COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **HB 5872** February 19, 2010

SPONSOR (S): Fortner

SYSTEM(S): State Employees' Retirement System, Teachers' Retirement System, Judges' Retirement System, General Assembly Retirement System

---

FISCAL IMPACT: HB 5872 will be reviewed by the Systems' actuaries to determine the exact financial effects upon the state retirement systems. A revised pension impact note will be issued upon the completion of this analysis.

<u>SUBJECT MATTER</u>: HB 5872 amends the Illinois Pension Code to require the State Employees' Retirement System, Teachers' Retirement System, Judges' Retirement System and General Assembly Retirement System to each establish a new self-managed program of retirement benefits, commonly called a defined contribution plan.

<u>FISCAL IMPACT</u>: HB 5872 will be reviewed by the Systems' actuaries to determine the exact financial effects upon the state retirement systems. A revised pension impact note will be issued upon the completion of this analysis.

<u>COMMENTS</u>: The Illinois Pension Code currently provides members of SERS, TRS, JRS and GARS 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 5872 requires members of GARS, SERS, TRS and JRS beginning employment after January 1, 2011, to participate in a defined contribution retirement plan for a portion of their retirement benefits. Under this self-managed plan the participant would accumulate this portion of retirement assets 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 resulting 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 on this portion of retirement benefits would be borne by the employee and could reduce eventual retirement payments. Conversely, the entire benefit derived from good investment decisions would accrue to the benefit of the participant.

HB 5872 requires that all employee retirement contributions based upon earnings below the Social Security covered wage base shall continue to go into the traditional defined benefit retirement plan. However, all employee retirement contributions based upon earnings above this figure for employees hired after January 1, 2011, will be deposited into the new defined contribution retirement plan. The employee contribution rate for the defined contribution plan will be identical to the employee contribution rate for the defined benefit plan. The subsequent state contribution will exactly match the required employee contribution amount deposited into this defined contribution plan. Employees will be allowed to make additional optional contributions into this plan, but there will be no state matching on any optional deposits.

HB 5872 requires the retirement systems to provide at least 2, but no more than 7, investment options for all defined contribution plan deposits. Companies providing these investment options will be selected by the retirement systems using qualifications the systems establish for their certification and participation. In addition to these companies, the systems may offer their participants an investment fund managed by the Illinois State Board of Investment.

Under HB 5872, vested employees will be allowed to remove their entire account balances in the defined contribution plan upon terminating employment. This balance will include employee contributions, state contributions and investment earning on both. Non-vested employees terminating employment will only receive the employee contributions plus any investment returns thereon. Unrefunded state contributions and resulting earnings thereon for terminating non-vested employees will be credited to the retirement system and shall be used to defray plan expenses and/or lower state contribution requirements.

Finally, state contributions will be lower on all earnings subject to inclusion into the defined contribution retirement plan. Under the traditional defined benefit plan, the required state contribution rate is much larger than the required employee contribution rate. Under the new defined contribution plan, these 2 rates are exactly equal.

GS: bj
LRB096 20604 AMC 36308 b