

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 101ST GENERAL ASSEMBLY

BILL NO: **HB 1625**

February 7, 2019

SPONSOR (S): Skillicorn

SYSTEM(S): All State Funds, IMRF

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**FISCAL IMPACT:** The fiscal impact of HB 1625 cannot be determined at this time as it is unknown how many employees would opt into the Tier 3 hybrid system. An actuarial cost study that examines various rates of participation would be needed to assess the potential impact.

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**SUBJECT MATTER:** HB 1625 amends the Illinois Pension Code for the 5 State-funded Retirement Systems by requiring each system to implement a voluntary Tier 3 retirement plan by July 1, 2020, the provisions of which are defined below in the Comment section. The bill also amends State Employees' Retirement System, State Universities Retirement System, the Downstate Teacher's Retirement System, and the IMRF Article of the Pension Code to limit the application of sick leave or vacation time toward calculation of a retirement annuity to persons who first become members of the system before the effective date.

**COMMENT:** HB 1625 would require all State-funded systems to prepare and implement a Tier 3 plan that aggregates State and employee contributions in individual participant accounts by July 1, 2020. This bill would require a participant to pay employee contributions at a rate determined by the participant, but no less than 3% and not more than a percentage of salary determined by the Board of Trustees of the fund in question in accordance with State and federal law. State contributions would be paid into the accounts of all participants at a uniform rate no higher than 7.6% but no lower than 3%, adjusted annually.

The Tier 3 plan would require 5 years of participation in the System before vesting in State contributions. If the participant fails to vest in State contributions, then the contributions are subject to forfeiture. The Tier 3 plan would provide a variety of options for investments, as well as a variety of options for payouts to people who are no longer active in the System. The System would reduce the amount of employee contributions to account for the cost of providing benefits, as well as any applicable administrative fees.

This bill would allow an active Tier 1 or Tier 2 participant to elect to stop accruing benefits in their current plan and enter into a Tier 3 plan. Former participants in the plan would be allowed to transfer or roll over employee and vested State contributions and earnings from the Tier 3 plan to other qualified retirement plans. A Tier 1 or Tier 2 participant who elects to participate in the Tier 3 plan would be allowed to irrevocably terminate participation in the defined benefit plan.

HB 1625 would also prohibit payments for unused sick or vacation time to be used to calculate salary or to establish service credit in the Illinois Municipal Retirement Fund (IMRF), State Employees' Retirement System (SERS), State Universities Retirement System (SURS), and the Downstate Teachers' Retirement System. The Tier 3 plan would allow participants to remain eligible for the defined disability benefits in the State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Teacher's Retirement System (TRS), and the Judges' Retirement System (JRS).

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