

STATE EMPLOYEES'
RETIREMENT SYSTEM OF ILLINOIS
SOCIAL SECURITY DIVISION

2004 Biennial Report

TO THE GENERAL ASSEMBLY
ON THE SOCIAL SECURITY PROGRAM

for
Governmental Units
and
Public Retirement Systems



SOCIAL SECURITY DIVISION
of the
STATE EMPLOYEES' RETIREMENT SYSTEM OF ILLINOIS

REPORT TO THE GENERAL ASSEMBLY
ON THE OPERATIONS OF THE
FEDERAL SOCIAL SECURITY PROGRAM

During 2003 and 2004

For

POLITICAL SUBDIVISIONS, GOVERNMENTAL UNITS
AND PUBLIC RETIREMENT SYSTEMS

In The

STATE OF ILLINOIS

Social Security Division
P.O. Box 19255
2101 South Veterans Parkway
Springfield, IL 62794-9255

(217)785-2340

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THE SOCIAL SECURITY COVERAGE PROGRAM

FOR

PUBLIC EMPLOYEES IN THE STATE OF ILLINOIS

FOR THE 2003 - 2004 BIENNIUM

HISTORICAL BACKGROUND OF SOCIAL SECURITY COVERAGE IN ILLINOIS

State and local government employees were excluded from Social Security coverage from the inception of the program until the passage of the 1950 amendments to the Social Security Act. This exclusion existed because under the Federal Constitution, which limits the authority of the Federal government, it was questionable whether or not they could require the States and local governments to pay the equivalent of the employer's share of the tax under the Social Security Act. Section 218 of the Social Security Act was created by the 1950 Amendments to the Social Security Act to provide for voluntary coverage agreements between the States and the Federal government. This legislation provided a means to extend Social Security coverage to employees of State and local governments while avoiding the Constitutional question of whether or not the State and local governments could be required to pay the employer's share of the Social Security tax.

On September 15, 1953, the Secretary of the State Employees' Retirement System of Illinois, on behalf of the State of Illinois, signed the master Federal-State agreement with the Department of Health, Education and Welfare as authorized by Title II, Section 218 of the Federal Social Security Act and the Illinois Social Security Enabling Act, 40 ILCS 5/21 permitting Social Security coverage to be extended to members of public retirement systems and employees of local governments.

The Social Security Division of the State Employees' Retirement System was created by 40 ILCS 5/21, to administer the State's responsibilities under Title II Section 218 of the Federal Social Security Act and the master Federal-State agreement. The State's responsibilities included extending Social Security coverage by agreement to any of the State's retirement systems or units of local government requesting Social Security coverage for their members or employees. In addition, the Social Security Division was responsible for collecting wage information and contribution payments from covered retirement systems and units of local government on wages paid prior to January 1, 1987.

Federal legislation, in particular P.L.99-509, changed the scope of State's responsibility for the collection and remittance of Social Security taxes considerably. The law mandated that State and local governmental employers adhere to the same Social Security and Medicare tax reporting schedules as private employers. In addition, the taxes were to be remitted directly to the Internal Revenue Service, effective January 1, 1987.

The Consolidated Omnibus Budget Reconciliation Act of 1985, P.L. 99-272, mandated Medicare coverage for newly hired State and local government employees (after March 31, 1986) in positions not covered for Social Security. On November 5, 1990, President Bush signed H.R.5835, the Omnibus Budget Reconciliation Bill of 1990 (P.L. 101-508), into law. One of the provisions contained in the bill was the extension of social security coverage for state and local employees who are not covered by a public employee retirement program, effective July 2, 1991. The law mandated participation in the federal social security program to a previously exempt group of employees. The passage of this bill has reduced the number of political subdivisions in the state desiring to obtain social security coverage through the Section 218 process.

Section 3121(b)(7)(F), added to the Internal Revenue Code by Section 11332(b) of the Omnibus Budget Reconciliation Act of 1990, Pub.L.No. 101-508, 104 Stat. 1388, generally expands the definition of employment for purposes of the Federal Insurance Contributions Act (FICA), to include service as an employee for a state or local government entity unless the employee is a "member of a retirement system" of such entity. Section 3121(b)(7)(F) is effective with respect to service performed after July 1, 1991. Thus, wages for services performed after July 1, 1991, received by an employee of a state or local government entity who is not a member of a retirement system of such entity will generally be subject to FICA taxes, and will also be taken into account in determining the employees' eligibility for social security and medicare benefits.

