

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **HB 5839**

February 24, 2010

SPONSOR (S): Burke

SYSTEM(S): State Employees' Retirement System (SERS)

FISCAL IMPACT: The fiscal impact of HB 5839 has not been calculated, but would be significant. A similar proposal for Downstate Police officers (SB 2359) was estimated to increase the accrued liabilities of Downstate Police pension funds by \$120 million.

SUBJECT MATTER: HB 5839 amends the State Employees' Retirement System article of the Illinois Pension Code to create a Deferred Retirement Option Plan (DROP) for alternative retirement plan participants who attain age 50 with 25 years of service credit, or at any age with 26 years and 8 months of service.

FISCAL IMPACT: The fiscal impact of HB 5839 has not been calculated, but would be significant. A similar proposal for Downstate Police officers (SB 2359) was estimated to increase the accrued liabilities of Downstate Police pension funds by \$120 million.

COMMENT: HB 5839 creates a Deferred Retirement Option Plan, or DROP, for alternative formula participants under the State Employees' Retirement System article. To be eligible for the DROP, a participant must (a) be in active service eligible for alternative service benefits, (b) have attained age 50 and have at least 25 years of service credit, or (c) have at least 26 years and 8 months of service credit regardless of age. Participants must make an election to participate in DROP within 12 months of becoming eligible for normal retirement. The member's participation in the DROP plan will last no longer than 5 years, or until death or termination of service, whichever occurs first. A participant will continue making contributions during the DROP period, and those contributions will be placed into his or her DROP account; the participant will not accumulate any additional service credit during the DROP period.

The State Employees' Retirement System shall maintain a separate DROP account for the benefit of each participant who elects to participate in DROP. The fund shall pay into the participant's account an amount equal to the monthly pension that the

participant would have received if he or she had retired on the date of participation in the DROP plan, plus employee contributions, plus interest on the balance in the DROP account, paid and compounded monthly, throughout the period of the DROP plan. Upon retirement, the participant shall receive a DROP benefit equal to the balance in the participant's DROP account at the time of retirement.

GS:dkb

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