

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 97TH GENERAL ASSEMBLY

BILL NO: **HB 5754**

March 5, 2012

SPONSOR (S): Fortner - Ramey

SYSTEM(S): All State Systems

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**FISCAL IMPACT:** The Commission's actuary estimates that HB 5754 will reduce the total employer's normal cost for SERS by \$115.5 million (or 2.73% of payroll). SERS' total actuarial liability under the current benefit structure as of June 20, 3011 was \$31.4 billion. The actuary estimates that HB 5754 would reduce SERS' total actuarial liability by \$5.8 billion. The major portion of this decrease in the total actuarial liability can be attributed to the transfer of Traditional DB participants to the Self-Managed Plan (SMP). An additional cost study would be required to determine the long-term impact of HB 5754 on all 5 State systems.

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**SUBJECT MATTER:** HB 5754 mandates the creation of Self-Managed Plan (SMP) for SERS, GARS, JRS, and TRS. The bill sets contribution rates for members who remain in the "Traditional" defined benefit plan and for those members who opt into the SMP. HB 5754 places a cap on Traditional DB pensionable salary equal to the greater of the Tier 2 (post-P.A. 96-0889) pensionable salary limit or the salary payable during the 365 days preceding the effective date of this bill. Traditional DB members who choose to remain in the Traditional DB plan will make employee contributions up to the pensionable salary limit, and amounts over the limit will go into the SMP (the bill specifies State SMP contribution levels). The bill allows Traditional DB participants to make an irrevocable election to opt entirely into the SMP.

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COMMENT: HB 5754 requires SERS, GARS, JRS and TRS to establish a Self-Managed Plan (SURS established a Self-Managed Plan in 1997 upon the enactment of P.A. 90-0448). The bill permits traditional DB participants to make an election to transfer to the Self-Managed Plan an amount equal to the participant's total Traditional DB contributions, with interest. By making the election to transfer to the SMP, the employee forfeits all accrued rights and benefits under the Traditional DB plan.

HB 5754 caps Traditional DB salaries at the greater of the Tier 2 (post P.A. 96-0889) pensionable salary limit or the Traditional DB participant's salary during the 365 days immediately before this bill takes effect. For employees who choose to remain in the Traditional DB plan, any contributions in excess of this amount shall be used to finance SMP benefits. HB 5754 sets Traditional DB employee contributions at the greater of one-half the normal cost of the Traditional DB plan or 6% of salary.

Traditional DB employees will make contributions of 6% of salary on amounts over the maximum Traditional DB pensionable salary limit – as previously stated, these contributions will go into the Self-Managed Plan. Traditional DB employee contributions on these “excess amounts” will be *in addition to* the base Traditional DB employee contribution amount. Members who elect to participate in the SMP will contribute 8% of salary up to the Tier 2 DB pensionable salary limit, and 6% in excess of the Tier 2 DB pensionable salary limit. The State will make matching SMP contributions for Traditional DB employees in amounts equal to 3% of salary over the Traditional DB pensionable salary limit. The State will make matching contributions for SMP participants in an amount equal to 7.1% of salary up to the Tier 2 pensionable salary limit and 3% of any amount of salary in excess of the limit.

HB 5754 requires the systems to calculate the normal cost of each plan offered by the system as a percentage of salary and to update those amounts every 3 years.

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