

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **SB 2526** March 16, 2021
SPONSOR (S): DeWitte
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 SB 2526. The bill does not change the State pension funding plan under P.A. 88-593. Because new members hired on or after July 1, 2023 would be required to participate in the Tier 3 DC plan, the current Tier 1 and Tier 2 defined benefit (DB) structure would be closed, and thus the percentage of payroll necessary to reach a 90% funding ratio by FY 2045 would increase significantly with no new members coming into the DB plans. Therefore, State contributions could be expected to increase over current law for a period of years before annual savings could be realized. Long-term State contribution savings would be expected in comparison to current law.

SUBJECT MATTER: SB 2526 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 would be mandatory for employees hired on or after July 1, 2023, as explained further in the Comment section below.

COMMENT: SB 2526 amends the State Systems Articles (GARS, SERS, SURS, TRS, and JRS) of the Illinois Pension Code. The bill mandates that by July 1, 2023, the aforementioned systems shall prepare and implement a Tier 3 plan. The Tier 3 plan will be a defined contribution (DC) plan that will aggregate State and employee contributions into individual accounts. The plan will be mandatory for persons hired on or after July 1, 2023 (SURS members would still retain the option to participate in the Self-Managed Plan). Thus, the Tier 2 DB plan would not accept new participants after that date.

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, and will have primary responsibility for providing member investment options, although the bill permits private investment options to be made available to Tier 3 members as well.

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