesser of 3 percent or one-half of the previous year’s Consumer Price Index (CPI-U). Unless yearly inflation is above 6 percent, a rare occurrence, the Tier-II COLA will be capped at one-half of CPI-U. From 1913-2011, the average CPI-U increase was 3.3 percent, and for the past twenty years it has been 2.5 percent.17 In other words, a Tier-II retiree’s COLA will likely be less than 2 percent. After adjusting for inflation, the Tier-II benefit will decrease in real value from year to year, resulting in diminished purchasing power and a lowered standard of living for retirees. Approval of HJRCA 49 will make it extremely difficult, if not impossible, to rectify this inadequacy of the Tier-II benefit.

V. CONCLUSION

Ensuring the stability of Illinois’ public retirement systems is certainly a laudable goal. That said, the means of ensuring stability should be designed to both redress the true causes of the fiscal problem and constitute sound public policy. HJRCA 49 fails on both counts. Since HJRCA 49 only deals with restricting the ability to institute benefit increases, the legislation does nothing to guarantee that public pension systems are adequately funded, thereby entirely missing the core problem that created the state systems’ aggregate unfunded liability. It would also interfere with the legislature’s ability to remedy the flaws with Tier II, making it poor public policy. Adequate funding of the state retirement systems is a pressing issue in Illinois. Rather than passing symbolic Constitutional amendments that fail to address the actual cause of the retirement systems’ underfunding, lawmakers should concentrate their efforts on redesigning the currently back loaded and unattainable repayment schedule for the debt owed to the five state-sponsored retirement systems.

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For more information about this topic, or to schedule an interview with Amanda Kass, please call 312-332-1103 or email Amanda at akass@ctbonline.org.
Center for Tax and Budget Accountability
70 E. Lake Street, Suite 1700
Chicago IL, 60601
www.ctbonline.org
ENDNOTES


2 A structural deficit means that the appropriations needed to maintain current levels of service do not keep pace with the state’s projected revenue—adjusting solely for inflation and population.


4 Figure is based upon using the actuarial valuation of assets, which smoothes investment losses/gains over five years.


6 Center for Tax and Budget Accountability (CTBA), *Analysis of Proposed Illinois FY2013 General Fund Budgets* (Chicago: CTBA, April 2012), 32.

7 Ibid.


12 This is the opinion held by the State Universities Annuitants Association, and other credible sources disagree on this legal interpretation.

13 Tier-II applies only to individuals who are in a defined benefit program.

14 Information provided to CTBA by the Teachers’ Retirement System.

15 It should be noted that for Tier-II members of the General Assembly’s Retirement System and Judges’ Retirement System the COLA is compounded.

16 Out of the past 98 years, there have only been 19 years in which inflation was at least 6 percent. Source: U.S. Department of Labor: Bureau of Labor Statistics, *Consumer Price Index* (Washington, DC: 2012).