Under Section 31.3121(b)(7)-2(e) of the regulations, a retirement system generally includes any pension, annuity, retirement or similar fund or system within the meaning of Section 218 of the Social Security Act that is maintained by a state, political subdivision or instrumentality thereof to provide retirement benefits to its employees who are participants. However, the definition of retirement system is limited in order to carry out the purposes of Section 3121(b)(7)(F) of the Code and the corresponding provisions of the Social Security Act. Under the regulations, in order for service in the employ of a state or local government entity to qualify for the exception from employment under Section 3121(b)(7), the employee must be a member of a retirement system that provides certain minimum retirement benefits to that employee.

MISSION AND RESPONSIBILITIES OF THE SOCIAL SECURITY DIVISION

Administration of the State of Illinois' responsibilities under Section 218 of the Social Security Act and the master Federal State Agreement for the various units of local government and public retirement systems in Illinois has been delegated by the General Assembly to the Social Security Division of the State Employees' Retirement System. The Social Security Division is an operational division of SERS under the direction and control of its Board of Trustees and Executive Secretary. The primary duties and responsibilities of the Division are:

1. Information and Consultation: Provide information and consultation to public retirement systems and governmental entities on the several procedures available under the Federal and State statutes concerning adoption of coverage; and the related obligations arising from such actions;
2. Certification for Compliance: Oversee referendums conducted by public retirement systems to insure compliance with Federal and State laws in the adoption of coverage; and to prepare a certification thereof by the Governor to the Commissioner of Social Security;
3. Negotiation of Coverage Agreements: Make determinations on questions which may arise involving employment relationships, exclusion of certain classes of positions and wage/compensation issues under appropriate Social Security laws and regulations so that agreements are properly executed and understood by officials involved;
4. Maintain Federal-State Liaison: Prepare and submit modifications to the master Federal-State agreement to document the adoption of coverage and to obtain account identification numbers for wage reporting, contribution payments and record keeping purposes for each covered entity and retirement system coverage group;
5. Wage Reconciliation: Reconcile and adjust any reporting errors involving wages paid prior to January 1, 1987; to work with and contact Federal and local reporting officials regarding action necessary to resolve wage discrepancies; to request Attorney General opinions or Federal rulings in matters of controversy; and to initiate actions at law against local governmental units where necessary for enforcement; and
6. Public Relations: Represent the State at national and regional meetings called by the Social Security Administration and/or the Internal Revenue Service to assess the impact of federal legislation upon the State's program; and to consult with the General Assembly concerning legislation impacting upon the State's Social Security program for governmental entities and public retirement systems.

ADMINISTRATION

The Social Security Division shares the facilities and is an operational division of the State Employees' Retirement System. The Executive Secretary of the Retirement System is also the State Social Security Administrator. The Board of Trustees of the Retirement System determines the management and operational policies of the Social Security Division.

EXTENT OF SOCIAL SECURITY COVERAGE IN ILLINOIS, TAX YEAR ENDING DECEMBER 31, 2004

Coverage According to Type of Governmental Entities:

With over 6,900 independent governmental entities in operation, Illinois has the distinction of having more local governments than any other state. According to the latest information from the U.S. Bureau of the Census, Illinois has 102 counties, 1,431 townships, 1,291 municipalities, 934 school districts, and 3,145 independent special districts. As of December 31, 2004, 4,552 governmental entities in the State have extended the benefits of the Social Security programs to their employees using the voluntary provisions of Section 218 of the Social Security Act. Nearly 69% of these covered entities (3,149) provide Social Security as a supplemental benefit in addition to their participation in the Illinois Municipal Retirement Fund and approximately 31% of these covered entities (1,403) have social security coverage under separate agreements with the state agency without any supplemental pension plan benefits.

The remaining noncovered entities throughout the state are primarily small cities and villages which range from 100 to 3,500 in population; townships, small special districts and an unknown number of subordinate agencies including those entities formed under the Intergovernmental Cooperation Act. Agency experience shows that these entities have not elected to adopt coverage because they have very few employees who serve generally on a part-time basis and have other employment covered by Social Security. In addition, the City of Chicago and Cook County have employees who are covered by nine different retirement systems and do not participate in the Federal Social Security Program.

After July 1, 1991, any government employee who was not covered by a retirement system, however, is mandatorily required to be covered by the federal social security program.

Coverage According to State and Local Government Employment:

There are 3 major areas of social security coverage for state and local government employees in Illinois.

- 1) Political subdivisions (absolute coverage groups) that provide only social security coverage with no supplemental pension plan.
- 2) Political subdivisions that participate in the Illinois Municipal Retirement Fund.
- 3) Members of the State Employees' Retirement System of Illinois.

