

STATE EMPLOYEES'
RETIREMENT SYSTEM OF ILLINOIS

SOCIAL SECURITY DIVISION

2016 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 2015 and 2016

for
POLITICAL SUBDIVISIONS, GOVERNMENTAL UNITS
AND PUBLIC RETIREMENT SYSTEMS

in the
STATE OF ILLINOIS

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THE SOCIAL SECURITY COVERAGE PROGRAM
FOR
PUBLIC EMPLOYEES IN THE STATE OF ILLINOIS
FOR THE 2015 - 2016 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 Determination: 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. ***Due to the lack of a state budget, representation at national and regional meetings has not been allowed during fiscal year 2016. Representation at future meetings should be considered an important component of the responsibilities of the State Social Security Administrator.***

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 determine the management and operational policies of the Social Security Division.

EXTENT OF SOCIAL SECURITY COVERAGE IN ILLINOIS, TAX YEAR ENDING DECEMBER 31, 2016

Coverage According to Type of Governmental Entities:

With nearly 7,000 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, 1,298 municipalities, 905 school districts, and 3,227 independent special districts. As of December 31, 2016, 4,444 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. Sixty nine percent of these covered entities (3,082) provide Social Security as a supplemental benefit in addition to their participation in the Illinois Municipal Retirement Fund and thirty one percent of these covered entities (1,362) have social security coverage under separate agreements with the state agency without any supplemental pension plan benefits.

The remaining non-covered 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 non-covered (also referred to as "non-coordinated") 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 non-coordinated active participants through the most current annual financial report filed with the Department of Insurance.

State Financed Systems

| | |
|--|----------------|
| State Teachers' Retirement System of Illinois | 160,990 |
| State Universities Retirement System | 69,436 |
| State Employees' Retirement System of Illinois | 2,200 |
| Judges Retirement System | 951 |
| General Assembly Retirement System | <u>158</u> |
| | |
| Total State Financed Systems | <u>233,735</u> |

Cook County - City of Chicago Funds

| | |
|--|----------------|
| Chicago Teachers | 30,654 |
| Chicago Municipal Employees | 30,160 |
| Chicago Laborers | 2,844 |
| Firemen's Annuity and Benefit Fund of Chicago and | 4,808 |
| Policemen's Annuity and Benefit Fund of Chicago | 12,020 |
| County Employees' Officers & Benefit Fund of Cook County | 21,656 |
| Metropolitan Water & Reclamation District | 1,873 |
| Cook County Forest Preserve District Employees Annuity and Benefit Fund | 525 |
| Chicago Park District | <u>2,973</u> |
| | |
| Total Cook County - Chicago | <u>107,513</u> |
| | |
| Total Major Retirement Systems | <u>341,248</u> |

Other non-covered public positions in Illinois include any employees of the non-covered 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.

2016 Proposed Social Security Reform Legislation:

There are presently 168 bills in the 114th Congress of the United States dealing with the issues of "Social Security". Of these bills, many have an impact on the eligibility, access and/or extension of benefits; however, none of the bills would directly affect the Social Security Division at this point in time.

Major Initiatives Within the State of Illinois:

No initiatives within the state of Illinois are currently pending.

**ADMINISTRATIVE EXPENSES
OF SOCIAL SECURITY DIVISION**

| | <u>FY 2016</u> | <u>FY 2015</u> |
|-------------------------------|------------------------|------------------------|
| Personal Services | \$38,509 | \$40,188 |
| Employer Pickup | -- | -- |
| Retirement contributions | -- | -- |
| Social Security contributions | 2,871 | 2,904 |
| Contractual Services | -- | 15,700 |
| Travel | -- | 1,015 |
| Commodities | -- | 100 |
| Electronic Data Processing | -- | 500 |
| Telecommunications | <u>--</u> | <u>300</u> |
| Total | <u>\$41,380</u> | <u>\$60,707</u> |

| <u>POSITION TITLE</u> | <u>SALARY RANGE</u> FY 2016 | <u>SALARY RANGE</u> FY 2015 |
|--|--|--|
| Accountant <i>Vacant through 10/15/2015</i> | \$3,647 – 5,342 | \$3,647 – 5,342 |
| | <u>MONTHLY SALARY</u> | <u>ANNUALIZED SALARY</u> |
| <i>Position filled 10/16/2015</i> | \$4,511 | \$54,132 |

