COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 0149** February 7, 2011

SPONSOR (S): Cross – Winters, et al

SYSTEM(S): All State Systems

FISCAL IMPACT: The fiscal impact of HB 0149 has not yet been calculated. A revised impact note will be issued when an actuarial cost study is available.

SUBJECT MATTER: HB 0149 amends the General Provisions Article of the Illinois Pension Code to provide current employees with an option to remain in the current defined benefit plan structure, or to choose the revised "Tier 2" benefit structure under P.A. 96-0889. Current and future employees will also be given the option to enroll in a self-managed plan, which is essentially a defined-contribution plan. The bill also provides for a revised amortization schedule under which unfunded liabilities accrued in FY 2012 are amortized by FY 2045.

FISCAL IMPACT: The fiscal impact of HB 0149 has not yet been calculated. A revised impact note will be issued when an actuarial cost study is available.

COMMENTS:

Benefit Accrual Options for Current and Future Employees

HB 0149 provides that each participant in a State-funded retirement system, other than those persons hired after January 1, 2011, shall have three options with regard to which retirement program they wish to participate in with respect to service accrued after Jan. 1, 2012. The three options are:

1. The pre-P.A. 96-0889 Tier 1 defined benefit plan;
2. The Tier 2 defined benefit plan for new hires under P.A. 96-0889;
3. A self-managed plan (i.e., a defined contribution plan)

P.A. 96-0889 raised the retirement age for employees hired after Jan. 1, 2011. In addition, the Act capped pensionable salary and implemented non-compounded annual cost-of-living increases for employees hired after Jan. 1, 2011. (For a thorough analysis of the changes made by P.A. 96-0889 as well as the fiscal impact of the Act, see the Commission's FY 2012 Budget Summary). HB 0149 provides that employees hired after Jan. 1, 2011 will only be able to choose between the Tier 2 defined benefit plan and the self-managed plan. Current and future employees must choose between the available options in a one-time, irrevocable election.

Creation of Self-Managed Plan

HB 0149 provides that each of the State-funded retirement systems shall create a self-managed plan, which shall offer participating employees with the opportunity to accumulate assets for retirement through a combination of employee and employer contributions that may be invested in mutual funds, collective investment funds, and other investment products. The bill gives employees the option to direct the transfer of account balances among the various investment options offered, subject to applicable contractual provisions. Additionally, HB 0149 specifies that a participant in the self-managed plan becomes vested in employer contributions after 5 years of service, or if the employee dies after 1.5 years of service, the employee's beneficiary becomes vested in employer contributions.

Employee Contributions to the State Systems

HB 0149 requires employees to make the following contributions to their respective retirement system, depending on the retirement option that the employee chooses:

1. **Tier 1 employees**: 6% of salary or one-half of the normal cost of the Tier 2 defined benefit package under P.A. 96-0889; in addition, Tier 1 employees must contribute an additional percentage of salary that is equal to the difference between the normal cost of the Tier 1 package and the normal cost of the Tier 2 package, plus an additional percentage of salary that is sufficient to amortize the system's unfunded liability at the end of FY 2012 that is attributable to wage increases occurring after the effective date of this amendatory Act.
2. **Tier 2 employees**: 6% of salary or one-half the normal cost of the Tier 2 package, whichever is greater.
3. **Self-Managed Plan employees:** 6% of payroll or one-half of the normal cost of the Tier 2 package, whichever is greater.

State Pension Contributions

HB 0149 provides that the miniumum required State contribution with respect to benefit accruals occuring after FY 2012 shall be 6% of payroll or one-half of the normal cost of the Tier 2 benefit structure under P.A. 96-0889. In addition, between fiscal years 2013 and 2045, the State shall contribute an amount that is sufficient to fund the Systems' unfunded liability attributable to service completed by the end of Fiscal Year 2012. HB 0149 provides that employees who participate in the Self-Managed plan will be entitled to a minimum allocation of 7.5% of the employee's compensation.

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