COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO:	**HB 0421**	February 3, 2017
SPONSOR (S):	Wehrli	
SYSTEM(S):	General Assembly Retirement System	

FISCAL IMPACT: HB 0421 is expected to have a significant fiscal impact on the General Assembly Retirement System. Currently, there is no actuarial analysis for HB 0421. As such, it is not possible to discern the impact of HB 0421. An updated note will be submitted when an actuarial analysis becomes available.

SUBJECT MATTER: HB 0421 amends the General Assembly Retirement System (GARS) by creating a new funding goal and implementing a Self-Directed Retirement Plan. The funding goal requires contributions to be calculated in a manner that makes the System achieve a 100% funding ratio by 2045. The self-directed retirement plan places all current and future active members of GARS in a new pension plan.

COMMENT: HB 0421 amends the General Assembly Retirement System (GARS).

100% Funding Goal

For State fiscal years 2018 through 2045, the minimum contribution to the Sytem to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System to 100% of the total actuarial liabilities of the System by the end of State fiscal year 2045.

- In making these determinations, the required State contribution shall be calculated each year as a level dollar amount over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

Beginning in State fiscal year 2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 100% of the total actuarial liabilities of the System.

Self-Directed Retirement Plan

On and after the effective date of this bill, an active member's participation in the System shall be limited to a self-directed retirement plan. The self-directed retirement plan allows for active participants to accumulate assets for retirement through a combination of employee and employer contributions that may be invested in mutual funds, collective investment funds, or other investment products and used to purchase annuity contracts, either fixed or variable or a combination thereof.

- The plan must be qualified under the Internal Revenue Code of 1986.
- At any time after withdrawal from service, a participant in the self-directed plan shall be entitled to a benefit that is based on the account values attributable to his or her contributions and the vested percentage of employer contributions, as well as investment returns.
- A participant becomes vested in the employer's contributions credited to his or her account according to the following schedule. If the participant has completed:
    - Less than 2 years of service, 0%
    - At least 2 years of service, but less than 3 years, 25%
    - At least 3 years of service, but less than 4 years, 50%
    - At least 4 years of service, but less than 5 years, 75%
    - At least 5 years of service, 100%
- At the time of taking a benefit under the self-directed plan, any employer contributions that have not vested, and the investment returns attributable to the employer contributions that have not vested, shall be forfeited. Contributions forfeited this way shall be held in escrow by the company investing those contributions and shall be used, as directed by the System, for future allocations of employer contributions.
- Each participant shall contribute 8% of his or her salary to the plan.
- The employer shall contribute 7% of salary to the plan on behalf of the participant.
- All service credit under the System shall be considered for purposes of vesting prior to the effective date of this bill, but only credit earned and contributions made before this bill passes shall be considered in determining the amount of those benefits. Alternatively, a participant may elect to have the amount that he or she would receive from a refund of contributions, including interest, established in his or her self-directed plan.
- An annuitant shall not receive an automatic increase in retirement annuity on or after the effective date of this bill, unless the System has a 100% funding ratio.
- Retirement ages of active participants will be increased based on a schedule developed by the Public Pension Division of the Department of Insurance. This schedule will ensure that new participants will not be able to retire until they reach the Social Security Normal Retirement Age, and existing participants, that are not yet ready to retire, will remain ineligible until reaching age 59. These retirement age restrictions shall not apply to active participants of the self-directed retirement plan.

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