



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 3073

February 5, 2024

SPONSOR (S): McConchie

SYSTEM: SERS, General Provisions Article, Retirement Systems Reciprocal Act

FISCAL IMPACT

The fiscal impact of SB 3073 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 \$30.5 billion and an overall funding ratio of 43.4% as of the June 30, 2023 actuarial valuation.

SUBJECT MATTER: SB 3073 amends the State Employees Retirement System (SERS) article of the 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. Tier 1 and Tier 2 members would have the choice of participating in the DC plan prospectively and maintaining all accrued DB service, or to terminate all prior DB service and receive a refund of their DB contributions into their individual DC plan. An election to participate in the DC plan would be exclusive, i.e., participation in the DB plan would cease as of the election date. More information is provided below in the Comment section.

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, 2026. 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 3073 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 3073 repeals this provision such that participation in SERS would no longer be mandatory on the effective date of this bill.

Eligibility for State Group Health Insurance Act and the Retirement Systems Reciprocal Act

SB 3073 amends the State Employees' Group Insurance Act to allow SERS DC plan members to maintain eligibility for receiving group insurance coverage. Additionally, SB 3073 would bring the SERS DC plan under the purview of the Retirement Systems Reciprocal Act, allowing DC-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 SERS DC plan would also be allowed to transfer or roll over employee and vested State contributions from the DC plan into other qualified retirement plans.

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