COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 2851** February 27, 2019

SPONSOR (S): Morrison

SYSTEM(S): TRS, SERS, GARS, JRS

FISCAL IMPACT: The fiscal impact of HB 2851 cannot be determined, as it is unknown how many members would elect to participate in the self-managed retirement plan. An actuarial study would be necessary to estimate the potential cost based on various rates of participation in the self-managed plan. SURS already maintains a self-managed plan, in which approximately 15% of its active members participate, according to the system's FY 2017 actuarial valuation.

SUBJECT MATTER: HB 2851 amends the General Assembly, State Employees, Downstate Teachers, and Judges Articles of the Illinois Pension Code. The proposed legislation would require each System to establish a self-managed retirement plan sponsored by the System. Tier 2 members would have the option to participate in the self-managed retirement plan in lieu of any other plan within the Systems.

COMMENT: The proposed legislation provides that all state funds implement and administer a self-managed retirement plan. The retirement plan would consist of participant and State contributions invested in mutual funds, collective investment funds, other investment products, or a combination of multiple investments. The System would be the plan sponsor and would solicit and secure proposals from insurance and annuity companies and mutual fund companies, banks, trust companies, or financial institutions to provide investment opportunities. The participant would have the freedom to direct the investment of the participant and State contributions into one of more of the funds selected by the System. Participation in any other retirement program administered by the System would terminate at the time the member begins participation in the self-managed plan. A participant in the plan may not participate in any other system.

If a member is a participant in the traditional defined benefit program at the time they elect to participate in the self-managed fund, they may elect to receive an opening account balance in the amount equal to the refund they would be eligible to receive from terminating their participation in the traditional benefit fund, including interest. The self-managed plan would be funded by contributions from the participant and the State. The contribution rate for the participant would be equal to the rate the member had been contributing as a member under the traditional DB plan. State contributions into this fund would be equal to 7.6% of the participant's compensation. The participant would be allowed to make additional contributions into the fund, in accordance with any limitation established by the Systems.

The self-managed plan could be terminated by the System, subject to the terms of any relevant contracts. In this event, participants would be allowed to rejoin the traditional DB plan and receive service credit for the years they were a participant in the self-managed plan. A participant would become vested in the fund on the earliest occurrence of the following events: completion of 5 years of service; the death of the participant following at least 1 ½ years of service; or retirement of the participant.

If a participant receives a distribution of their vested amounts before they are eligible to retire, they are subject to forfeiture of their service credit and accrued rights. If the participant receives a distribution of their vested amounts before they are eligible to retire and re-enter service as a member, they will be considered a new member after re-entry. If a former member resumes active participation and continues for at least 2 years, their rights, service credits, and previous status as a participant would be restored. If a vested participant in the self-managed fund terminates service, they will be entitled to a benefit based on the account value attributable to both participant and state contributions. If a non-vested participant in the self-managed plan terminates service, they will be entitled to the account value attributable to only the participant contribution.

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