In Illinois, the greatest number of noncovered (also referred to as "noncoordinated") state and local government jobs are those covered by retirement systems that have not coordinated with social security and members of the State Employees' Retirement System who voted not to be covered for social security in 1968. The following table identifies the public retirement systems and the number of noncoordinated active participants through the most current annual financial report filed with the Department of Insurance.

State Financed Systems

State Teacher's Retirement System of Illinois	154,690
State Universities Retirement System	72,992
State Employees' Retirement System of Illinois	2,960
Judges Retirement System	906
General Assembly Retirement System	<u>181</u>
Total State Financed Systems	<u>231,729</u>

Cook County - City of Chicago Funds

Chicago Teachers	37,362
Chicago Municipal Employees	35,384
Chicago Laborers	3,719
Firemen's Annuity and Benefit Fund of Chicago and Policemen's Annuity and Benefit Fund of Chicago	4,906
County Employees' Officers & Benefit Fund of Cook County	13,746
Metropolitan Water & Reclamation District	25,513
Chicago Park District	2,060
Cook County Forest Preserve District Employees Annuity and Benefit Fund	385
Chicago Park District	<u>3,179</u>
Total Cook County - Chicago	126,254
Total Major Retirement Systems	357,983

Other noncovered public positions in Illinois include any employees of the noncovered entities who participate in other retirement systems; the majority of downstate police and fire positions covered by local pension plans; and employees of the State of Illinois who are not paid on a regular payroll, but contribute to the State of Illinois Deferred Compensation Program.

CURRENT DEVELOPMENTS IN SOCIAL SECURITY

Mandatory Social Security Coverage:

The Omnibus Budget Reconciliation Bill of 1990, signed by President Bush on November 5, 1990, contained several provisions which have had a dramatic impact on the social security coverage on the state and local division subdivision employees. The bill provided that when an employee, working for a governmental employer, is not covered by a public employee retirement program, the employee must be mandatorily covered by social security effective July 1, 1991. This means that any unit of local government which did not have their own retirement system nor participate with IMRF, effective July 1, 1991, began participation with the Federal Social Security Program.

In addition, this bill established a separate wage base from which contributions for the Old Age Survivors and Disability Insurance (OASDI) and medicare taxes shall be deducted.

1994-1996 Advisory Council on Social Security:

On January 6, 1997, the Advisory Council on Social Security released its report to the public regarding the future of Social Security without reaching a consensus on a way to reform the massive federal program. Rather, the Council submitted three alternatives or models which were put forth by various factions among the Council. The differences related primarily to the philosophical direction of the Social Security program in the current and long-term future. These philosophically divergent approaches do, however, agree on the extension of full social security coverage for all newly-hired government employees after 1997. This could cause significant funding problems for units of local government, as well as those entities which already have established retirement plans, that do not anticipate benefit coordination with the federal Social Security program.

2005 Proposed Social Security Reform Legislation:

There are presently 50 bills in the 109th Congress of the United States dealing with the issues of "Social Security" and "Reform". Of those 50 bills, there are several which may have an impact on the Social Security Division, which are summarized below:

- a) House Congressional Resolution 43 expresses the sense of the Congress that social security reform measures should not force state and local government employees into social security coverage.

The resolution estimates that approximately 5 million state and local employees are currently covered under public pension plans outside of the social security program. It also states that no social security reform plan should cause these employees to be forced into coverage under the old-age, survivors, and disability insurance program under title II of the Social Security Act.

- b) House Resolution 842 - Attempts to regulate the use by interactive computer services of social security account numbers and related personally identifiable information.

- c) House Resolution 220 - Attempts to amend title II of the Social Security Act and the Internal Revenue Code of 1986 to protect the integrity and confidentiality of social security account numbers issued under such title, to prohibit the establishment in the federal government of any uniform national identifying number, and to prohibit federal agencies from imposing standards for identification of individuals on other agencies or persons.
- d) In addition, the topic of personal savings accounts has been put forth by the Bush Administration. A portion of the 7.65% social security tax would be diverted to an investment vehicle, selected by the employee, amongst a group of investment specialists.

Major Initiatives Within the State of Illinois

State Teachers' Retirement System (TRS), Medicine-only Referendum

On July 10, 2003, Governor Blagojevich signed Public Act 93-0119 allowing teachers continuously employed since March 31, 1986, to make a one-time irrevocable individual election to prospectively participate in Medicare. A list of all eligible teachers was prepared by TRS and confirmed by the individual school districts. A ballot was then issued to those teachers who were eligible to elect Medicare coverage. Deductions for teachers who elected to participate in Medicare would apply to all salary earned after July 1, 2004. All teachers hired after March 31, 1986, are already required to participate in Medicare.

