

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 1959**

March 15, 2011

SPONSOR (S): Fortner - Pritchard

SYSTEM(S): Judges' Retirement System, General Assembly Retirement System

FISCAL IMPACT: The precise fiscal impact of HB 1959 cannot be determined as the exact number of new employees choosing participation in the new defined contribution plan is unknown. However, the General Assembly Retirement System's actuary completed projections 2 years ago for similar changes that HB 3798 from the 96th General Assembly would have made on the General Assembly Retirement System defined benefit plan. For the period ending with FY 2045, his calculations determined total contributions to the defined benefit plan would have been reduced by \$439 Million for the General Assembly Retirement System alone if all new employees entered the defined contribution plan. Much greater savings would be expected under similar circumstances from the Judges' Retirement System as their total liabilities are 7 times larger than the General Assembly Retirement System.

SUBJECT MATTER: HB 3798 amends the Illinois Pension Code to require the Judges' Retirement System and the General Assembly Retirement System to allow any employee starting employment on or after January 1, 2011 to voluntarily elect enrollment in a new self-managed program of retirement benefits, commonly called a defined contribution plan.

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COMMENTS: The Illinois Pension Code currently provides members of the Judges' Retirement System and the General Assembly Retirement System with participation in a defined benefit plan for retirement. Under this employer-managed plan the participant accumulates retirement benefits through a combination of employee and employer contributions subsequently invested at the direction of the employer. The participant receives a specific monthly retirement benefit based on years of service, qualifying salary and specific retirement plan benefit rates. The actual returns on the invested funds do not affect the participant's benefits as the entire risk for low investment returns is borne by the employer.

HB 1959 allows members of the Judges' Retirement System and the General Assembly Retirement System who begin employment on or after January 1, 2011 to voluntarily participate in a defined contribution retirement plan. Under this self-managed plan the participant would accumulate assets for retirement through a combination of employee and employer contributions that may be invested at the employee's direction in mutual funds, collective investment funds or other investment products used to purchase annuity contracts. The participant's retirement benefits are largely determined by the actual rates of return achieved by the employee's investment decisions. The entire risk for poor investment decisions would be borne by the employee and would reduce eventual retirement payments.

HB 1959 prohibits participation in both the defined contribution plan and the defined contribution plan by any individual employee. Any balance in a defined benefits plan will be transferred to the defined contribution plan as a beginning balance.

HB 1959 provides that, to the extent these changes are determined to be a new benefit increase, the changes are exempt from the 5-year expiration provision.

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