

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102ND GENERAL ASSEMBLY

BILL NO: **HB 2978**

February 25, 2021

SPONSOR (S): Morrison

SYSTEM(S): GARS

FISCAL IMPACT: HB 2978 would have an unknown fiscal impact on pension liabilities at this time. An actuarial study of the various options involved with a Tier 3 system is necessary before final fiscal judgment could be made.

SUBJECT MATTER: HB 2978 amends the General Assembly Article of the Illinois Pension Code to establish a self-directed retirement plan. The proposed legislation requires GARS participants after the effective date of this legislation to participate in the self-directed plan only. In addition, current Tier 1 or Tier 2 members can make an irrevocable choice to participate in the self-directed plan instead of the current defined benefit plan.

COMMENT: HB 2978 creates a new self-directed retirement plan for all future members (classified as “Tier 3”) with a pensionable salary cap set at \$106,800, which can only be increased by the lesser of 3% of that amount annually or the annual unadjusted percentage increase in the consumer price index-u. Tier 1 and Tier 2 members may choose to participate in the Tier 3 plan; these members can either preserve their vested DB benefits and accrue Tier 3 service going forward, or they can establish an account balance in the new Tier 3 self-directed plan via a refund of accumulated DB contributions, with interest at the actuarially assumed rate of return.

Tier 3 service can be used for vesting purposes for Tier 1 and Tier 2 members who opt into the Tier 3 system. Pensionable salary for Tier 3 members would be the highest average final monthly salary in the 8 consecutive years of the previous 10 years. Participants would contribute 8% of their salary to this program. Employer (state) matching contributions to the self-directed plan would amount to 7% of the employee’s salary.

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