COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **HB 3828** March 6, 2015

SPONSOR(S): Ives

SYSTEM(S): General Assembly Retirement System (GARS), State Employees Retirement System (SERS), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

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** [see appendices A and B]… but reduces costs over the long-term [see appendix C]." This situation applies both to adding a new tier of beneficiaries as well as shifting everyone into a new tier of benefits.

The above-quoted cost study processed a proposal very similar to what is found in this bill. The only difference is that this bill assumes a fluctuating State contribution into the DC plan ranging from 3% to 7.6% of salary. In the study with the lowest contribution match of 3% of salary, the State's first year contributions are **increased** by $5.2 billion in FY16 but the 30-year cumulative **savings** under the same scenario will be around $77 billion.

SUBJECT MATTER: HB 3828 amends the GARS, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code to create a new tier of pension benefits utilizing a defined contribution model.

COMMENT: HB 3828 creates a new tier of pension benefits.

- "Tier 3 Benefit Package": This benefit is a DC plan
  - Employee contributions are at least 3% of salary, but may contribute up to a cap to be set by the Board.
  - Employer contribution is a uniform, across-the-board, 3% to 7.6% of salary.
    - Employer contribution is to be set on an annual basis by the Board.
  - The participant holds the authority in making investment decisions given the options made available by their retirement system for this purpose.
- Payouts
  - This benefit package grants participants the options to choose from a variety of undisclosed payout formats.
- Vesting

    - 5 years of service: 100% vested
- Tier 1 and Tier 2 members
    - May opt-in to Tier 3 package and retain all existing DB service credits and the rights to a benefit therein.
        - Tier 3 service will count towards vesting eligibility but nothing more
    - May opt-in to Tier 3 package with a starting balance equal to the amount the member would have gotten from a refund of contributions plus interest at the respective system's prescribed rate.
- Defined Contribution Plan established under P.A. 98-0599 (due 7/1/2015)
    - The Tier 3 benefit package will assume all participants who opted into their respective system's Defined Contribution Plan.
    - If the DC plan has not been implemented, its development shall cease.
    - If the DC plan has been successfully implemented, then it will remain in place until the Tier 3 benefit package has been finalized
- Creation of Tier 3 Plan
    - The plan is due to be made by July 15th, 2016
    - A report detailing the progress toward the creation of each system's Tier 3 implementation shall be issued to the Governor by January 15th, 2016.

Appendix A: In a study similar to this bill's proposals, Segal's cost study showed that State contributions would be greater than current law for the first couple of years, regardless of the DC plan's employer match percentage. Below is the *increase in first year contributions* under such a proposal.

First Year (FY 2016) **Increase** in State Contributions ($ in Mil)

DC Rate	TRS	SURS	SERS	Total
3%	$2,803.9	$1,262.6	$1,211.8	$5,278.3
5%	$2,815.2	$1,269.4	$1,215.4	$5,300.0
7%	$2,826.5	$1,276.2	$1,219.0	$5,321.7

Appendix B: In the same cost study, Segal's projections showed that State Contributions under this proposal would be categorically greater than current law for the first couple of years. Below is the breakdown of when the State's contribution would first be *less than* current law.

Proj. First FY of Savings Compared to Current Law ($ in Mil)

DC Rate	TRS	SURS	SERS
3%	2029	2027	2026
5%	2030	2027	2027
7%	2030	2028	2027

Appendix C: In the cost study, Segal's projections showed that the 30-year cumulative State Contributions under this proposal would be less than current law. Below is the breakdown of the 30-year cumulative reduction in contributions to the systems.

Cumulative **Reduction** in Contributions thru FY 2045 ($ in **Bil**)

DC Rate	TRS	SURS	SERS	Total
3%	$35.5	$16.6	$24.9	$77.0
5%	$28.6	$14.0	$22.3	$64.9
7%	$21.6	$11.4	$19.7	$52.7

MD:dkb
LRB099 11026 RPS 31401 b