COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 2973** March 2, 2021

SPONSOR (S): Morrison

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

FISCAL IMPACT: An actuarial study would be needed to assess the full impact of the new Tier 3 defined contribution (DC) plan under HB 2973. The new Tier 3 plan created by the bill is optional for Tier 1 and Tier 2 members. The bill does not change the State pension funding plan under P.A. 88-593. Therefore, a range of scenarios would need to be studied by the actuary with regard to different participation levels in the new Tier 3 plan.

SUBJECT MATTER: HB 2973 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 optional for Tier 1 and Tier 2 employees. 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. The bill makes other changes, such as prohibiting applying unused sick/vacation leave toward pensionable salary, and the institution of a prohibition on TRS employers making employee contributions on behalf of members.

COMMENT:

Creation of a New Optional Tier 3 DC Plan
HB 2973 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 at Tier 3 plan. The Tier 3 plan will be a defined contribution (DC) plan that will aggregate State and employee contributions into individual accounts. Participation in the Tier 3 plan will be optional to all Tier 1 and Tier 2 members; Tier 1 and Tier 2 members are not required to participate in the Tier 3 plan.

Participants in the Tier 3 plan will contribute no less than 3% of salary and no higher than a percentage determined by the pertinent board of directors, while State contributions will be payable at a rate no higher than 7.6% of salary and no lower than 3% of salary. The bill specifies that the pertinent system shall reduce the employee contributions by an amount determined by the system to cover the cost of offering the Tier 3 benefits. 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 Illinois State Board of Investment will be the plan sponsor for the Tier 3 plan. 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.

Voluntary Termination of Participation

HB 2973 contains a provision in the State Systems articles stipulating that an active participant may terminate his or her participation in the pertinent system by notifying the system in writing. A member terminating service is entitled to a refund of contributions minus any benefits received prior to the termination of benefits.

Prohibition on Utilization of Unused Sick and Vacation Time for Establishing Service Credit

HB 2973 amends the State System and IMRF articles of the Pension Code to prohibit new members hired on or after the effective date of this bill from applying any unused sick or vacation time towards establishing pensionable service credit in the pertinent fund. The bill also specifically states that SERS members who are hired on or after the effective date may not apply compensation related to payments for travel vouchers towards their pensionable salary.

Prohibition on Employers Making Contributions on behalf of TRS Members

Federal tax law permits public employers to "pick up" employee retirement contributions. Under a pick-up plan, the "picked-up" employee contributions are tax deferred for federal income taxation purposes until the member receives the contributions in the form of a refund or retirement benefit. Under the TRS article of the Pension Code, all employers (school districts) are required to participate in the "pick up" program.

HB 2973 amends the TRS article of the Pension Code to stipulate that no employer shall pay employee contributions on behalf of an employee, except for the sole purpose of allowing the employee to make pre-tax contributions via an employer "pick up" plan as described above. TRS members contribute 9% of salary towards their pensions.

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