

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 99TH GENERAL ASSEMBLY

BILL NO:           **HB 3276**

February 26, 2015

SPONSOR(S):      Sandack

SYSTEM(S):        General Assembly Retirement System (GARS)

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**FISCAL IMPACT:** In a recent actuarial cost study on a similar Tier 3 DC proposal for the large state systems, Segal Consulting noted a significant side effect of transitioning to a Tier 3 DC plan: "... since new members enter a separate Tier 3 DC plan, the Tier 1 and Tier 2 membership becomes a closed group with a declining payroll base. **As a result, the required contributions become relatively higher in the early years...** but reduces costs over the long-term." An actuarial study has not been performed on this particular bill, so the short term cost/long-term savings have not been quantified.

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**SUBJECT MATTER:** HB 3276 amends the GARS article of the Illinois Pension Code to create a third tier of pension benefits known as the "self-directed plan."

**COMMENT:** As of current law, there are 2 tiers of pension benefits in the State of Illinois. Tier 1 applies to any participant that is grandfathered into the system, while Tier 2 applies to anyone who first becomes a participant on or after January 1, 2011.

HB 3276 creates a 3<sup>rd</sup> tier of pension benefits.

- Tier 3 participant: anyone who first participates in the system on or after the effective date of this bill.
  - Any Tier 1 or Tier 2 participant may make an irrevocable election to become a Tier 3 package participant.
    - In doing so, the Tier 1 or 2 participant's account will start with a balance equal to the refund they would have received with the added benefit of interest at the effective rate for the respective years.
- Tier 3 pension package: a "self-directed" plan
  - Employee contributions are 8% of salary
  - Employer contribution is 7% of salary
  - The participant holds the authority in making investment decisions given the options made available by GARS for this purpose.
- Pensionable Salary
  - Tier 1 participants: Salary on last day of service
  - Tier 2 participants: Average of the highest consecutive 8 out of last 10 years of service
    - Includes Tier 2 salary cap.

- Tier 3 participants: Average of the highest consecutive 96 out of last 120 months of service.
  - Includes new Tier 3 salary cap starting at \$106,800 and grows at the lesser of 3% or the nonnegative % change in the CPI-U.
- COLA
  - This benefit package features no COLA
- Vesting
  - Occurs upon the first day of participation in the Tier 3 plan
  - All employee contributions, employer contributions, and interest thereon are included.
- Funding requirement
  - This bill includes a provision to change the funding schedule in 2 ways
    - First, it codifies the current stay of implementation on P.A.98-0599 by maintaining the 90% funding schedule for FY 2015.
    - Second, it establishes a new level-dollar amount funding schedule for FY 2016-2045 utilizing Entry-Age Normal actuarial cost method and a 100 funded ratio goal.
  - This bill enables the system to recertify with the Governor and General Assembly the amount of the State contribution for FY 2016.

MD:dkb

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