

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **HB 3937**

March 10, 2009

SPONSOR (S): McCarthy

SYSTEM(S): Judges' Retirement System

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**FISCAL IMPACT:** The System's actuary has completed his projections for the changes HB 3937 will make on the Judges' Retirement System defined benefit plan, and these results are shown in the tables below. For the period ending with FY 2045, total contributions to the defined benefit plan are reduced by \$4.1 Billion for the Judges' Retirement System.

An analysis of the costs associated with the defined contribution plan going forward has not yet been made available to the Commission.

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**SUBJECT MATTER:** HB 3937 amends the Illinois Pension Code to require the Judges' Retirement System to allow any employee to voluntarily elect enrollment in a new self-managed program of retirement benefits, commonly called a defined contribution plan. In addition, all new employees will be required to enter this defined contribution plan.

**FISCAL IMPACT:** The System's actuary has completed his projections for the changes HB 3937 will make on the Judges' Retirement System defined benefit plan, and these results are shown in the tables below. For the period ending with FY 2045, total contributions to the defined benefit plan are reduced by \$4.1 Billion for the Judges' Retirement System.

An analysis of the costs associated with the defined contribution plan going forward has not yet been made available to the Commission.

**COMMENTS:** The Illinois Pension Code provides members of the Judges' Retirement System with participation in a defined benefit plan for retirement. Under this employer-managed plan the participant accumulates retirement benefits through a combination of employee and employer contributions subsequently invested at the direction of the employer. The participant receives a specific monthly retirement benefit based on years of service, qualifying salary and specific retirement plan benefit rates. The actual returns on the invested funds do not affect the participant's benefits as the entire risk for low investment returns is borne by the employer.

HB 3937 allows current members of the Judges' Retirement System to voluntarily participate in a defined contribution retirement plan, and requires new employees to participate only in

this defined contribution plan. Under this self-managed plan the participant would accumulate assets for retirement through a combination of employee and employer contributions that may be invested at the employee's direction in mutual funds, collective investment funds or other investment products used to purchase annuity contracts. The participant's retirement benefits are largely determined by the actual rates of return achieved by the employee's investment decisions. The entire risk for poor investment decisions would be borne by the employee and would reduce eventual retirement payments. HB 3937 provides that, to the extent these changes are determined to be a new benefit increase, the changes are exempt from the 5-year expiration provision.

GS:dkb

LRB096 11641 AMC 22203 b

**Judges' Retirement System**

Current Law

All Dollar Amounts in Millions

<u>Fiscal Year</u>	<u>Annual Payroll</u>	<u>Total Payout</u>	<u>State Contribution</u>	<u>State Contribution as Percent of Payroll</u>	<u>Actuarial Liability</u>	<u>Assets</u>	<u>Unfunded Liability</u>	<u>Funded Ratio</u>
2008					\$1,457.3	\$612.7	\$844.7	42.0%
2009	\$154.1	\$87.5	\$60.0	38.91%	1,525.2	648.8	876.4	42.5%
2010	161.2	93.3	78.8	48.91%	1,595.9	702.1	893.8	44.0%
2011	168.1	99.2	82.2	48.91%	1,670.0	757.7	912.2	45.4%
2012	174.7	105.7	85.5	48.91%	1,746.6	815.2	931.4	46.7%
2013	181.3	112.1	88.7	48.91%	1,826.6	874.5	952.1	47.9%
2014	187.5	119.1	91.7	48.91%	1,909.2	935.1	974.0	49.0%
2015	195.0	126.8	95.4	48.91%	1,995.5	997.2	998.3	50.0%
2016	202.8	133.1	99.2	48.91%	2,084.5	1,062.5	1,022.0	51.0%
2017	211.0	139.4	103.2	48.91%	2,177.0	1,131.3	1,045.7	52.0%
2018	219.4	146.1	107.3	48.91%	2,272.7	1,203.9	1,068.8	53.0%
2019	228.2	152.9	111.6	48.91%	2,372.4	1,280.6	1,091.8	54.0%
2020	237.3	160.1	116.1	48.91%	2,475.7	1,361.5	1,114.2	55.0%
2021	246.8	167.4	120.7	48.91%	2,583.2	1,447.0	1,136.2	56.0%
2022	256.7	175.2	125.5	48.91%	2,694.8	1,537.4	1,157.5	57.0%
2023	266.9	183.5	130.6	48.91%	2,810.2	1,632.5	1,177.7	58.1%
2024	277.6	192.3	135.8	48.91%	2,929.4	1,732.7	1,196.8	59.1%
2025	288.7	201.5	141.2	48.91%	3,052.5	1,838.1	1,214.4	60.2%
2026	300.3	210.9	146.9	48.91%	3,179.7	1,949.2	1,230.5	61.3%
2027	312.3	220.5	152.7	48.91%	3,311.3	2,066.5	1,244.8	62.4%
2028	324.8	231.1	158.9	48.91%	3,446.6	2,189.9	1,256.7	63.5%
2029	337.7	241.5	165.2	48.91%	3,586.4	2,320.2	1,266.2	64.7%
2030	351.3	252.3	171.8	48.91%	3,730.7	2,457.9	1,272.8	65.9%
2031	365.3	263.2	178.7	48.91%	3,880.3	2,603.9	1,276.3	67.1%
2032	379.9	274.5	185.8	48.91%	4,035.1	2,758.8	1,276.3	68.4%
2033	395.1	286.1	193.3	48.91%	4,195.5	2,923.3	1,272.1	69.7%
2034	410.9	297.8	201.0	48.91%	4,362.0	3,098.5	1,263.5	71.0%
2035	427.4	309.8	209.0	48.91%	4,535.0	3,285.2	1,249.8	72.4%
2036	444.5	322.1	217.4	48.91%	4,714.9	3,484.4	1,230.5	73.9%
2037	462.2	334.8	226.1	48.91%	4,902.1	3,697.3	1,204.8	75.4%
2038	480.7	347.9	235.1	48.91%	5,097.0	3,924.9	1,172.1	77.0%
2039	499.9	361.3	244.5	48.91%	5,300.2	4,168.6	1,131.6	78.6%
2040	519.9	375.1	254.3	48.91%	5,512.0	4,429.5	1,082.4	80.4%
2041	540.7	389.2	264.5	48.91%	5,733.1	4,709.4	1,023.8	82.1%
2042	562.4	404.0	275.1	48.91%	5,964.0	5,009.5	954.5	84.0%
2043	584.9	419.3	286.1	48.91%	6,205.0	5,331.5	873.6	85.9%
2044	608.3	435.0	297.5	48.91%	6,456.9	5,677.1	779.8	87.9%
2045	632.6	451.4	309.4	48.91%	6,720.2	6,048.2	672.0	90.0%

