



## Commission on Government Forecasting and Accountability

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

BILL NO: SB 1516

February 8, 2023

SPONSOR (S): McConchie

SYSTEM: SERS, General Provisions Article

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#### FISCAL IMPACT

The fiscal impact of SB 1516 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. SERS had unfunded liabilities of \$29.8 billion and an overall funding ratio of 42.8% as of the June 30, 2022 actuarial valuation.

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SUBJECT MATTER: SB 1516 amends the State Employees Retirement System (SERS) article Illinois Pension Code to require SERS to create and implement an optional defined contribution (DC) plan that would be available for all current and future State of Illinois employees. Current Tier One and Tier Two employees would be able to participate in the DC plan through an irrevocable choice to convert their existing defined benefit (DB) plan into this new plan.

COMMENT: The proposed legislation mandates the creation of an optional defined contribution (DC) plan within SERS, which shall be implemented no later than July 1, 2025. 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.

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

SB 1516 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 1516 repeals this provision such that participation in SERS would no longer be mandatory on the effective date of this bill.

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