



## Commission on Government Forecasting and Accountability

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

BILL NO: SB 3389

March 31, 2026

SPONSOR: Arellano, Jr.

SYSTEM: Teachers' Retirement System (TRS)

---

#### FISCAL IMPACT

**SB 3389 amends Article 16 (Teachers' Retirement System) to allow participating TRS employers to elect to offer a self-managed Defined Contribution (DC) plan to their employees as an alternative to the traditional Defined Benefit (DB) plan and allow their employees to choose between the DB plan and DC plan.**

At this time, it is challenging to estimate the fiscal impact of this bill because SB 3389 is prospective, and the number of employers who would adopt the DC plan and the number of eligible current or future employees of that adopting employer who would choose a DC plan over the current DB plan is not known ahead of time. However, this bill would reduce participation in the DB plan, commensurate with the number of eligible TRS participants who make such election.

TRS expressed concern about the administrative costs and potential difficulties ensuring that a newly created DC plan is considered a proper "Social Security replacement" plan.

---

**SUBJECT MATTER:** SB 3389 amends the Teachers' Retirement System (TRS) Article of the Illinois Pension Code to allow TRS employers to irrevocably elect to offer a Defined Contribution (DC) plan as an alternative to the traditional Defined Benefit (DB) plan, and allow for their employees to elect to participate in the DC plan instead of the DB plan.

**COMMENT:** Under current law Tier 2 TRS participants contribute to and receive a pension (after meeting the eligibility requirements) from the DB plan, but also have the option to

participate in a DC plan, the Supplemental Savings Plan (SSP). The SSP was established by Public Act 100-0769 (eff. August 10, 2018), and with the enactment of Public Act 102-0540 (eff. August 20, 2021) new TRS members are automatically enrolled. If they do not wish to participate, they may opt out within 3 months of starting participation in TRS and receive a refund. According to TRS approximately 14,200 participants have enrolled in SSP and would receive an annuity both from their DB plan and SSP once they retire.

SB 3389 would authorize TRS to establish a self-managed DC plan and allow employers to irrevocably elect to offer the self-managed DC plan to their employees no earlier than January 1, 2027.

Under this bill, participation would begin once an employee makes the election to participate in the DC plan following the employer's adoption of the plan. Current eligible employees of an employer who adopts the plan would have 1 year to make the election and to transfer to the DC plan from the DB plan and would receive a starting account balance equal to their eligible refund of DB plan employee and employer contributions, including interest at the effective rate. New participants who joined the fund after the effective date of the bill shall be given 6 months to elect between the DB and DC plans, but once an election is made, any employer contributions shall not be remitted to the DC plan. If any eligible members fail to make the election, the members would participate in the DB plan by default.

The election is irreversible; upon a return-to-service, a participant shall be re-enrolled in the DC plan if they elected to do so previously. The only exception is if the self-managed DC plan is terminated by TRS, in which case DC plan participants would have right to participate in and transfer to a different retirement plan offered by TRS. Management of the DC plan is to be done by between 2-7 authorized service providers (insurance and annuity companies, banks, trust companies, etc.), selected by TRS, in consultation with employers.

SB 3389 provides a comprehensive outline of both benefits, contributions, and service requirements for the aforementioned DC plan. The following table details the main characteristics of the proposed TRS DC plan.

<b>SB 3389's TRS DC plan characteristics</b>	
Employee Contribution	Same as for DB participants (9% of pay) (Additional employee contributions may be made, subject to rules by TRS)
Employer Contribution	7.6% (up to 1% shall be used exclusively for disability benefits)
Vesting for employer contributions	3 years of service as a teacher with a TRS participating employer; 1 ½ years of service if the teacher passes away; or the participant has enough service credit from the Retirement Systems Reciprocal Act to apply for a retirement, whichever occurs first. Otherwise, participants would not be vested in employer contributions.
Return-To-Service	A participant who receives a distribution and does not meet eligibility for retirement shall forfeit all service credit upon leaving service and shall be considered a new employee upon re-entry. However, after 2 years of service, they may regain previous service credit upon repayment of their disbursement, without interest.
Eligible Annuity (if vested in employer contributions)	Benefit shall be based on employee and employer contributions, and all investment returns in their account.
Eligible Annuity (If non-vested in employer contributions)	Benefit shall be based solely on employee contributions and any investment returns on those contributions.

**NOTE:** SB 3389 clarifies that the DC plan must be a qualified plan under the Internal Revenue Code of 1986. Therefore, rules already in place at the federal level regarding DC plans also apply.

RF:bs

LRB104 19008 RPS 32453 b