HB3644

LRB10107764RPS52813b

101ST GENERAL ASSEMBLY

State of Illinois

2019 and 2020

HB3644

by Rep. Grant Wehrli

SYNOPSIS AS INTRODUCED:

See Index

Amends the General Assembly Article of the Illinois Pension Code. Requires the General Assembly Retirement System to establish a self-directed retirement plan. Provides that on and after the effective date of the amendatory Act, an active participant's participation in the System shall be limited to participation in the self-directed retirement plan. Provides that an annuitant shall not receive an automatic increase in retirement annuity on or after the effective date of the amendatory Act unless, according to the most recent actuarial valuations, the total assets of the System are equal to or greater than 100% of the total actuarial liabilities of the System. Establishes a schedule for vesting in the self-directed retirement plan. Requires the Public Pension Division of the Department of Insurance to develop a schedule that, subject to certain requirements, increases the retirement age of active participants who are ineligible to retire as of the effective date of the amendatory Act. Provides that the Division's schedule shall also provide for the adjustment of retirement ages using a matrix that (i) takes into account the current statutory retirement age for various classes of persons and service credit accrued by those persons and (ii) proportionally discounts the increase in statutory retirement ages based on proximity to the currently established retirement age. Provides a new funding formula for State contributions beginning fiscal year 2021, with a 100% funding goal through 2045 (determined using the projected unit credit actuarial cost method) and a 100% funding goal thereafter. Requires the System to recertify the fiscal year 2021 contribution.

LRB101 07764 RPS 52813 b

FISCAL NOTE ACT MAY APPLY

PENSION IMPACT NOTE ACT MAY APPLY

A BILL FOR

AN ACT concerning public employee benefits.

Be it enacted by the People of the State of Illinois, represented in the General Assembly:

Section 5. The Illinois Pension Code is amended by changing Sections 2-124 and 2-134 and by adding Section 2-167 as follows:

(40 ILCS 5/2-124) (from Ch. 108 1/2, par. 2-124)

Sec. 2-124. Contributions by State.

(a) The State shall make contributions to the System by appropriations of amounts which, together with the contributions of participants, interest earned on investments, and other income will meet the cost of maintaining and administering the System on a 100% ~~90%~~ funded basis in accordance with actuarial recommendations.

(b) The Board shall determine the amount of State contributions required for each fiscal year on the basis of the actuarial tables and other assumptions adopted by the Board and the prescribed rate of interest, using the formula in subsection (c).

(c) For State fiscal years 2021 through 2045, the minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 100%

of the total actuarial liabilities of the System by the end of State fiscal year 2045. In making these determinations, the required State contribution shall be calculated each year as a level dollar amount over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

For State fiscal years 2012 through 2020 ~~2045~~, the minimum contribution to the System to be made by the State for each fiscal year shall be an amount determined by the System to be sufficient to bring the total assets of the System up to 90% of the total actuarial liabilities of the System by the end of State fiscal year 2045. In making these determinations, the required State contribution shall be calculated each year as a level percentage of payroll over the years remaining to and including fiscal year 2045 and shall be determined under the projected unit credit actuarial cost method.

A change in an actuarial or investment assumption that increases or decreases the required State contribution and first applies in State fiscal year 2018 or thereafter shall be implemented in equal annual amounts over a 5-year period beginning in the State fiscal year in which the actuarial change first applies to the required State contribution.

A change in an actuarial or investment assumption that increases or decreases the required State contribution and first applied to the State contribution in fiscal year 2014, 2015, 2016, or 2017 shall be implemented:

(i) as already applied in State fiscal years before 2018; and

(ii) in the portion of the 5-year period beginning in the State fiscal year in which the actuarial change first applied that occurs in State fiscal year 2018 or thereafter, by calculating the change in equal annual amounts over that 5-year period and then implementing it at the resulting annual rate in each of the remaining fiscal years in that 5-year period.

For State fiscal years 1996 through 2005, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments so that by State fiscal year 2011, the State is contributing at the rate required under this Section.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2006 is $4,157,000.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2007 is $5,220,300.

For each of State fiscal years 2008 through 2009, the State contribution to the System, as a percentage of the applicable employee payroll, shall be increased in equal annual increments from the required State contribution for State fiscal year 2007, so that by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2010 is $10,454,000 and shall be made from the proceeds of bonds sold in fiscal year 2010 pursuant to Section 7.2 of the General Obligation Bond Act, less (i) the pro rata share of bond sale expenses determined by the System's share of total bond proceeds, (ii) any amounts received from the General Revenue Fund in fiscal year 2010, and (iii) any reduction in bond proceeds due to the issuance of discounted bonds, if applicable.