**Judges' Retirement System**

HB 3937

All Dollar Amounts in Millions

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2009	\$154.1	\$87.5	\$60.0	38.91%	1,525.2	648.8	876.4	42.5%
2010	156.5	93.3	132.7	84.78%	1,595.9	757.6	838.3	47.5%
2011	158.3	99.2	134.2	84.78%	1,663.9	870.3	793.6	52.3%
2012	155.0	105.6	131.4	84.78%	1,730.5	982.0	748.5	56.7%
2013	150.5	112.0	127.6	84.78%	1,795.5	1,091.1	704.4	60.8%
2014	145.7	118.9	123.5	84.78%	1,857.4	1,196.7	660.7	64.4%
2015	139.5	126.5	118.2	84.78%	1,916.2	1,296.4	619.8	67.7%
2016	133.1	132.6	112.9	84.78%	1,970.6	1,391.4	579.1	70.6%
2017	126.1	138.6	106.9	84.78%	2,020.2	1,480.6	539.5	73.3%
2018	119.1	144.8	100.9	84.78%	2,064.0	1,563.4	500.6	75.7%
2019	111.1	151.0	94.1	84.78%	2,101.7	1,638.4	463.3	78.0%
2020	103.2	157.3	87.5	84.78%	2,132.7	1,705.1	427.6	80.0%
2021	95.3	163.2	80.8	84.78%	2,157.0	1,763.2	393.8	81.7%
2022	87.8	169.2	74.4	84.78%	2,173.9	1,812.3	361.6	83.4%
2023	80.2	174.9	68.0	84.78%	2,183.3	1,852.0	331.3	84.8%
2024	72.8	180.3	61.7	84.78%	2,184.9	1,882.0	302.9	86.1%
2025	65.6	185.5	55.6	84.78%	2,178.6	1,902.0	276.5	87.3%
2026	58.8	190.1	49.9	84.78%	2,164.3	1,912.3	252.0	88.4%
2027	52.4	194.2	44.4	84.78%	2,142.3	1,912.8	229.5	89.3%
2028	46.1	197.9	39.0	84.78%	2,112.4	1,903.5	208.9	90.1%
2029	40.3	200.6	34.1	84.78%	2,075.6	1,885.1	190.4	90.8%
2030	35.0	202.7	29.7	84.78%	2,032.0	1,858.1	173.9	91.4%
2031	30.3	203.7	25.7	84.78%	1,982.6	1,823.4	159.2	92.0%
2032	25.8	204.2	21.9	84.78%	1,927.5	1,781.1	146.5	92.4%
2033	21.9	203.7	18.6	84.78%	1,867.7	1,732.2	135.5	92.7%
2034	18.5	202.4	15.7	84.78%	1,803.7	1,677.6	126.1	93.0%
2035	15.6	200.3	13.3	84.78%	1,736.2	1,618.1	118.1	93.2%
2036	13.0	197.5	11.0	84.78%	1,665.8	1,554.3	111.5	93.3%
2037	10.7	193.9	9.0	84.78%	1,593.2	1,487.0	106.2	93.3%
2038	8.7	189.6	7.4	84.78%	1,519.0	1,416.9	102.1	93.3%
2039	7.2	184.6	6.1	84.78%	1,444.0	1,345.0	99.0	93.1%
2040	5.8	179.1	4.9	84.78%	1,368.8	1,271.8	97.0	92.9%
2041	4.7	172.8	4.0	84.78%	1,294.0	1,198.1	95.9	92.6%
2042	3.6	166.2	3.0	84.78%	1,220.4	1,124.5	95.8	92.1%
2043	2.7	159.0	2.3	84.78%	1,148.4	1,051.7	96.7	91.6%
2044	2.0	151.4	1.7	84.78%	1,078.8	980.3	98.5	90.9%
2045	1.4	143.5	1.2	84.78%	1,012.1	910.9	101.2	90.0%