

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **SB 2527**

March 29, 2021

SPONSOR (S): Wilcox

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

FISCAL IMPACT: An actuarial study would be needed to assess the full impact of the new Optional Defined Contribution (DC) Plan under SB 2527. 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 Optional DC Plan.

SUBJECT MATTER: SB 2527 mandates the creation of a new Optional DC Plan for the 5 State-funded retirement systems by July 1, 2023. Tier 1 and Tier 2 members may opt into the DC Plan either prospectively or via termination of all defined benefit (DB) service, as described below.

COMMENT:

Creation of a New Optional DC Plan

SB 2527 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 an Optional DC Plan. The Optional DC Plan will aggregate State and employee contributions into individual accounts. Tier 1 and Tier 2 members are not required to participate in the Optional DC Plan.

Participants in the Optional DC Plan will contribute no less than 3% of salary and no higher than a percentage determined by the pertinent retirement system 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 State contribution amount shall be adjusted annually.

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 Optional DC Plan benefits. Members will fully vest in State contributions after 5 years of participation in the Optional DC Plan; termination of service prior to vesting will result in the forfeiture

of State contributions. Tier 1 and Tier 2 members must make an election to participate in the Optional DC plan on or before December 31, 2022.

The Illinois State Board of Investment will be the plan sponsor for the Optional DC 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 Optional DC Plan 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. Service credit under the DC Plan may be used for determining retirement eligibility under the applicable DB plan (i.e., for meeting the applicable age and years of service to vest for a Tier 1 or Tier 2 pension).

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