

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 3303**

March 18, 2013

SPONSOR(S): Morrison - Ives

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

FISCAL IMPACT: CGFA's actuary performed a cost study on a proposal that is substantially similar to HB 3303. That cost study showed a long-term reduction in State contributions for TRS only (through FY 2045) of \$71.4 billion, and a reduction in FY 2014 unfunded liability of \$27.4 billion. However, this cost study assumed no deviation from the current statutory funding target of amassing assets that are equal to 90% of DB liabilities by FY 2045. HB 3303 changes this target to 100% by FY 2045, and it specifies a level-dollar amortization approach. These two changes would result in greater long-term savings than those previously mentioned; however, an updated actuarial study would be required to capture the precise savings associated with the funding changes.

SUBJECT MATTER: HB 3303 amends the GARS, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code by closing each system's traditional defined benefit package to new hires and freezing each member's ability to accrue service credit. The traditional benefit package will be substituted for a defined contribution style, self-directed plan. Each system will adopt a new funding schedule with a goal of 100% funding by FY 2045 via level-dollar contributions.

COMMENT: HB 3303 has major provisions affecting the 5 State-funded systems as a whole as well as the employees participating in the systems.

State Retirement Systems:

- Closed DB package to new-hires (on or after the date this bill is signed into law)
- Shall establish a DC self-directed plan for all active members and new hires.
 - Retirement age: equal to Social Security's requirement
 - DC pensionable salary capped at \$110,100
 - Starting annually on January 1, 2015: Pensionable salary cap increased by 3% or ½ CPI-U
 - Employee contribution rates
 - SURS, TRS, JRS, SERS (non-covered): 8%
 - SERS (covered): 3%
 - GARS: up to the federal limit
 - Employer Contribution/Match rates
 - SURS, TRS, JRS, SERS (non-covered): 7%
 - SERS (covered): 3%
 - GARS: 0%

- New funding goal
 - Current Law: 90% by 2045 with level-percentage of payroll
 - HB 3303: 100% by FY 2045 with level-dollar contributions

Current Members/Annuitants:

- Closure of DB plan includes:
 - Frozen service credit accrual
 - Frozen pensionable salary at current level
 - Frozen annuity (no more COLA's)
 - For anyone currently ineligible to retire: The DOI will produce a calendar that takes into account current service credit and age to provide delayed retirement ages.
 - Minimum retirement age for those affected: at least age 59

MD:dkb

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