



## Commission on Government Forecasting and Accountability

### PENSION IMPACT NOTE *104<sup>th</sup> General Assembly*

BILL NO: SB 1896

February 27, 2025

SPONSOR: Martwick

SYSTEM: GARS, SERS, SURS, TRS and, JRS

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#### FISCAL IMPACT

**SB 1896 amends the Illinois Pension Code to create the Retirement Systems Council to oversee required State contributions along with the newly created office of the Pension Funding Trustee to monitor and verify State contributions to the five State-funded systems. The bill mandates that State contributions for the five State Systems must be increased to match any increase in benefits and to prevent an increase in liabilities. The bill also creates a temporary income tax surcharge tax through FY 2034 as well. An actuarial cost study would be needed to assess the full impact of the bill.**

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**SUBJECT MATTER:** SB 1896 amends the GARS, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code to create a State-Funded Retirement Systems Council to oversee required State contributions, an Office of the Pension Funding Trustee to monitor and verify State contributions as well to require benefit increases to be compensated by an increase in State contributions. An income tax surcharge is also created and is in effect from 2026 to 2034, the proceeds of which must be contributed to relevant Systems, but cannot offset the State's required contributions. The systems would be required to achieve a 100% funded ratio by 2056. More detail is provided below.

**COMMENT:** Under P.A. 97-0694, the State Actuary Law, which took effect on June 18 2012, the Auditor General has statutory authority to hire a State Actuary to review the actuarial practices of the State-funded Retirement Systems. SB 1896 amends the Illinois Pension Code to establish the State-Funded Retirement Systems Council, create a State Pension Funding Trustee, and makes adjustments to the 1995 pension funding law, P.A. 88-0593, to account for benefit increases while implementing a temporary surcharge tax to pay down pension liabilities.

Each change is covered below:

**The Retirement Systems Council and State Pension Funding Trustee**

The Council is a public body that may enter into contracts, and is exempt from State interference. The State of Illinois also waives sovereign immunity and grants the Pension Funding Trustee the right to enforce the council’s funding mandate in the Illinois circuit courts. Further details on the Council and the Pension Funding Trustee are provided in the chart below.

Institution	Composed of	Appointed by	Responsibilities*
State-Funded Retirement Systems Council	Representatives, from each State System* <sup>+</sup>	The board of trustees of each State System* <sup>+</sup>	Oversee the Trustee. Monitor and verify State funding to the State Systems* <sup>+</sup>
The Office of Pension Funding Trustee	A qualified financial institution.	The Retirement Systems Council* <sup>-</sup>	Monitor and verify State funding to the State Systems*. Publish a report at least once every fiscal year

*\*Performed alongside the Auditor General*

*\*<sup>+</sup>SERS, JRS, GARS SURS, and TRS*

*\* Must have an affirmative vote of at least 3 members*

**Report on benefit changes**

Should a change in benefits be made any time after September 30<sup>th</sup> 2025, while the income surcharge stipulated by SB 1896 is in effect (see below), the Auditor General in conjunction with the Pension Funding Trustee shall calculate the cost of the benefit changes for each fiscal year up to FY 2055. This cost estimate will be updated every 3 years, and published as a report. These costs must be factored into the required State contribution so as to prevent an increase in actuarial accrued liabilities.

**New temporary surcharge tax**

SB 1896 implements a temporary income tax surcharge, as detailed below:

- Effective from 2026 through 2034;
- Be 0.5% of the taxpayer’s net income applied to all individuals, trusts, and estates; and
- Be 0.7% of taxpayer’s income applied to corporations

The Comptroller shall transfer all funds from SB 1896’s income surcharge tax to the Pension Stabilization Fund. This surcharge tax is independent of and cannot be used to offset the State’s required contribution.

**Changes to the required State contribution for select retirement systems**

Under SB 1896, the GARS, SERS, SURS, TRS, and JRS Articles are amended to target 100% funding by the end of FY 2056. The State systems must maintain 100% funding starting in 2057. The required State contributions are also changed to be the sum of the “base contribution amount” plus the increase in benefits as certified by the Auditor General and the Pension Funding Trustee. The base contribution amount is recalculated 4 times from FY 2026 to FY 2057. These changes are identical among the five retirement systems and are detailed below:

Changes in base contribution amount

- FY 2026 to FY 2036
  - 90% funding of actuarial liabilities by 2046
- FY 2036 to FY 2037
  - Equal to the FY 2036 base contribution
- FY 2038 to FY 2056
  - employer’s normal cost, + the system’s expenses (administrative, operation, and investment related), + accrued liabilities of the previous fiscal year, + liabilities multiplied by the sum of the “remaining ramp ratio” (Which is 1 divided by the number of FYs remaining until FY 2056), + changes in assumptions implemented in a level dollar payment over a 15-year period
- FY 2057 onward
  - Amount necessary to ensure 100% funding of liabilities

Changes to base contribution amount, required benefit change contribution and contributions from the income surcharge tax are applied equally to all 5 retirement systems. Details are provided in the chart below.

System	Required Funding Ratio from 2026-2056	Required Funding Ratio by 2057	Receives contributions from the Income Surcharge Tax*
GARS	The sum of the base contribution amount + the benefit change contribution*+	100%	Yes
SERS			
SURS			
TRS			
JRS			

*\*Contributions from the Income Surcharge Tax cannot be used to offset the required state contribution*

*\*\*Benefit change contribution is 100% of all increases to benefits as certified by the Auditor General and Pension Funding Trustee*

**New certification requirements from the Auditor General**

The Auditor General shall also certify within 90 days after the end of FY 2025 and each subsequent FY that:

- The contributions required by SB 1896 have been made;
- That the Comptroller has made all required transfers to the Budget Stabilization Fund and Pension Stabilization Fund;
- That the designated Systems receive the full amount of funds promised under the Budget Stabilization Act and;
- That the Systems are receiving all appropriated funds without the use of revenue from the aforementioned income surcharge tax.

RF:bs

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