

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **HB 2405**

February 8, 2017

SPONSOR (S): Ives

SYSTEM(S): All State Systems, IMRF

FISCAL IMPACT: The fiscal impact of HB 2405 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. It is assumed that nearly all Tier 3 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 2405 creates an optional Tier 3 Defined Contribution (DC) plan for newly hired members (after 7/1/2018) and also for Tier 1 and Tier 2 members, as described below. The bill also includes certain prohibitions on applying sick leave and other types of reimbursements as pensionable earnings in the State systems and in IMRF. Furthermore, HB 2405 prohibits employers under TRS from making employee contributions on behalf of TRS members.

COMMENTS:

State Systems - Optional Tier 3 DC Plan for New Members and Current Tier 1 and Tier 2 Members

HB 2405 establishes an optional Tier 3 DC plan new members in the 5 State Systems (those hired after 7/1/2018) and for current Tier 1 and Tier 2 members. For newly hired members, the optional DC plan would be the only available plan – the current Tier 2 DB plan would effectively be closed to new 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 2405 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 Provision for Current Employees in the State Systems

HB 2405 establishes that on the effective date of the Act, a person is not required to participate in the relevant system by virtue of their status as an otherwise covered employee. An active employee 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. Contributions to the optional Tier 3 DC plan would not be refundable.

Elimination of Certain Reimbursements as Pensionable Compensation

HB 2405 provides that for an SERS employee who first begins service on or after the effective date of this bill, "compensation" for pension purposes does not include payments or reimbursements for travel vouchers more than 30 days after the last day of travel for which the voucher is submitted. Also, new members in SERS cannot receive service credit for lump sum payments for accumulated vacation, sickness, or personal business. Under HB 2405, new members in SURS cannot earn service credit for unused sick or vacation time. New members in TRS cannot earn service credit for unused sick leave. HB 2405 also amends the IMRF article to exclude earnings for unused sick time for employees hired after the effective date.

Elimination of Employer Payments of Employee Contributions in TRS

Currently, the TRS article of the Pension Code allows employers (school districts and the State Board of Education) to "pick up" employee contributions, such that they are treated as employer contributions in determining tax treatment under the US Internal Revenue Code. HB 2405 provides that after the effective date of this Amendatory Act, no employer shall pay employee contributions on behalf of an employee, except for the sole purpose of allowing the employee to make pre-tax contributions to TRS. The bill states that the foregoing prohibition does not apply to employment contracts or collective bargaining agreements that are in effect on the effective date of this bill. However, this prohibition on employer pick-up would impact any such contracts or agreements that are subsequently modified, amended, or renewed.

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