

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 1568, as amended by HA 2**

April 6, 2022

SPONSOR (S): Vella – Yednock, et al (Harmon)

SYSTEM(S): SERS & IMRF

FISCAL IMPACT: According to SERS, implementation of the deferred retirement option plan (DROP) for State Troopers will cause an increase in accrued liabilities (AAL) of between \$25-30 million. Lowering the retirement age for Tier 2 State Troopers and the other police officials enumerated in the bill from age 60 to age 55 will result in an increase in AAL of approximately \$250 million. No actuarial data has been provided by IMRF regarding the implementation of the DROP in that system.

SUBJECT MATTER: HB 1568, as amended by HA 2, amends the SERS and IMRF articles of the Pension Code to create a deferred retirement option plan, or DROP, for State Police officers and county sheriff law enforcement employees who make an election to participate in the DROP on or before January 1, 2027. The bill also allows certain Tier 2 law enforcement officers, as described in the comment section below, to be eligible to retire under the SERS alternative formula at age 55, rather than age 60, with 20 years of service credit.

COMMENT: Generally speaking, DROP plans work in the following manner: for the years that an active employee participates in the DROP, rather than having those years of service included in future pension benefit calculations, the employer places a lump sum of money into a separate account for each year the employee remains on the job. This account earns interest as long as the employee remains active. Once the member retires, the money held in the DROP account is paid to the member, with accrued interest, and the member's pension is based upon the salary and years of service credit accrued as of the date he or she entered the DROP.

DROP Plan for State Troopers in SERS and Sheriff's Law Enforcement Personnel in IMRF

HB 1568, as amended by HA 2, implements a DROP in both SERS and IMRF. The SERS DROP will apply to State Troopers, while the IMRF DROP plan will apply to Sheriff's Law Enforcement Personnel (SLEP).

During participation in the DROP, the pertinent pension fund will credit a notional account on behalf of the participating member in an amount equal to the monthly retirement annuity that the member would otherwise be eligible to receive had the member chosen to retire as of the date of election to participate in the DROP.

Interest will be credited annually to the notional accounts of DROP participants in an amount equal to the Market Yield on U.S. Treasury Securities at 10-year Constant Maturity in effect at that time, based on the member's notional DROP account balance on December 31st of the preceding year. The member's pension credited to the notional DROP account will be based upon the salary and years of service at the date he or she entered the DROP.

Below is a summary of the key facets of the DROP in the two respective pension funds:

- The DROP must be made available to eligible members no later than January 1, 2024;
- IMRF SLEP members and SERS State Troopers must elect to participate in the DROP on or before January 1, 2027;
- Members in each respective system must be otherwise eligible to retire at the time of election to participate in the DROP and must be in active service;
- State Troopers must not participate in either the COLA buyout program or the inactive vested buyout program in SERS;
- Participation in the DROP cannot exceed 5 years;
- The member's DROP account balance will be paid out as a lump sum to the member at the conclusion of participation in the DROP;
- Members participating in the DROP will not accrue additional pension service credit for the period of participation in the DROP;
- IMRF SLEP personnel will make employee contributions to the pension fund at the rate of 7.5% of salary during the DROP period, as they would normally as an active employee; such contributions will be credited to the IMRF trust fund;
- State Troopers who participate in the SERS DROP will not make regular employee contributions of 12.5% of salary as normally required, but rather, they shall make contributions into 457(d) deferred compensation accounts during participation in the DROP at the rate of no less than 7.6% of pretax gross compensation for each compensation period (SERS contends this change is necessary to avoid mandatory enrollment of these State Troopers in Social Security);
- Members must terminate service with their respective employers at the conclusion of the DROP period;
- All COLA's that would have otherwise been payable had the member elected to retire instead of participating in the DROP will be placed in the member's DROP account.

Reduction in Retirement Age for certain Tier 2 Police Officers

Currently, Tier 2 members in the SERS Alternative Formula can retire at age 60 with 20 years of service. HB 1568, as amended by HA 2, allows the following Tier 2 law enforcement personnel to retire at age 55 with 20 years of service under the alternative formula:

- State Police troopers;
- investigators for the Secretary of State;
- Conservation police officers;
- investigators for the Department of Revenue or the Illinois Gaming Board;
- investigators for the Office of the Attorney General; and
- Commerce Commission police officers or arson investigators

Members participating in the SERS Alternative Formula contribute 12.5% of salary towards their pensions, regardless of tier status. The bill does not change the member contribution amount.

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