

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 2740**

February 19, 2019

SPONSOR (S): Morrison - Sosnowski

SYSTEM(S): All State Funds

FISCAL IMPACT: The fiscal impact of HB 2740 cannot be determined, as it cannot be predicted how many Tier 2 members would choose to remain in the defined contribution plan (the bill sets the newly created DC plan as the default option for new hires unless they expressly opt out). An actuarial cost study that examines various rates of participation would be needed to assess the fiscal impact of the bill.

SUBJECT MATTER: HB 2740 amends the General Assembly, State Employee, State Universities, Downstate Teachers, and Judges Articles of the Illinois Pension Code. The proposed legislation would require the board of each system to establish and maintain a voluntary defined contribution (DC) plan to address the lack of retirement preparedness of members who are not on track to maintain their standard of living in retirement. This defined contribution plan would be separate and distinct from the existing DB plans maintained by each of the five State systems.

COMMENT: Under HB 2740, Tier 2 members who become participants after the establishment of the defined contribution (DC) plan will automatically be enrolled in the DC plan unless they opt out within 60 days. The bill mandates that each system establish the DC plan no later than one year after the effective date of the legislation. Tier 1 and Tier 2 members who are already participating in the systems will have the opportunity to opt into the newly created DC plan. The plan would allow members to set up a default investment option that is automatically invested to generate a stream of income to replace their pre-retirement income. Contribution rates for the DC plan are not specified in the legislation, but are to be established by each system's board of trustees. The plan would provide a variety of options for distributions.

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