COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **SB 1452** February 25, 2015

SPONSOR(S): Oberweis

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

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.

SUBJECT MATTER: SB 1452 amends the General Assembly Article of the Illinois Pension Code to create a third tier of pension benefits that is defined-contribution in nature.

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.

SB 1452 creates a 3rd tier of pension benefits that apply to anyone who first participates in the system on or after January 1, 2017. Tier 3 participants are explicitly excluded from participating in Tier 1 or Tier 2. A tier 3 pension package is a defined-contribution plan funded by the member paying whatever portion of salary they choose. Employee contributions are matched at 25% but are capped at 2% of the participant's salary. Vesting requires 3 years of service. Failure to vest in the Tier 3 package will result in forfeiture of all employer contributions and any earnings thereon.

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