



# Commission on Government Forecasting and Accountability

## PENSION IMPACT NOTE *103<sup>RD</sup> General Assembly*

BILL NO: **HB 3765, as amended by HA 2**

April 18, 2024

SPONSOR (S): Kifowit - Sheehan

SYSTEM: Downstate Firefighters', Downstate Police, Chicago Firefighters', Chicago Police, IMRF, SERS, SURS, and the Chicago Teachers' Pension Fund

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### FISCAL IMPACT

**An actuarial study is being conducted on the major provisions of HB 3765, as amended by HA 002. An updated impact note will be issued when the study is complete.**

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SUBJECT MATTER: HB 3765, as amended by HA 2, is a pension reform omnibus bill that adjusts various components of the Tier 2 benefit structure of the Downstate Firefighters', Downstate Police, Chicago Firefighters', Chicago Police, IMRF, SERS, SURS, and the Chicago Teachers' Pension Fund. Each change is summarized below in the Comment Section below.

### COMMENT:

*Deferred Retirement Option Plan (DROP) for public safety employees in the following systems: Downstate Fire, Downstate Police, Chicago Fire, Chicago Police, IMRF, Cook County Employees', SERS, & SURS*

### DROP Explanation

- Deferred Retirement Option Plans (DROP) are designed to encourage continued employment past the eligible retirement age for a period of time (usually 3-5 years). Below is a summary of the salient features of DROP plans:
  - Workers continue to draw a salary but are considered retired (for annuity purposes);
  - The pension annuity amount the worker is entitled to receive starting on the date they are considered "retired" (DROP date) is credited to the member's individual DROP account; and

- Upon completion of the DROP period, the member's DROP account balance is available in a lump-sum amount, which can be distributed in any of the following ways:
  - a one-time payment;
  - a payment plan over time;
  - a payment rolled into an IRA.

### **HB 3765, HA 2 DROP Provisions**

- No later than January 1, 2026, a DROP plan will be made available within the pertinent system or fund for eligible members, regardless of Tier status, in the aforementioned systems. Eligible participants must meet the following criteria:
  - The member must be eligible to retire with a full and unreduced pension as determined by the pertinent system;
  - The member must not be in receipt of a disability or retirement annuity at the time of election;
  - The member must not be subject to mandatory retirement under the law and will not become subject to such a retirement age during participation in the DROP;
  - The member must be actively employed as a police officer or firefighter in the above-mentioned articles of the Pension Code; and
  - DROP participants must make active member contributions to the pertinent fund for the entirety of the DROP period. DROP participants do not accrue additional service credit during the DROP period.
- Participation in the DROP must be elected by the eligible members no later than January 1, 2029 and is irrevocable, unless:
  - The DROP participant terminates employment prior to the expiration of the designated DROP period;
  - The DROP participant becomes eligible for and begins collecting a disability benefit from the pension fund or retirement system;
  - The death of the DROP participant occurs during the designated DROP period;
- The DROP duration is not to exceed 5 years.
- Individual DROP accounts shall consist of:
  - The monthly retirement annuity the participant would have been eligible to receive if the participant had terminated service on the date of participation in the DROP, as well as any benefits from a reciprocal system;
  - Employee contributions paid by the participant during the DROP period; and
  - Any auto-increases the member would have been eligible to receive if the participant had terminated service on the date he or she entered the DROP.
- Upon expiration or termination of the member's participation in the DROP, the member will receive the retirement annuity that they would have received had they retired on the date they entered the DROP with applicable automatic increases accrued during the DROP duration, plus the balance in their individual DROP account.
  - Expiration or termination of a DROP member's participation in the DROP may not occur after January 1, 2034.

*Placing Downstate Police, Downstate Fire, Chicago Police & Chicago Fire Articles Under the Ambit of the Retirement Systems Reciprocal Act*

**Current Law**

Under current law, the Downstate Police, Downstate Firefighters', Chicago Police, & Chicago Firefighters' Articles of the Illinois Pension code are not included under the Retirement Systems Reciprocal Act. Under the Downstate Police and Fire articles, reciprocity exists between the funds within each respective article.

