

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 3919**

November 25, 2019

SPONSOR (S): Skillicorn

SYSTEM(S): General Provisions Article

FISCAL IMPACT: There is no readily available information pertaining to the fiscal impact of HB 3919, because the legislation asks each relevant retirement system to create a Tier 3 plan but does not identify any parameters for the plans. More information would be needed before an actuarial cost study could be undertaken.

SUBJECT MATTER: HB 3919 amends the General Provisions Article of the Pension Code. The bill provides that, by January 1, 2021, each of the five State retirement systems shall prepare and implement Tier 3 defined contribution plans and move all current and future employees into them.

COMMENT: Under current law, the public pension systems governed under the General Provisions Article of the Pension Code operate under the defined benefit structure, where employees receive a pre-established benefit package upon retirement. P.A. 96-0889 created the Tier 2 system, providing that every employee who began contributing to a retirement system after January 1, 2011 would retire later, receive a lower cost of living adjustment (COLA), and receive an annuity based upon a lower pensionable salary than Tier 1 members, who began participating before that date.

This bill proposes each of the five State retirement systems create and implement their own Tier 3 plans under the defined contribution structure. Under this arrangement, employers and employees would contribute specified amounts and employees would have control over the investing of their plan, but their account value upon retirement is not pre-determined. All defined benefit accruals would cease, regardless of Tier. Although the new Tier 3 systems would be defined contribution plans, the legislation does not provide any further guidelines, as it would be up to the boards of directors of the respective funds to define the operations and benefit parameters of the new Tier 3 DC plans.

The bill further specifies that all State contributions for the current DB plans of the five State systems would cease on and after January 1, 2021.

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