

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102ND GENERAL ASSEMBLY

BILL NO: **SB 3956** January 27, 2022
SPONSOR (S): Barickman – Syverson
SYSTEM(S): General Provisions

FISCAL IMPACT: SB 3956 would mandate an implementation date of no later than July 1, 2023 for the optional “Tier 3” hybrid plan that was created by P.A. 100-0023. Currently, TRS, SERS, and SURS have not yet implemented the Tier 3 hybrid plan.

SUBJECT MATTER: SB 3956 amends the General Provisions Article of the Illinois Pension Code to state that for State Employees’ Retirement System (SERS), State Universities Retirement System (SURS) and Teachers’ Retirement System (TRS), an implementation date of the optional “Tier 3” hybrid plan shall be no later than July 1, 2023.

COMMENT: P.A. 100-0023, which took effect on July 6, 2017, created the optional “Tier 3” hybrid plan. The Act stated that the three State systems shall implement the plan “as soon as possible after the effective date of the Act.” SB 3956 amends the General Provisions Article of the Pension Code to specifically state that a Tier 3 implementation date shall be no later than July 1, 2023. Currently, SERS, SURS, and TRS have not yet implemented the plan. Each retirement system says technical cleanup language is necessary for the proper implementation of the plan.

Pursuant to P.A. 100-0023, once the hybrid plan is created (i.e. once the implementation date starts), newly hired and existing Tier 2 members of SERS, SURS, or TRS will be provided an option to make an irrevocable election to participate in the “Tier 3” hybrid plan in lieu of Tier 2 Defined Benefit (DB) plan. Those who participate in the SURS’ Self-Managed Plan (SMP) or who are Social Security-covered employees in SERS are *not* eligible to participate in the Tier 3 hybrid plan. Currently, approximately 20% of SURS active members are SMP members and 96% of SERS active members are covered by Social Security.

There are two main components to the optional Tier 3 hybrid plan: the DB plan component and Defined Contribution (DC) plan component. A brief summary of the hybrid plan is shown on the following page.

DB Plan Component

- Employee Contribution: lesser of 6.2% of salary or the total normal cost to the DB plan
- Local Employer Contribution
 - SURS and TRS Employer Contribution: DB Normal Cost - Employee Contribution + 2% + an amount to amortize the unfunded liability (P.A. 100-0023 stated that for FY 2018-2020, the 2% portion would be paid by the State.)
- DB Retirement Annuity
 - 1.25% for each year of service credit, multiplied by final average salary
 - Final Average Salary: based on last 10 years of service, which shall not exceed the federal Social Security Wage Base, currently \$147,000 for calendar year 2022
 - Normal Retirement Eligibility: Age requirement determined by Social Security Administration, but no earlier than 67 years of age with at least 10 years of service
 - COLA: Beginning 1 year after annuity start date and equal to 50% of the CPI-W
 - Survivor's/Widow's Annuity: 66 2/3% of participant's retirement annuity

DC Plan Component

The DC plan shall aggregate employer and employee contributions in individual participant accounts which are used for payouts after retirement. The contribution requirements are as follows:

- Employee Contribution: 4% of salary at minimum
- Employer contribution: between 2% and 6% of salary which may be determined on an individual basis

When a participant has been employed with the same employer for at least one year, the employer contributions shall be paid into a participant's account. Employee and employer contributions are transferrable into other qualified plans.

SB 3956 requires the three systems to establish an implementation date of no later than July 1, 2023 for the Tier 3 hybrid plan.

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