

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 6252**

November 26, 2012

SPONSOR(S): Thapedi

SYSTEM(S): General Assembly Retirement System (GARS), Illinois Municipal Retirement Fund (IMRF), State Employees Retirement System (SERS), State Universities Retirement System (SURS), Teachers Retirement System (TRS), Judges Retirement System (JRS)

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**FISCAL IMPACT:** HB 6252's closure of the five State-funded retirement systems to new hires may have a substantially positive fiscal impact for the State. However, the bill does not stipulate what the closure of these retirement systems will be replaced by, with the exception of the mandatory offering of 403(b) plans for TRS and SURS employers. An actuarial cost study would be required to evaluate whether the reduced State contributions to SERS, GARS, and JRS in future years as provided for in this bill would be justified by the closure of these systems to new members.

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**SUBJECT MATTER:** HB 6252 disallows participation in the five state-funded systems for new-hires. Additionally, this bill makes changes to the funding schedule for each system, including incorporating a cost-shift to local employers of SURS and TRS employees.

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**COMMENT:** According to current law, new state employees will automatically be enrolled in one of the five State-funded retirement systems as a Tier 2 member/participant, while any member transferring to one of the reciprocal systems will retain their current benefit Tier with the new system. HB 6252 will categorically disallow new participation in any of the five State-funded systems. Five years after this

bill has been signed into law, existing members and participants of all five systems will be granted an irrevocable election to stay in or to opt out of their current retirement system. If a member/participant defaults on their election, they will be opted out of their retirement system. The ramifications for opting out of a retirement system via this election are, as of yet, unspecified.

Under current law, GARS, SERS, SURS, TRS, and JRS, all adhere to a long-term, actuarially-based funding schedule with a goal of each being 90% funded by the close of FY 2045. HB 6252 proposes abandoning this funding schedule, in favor of having the State appropriate no less than 10.2% of payroll towards each GARS, SERS, and JRS annually. This bill suggests adherence to the 90% funding goal for SURS and TRS; however, beginning FY 2014, local employers will pay 50% of the Total Annual Contribution while the State pays the other 50%. In every year after 2014, local employers must pay no less than 101% of their prior year's contribution or all of the present year's Total Annual Contribution. Outstanding amounts will be contributed by the State. Additionally, HB 6252 proposes each employer under SURS and TRS to establish 403(b) tax-sheltered annuity retirement plans for new employees.

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