Notwithstanding any other provision of this Article, the total required State contribution for State fiscal year 2011 is the amount recertified by the System on or before April 1, 2011 pursuant to Section 2-134 and shall be made from the proceeds of bonds sold in fiscal year 2011 pursuant to Section 7.2 of the General Obligation Bond Act, less (i) the pro rata share of bond sale expenses determined by the System's share of total bond proceeds, (ii) any amounts received from the General Revenue Fund in fiscal year 2011, and (iii) any reduction in bond proceeds due to the issuance of discounted bonds, if applicable.

Beginning in State fiscal year 2046, the minimum State contribution for each fiscal year shall be the amount needed to maintain the total assets of the System at 100% of the total actuarial liabilities of the System. ~~Beginning in State fiscal year 2046, the minimum State contribution for each fiscal year~~

~~shall be the amount needed to maintain the total assets of the System at 90% of the total actuarial liabilities of the System.~~

Amounts received by the System pursuant to Section 25 of the Budget Stabilization Act or Section 8.12 of the State Finance Act in any fiscal year do not reduce and do not constitute payment of any portion of the minimum State contribution required under this Article in that fiscal year. Such amounts shall not reduce, and shall not be included in the calculation of, the required State contributions under this Article in any future year until the System has reached a funding ratio of at least 90%. A reference in this Article to the "required State contribution" or any substantially similar term does not include or apply to any amounts payable to the System under Section 25 of the Budget Stabilization Act.

Notwithstanding any other provision of this Section, the required State contribution for State fiscal year 2005 and for fiscal year 2008 and each fiscal year thereafter, as calculated under this Section and certified under Section 2-134, shall not exceed an amount equal to (i) the amount of the required State contribution that would have been calculated under this Section for that fiscal year if the System had not received any payments under subsection (d) of Section 7.2 of the General Obligation Bond Act, minus (ii) the portion of the State's total debt service payments for that fiscal year on the bonds issued in fiscal year 2003 for the purposes of that Section 7.2, as determined and certified by the Comptroller, that is the same as the System's portion of the total moneys distributed under subsection (d) of Section 7.2 of the General Obligation Bond Act. In determining this maximum for State fiscal years 2008 through 2010, however, the amount referred to in item (i) shall be increased, as a percentage of the applicable employee payroll, in equal increments calculated from the sum of the required State contribution for State fiscal year 2007 plus the applicable portion of the State's total debt service payments for fiscal year 2007 on the bonds issued in fiscal year 2003 for the purposes of Section 7.2 of the General Obligation Bond Act, so that, by State fiscal year 2011, the State is contributing at the rate otherwise required under this Section.

(d) For purposes of determining the required State contribution to the System, the value of the System's assets shall be equal to the actuarial value of the System's assets, which shall be calculated as follows:

As of June 30, 2008, the actuarial value of the System's assets shall be equal to the market value of the assets as of that date. In determining the actuarial value of the System's assets for fiscal years after June 30, 2008, any actuarial gains or losses from investment return incurred in a fiscal year shall be recognized in equal annual amounts over the 5-year period following that fiscal year.

(e) For purposes of determining the required State contribution to the system for a particular year, the actuarial value of assets shall be assumed to earn a rate of return equal to the system's actuarially assumed rate of return.

(Source: P.A. 100-23, eff. 7-6-17.)

(40 ILCS 5/2-134) (from Ch. 108 1/2, par. 2-134)

Sec. 2-134. To certify required State contributions and submit vouchers.

(a) The Board shall certify to the Governor on or before December 15 of each year until December 15, 2011 the amount of the required State contribution to the System for the next fiscal year and shall specifically identify the System's projected State normal cost for that fiscal year. The certification shall include a copy of the actuarial recommendations upon which it is based and shall specifically identify the System's projected State normal cost for that fiscal year.