**Types of Governmental
Types of Governmental
Units Under Social Security
Coverage as of
December 31, 2016**

| | <u>Units With Absolute Coverage Agreements</u> | <u>Units In IMRF Coverage Group</u> | <u>Total of all Units Covered</u> |
|-------------------------------------|--|---|---------------------------------------|
| Airport Authorities | 3 | 12 | 15 |
| Ambulance Service | 1 | 0 | 1 |
| Association Park Districts | 0 | 1 | 1 |
| Board of Cemetery Trusts | 31 | 18 | 49 |
| Cemetery Associations | 1 | 0 | 1 |
| Cemetery Maintenance Districts | 1 | 1 | 2 |
| Cities | 44 | 251 | 295 |
| Community Building Funds | 3 | 2 | 5 |
| Conservation Districts | 2 | 7 | 9 |
| Counties (except Cook County) | 0 | 101 | 101 |
| Drainage Districts | 6 | 1 | 7 |
| Drainage & Levee Districts | 23 | 2 | 25 |
| Drug Task Force | 0 | 1 | 1 |
| Education Service Centers | 1 | 15 | 16 |
| Emergency Commission | 0 | 1 | 1 |
| Fire District (Southwest United) | 0 | 1 | 1 |
| Fire Protection Districts | 16 | 49 | 65 |
| Flood Control District | 1 | 0 | 1 |
| Forest Preserve Districts | 0 | 10 | 10 |
| General Assistance | 1 | 2 | 3 |
| Health | 1 | 1 | 2 |
| Hospital Districts | 19 | 11 | 30 |
| Housing Authorities | 93 | 8 | 101 |
| IL Municipal Retirement Funds | 0 | 4 | 4 |
| IL Municipal League Fund | 0 | 1 | 1 |
| Illinois Medical District | 0 | 1 | 1 |
| Incorporated Towns | 2 | 4 | 6 |
| Intergovernmental Agencies | 5 | 43 | 48 |
| Land Clearance Commission | 1 | 0 | 1 |
| Law Enforcement | 0 | 1 | 1 |
| Library Districts | 37 | 206 | 243 |
| Library Systems | 1 | 16 | 17 |
| Metropolitan Expo. Authorities | 5 | 1 | 6 |
| Mobile Team Unit | 1 | 13 | 14 |
| Mosquito Abatement Districts | 3 | 7 | 10 |
| Multi-Township Assessment Districts | 52 | 14 | 66 |
| Park Districts | 35 | 195 | 230 |
| Police Communication Centers | 1 | 1 | 2 |

**Types of Governmental
Units Under Social Security
Coverage as of
12/31/2016 continued**

| | <u>Units With Absolute Coverage Agreements</u> | <u>Units In IMRF Coverage Group</u> | <u>Total of all Units Covered</u> |
|---------------------------------------|--|---|---------------------------------------|
| Public Building Commissions | 1 | 6 | 7 |
| Recreation Associations | 0 | 12 | 12 |
| Regional Offices of Education | 0 | 31 | 31 |
| Regional Planning Commissions | 3 | 1 | 4 |
| Regional Port Districts | 4 | 2 | 6 |
| Regional Vocational Centers | 0 | 18 | 18 |
| Regional Vocation Systems | 0 | 32 | 32 |
| Road Districts (Commission Counties) | 15 | 33 | 48 |
| Retirement System | 3 | 1 | 4 |
| Sanitary Districts | 4 | 62 | 66 |
| School Districts | 2 | 940 | 942 |
| Soil and Water Conservation Districts | 60 | 0 | 60 |
| Special Education Associations | 1 | 3 | 4 |
| Special Education Cooperatives | 0 | 10 | 10 |
| Special Education Districts | 1 | 20 | 21 |
| Special Services Unit | 0 | 1 | 1 |
| Townships | 617 | 474 | 1,091 |
| Township Hospitals | 3 | 1 | 4 |
| Transit Districts | 0 | 3 | 3 |
| Tuberculosis Sanitarium | 0 | 1 | 1 |
| TWP School Treasurers | 0 | 20 | 20 |
| Utility Company | 0 | 1 | 1 |
| Veterans Assistance | 0 | 1 | 1 |
| Villages | 227 | 391 | 618 |
| Water Commissions | 3 | 7 | 10 |
| Water Districts | 27 | 9 | 36 |
| Waterway Management Agency | 1 | 0 | 1 |
| Totals | <u>1,362</u> | <u>3,082</u> | <u>4,444</u> |

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

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

Retirement system coverage group:

Burr Ridge Park District
Illinois Municipal Retirement Fund
Schaumburg Township District Library
State Employees' Retirement System of Illinois

Medicare coverage only:

Chicago Teachers Pension Fund (CTPF)
City of Oak Forest
City of Princeton
City of Rock Falls
City of Sterling
City of Sycamore
Illinois Teachers' Retirement System
McHenry County Housing Authority
Pleasantview Fire Protection District
State Universities Retirement System (SURS)
Town of Schaumburg - Cook County
Village of Gurnee