COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 1757** February 18, 2021

SPONSOR (S): Friess

SYSTEM(S): All State Systems (SERS, TRS, SURS, JRS, GARS)

FISCAL IMPACT: An actuarial study would be needed to assess the full impact of HB 1757. While the bill mandates participation in a new Tier 3 defined contribution (DC) plan for newly hired members, the funding plan established via P.A. 88-593, whereby the State systems must attain a 90% funding ratio by 2045, is unchanged. Because of this, State contributions to the systems would be higher for a period of years than under current law before annual contribution savings would be realized. An actuarial study would provide more detail as to the amount of expected long-term State contribution savings and the duration and extent of short-term State contribution increases.

SUBJECT MATTER: HB 1757 mandates the creation of a new Tier 3 defined contribution (DC) plan for the 5 State-funded retirement systems. Participation in the Tier 3 DC plan is mandatory for employees hired on or after July 1, 2022. Current Tier 1 and Tier 2 members may opt into the Tier 3 plan, either prospectively or via termination of all defined benefit (DB) service, as described below.

COMMENT: HB 1757 amends the State Systems Articles (GARS, SERS, SURS,TRS, and JRS) of the Illinois Pension Code. The bill mandates that by July 1, 2022, the aforementioned systems shall prepare and implement a Tier 3 plan. The Tier 3 plan will be a defined contribution plan that will aggregate State and employee contributions into individual accounts, utilizing the framework of the Self-Managed Plan currently offered under SURS. All persons who begin participation in the impacted systems on or after July 1, 2022 shall participate in the Tier 3 plan rather than the pertinent defined benefit plan.

Participants in the Tier 3 plan will contribute 8% of salary towards their pensions, while State contributions will be payable at a rate of 7.6% of salary. (SERS members who participate in Social Security will pay 3% of salary toward their Tier 3 benefits, and State contributions for these members will also be 3% of salary). Members will fully vest in

State contributions after 5 years of participation in the Tier 3 plan; termination of service prior to vesting will result in the forfeiture of State contributions.

The Tier 3 plan will provide members a variety of investment options to be overseen and handled by the State Board of Investment, as well as private sector investment options. Current Tier 1 and Tier 2 members will have the option to participate voluntarily in the Tier 3 system. If Tier 1 or Tier 2 members elect to terminate all participation in the existing defined benefit plan, the impacted system shall transfer to the individual member's Tier 3 account the amount of the contribution refund that the member would be eligible to receive if the member terminated employment on that date and chose to receive a refund of contributions, with interest at the prescribed rate of return. For Tier 1 and Tier 2 members who only choose to participate in the Tier 3 system prospectively, service credit under the Tier 3 plan may be used for determining retirement eligibility under the applicable DB plan.

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