

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **HB 4839**

April 2, 2018

SPONSOR (S): Ives

SYSTEM(S): General Provisions, General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Teachers' Retirement System (TRS), and Judges' Retirement System (JRS)

FISCAL IMPACT: The fiscal impact of HB 4839 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.

SUBJECT MATTER: HB 4839 amends the Illinois Pension Code by creating a Tier 3 plan that resembles the Self-Managed Plan (SMP) under the State Universities Retirement System (SURS) for the 5 State-funded systems. Several other changes are included in the bill, as summarized below in the comment section.

COMMENT:

Tier 3 Plan for New Participants

(Affected Systems: GARS, SERS, SURS, TRS, and JRS)

By July 1, 2019, a System shall create a Tier 3 plan that resembles the Self-Managed Plan (SMP) under SURS. A System shall consult with SURS to develop and implement the Tier 3 plan. The Tier 3 plan will aggregate both State contributions and employee contributions into an individual account so that retirement payouts for a member should be paid from the individual account. The main characteristics of the Tier 3 plan are as follows:

- Defined Contribution (DC) plan
 - Resembling benefits and structure of the SMP under SURS
- On or after July 1, 2019, a new participant of a System shall participate in a Tier 3 plan.
- Employee contribution rate:

- 8% of salary, except for Social Security-covered SERS employees whose rate is 3% of salary
- State contribution rate:
 - 7.6% of salary, minus the amount determined annually by the Board to cover the cost of the defined disability benefits if such benefits are offered for the Tier 3 plan, except for GARS employees whose rate is 7.6% of salary and for covered SERS whose rate is 3% of salary
- Minimum participation needed to be vested: 1 year

If an active Tier 1 member or Tier 2 member elects to participate in the Tier 3 plan by terminating his or her participation in the Tier 1 or Tier 2 plan,

- The election will be voluntary and irrevocable;
- The member's service credit will stop accruing under the Tier 1 or 2 plan and start accruing under the Tier 3 plan upon the election; and
- A tax-free refund of contributions, including interest, would be credited to a member's individual account.

Repeal of Certain State Contribution Provisions of P.A. 100-0023

(Affected Systems: SURS and TRS)

Pursuant to P.A. 100-0023, for FY 2018 through FY 2020, the State contributes to SURS and TRS an amount equal to 2% of payroll of each employee under the Tier 3 hybrid plan, while employers under SURS and TRS pay to the applicable system the DB normal cost of the DB plan component of the hybrid plan, minus employee contribution. Starting FY 2021, employers under SURS and TRS would make the additional contributions of 2% of payroll instead of the State, in addition to the required employer contributions. The provisions of P.A. 100-0023 related to the State and employer contributions for the optional Tier 3 hybrid plan would be repealed as HB 4839 creates the aforementioned DC Tier 3 plan where new participants shall participate.

The Accelerated Pension Benefit Payments

(Affected Systems: GARS, SERS, SURS, TRS, and JRS)

An eligible member can irrevocably elect to receive accelerated pension benefit payments, equal to 70% of the net present value of a member's pension benefits, instead of receiving regular retirement benefits. The irrevocable election shall be made between January 1, 2019, and July 1, 2019. An eligible member is a person who:

- 1) Has terminated service;
- 2) Has enough creditable service to receive a retirement annuity;
- 3) Has not received any retirement annuities; and
- 4) Does not have a QILDRO in effect against the member.

Some of main features of this offer are briefly summarized below:

- For those who elect to receive the accelerated pension benefit payments, creditable service associated with the election may not be used under the Retirement Systems Reciprocal Act.

- Terminated creditable service as a result of the election would still be valid for eligibility in the State Employee Group Insurance Program.
- If a member who received the accelerated pension payments returns to active service, the accelerated pension payments shall not be repaid to a system, and terminated service credits shall not be reinstated.
- In order to receive the accelerated payments, an eligible member must have another retirement plan or account qualified under the Internal Revenue Code of 1986, and the payments will be rolled into another retirement plan or such account.

