COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **SB 3408** March 2, 2010

SPONSOR (S): Brady

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

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FISCAL IMPACT: SB 3408 is being reviewed by the various Systems' actuaries. An updated impact note will be issued when these actuarial studies are totally completed.

SUBJECT MATTER: SB 3408 amends the Illinois Pension Code to require the General Assembly Retirement System, the State Employees' Retirement System, the State Universities Retirement System, the Teachers' Retirement System, and the Judges' Retirement System to enroll their new employees in a self-managed program of retirement benefits, commonly called a defined contribution plan. In addition, SB 3408 allows currently eligible employees to elect to voluntarily participate in the self-managed program.

FISCAL IMPACT: SB 3408 is being reviewed by the various Systems' actuaries. An updated impact note will be issued when the actuarial studies are totally completed.

COMMENTS: The Illinois Pension Code provides members of GARS, SERS, SURS, TRS and JRS 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.

SB 3408 requires new members of GARS, SERS, SURS, TRS and JRS to participate in a defined contribution retirement plan, and allows currently eligible employees to voluntarily participate in this 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. Conversely, excellent investment decisions would generate greater investment returns for the sole benefit of the employee and would increase eventual retirement benefits. SB 3408 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.

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