

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **HB 2903**

February 21, 2017

SPONSOR (S): Fortner

SYSTEM(S): State Universities Retirement System (SURS) and Teachers' Retirement Systems (TRS)

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**FISCAL IMPACT:** The fiscal impact of HB 2903 cannot be determined at this time as an actuarial cost study has not been performed yet. A revised impact note would be provided once an actuarial analysis becomes available.

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**SUBJECT MATTER:** HB 2903 amends the Illinois Pension Code. The bill creates a pension buyout plan for an eligible retiree in SURS and TRS. A retiree who chooses the pension buyout plan would receive a lump sum payment in lieu of receiving retirement annuities. This bill also establishes a Tier 3 plan for SURS and TRS, and Tier 4 plan for TRS. Details on HB 2903 are summarized below.

**COMMENTS:** HB 2903 is nearly identical to HB 2902 except that few technical changes were made on HB 2903.

### **Pension Buyout Plan**

The pension buyout plan will be a voluntary choice given to an eligible retiree in SURS and TRS. An eligible retiree can make the election at any time after retirement and those who elect the pension buyout plan will have the following outcomes:

- 1) Receive a lump sum payment of the present value of the retirement annuities calculated by his or her pension system using current actuarial tables and assumptions.
- 2) Relinquish all the rights and benefits regarding the retirement benefit under the Illinois Pension Code, including a retirement annuity, a survivor's annuity, a refund of contributions, and creditable service.
- 3) The provisions of the State Employees Group Insurance Act of 1971 would still be applicable to the retiree so the group health insurance benefit would be provided.

However, a retiree who has elected to proceed under the Retirement System Reciprocal Act is not eligible for the pension buyout plan.

In order to implement the buyout plan, an approved vendor would have entered into a contract with the Department of Central Management Services (CMS) to provide lump sum payments to those who elect a pension buyout option.

### **Tier 3 Plan**

By July 1, 2018, SURS and TRS shall implement a Tier 3 plan. Tier 1 and 2 members in SURS and TRS can voluntarily elect to move to the Tier 3 plan, and the decision would be irrevocable. Under the Tier 3 plan, a Defined-Contribution plan (DC plan), an individual account would be opened for a member who chooses to participate in the Tier 3 plan, and contributions from the member and the member's employer, if the employer decides to contribute, would be aggregated in an individual account.

- Contribution rates
  - Employee contribution rates shall be determined by an employee and in the range of 3% of salary to a maximum rate, determined by the Board of each system.
  - If an employer chooses to contribute, employer contribution rates shall be same as the employee contribution rate.
- Employer contributions would be vested in an individual account after 5 years of participation in Tier 3 plan.
- Upon the election, an amount of a refund that a member would have received if the member terminated service would be transferred into an individual account without paying tax on the refund.
- A variety of investment and payout options shall be provided.
- Administrative fee
  - Employee contributions shall be reduced by an amount of any applicable administrative fee.

#### **Tier 4 Plan**

By July 1, 2018, TRS shall implement a Tier 4 plan. Tier 1 and 2 members in TRS can voluntarily elect to move to the Tier 4 plan, and the decision would be irrevocable. Under the Tier 4 plan, which would be a Defined-Contribution plan (DC plan), an individual account would be opened for a member who chooses to participate in the Tier 4 plan, and both of the member and State contributions would be aggregated in an individual account.

- Contribution rates
  - Employee contribution and State contribution rates shall be 8% of salary respectively.
- State contributions would be vested in an individual account after 5 years of participation in the Tier 4 plan.
- Upon the election, an amount of a refund that a member would have received if the member terminated service would be transferred into an individual account without paying tax on the refund.
- A variety of investment and payout options shall be provided.
- Administrative fee
  - Employee contributions shall be reduced by the amount of administrative fees, not exceeding 1% of an employee's salary.
- Defined disability benefit
  - A defined disability benefit shall be provided as it is available to other participants under TRS.

#### **Retirement Systems Reciprocal Act**

Pension credits earned under Tier 3 and 4 plan at SURS or TRS could be used for determining eligibility for and the amount of DB pension benefits, including survivor's benefit, from other pension systems.

#### **State contributions**

Service credits established under the Tier 3 plan or the Tier 4 plan, and any service credit terminated as a part of the pension buyout plan, would be included in determining service credit for the purpose of determining State contributions.

#### **Miscellaneous**

HB 2903 provides an authority to CMS to issue bonds to implement the pension buyout plan.

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