The Retirement Systems Reciprocal Act allows for active employees to combine service credit earned from various participating systems to apply towards the minimum vesting requirements of the fund that they participate in currently or the fund that they last participated in before terminating active service. For example, a Tier 2 member in IMRF could utilize reciprocity and combine 4 years of prior service in SERS and 6 years in IMRF to meet the 10-year Tier 2 vesting requirement in IMRF.

**HB 3765**

HB 3765 would place the Downstate Police, Downstate Firefighters', Chicago Police, and Chicago Firefighters' Articles of the Illinois Pension Code under the ambit of the Reciprocal Act. The bill states that participation under the Reciprocal Act would only apply to members who have not yet begun receiving retirement annuities as of the effective date. In other words, retired members would not be entitled to a recalculation of their pensions based upon reciprocal service.

*Adjusting the Chicago Teachers' Pension Fund's Pensionable Service Credit Accrual Schedule*

Under current law, CTPF members accrue service credit in the following ways:

- one day of service credit for each day of salary representing a partial or full day of employment;
- 17 or more days of service constitutes a month; and
- 170 days or more of service, or 10 or more months constitutes a year.

HB 3765, as amended by HA 2, would allow teachers to receive the greater of the current law service accruals or ten days of service credit for each 10-day period of employment in which the contributor worked 50% or more of regularly scheduled hours. (170 days of service is needed to establish one year of service credit in CTPF.)

Under current law, TRS members receive one year of service credit for 170 days of salary representing a full day of employment. TRS members who earn salary for less than 170 days

receive service credit at a ratio of number of days paid to 170 days. SURS members receive one year of service credit for 8 or more months of service,  $\frac{3}{4}$  of one year for 6-7 months of service,  $\frac{1}{2}$  of one year for 3-5 months of service, and  $\frac{1}{4}$  of one year for 1-2 months of service.

Alternative Formula Eligibility for Investigators of the Departments of Lottery

The current SERS retirement benefits for both Tier 1 & 2 Investigators for the Department of the Lottery are detailed in the chart found below:

Current Law						
Employee	Tier	SS-Coordinated?	Contribution Rate	Multiplier	Full Retirement	Reduced Retirement
Investigator for the Dept. of Lottery	1	No	8%	2.20%	Age 60 with 8 years of service credit OR Rule of 85	Ages 55-60 with 25-30 years (Reduced 1/2 of 1% every year under age 60)
Investigator for the Dept. of Lottery	2	No	8%	2.20%	Age 67 with 10 years service credit	Ages 62-67 with 10 years (Reduced 1/2 of 1% every year under age 67)
HB 3765, HA 2						
Investigator for the Dept. of Lottery	1	No	12.5%	3.00%	Age 55 with 20 years of service OR Age 50 with 25 years of service	N/A
Investigator for the Dept. of Lottery	2	No	12.5%	3.00%	Age 55 with 20 years of service	N/A

HB 3765, as amended by HA 2, amends the Illinois Pension Code to allow participation in the SERS Alternative Formula for Tier 1 and Tier 2 investigators for the Department of the Lottery.

Alternative Formula Participation for Certain Security Employees of the Department of Juvenile Justice

Currently, in order for a security employee of the Department of Juvenile Justice to participate in the SERS alternative formula, the employee must be employed in a position at a DJJ facility and have involvement in areas such as training of delinquent youths, providing rehabilitative and vocational training, and assisting other personnel who perform these duties. Additionally, the employee must:

- Be over the age of 21; and
- Possess a high school diploma or equivalent and either:
  - A bachelor’s or advanced degree from an accredited college or university; or
  - 2 or more years of experience providing direct care to youth in the form of residential care, coaching, case management, or mentoring.

HB 3765, as amended by HA 2, stipulates that the bachelor’s or advanced degree requirement shall no longer determine eligibility for the alternative formula for the above-mentioned positions at DJJ. Affected employees may convert their prior regular formula service to alternative

formula service by paying the difference between the employee contributions for that period of service and the amounts that would have been contributed had the member been participating in the alternative formula from the date of service to the date of payment. The member is not required to pay the employer's normal cost nor interest for the period of service they wish to upgrade.

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