Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE
104^{th} General Assembly

BILL NO: **HB 1636** February 3, 2025

SPONSOR (S): Weaver

SYSTEM: State Employees' Retirement System (SERS) and Teachers' Retirement System (TRS)

FISCAL IMPACT

As of FY 2024		
	SERS	**TRS***
Salary	$5,641.9 M	$12,274.6 M
Number of Active Members	65,508	143,674
Average of Salary	$86,125	$85,434

TRS figures exclude substitutes.

Based on the FY 2024 SERS and TRS Annual Comprehensive Financial Reports, the number of active members at SERS is 65,508, and at TRS, it is 143,674. The average annual salary is $86,125 for SERS and $85,434 for TRS.

As mentioned below in the Comment section, both SERS and TRS members have the option to participate in existing DC plans that do not offer employer or State matching contributions. As of December 31, 2024, 44,585 SERS members, roughly 65% of active contributing members, actively contribute to the Deferred Compensation Plan, according to Central Management Services (CMS). Based on the FY 2024 TRS Annual Comprehensive Financial Report, 5,683 TRS members, roughly 5% of active members, are currently enrolled in the TRS Supplemental Savings Plan (SSP), which was first launched in March 2022. Effective January 1, 2023, active TRS members who first joined TRS on or after this date are now automatically enrolled in the SSP unless they opt out. The TRS SSP employee contribution rate is currently set at 3% by default.

The estimated State matching contribution for the first year of implementing the new DC plans can be roughly calculated by utilizing the aforementioned information, including the average salary and number of active members, and by making participation and contribution rate assumptions based on the TRS SSP's actual experience over nearly 3 years (3% default employee contribution rate and roughly 5% participation rate). Since the TRS SSP is still in its early stages, a similar trend is likely to be seen for the new DC plans during the first year of implementation.

The table below presents the estimated first-year State matching contributions under six different scenarios using a combination of 3% and 5% employee contribution rates and 5%, 15%, and 25% participation rates.

Estimated State Matching Contributions in the First Year*						
	3% Employee Contribution Rate			5% Employee Contribution Rate		
Participation Rate	SERS	TRS	Total	SERS	TRS	Total
5%	$8.5 M	$18.4 M	$26.9 M	$14.1 M	$30.7 M	$44.8 M
15%	$25.4 M	$55.2 M	$80.6 M	$42.3 M	$92.1 M	$134.4 M
25%	$42.3 M	$92.1 M	$134.4 M	$70.5 M	$153.4 M	$224.0 M

** Assuming the State would be required to make the matching contributions only once in its role as the State.*

Under the assumption that 25% of SERS and TRS active members would participate in the new optional DC plans and contribute 5% of salary as employee contributions, the State would be estimated to pay $224.0 million in matching contributions in the first year of the implementation of the new DC plans.

SUBJECT MATTER: HB 1636 amends the State Employees (SERS) and Downstate Teacher (TRS) Article of the Pension Code. This legislation requires SERS and TRS to establish a voluntary Defined Contribution (DC) plan where the employer and the State both shall match employee contributions.

COMMENT: A voluntary, supplemental retirement program is currently available for SERS and TRS members in the form of the State of Illinois Deferred Compensation Plan for SERS members and the Supplementary Savings Plan (SSP) for TRS members. TRS members employed by a tax-exempt non-government employer (e.g. labor unions), are not eligible to participate in the SSP. These supplemental programs complement the existing SERS or TRS Defined Benefit (DB) plans and do not have employer matching contributions. The employee contributions are deducted from an employee's paycheck and go into individual accounts.

HB 1636 requires SERS and TRS to establish a voluntary Defined Contribution (DC) plan as soon as practicable after the effective date of this bill. The voluntary DC plan would require employees to contribute into their own individual accounts, with both the employer and the State matching the employee contributions. If the State is the actual employer of an employee, then the State has to pay the matching contributions twice in its capacity as both the employer and the State. Both the employer and State matching contributions are based on the employee contributions from the previous year. There are no maximum or minimum contribution requirements, and withdrawals are not permitted while members are active members.

The matching contributions paid by the State shall be included in the required annual State contributions to each system as part of the annual certification under P.A. 88-0593, the 1995 funding law.

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