COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: **SB 2193** May 3, 2017

SPONSOR (S): Radogno

SYSTEM(S): GARS

FISCAL IMPACT: SB 2193 is expected to have a significant fiscal impact, but the extent of the impact is unknown at this time. An actuarial cost study would be required to determine the full fiscal impact.

SUBJECT MATTER: SB 2193 amends the General Assembly article of the Illinois Pension Code to make numerous changes to GARS. The legislation would limit participation in GARS to individuals who become participants before the effective date of this legislation. In addition, the funding schedule for the system would be changed and a small defined contribution (DC) plan would be offered to Tier One participants.

COMMENT: The most recent actuarial valuation estimates 556 members as of June 30, 2016, and an unfunded actuarial liability (based on the actuarial value of assets) of $312.5 million. This legislation is similar in part to SB 11 from the 100th GA. SB 2193 amends GARS with certain changes which are broken down as follows:

Participation Limit – Participation in GARS is limited to individuals who become participants before this legislation is effective. The proposed legislation would eliminate any additional liability for GARS beyond its current obligations and any new participants before January 1, 2018.

State Contributions - Starting in FY 2018 through FY 2045, the funding schedule for this system is changed from a required state contribution calculated yearly as a level percentage of payroll to a level percentage of total payroll, including non—pensionable payroll, but excluding payroll attributable to participants in a defined contribution plan created by this legislation.

- In addition, beginning in FY 2018, any increase or decrease in State contributions over the prior fiscal year due to changes in actuarial/investment assumptions shall be included in the state contribution to the system as a percentage of applicable employee payroll and increased in equal increments such that the State is contributing at the rate required by five years after the adoption of the actuarial/investment assumption. SRS has expressed a preference towards a three year phase-in period for phasing in increased/decreased contributions, as they review actuarial assumptions every three years.

- Along with other changes described in this note, “as soon as practical” after this legislation becomes effective, the pension board must recalculate and recertify the amount of the state contribution to the pension system for FY 2018. The board must account for changes made by this legislation and note any deviations from the State Actuary’s recommendations and provide notation as to the fiscal impact of such a deviation.

Defined Contribution Plan - This legislation creates a defined contribution for up to 5% of eligible active Tier 1 employees as determined by GARS. Under this plan, an active Tier 1 employee could choose to stop accruing benefits in the defined benefit plan (DB) and begin accruing benefits for future service in the defined contribution plan. Participants in the DC plan would pay contributions at the same rate as non-participants and said contributions would be paid in a uniform rate based on percentage of salary and determined for each year.

The DC plan would require 5 years of participation before vesting and may provide for disability benefits. The DC plan would also provide numerous options for investments, both handled by the State Board of Investment as well as private sector investment alternatives. The DC plan would also allow former participants to transfer or roll over contributions into other qualified plans. GARS would be required to report on its progress in this plan and other details by January 15, 2018.

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