



# Commission on Government Forecasting and Accountability

## PENSION IMPACT NOTE *103<sup>RD</sup> General Assembly*

BILL NO: HB 2589

February 28, 2023

SPONSOR (S): Weaver

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

---

### FISCAL IMPACT

HB 2589 creates a mandatory Tier 3 defined contribution (DC) plan for all members of the five State systems who begin service on or after July 1, 2024. The bill provides Tier 1 and Tier 2 members as eligible to terminate participation in the defined benefit (DB) plan to begin participating prospectively in the Tier 3 DC plan without impacting accrued benefits under the DB plan. The Tier 3 plan as proposed in this legislation is based off the framework of the Self-Managed Plan, now known as the Retirement Savings Plan (RSP), an elective DC plan option under the State Universities Retirement System. HB 2589 establishes a DC plan for all newly hired Tier 3 members and Tier 1 and 2 members who opt into the plan. A full actuarial study would be required to assess the impact of HB 2589.

*Please Note – the “Tier 3” plan envisioned by this bill is separate and distinct from the “Tier 3” hybrid plan that was inaugurated by P.A. 100-0023. That plan has not been implemented as of this writing; please see CGFA’s impact note on HB 3270 for more information on the existing Tier 3 plan. Hereinafter, the term “Tier 3” shall refer to the defined contribution (DC) plan envisioned by this bill.*

---

SUBJECT MATTER: HB 2589 amends the five State Systems Articles of the Illinois Pension Code (TRS, SURS, SERS, GARS, and JRS). The bill establishes the creation of a Tier 3 DC plan for all five State-funded Retirement Systems by July 1, 2024. Newly hired members in the five State systems as of July 1, 2023 would automatically participate in Tier 3. The creation of Tier 3 utilizes the framework of the Self-Managed Plan of Article 15 under SURS. The bill

provides Tier 1 and Tier 2 members to be able to cease participation in the existing DB plans and begin accruing benefits in the Tier 3 DC plan, with no loss of accrued DB benefits.

COMMENT: HB 2589 amends the Illinois Pension Code with respect to the five State-funded Retirement Systems in Illinois. The proposed legislation implements a Tier 3 DC plan for all persons who become participants on or by July 1, 2024. Persons who become participants of a system must participate in Tier 3 rather than a defined benefit plan.

Under the proposed Tier 3 plan, State and employee contributions will be aggregated in individual participant accounts which are used for payouts after retirement. The framework for the proposed Tier 3 plan is modeled on the Self-Managed Plan in SURS, which is now referred to as the Retirement Savings Plan, or RSP.

The Retirement Savings Plan is a plan option for SURS members that is a defined contribution plan in which contributions made by the participants are matched by the employer. The participant has the flexibility to choose where their money is invested within a select range of investment options.

Members in the SURS RSP contribute 8% of their gross earnings to the RSP, whereas the State contributes to the RSP at a rate of 7.6% of a member's gross earnings. The contribution rates that exist for the SURS RSP today are the framework for contribution rates for all members of the five State-funded Retirement Systems who begin Tier 3 participation on or after July 1, 2024. In addition to establishing a Tier 3 DC plan for the State Retirement Systems, HB 2589 permits Tier 1 and Tier 2 members to elect to cease their defined benefit plans and begin accruing benefits in the Tier 3 plan. Accrued defined benefits such as the Tier 1 or Tier 2 retirement age would not be affected as a result of opting into the Tier 3 plan. The proposed legislation does not provide how the State would be able to fund Tier 1 and 2 DB annuities once the majority of affected employees are enrolled in the Tier 3 DC plan.

AV:bs

LRB103 30272 RPS 56700 b