The referendum was conducted during the period of February 16, 2004 through May 15, 2004. There were approximately 28,000 teachers statewide who were eligible to participate. Of this amount, roughly 14,000 actually did vote. There were 5,600 votes to adopt Medicare-only coverage; and 8,400 votes to reject Medicare-only. The modification to the State's Master Agreement, Modification No. 841, was approved by the Social Security Administration on September 27, 2004.

ADMINISTRATIVE EXPENSES
OF SOCIAL SECURITY DIVISION

	<u>FY 2004</u>	<u>FY 2003</u>
Personal Services	\$42,228	\$42,024
Employer retirement pickup	1,689	1,681
Contributions to Retirement System	3,783	4,337
Contributions for Social Security	3,120	3,112
Contractual Services	19,000	18,900
Travel	366	1,006
Commodities	169	395
Printing	-	100
Electronic Data Processing	-	-
Telecommunications	<u>361</u>	<u>321</u>
Total	<u>\$70,716</u>	<u>\$71,876</u>

<u>POSITION TITLE</u>	<u>SALARY RANGE</u> FY 2004	<u>ANNUAL SALARY</u> FY 2004
Accountant	\$2,488 - \$3,519	\$42,228

Types of Governmental
Units Under Soc. Sec.

Coverage as of December 31, 2004	<u>Units of Absolute Coverage Agreements</u>	<u>Units in IMRF Coverage Group</u>	<u>Total of all Units Covered</u>
Airport Authorities	3	11	14
Ambulance Service	1	0	1
Armory Board	1	0	1
Assoc. Park Districts	0	1	1
Board of Cemetery Trusts	37	20	57
Cemetery Association	1	1	2
Cemetery Maintenance Districts	1	1	2
Cities	44	251	295
Comm. Building Fund	4	3	7
Consolidated Ed. Serv. Region	0	13	13
Conservation Districts	2	7	9
Counties (all except Cook County)	0	101	101
Drainage District	8	0	8
Drainage & Levee Districts	23	3	26
Education Service Center	3	15	18
Export Development Authority	1	0	1
Fire Protection Districts	17	41	58
Flood Control Districts	1	0	1
Forest Preserve Districts	0	10	10
General Assistance	1	1	2
General Assistance Office	1	0	1
Health	1	2	3
Hospital Districts	22	11	33
Housing Authorities	93	8	101
IL Municipal Retirement Fund	0	3	3
IL Municipal League Fund	0	1	1
Incorporated Town	2	4	6
Intergovernmental Agencies	5	46	51
Land Clearance Commissions	1	0	1
Library Districts	37	201	238
Library Systems	1	19	20
Metropolitan Expo. Authorities	5	1	6
Mobile Team Unit	1	13	14
Mosquito Abatement Districts	3	7	10
Multi-Township Assessment Dist.	52	14	66
Park Districts	38	190	228
Police Communication Center	1	0	1
Public Building Commissions	2	8	10
Railroad Relocation Authority	1	0	1
Recreation Association	0	10	10
Regional Education Center	0	1	1
Regional Office of Education	0	31	31
Regional Planning Commissions	4	1	5
Regional Port District	5	1	6
Regional Vocational Center	0	18	18
Regional Vocational System	0	34	34
Road Dist. (Commission Counties)	15	39	54

Types of Governmental
Units Under Soc. Sec.
Coverage as of
December 31, 2004

	<u>Units of Absolute Coverage Agreements</u>	<u>Units in IMRF Coverage Group</u>	<u>Total of all Units Covered</u>
Sanitary Districts	5	64	69
School Districts	2	1,019	1,021
Soil and Water Conservation Dist.	61	0	61
Special Education Association	1	3	4
Special Education Coop.	0	10	10
Special Education District	1	21	22
State Agency	1	0	1
Townships	621	468	1,089
Township Hospitals	3	1	4
Transit District	0	2	2
Tuberculosis Sanitariums	0	1	1
TWP School Treasurer	0	24	24
Villages	239	380	619
Water Authority	0	1	1
Water Commissions	3	7	10
Water Districts	27	6	33
Waterway Management Agency	<u>1</u>	<u>0</u>	<u>1</u>
Total	1,403	3,149	4,552

Public Retirement System with Social Security, treated as absolute coverage groups for administration:

Champaign County Housing Authority
Chicago Housing Authority
East St. Louis Housing Authority
IL Housing Development Authority
City of Marion, Housing Authority
Chatham Area Public Library
Palwaukee Municipal Airport
Cooperative Computer Service

Retirement system coverage group:

State Employees' Retirement System of Illinois

Medicare coverage only:

Town of Schaumburg - Cook County
McHenry County Housing Authority
Schaumburg Township District Library
City of Princeton
Pleasantview Fire Protection District