On or before November 1 of each year, beginning November 1, 2012, the Board shall submit to the State Actuary, the Governor, and the General Assembly a proposed certification of the amount of the required State contribution to the System for the next fiscal year, along with all of the actuarial assumptions, calculations, and data upon which that proposed certification is based. On or before January 1 of each year beginning January 1, 2013, the State Actuary shall issue a preliminary report concerning the proposed certification and identifying, if necessary, recommended changes in actuarial assumptions that the Board must consider before finalizing its certification of the required State contributions. On or before January 15, 2013 and every January 15 thereafter, the Board shall certify to the Governor and the General Assembly the amount of the required State contribution for the next fiscal year. The Board's certification must note any deviations from the State Actuary's recommended changes, the reason or reasons for not following the State Actuary's recommended changes, and the fiscal impact of not following the State Actuary's recommended changes on the required State contribution.

On or before May 1, 2004, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2005, taking into account the amounts appropriated to and received by the System under subsection (d) of Section 7.2 of the General Obligation Bond Act.

On or before July 1, 2005, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2006, taking into account the changes in required State contributions made by this amendatory Act of the 94th General Assembly.

On or before April 1, 2011, the Board shall recalculate and recertify to the Governor the amount of the required State contribution to the System for State fiscal year 2011, applying the changes made by Public Act 96-889 to the System's assets and liabilities as of June 30, 2009 as though Public Act 96-889 was approved on that date.

By November 1, 2017, the Board shall recalculate and recertify to the State Actuary, the Governor, and the General Assembly the amount of the State contribution to the System for State fiscal year 2018, taking into account the changes in required State contributions made by this amendatory Act of the 100th General Assembly. The State Actuary shall review the assumptions and valuations underlying the Board's revised certification and issue a preliminary report concerning the proposed recertification and identifying, if necessary, recommended changes in actuarial assumptions that the Board must consider before finalizing its certification of the required State contributions. The Board's final certification must note any deviations from the State Actuary's recommended changes, the reason or reasons for not following the State Actuary's recommended changes, and the fiscal impact of not following the State Actuary's recommended changes on the required State contribution.

As soon as practical after the effective date of this amendatory Act of the 101st General Assembly, the Board shall recalculate and recertify to the State Actuary, the Governor, and the General Assembly the amount of the State contribution to the System for State fiscal year 2021, taking into account the changes in required State contributions made by this amendatory Act of the 101st General Assembly. The State Actuary shall review the assumptions and valuations underlying the

Board's revised certification and issue a preliminary report concerning the proposed recertification and identifying, if necessary, recommended changes in actuarial assumptions that the Board must consider before finalizing its certification of the required State contributions. The Board's final certification must note any deviations from the State Actuary's recommended changes, the reason or reasons for not following the State Actuary's recommended changes, and the fiscal impact of not following the State Actuary's recommended changes on the required State contribution.

(b) Beginning in State fiscal year 1996, on or as soon as possible after the 15th day of each month the Board shall submit vouchers for payment of State contributions to the System, in a total monthly amount of one-twelfth of the required annual State contribution certified under subsection (a). From the effective date of this amendatory Act of the 93rd General Assembly through June 30, 2004, the Board shall not submit vouchers for the remainder of fiscal year 2004 in excess of the fiscal year 2004 certified contribution amount determined under this Section after taking into consideration the transfer to the System under subsection (d) of Section 6z-61 of the State Finance Act. These vouchers shall be paid by the State Comptroller and Treasurer by warrants drawn on the funds appropriated to the System for that fiscal year. If in any month the amount remaining unexpended from all other appropriations to the System for the applicable fiscal year (including the appropriations to the System under Section 8.12 of the State Finance Act and Section 1 of the State Pension Funds Continuing Appropriation Act) is less than the amount lawfully vouchered under this Section, the difference shall be paid from the General Revenue Fund under the continuing appropriation authority provided in Section 1.1 of the State Pension Funds Continuing Appropriation Act.

(c) The full amount of any annual appropriation for the System for State fiscal year 1995 shall be transferred and made available to the System at the beginning of that fiscal year at the request of the Board. Any excess funds remaining at the end of any fiscal year from appropriations shall be retained by the System as a general reserve to meet the System's accrued liabilities.

(Source: P.A. 100-23, eff. 7-6-17.)

(40 ILCS 5/2-167 new)

Sec. 2-167. Self-directed retirement plan; end of service credit.

(a) For the purposes of this Section:

"Active participant" means a participant in the System who does not receive an annuity from the System.

"Automatic increase in retirement annuity" means an automatic increase in retirement annuity that is granted under this Article.

"Employer" means the State.

"Pensionable salary" means the amount of salary, compensation, or earnings used by the System to calculate the amount of an individual's retirement annuity.

(b) On and after the effective date of this amendatory Act of the 101st General Assembly, an active participant's participation in the System shall be limited to participation in a self-directed retirement plan established under subsection (f) of this Section.

