

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **SB 0779, as amended by HA 2** April 19, 2018

SPONSOR (S): Biss – Martinez, et al. (Martwick)

SYSTEM(S): General Provisions, State Employees' Retirement System (SERS), State Universities Retirement System (SURS), and Teachers' Retirement System (TRS)

FISCAL IMPACT: In SERS' 2017 actuarial valuation report, the system identifies 350 non-covered Tier 2 active members who might elect to participate in the hybrid plan. SERS expects the hybrid plan would be implemented starting in FY 2020 and assumes that 25% of future non-covered employees would choose the hybrid plan. SURS' actuary assumes that 60% of new hires would elect the hybrid plan, which is expected to be available beginning FY 2020 as well. TRS has not included the hybrid plan in their 2017 actuarial valuation report as they state in their report that certain provisions of the hybrid plan are "unclear."

SUBJECT MATTER: SB 0779, as amended by HA 2, amends the Illinois Pension Code. This legislation clarifies provisions of P.A. 100-0023 that created an optional hybrid plan under SERS, SURS, and TRS and specifies the implementation processes of the hybrid plan. Also, it makes changes to employee and employer contributions.

COMMENT: SB 0779, as amended by HA 2, is the hybrid plan "cleanup" bill. The bill makes several other technical changes. Under this legislation, provisions of P.A. 100-0023 regarding the optional hybrid plan are added to the SERS, SURS, and TRS articles of the Pension Code. Some of the main provisions of this legislation are briefly summarized below.

The Optional Hybrid Plan

Availability of the Hybrid Plan

On or after the implementation date of a hybrid plan, newly hired employees at SURS or TRS and new non-covered employees at SERS have an option to irrevocably elect a hybrid plan within approximately the first 90 days of service. The hybrid plan would be a default plan for employees who fail to make an election by the prescribed timeline.

Also, existing Tier 2 members at SURS or TRS and existing non-covered Tier 2 employees at SERS could irrevocably opt into the hybrid plan.

The Hybrid Plan Benefit

The hybrid plan consists of two components, a DB plan and DC plan. A member who elects to participate in the hybrid plan would make contributions toward both the DB plan and DC plan.

- DB Component:
 - Final Average Salary: Total salary during the last 120 months, divided by 120 months, or the average earnings during the entire period of service.
 - Pensionable Salary Cap: The federal Social Security Wage Base
 - Retirement Age: The normal retirement age determined by the Social Security Administration (but not earlier than age 67) with at least 10 years of service credit.
The annuity would be reduced by 0.5% for each month until the normal retirement age, if the member retires within 5 years of the normal age, but no earlier than age 62. (TRS's minimum age for the full annuity is 67 and for the reduced annuity is 62.)
 - Retirement Formula: 1.25% of final average salary for each year
 - Retirement COLA: One-half the annual unadjusted percentage increase in the CPI-W. If the change in CPI-W is 0 or negative, there will be no annual increase provided.
 - Survivor's Annuity: $66\frac{2}{3}\%$ of retirement annuity
 - Total Normal Cost: The total normal cost of the benefits of all hybrid members, expressed as a percentage of pensionable salary
 - Employee contributions
 - 1st plan year
 - SERS: 5.4% of salary for the retirement annuity; and 0.8% of salary for the survivor's annuity
Total of 6.2% of salary
 - SURS: 5.0% of salary for the retirement annuity; 0.8% of salary for the survivor's annuity; and 0.4% of salary for the annual increase adjustment
Total of 6.2% of salary
 - TRS: Lesser of 6.2% of salary or the total normal cost, determined by the Board annually
 - From the 2nd plan year onward
 - SERS: Lesser of 5.4% of salary or 87.1% of the total normal cost for the retirement annuity; and Lesser of 0.8% of salary or 12.9% of the total normal cost for the survivor's annuity
 - SURS: Lesser of 5.0% of salary or 81.25% of the total normal cost for the retirement annuity;

Lesser of 0.8% of salary or 12.5% of the total normal cost for the survivor's annuity; and

Lesser of 0.4% of salary or 6.25% of the total normal cost for the annual increase adjustment

- TRS: Lesser of 6.2% of salary or the total normal cost, determined by the Board annually
- Employer contributions
 - *DB benefit normal cost of the DB plan less the employee contribution plus 2%* for each employee who is a hybrid plan member or Tier 2 DB plan member who first participates on or after the implementation date of the hybrid plan.
 - Only from FY 2018 through FY 2020, of the aforementioned employer contributions, the State would pay the 2%, instead of employers at TRS and SURS, for each employee who is a hybrid plan member or Tier 2 DB plan member who first participates on or after the implementation date of the hybrid plan.
- DC Component:
 - DC plan shall consist of one or more DC plans that meet qualifications of an “eligible retirement plan” based on the Internal Revenue Code of 1986, as amended.
 - Employee contribution: At least 4% of salary (Administrative fees will be deducted from employee contributions.)
 - Employer contribution: Range of 2% to 6%
 - Minimum 1 year of employment with the same employer is needed for employer contributions to be paid into an employee's account.

Employer Pickup for the Hybrid Plan for SERS, SURS or TRS

Employee contributions for the hybrid plan may be picked up by an employer or the State Board of Education.

Additional State Contributions for SURS and TRS

For FY 2018, 2019, and 2020, the State would contribute an additional 2% for an employee who is a hybrid plan member or Tier 2 DB plan member who first participates on or after the implementation date of the hybrid plan.

Employer Contributions to Self-Managed Plan (SMP)

An employer at SURS shall pay the employer contributions for each employee who first participates in the SMP on or after the implementation of the hybrid plan.

Other Technical Changes

Other technical changes were made to help the Systems implement the hybrid plan, bill employers, enforce payments, etc.

JB:bj

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