

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **SB 4007**

February 10, 2022

SPONSOR (S): McConchie

SYSTEM(S): SERS

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**FISCAL IMPACT:** The fiscal impact of SB 4007 is not known as the number of participants in the current defined benefit (DB) plan under SERS who would opt to participate in the newly-created defined contribution (DC) plan is not known. An actuarial study would be needed to assess the impact upon State contributions based on a range of DC participation scenarios, and a range of scenarios for members who would transfer prior DB service to the DC plan, and those who would allow prior DB service credit to remain in force.

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**SUBJECT MATTER:** SB 4007 amends the SERS article of the Pension Code. The bill mandates the creation of an optional defined contribution (DC) plan in SERS, in which the member must participate exclusively by opting out of the traditional DB plan. Members who choose to opt out of the DB plan can either choose to transfer their prior DB service credit to the DC plan, or choose not to transfer their DB service credit and receive a pension based on that portion of prior DB service. The details of these options are provided below in the Comment section.

**COMMENT:** SB 4007 amends the SERS article of the Pension Code. The bill mandates the creation of an optional defined contribution (DC) plan within SERS, which shall be implemented no later than July 1, 2024. Below is a summary of contribution rates and service transfer provisions associated with the optional DC plan.

### *Employee and Employer Contribution Rates*

A participant who opts to participate in the defined contribution plan shall make employee contributions at a rate determined by the participant, but not less than 3% of compensation and not more than a percentage of compensation determined by the SERS board in accordance with the requirements of State and federal law. The State contribution shall be no higher than 7.6% of compensation and no lower than 3% of compensation, to be adjusted by the State on an annual basis. (*Note – the bill does not define whether the*

*annual employer contribution rate adjustment by "the State" means an act of the General Assembly or a vote of the SERS board).*

*Participation Options for Tier 1 and Tier 2 Members in the Optional DC Plan*

SB 4007 grants Tier 1 and Tier 2 members two choices for participation in the DC plan; they may either transfer all prior DB credits to the DC plan, or they may participate prospectively in the DC plan with all prior DB service credit remaining in force. If the member exercises the option to transfer prior DB service credit to the DC plan, the System shall transfer to the member's individual account an amount equal to the amount of the contribution refund that the member would be eligible to receive if the member terminated employment on that date and elected a refund of contributions, including regular interest (6.5%) for the respective years of service. *Note – the bill does not grant SERS members the option to participate in the DC plan as a supplement to the DB plan; DC plan participation is exclusive.*

*Opt-Out of Mandatory SERS Participation*

Currently, members of SERS-covered positions are required to participate in the system as a condition of employment. SB 4007 repeals this provision such that participation in SERS would no longer be mandatory on the effective date of this bill.

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