All service credit under the System (including service under any participating system if the participant elects to use the reciprocal provisions of Article 20) shall be considered for purposes of vesting in the benefits provided prior to the effective date of this Section, but only service credit earned and contributions made before that effective date shall be considered in determining the amount of those benefits. In lieu of receiving any such benefits, an active participant may elect to have an account balance established in his or her self-directed plan account in an amount equal to the amount of the contribution refund that the participant would be eligible to receive if he or she withdrew from service on the effective date of this Section and elected a refund of contributions, except that this hypothetical refund shall include interest at the effective rate for the respective years. The System shall make these transfers of assets to the self-directed plan as tax-free transfers in accordance with Internal Revenue Service guidelines.

(c) The pensionable salary of an active participant shall not exceed the pensionable salary of that participant as of the effective date of this amendatory Act of the 101st General Assembly.

(d) An annuitant shall not receive an automatic increase in retirement annuity on or after the effective date of this amendatory Act of the 101st General Assembly unless, according to the most recent actuarial valuations, the total assets of the System are equal to or greater than 100% of the total actuarial liabilities of the System.

(e) The retirement age of active participants who are ineligible to retire as of the effective date of this amendatory Act of the 101st General Assembly shall be increased according to a schedule developed, as soon as practicable after the effective date of this amendatory Act of the 101st General Assembly, by the Public Pension Division of the Department of Insurance. The schedule of retirement ages adopted by administrative rule of the Division shall, at a minimum, ensure (i) that persons who first become active participants on or after the effective date of this amendatory Act of the 101st General Assembly are not eligible to retire until reaching the Social Security Normal Retirement Age and (ii) that persons who are active participants but ineligible to retire as of the effective date of this amendatory Act of the 101st General Assembly remain ineligible to retire until reaching age 59. The Division's schedule shall also provide for the adjustment of retirement ages using a matrix (i) that takes into account the current statutory retirement age for various classes of persons and service credit accrued by those persons as of the effective date of this amendatory Act of the 101st General Assembly and (ii) that proportionally discounts the increase in statutory retirement age based on proximity to the currently established retirement age. The minimum retirement age established under this subsection (e) shall not apply to active participants with respect to participation in a self-directed retirement plan established under subsection (f) of this Section.

(f) As soon as practicable after the effective date of this amendatory Act of the 101st General Assembly, the System shall establish a self-directed retirement plan that allows individuals who are active participants and individuals who become active participants on or after the effective date of this amendatory Act of the 101st General Assembly 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, either fixed or variable or a combination thereof. The plan must be qualified under the Internal Revenue Code of 1986.

At any time after withdrawal from service, a participant in the self-directed plan shall be entitled to a benefit that is based on the account values attributable to his or her participant contributions and the vested percentage of employer contributions, as well as any investment returns attributable to those contributions. A participant becomes vested in the employer's contributions credited to his or her account according to the following schedule:

(1) if the participant has completed less than 2 years of service under the System (including service under any participating system if the participant elects to use the reciprocal provisions of Article 20), 0%;

(2) if the participant has completed at least 2 but less than 3 years of such service, 25%;

(3) if the participant has completed at least 3 but less than 4 years of such service, 50%;

(4) if the participant has completed at least 4 but less than 5 years of such service, 75%; and

(5) if the participant has completed at least 5 years of such service, 100%.

At the time of taking a benefit under the self-directed plan, any employer contributions that have not vested, and the investment returns attributable to the employer contributions that have not vested, shall be forfeited. Employer contributions that are forfeited shall be held in escrow by the company investing those contributions and shall be used, as directed by the System, for future allocations of employer contributions.

(g) Each active participant in the System shall participate in the self-directed retirement plan established under subsection (f) and, in lieu of the contributions otherwise provided for in this Article, shall contribute 8% of his or her salary, earnings, or compensation, whichever is applicable, to the plan. The employer of each of those active participants shall contribute 7% of salary to that plan on behalf of the participant.

(h) The provisions of this amendatory Act of the 101st General Assembly apply notwithstanding any other law. If there is a conflict between the provisions of this amendatory Act of the 101st General Assembly and any other law, the provisions of this Section shall control.

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Statutes amended in order of appearance

40 ILCS 5/2-124	from Ch. 108 1/2, par. 2-124
40 ILCS 5/2-134	from Ch. 108 1/2, par. 2-134
40 ILCS 5/2-167 new	