Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE
104th General Assembly

BILL NO: **SB 2342** March 10, 2025

SPONSOR (S): Balkema

SYSTEM: State Employees' Retirement System (SERS)

FISCAL IMPACT

SB 2342 requires SERS to establish a voluntary defined contribution (DC) plan as an alternative to the defined benefit (DB) plans. While this halts new pension liabilities for those opting in, it reduces the DB payroll base, which may require higher State contributions under the 1995 pension funding law, which mandates a 90% funding target by 2045.

State contributions to the DC plan will range from 3.0% to 7.6% of payroll, while the current employer normal cost for DB plans in FY 2026 is projected at $589.5 million, or 10.1% of capped payroll. The fiscal impact depends on DC participation rates, as it is unclear how many Tier 1 and Tier 2 members will choose the DC plan. An actuarial study that examines several different DC participation scenarios would be needed to gauge the overall impact of SB 2342.

SUBJECT MATTER: SB 2342 amends the State Employees (SERS) Article and the Retirement Systems Reciprocal Act of the Pension Code. This legislation requires SERS to establish a voluntary Defined Contribution (DC) plan in which both State and employee contributions would be paid into individual accounts for members who voluntarily elect to participate in the DC plan instead of remaining in the existing DB plan. Details are found below.

COMMENT:

Current Law
Currently, new SERS members are required to participate in the SERS Defined Benefit (DB) plan as a condition of employment.

- Employee contributions for Tier 1 and Tier 2 members:
  - Regular formula participants
    - 4.0% of pay for members covered by Social Security; or
    - 8.0% of pay for members not covered by Social Security
  - Alternative formula participants
    - 8.5% of pay for members covered by Social Security; or
    - 12.5% of pay for members not covered by Social Security
- State contributions
  - State contributions are determined annually such that SERS will reach 90% funded status by FY 2045.
  - As of the most recent SERS certification letter, the FY 2026 State contributions to SERS are certified at 46.486% of payroll (or $2,725.1 million).

Additionally, a voluntary, supplemental retirement program is available for SERS members in the form of the State of Illinois Deferred Compensation 457(b) Plan. This supplemental DC program complements the existing SERS DB plans, and the State does not contribute to the Deferred Compensation plan. The employee contributions, the sole source of contributions, are deducted from an employee's paycheck and are deposited into individual accounts. 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).

SB 2342
By July 1, 2027, SERS is required to establish a voluntary Defined Contribution (DC) plan that would **replace** the existing SERS DB plans for members voluntarily electing to participate. Both the State and members would contribute to individual DC accounts. If active members elect to transition from the DB plans to the new DC plan, they would be considered DB members only for the service established before that election. More detailed provisions regarding the new DC plan are as follows:

- **Election Deadline**:
  - The voluntary election to participate in the DC plan with regard to future service shall be made on or before December 31, 2026.
- **Effect of Election**:
  - The Tier 1 or Tier 2 status (whichever applies) would only be valid for service performed and established before the effective date of that election.
  - The participation in the DC plan would begin on July 1, 2027.
    - However, DC participation shall not commence until qualified plan status is attained from the IRS.

- **Contributions**:
    - Both the State and participating members would contribute to the individual accounts.
        - State contributions would be made at a uniform rate, as a percentage of pay:
            - From 3.0% to 7.6%, determined annually.
        - Employee contribution:
            - 3% at minimum, with a maximum rate set by the SERS Board to ensure compliance with the requirements of State and Federal law.
        - Vesting Requirement:
            - 5 years of participation in the DC plan are required for members to vest in the State contributions. Otherwise, all State contributions with any earnings would be forfeited.
- **Investment Options:**
    - The DC plan shall offer various investment options including those managed by the Illinois State Board of Investment (ISBI) and private sector investments.
- **Payout Options:**
    - The DC plan shall offer various payout options for members who are inactive and their survivors.
- **Transfers or Rollovers:**
    - DC participants shall be allowed to transfer or roll over employee and vested State contributions with earnings. (State contributions vest after at least 5 years of participation.)
- **Re-employment and Re-election:**
    - If the DC participants terminate service and then return to work later, they would have 3 months after returning to decide whether to participate in the DC plan again.
- **DB Retirement Eligibility:**
    - Service credit established under the DC plan may be used for determining the SERS DB retirement eligibility, i.e., the age and service rules would still apply for the member who has DB service credit before transitioning to the DC plan. For example, DC service could be used to fulfill the Rule of 85 for a Tier 1 member or a retirement at age 60 with 10 years for a Tier 2 member.
- **Termination of All DB Plan Participation:**
    - If a member wishes to terminate **all** participation in the DB plan, the amount of contribution refund that the member would have received if the member terminated employment on that date, plus interest, shall be transferred to the member's DC individual account.
- **Reciprocity:**
    - Service established under the DC plan may be used to determine eligibility for reciprocal DB retirement and survivor's benefits.
    - However, the reverse does not apply.

- Service established under other reciprocal systems shall not increase the value of the member’s account under the DC plan, which depends solely on the participant’s chosen option and vested account balance.

SB 2342 aims to ensure that the State contribution to the DC plan is comparable to the State’s normal cost for DB plans, if feasible. Based on SERS' final FY 2024 actuarial valuation, the employer normal cost for FY 2026 is projected at $589.5 million, or 10.1% of capped payroll.

Furthermore, SB 2342 states that a person who first becomes an employee after the effective date of this bill is not required, as a condition of employment, to participate in SERS and may opt out of participation in SERS.

Additionally, SERS shall report on its progress along with detailed information on the DC plan to the Governor and the General Assembly on or before January 15, 2027.

JB:bs
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