



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: HB 4699

February 5, 2024

SPONSOR (S): Ozinga

SYSTEM: General Assembly Retirement System (GARS)

FISCAL IMPACT

The fiscal impact of HB 4699 is not known as the number of participants in the current defined benefit (DB) plan under GARS 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. Under the bill, new members of GARS must participate in Tier 3 on or after July 1, 2025. GARS had an overall funding ratio of 23.5% as of the June 30, 2023 actuarial valuation.

SUBJECT MATTER: HB 4699 amends the General Assembly article of the Illinois Pension Code. This bill establishes a Tier 3 DC plan for the General Assembly Retirement System by July 1, 2025. New members in GARS would automatically participate in Tier 3 as of July 1, 2025. The bill provides for Tier 1 and Tier 2 members to be able to cease participation in the existing DB plan and begin accruing benefits in the Tier 3 DC plan going forward, or to roll over a refund of previous contributions into the individual DC plan. More information is provided below in the Comment section.

COMMENT: HB 4699 amends the Illinois Pension Code with respect to the General Assembly Retirement System. The bill implements a Tier 3 DC plan for all persons who become participants on or by July 1, 2025. Persons who become participants of GARS on or after that date must participate in Tier 3 rather than the current 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. Participants in the Tier 3 plan would contribute 8% of their salary and the State will contribute at a rate of 7.6% of the participant's salary. The Tier 3 plan requires 5 years of participation in the plan before vesting in State contributions. A member's termination of service prior to vesting will result in the forfeiture of State contributions. The plan will provide members a variety of investment options to be overseen and handled by the State Board of Investment, as well as private sector investment options.

Under HB 4699, an active Tier 1 or Tier 2 member may voluntarily elect, in writing, to cease accruing benefits in the defined benefit plan and begin accruing benefits for future service in the defined contribution Tier 3 plan. If Tier 1 or Tier 2 members elect to terminate all participation in the existing defined benefit plan, GARS shall transfer to the individual member's Tier 3 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. This rate is currently set at 3%, but the GARS Board would have the option to change this percentage.

HB 4699 would bring the GARS Tier 3 plan under the purview of the Retirement Systems Reciprocal Act, allowing Tier 3-established pension credit to be considered in determining eligibility for an annuity that is payable by any of the other participating systems. Former participants in the Tier 3 plan would be allowed to transfer or roll over employee and vested State contributions from the Tier 3 plan into other qualified retirement plans.

HB 4699 also amends the State Employees Group Insurance Act for Tier 3 members to maintain eligibility for receiving group insurance coverage.

AO:bs

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