

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **HB 0445**

February 2, 2017

SPONSOR (S): Ives

SYSTEM(S): All State Systems

FISCAL IMPACT: The fiscal impact of HB 0445 cannot be determined at this time as it is unknown how many Tier 1 and Tier 2 members would opt into the Tier 3 DC plan. An actuarial study that contemplates several different rates of participation in the optional Tier 3 plan would be needed to assess a range of potential costs and/or savings.

SUBJECT MATTER: HB 0445 creates an optional Tier 3 Defined Contribution (DC) plan for Tier 1 and Tier 2 members, as described below.

COMMENTS:

Optional Tier 3 DC Plan for Current Tier 1 and Tier 2 Members

HB 0445 establishes an optional Tier 3 Defined Contribution (DC) plan for current Tier 1 and Tier 2 members. The election to participate prospectively in the Tier 3 DC plan is voluntary and irrevocable. Tier 3 participants shall contribute at a rate not less than 3% of compensation and not more than a percentage of compensation determined by the relevant fund's board of directors. State contributions to the Tier 3 DC plan for all of the State systems shall be no higher than 7.6% of salary, and no lower than 3% of salary. The State shall adjust this rate annually. A tier 3 employee would need to work 5 years to vest in State contributions. Failure to meet the vesting requirement will result in forfeiture of the State contributions.

HB 0445 allows inactive members to roll over amounts from their individual Tier 3 accounts into other qualified retirement plans. Tier 1 and Tier 2 members will also have the option to terminate all participation in the DB plan, after which the relevant system would transfer to the member's account an amount equal to the contribution refund that the member would be eligible to receive if the member terminated employment on that date, with interest.

Opt-Out and Termination Provisions for Current Employees

HB 0445 establishes that on the effective date of the Act, a person is not required to participate in SERS, SURS, or TRS by virtue of their status as an otherwise covered employee. An active employee in GARS and JRS may terminate participation in the relevant plan, receive a refund of his or her contributions, and presumably would accrue no further benefits after the receipt of a refund.

DH:dkb

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