

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 1259**

March 5, 2013

SPONSOR(S): Fortner

SYSTEM(S): Illinois Municipal Retirement Fund (IMRF)

FISCAL IMPACT: Currently, SURS is the only statewide retirement system that offers a Self-Managed Plan (SMP) similar to the one contemplated by HB 1259. SURS assumes that approximately 15% of its new members opt into the SMP. According to IMRF, municipal employers pay into IMRF amounts that are approximately double the required Tier 1 employee contributions. The SMP that would be implemented by this bill would require employers to match employee contributions. Therefore, assuming a municipality had no significant unfunded liabilities to amortize; HB 1259 would produce a cost savings for Tier 1 employees who elect to participate in the SMP. However, IMRF reports that as more Tier 2 employees are hired, the savings would diminish as the Tier 2 normal cost is significantly lower. An actuarial study would be required to determine the exact amount of savings.

SUBJECT MATTER: HB 1259 establishes a Self-Managed Plan in IMRF. The bill includes definitions and provisions for transferring credit from the traditional benefit packages into the SMP.

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COMMENT: As of current law, IMRF offers its employees a traditional defined-benefit retirement package. HB 1259 introduces a defined-contribution style Self-Managed Plan (SMP) for interested employees.

Eligibility: Everyone participating in IMRF is eligible to make an irrevocable election to opt-in to the SMP. Currently eligible participants have a year from the effective date of this bill while newly eligible employees have a year from their hiring date to make an election. Any employee keeping the traditional benefit package who terminates employment and is rehired by another IMRF employer is once more eligible to irrevocably elect into the SMP.

Starting Balance: Any employee electing to participate in the SMP will be granted a starting balance composed of the accumulated employee contributions, the interest on those contributions, and all those contributions a second time.

Contribution Rates: SMP employee contribution rates remain the same as rates for the traditional benefit package and will be matched 100% by the employer. The portion of employee contributions that covered survivor benefits go straight into the member's SMP account.

Vesting: Employees with the SMP benefit package are vested under one of three scenarios.

- After 5 years
- If death occurs after 1.5 years
- If enough service can be attained via reciprocal credit

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