Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE
104th General Assembly

BILL NO: **SB 1668** February 18, 2025

SPONSOR (S): Martwick

SYSTEM: General Assembly Retirement System (GARS), State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Teachers' Retirement System (TRS), and Judges' Retirement System (JRS)

FISCAL IMPACT

SB 1668 would require higher contributions once the State systems reach a 90% funding ratio because, on average, the normal cost is likely to be greater than the 90% maintenance amount required under current law. The 90% funding maintenance approach assumes that investment earnings will offset part of the cost of new benefits, meaning state contributions could be lower if returns are strong. In contrast, requiring contributions no less than the normal cost ensures that all new benefit accruals are fully funded every year, regardless of market fluctuations, eliminating the risk of underfunding and leading to consistently higher state contributions over time.

SUBJECT MATTER: SB 1668 amends the General Assembly (GARS), State Employees' (SERS), State Universities (SURS), Downstate Teachers (TRS), and Judges (JRS) Articles of the Pension Code. This legislation would amend the pension funding plan for the first fiscal year after the five State systems reach the 90% funded target and for each fiscal year thereafter, requiring the State to contribute an actuarially determined contribution, rather than just an amount necessary to maintain the 90% funding status.

COMMENT:

Current Law

Under the current pension funding plan established by P.A. 88-0593, the State annually contributes to the five State-funded systems an amount sufficient for the systems to reach 90% funding by FY 2045. Required State contributions are currently determined as a level percentage of payroll, based on the systems' actuarial assumptions. Beginning in FY 2046, the annual required State contribution will be an amount needed to maintain the 90% funding status.

SB 1668

SB 1668 would amend how the required State contributions are determined once the five State systems reach 90% funding. Under this bill, the required State contribution to each system for the first fiscal year after achieving the 90% funding target and each fiscal year thereafter shall be an actuarially determined contribution based on the Governmental Accounting Research System and officially adopted actuarial assumptions. If a system's funded ratio drops below 90%, the actuarially determined contribution rate shall be at least equal to the rate for the preceding fiscal year. The actuarially determined contribution shall not be less than the normal cost for that fiscal year.

No later than January 1 of each year, each System shall report the actuarially determined State contribution for the following fiscal year to the Governor, the Auditor General, the State Treasurer, and the General Assembly. After the actuarially determined contribution is calculated, the General Assembly and the five systems shall calculate the necessary amount to account for any changes in appropriations necessary to fund the required contribution, including changes in the employer's share of the actuarially determined contribution rate.

As of the final FY 2024 actuarial valuation, the actuaries for all five systems have noted that the statutorily required State contributions are considered inadequate and less than reasonable actuarially determined contributions.

JB:bs
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