COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **HB 0139** January 15, 2015

SPONSOR(S): Sandack - Anthony

SYSTEM(S): General Assembly Retirement System

FISCAL IMPACT: An actuarial cost study has not yet been performed for HB 0139, which would impact the General Assembly Retirement System. However, a similar study was performed in 2013 by CGFA for the Teachers' Retirement System based on FY 2012 baseline projections. In this study, the total State contribution was reduced by 33.5% through 2045. It should be noted that the amortization component of the 2013 TRS study only required the funding ratio to reach 90%, whereas HB 0139 requires the System to be funded to 100% by 2045. In addition to having a higher funding goal, HB 0139 also requires the State contribution to be calculated as a level dollar amount over the amortization period.

SUBJECT MATTER: HB 0139 reforms the General Assembly Retirement System Article of the Illinois Pension Code. This bill will create a self-directed retirement plan for General Assembly members, and will set a funding goal of 100% through 2045 and thereafter.

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COMMENT: Under current law, the General Assembly Retirement System has a defined-benefit pension plan with an actuarial funding goal of 90% through 2045. HB 0139 would create a replacement for this pension plan, deemed a "self-directed plan".

Creation of a Self-Directed Retirement Plan

HB 0139 will allow individuals the opportunity to accumulate assets for retirement through a combination of employee and employer contributions that may be invested in mutual funds, collective investment funds, or other investment products and used to purchase annuity contracts, or any combination thereof. Participants in this plan shall contribute 8.0% of salary, while the employer shall contribute 7% of the participant's salary to the plan on their behalf.

Funding Schedule

HB 0139 provides that for fiscal years 2016 through 2045, State contributions will be made in an amount sufficient to bring the total assets of the System up to 100% of its liabilities. The State contribution shall be calculated as a level dollar amount over the remaining years of amortization and shall be determined under the projected unit credit actuarial cost method. Following fiscal year 2045, the state contribution will be calculated at an amount sufficient to maintain a 100% funding ratio.

Service Credit

All service credit will be considered for vesting purposes in the benefits provided under the self-managed plan; however, only service credit that was earned before the implementation of this Act will be used in determining those benefits.

A participant becomes vested in the employer's contributions and subsequent investment returns according to the following schedule:

1. Less than 2 years of service, 0%.
2. At least 2 years but less than 3 years of service, 25%
3. At least 3 years but less than 4 years of service, 50%.
4. At least 4 years but less than 5 years of service, 75%.
5. At least 5 years of service, 100%.

Pensionable Salary and Automatic Annuity Increases

A pensionable salary cap shall be implemented as of the effective date of this Act, such that a pensionable salary cannot exceed the salary as of the effective date.

Automatic increases in annuities will be suspended unless the System's funding ratio is at or above 100%.

Retirement Age

For those participants that are unable to retire as of the effective date of this Act, the retirement age shall be increased according to a schedule developed at a future date by the Department of Insurance's Public Pension Division. These participants will remain ineligible to retire until reaching a minimum age of 59 years; however, this schedule will take into account the participant's years of service and will apply proportionate discounts toward those individual's retirement.

For participants joining the System on or after the effective date of this Act, the eligible retirement age shall be the Social Security Normal Retirement Age.

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