Before January 1, 2020, the Board of a retirement system shall certify to the Illinois Finance Authority and the General Assembly the amount by which the total amount of the accelerated pension benefit payments made under a system exceed the amount of appropriation to a retirement system.

Optional Participation in the Retirement Systems

(Affected systems: GARS, SERS, SURS, TRS, and JRS)

Beginning on the effective date of this legislation, participation in a retirement system will be optional, and an active participant, including a Tier 3 member if applicable, in a retirement system can elect to terminate participation by receiving a refund of the member's contribution.

Restriction on Participation in GARS

Beginning on the effective date of this legislation, GARS shall restrict participation in GARS to current members and shall not accept any new members.

Exclusion of Certain Items from Creditable Earnings or Service Credits

(Affected Systems: IMRF, SERS, SURS, and TRS)

For a new participant on or after the effective date of this legislation, certain items shall be excluded from being used to determine creditable earnings or to establish service credits. Such items are listed by a fund or retreatment system below:

- Exclusion from creditable earnings
 - IMRF and SURS - Payments for unused sick or vacation time
 - SERS - Any payments or reimbursements for travel vouchers submitted more than 30 days after the last day of the travel
- Exclusion from service credits
 - SERS - A period during which a lump sum payment for accumulated vacation, sickness, or personal business is paid
 - accumulated unused sick leave
 - SURS - unused sick leave

- TRS - unused and uncompensated accumulated sick leave

Cost Shift to employers under SURS or TRS

In addition to any other required contributions including the 6% cap penalty payments (pursuant to P.A. 94-0004) and the Governor's salary cap (pursuant to P.A. 100-0023), HB 4839 requires an employer to pay an additional amount if a contract or a collective bargaining agreement entered into or renewed on or after the effective date of this legislation provides higher salaries than salaries provided under the preceding contract or the collective bargaining agreement, the employer shall pay to a System the current value of the projected amount of the increase in benefits, expressed as a percentage of salary and reflecting separate amounts for Tier 1 members and Tier 2 members, resulting from the salary increase.

Retirement Systems Reciprocal Act

Pension credits established as Tier 3 participants under GARS, SERS, SURS, TRS, or JRS may be used to determine eligibility for or the amount of DB retirement annuity that is payable by any other participating system.

Under current law, participating systems under the Retirement Systems Reciprocal Act are as follows:

- GARS
- IMRF
- Municipal Employees' Annuity and Benefit Fund of Chicago
- County Employees' Annuity and Benefit Fund of Cook County
- Forest Preserve District Employees' Annuity and Benefit Fund of Cook County
- Laborers' Annuity and Benefit Fund of Chicago
- Park Employees' Annuity and Benefit Fund of Chicago
- Metropolitan Water Reclamation District Retirement Fund
- SERS
- SURS
- TRS
- Chicago Teachers' Pension Fund
- JRS

Prohibition of TRS Employer Pickups

HB 4839 prohibits an employer from making employee contributions on behalf of an employee. Under current law, there are 2 different definitions of employer pickups, as follows:

- 1) An employer pays the entire employee contribution on behalf of the employee;
or
- 2) A pre-tax deduction from salary is considered to be an employer contribution under the United States Internal Revenue Code.

HB 4839 prohibits the first definition of employer pickups that are made on behalf of the employee beginning on the effective date of this legislation. However, this prohibition does not apply if employer pickups are the result of an employment contract or collective bargaining agreement that is in effect on the effective date of this legislation. Any contract or agreement that is subsequently modified or renewed shall be subject to this prohibition.

Bond Issuance under the Illinois Finance Authority Act

State Pension Obligation Acceleration Bonds shall be issued to make the accelerated pension benefit payments. The total amount of bonds issued shall not exceed \$250 million, excluding bonds issued to refund outstanding State Pension Obligation Acceleration Bonds.

JB:bj

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