

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102ND GENERAL ASSEMBLY

BILL NO: **HB 4292**

December 28, 2021

SPONSOR (S): Morgan – Zalewski, et al.

SYSTEM(S): State Employees’ Retirement System (SERS), State Universities Retirement System (SURS), and Teachers’ Retirement System (TRS)

FISCAL IMPACT: HB 4292 would extend the window period for the pension buyout programs by 2 years to June 30, 2026, so that more eligible members at SERS, SURS, or TRS could have an option to participate in the buyout programs if they wish. It is difficult to estimate how much pension liability would be reduced under HB 4292 as individuals’ decisions on participation play an important role by nature.

TRS’ data on the liability reduction from the buyout elections was not readily available at the time of writing. The estimated accrued liability reduction from both buyout programs from SERS and SURS as of FY 2021 was \$304.8 million.

	Estimated Accrued Liability Reduction as of FY 2021		
System	Total Pension Buyout	COLA Buyout	Total
SERS	\$17.0M	\$263.0M	\$280.0M
SURS	\$15.2M	\$9.6M	\$24.8M
Total	\$32.2M	\$272.6M	\$304.8M

SUBJECT MATTER: HB 4292 amends the Articles 14, 15, and 16 (SERS, SURS, and TRS) of the Illinois Pension Code regarding provisions on the accelerated pension benefit payments (i.e. the pension buyout programs) to extend the pension buyout programs by 2 more years to June 30, 2026. This legislation also amends the General Obligation Bond Act to authorize the issuance of an additional \$1 billion of State Pension Obligation Acceleration Bonds to reflect the extended window period for the buyout programs.

COMMENT: P.A. 100-0587 went into effect on June 4, 2018. The Act created two voluntary pension buyout programs for SERS, SURS, and TRS: the “total pension buyout” program for vested, inactive members and 3% COLA buyout program for eligible Tier 1 members. A brief summary of each buyout program is shown below:

- **Voluntary Pension Buyout for Vested, Inactive Members:**

An eligible member in SERS, SURS, or TRS may irrevocably elect to receive an accelerated pension benefit payment equal to 60% of the present value of a member's pension benefit in lieu of receiving any pension benefit. An eligible member means a person who:

- Is an inactive member in a DB plan;
- Has enough age and service credits to receive a retirement annuity (i.e., the member has vested for a pension);
- Has not received any retirement annuity; and
- Has not elected the compounded 3% COLA buyout option.

- **Voluntary Compounded 3% COLA Buyout for Tier 1 Members**

An eligible member in SERS, SURS, or TRS may irrevocably elect to receive an accelerated pension benefit payment equal to 70% of the difference between the present value of the standard Tier One 3% compounded COLA and the present value of a reduced COLA (simple 1.5%) in exchange for receiving a simple 1.5% COLA.

An eligible member means a person who:

- Is a Tier 1 member in a DB plan;
- Has submitted an application for retirement;
- Meets age and service requirements to receive a retirement annuity;
- Has not received any retirement annuity; and
- Has not elected the total pension buyout option.

The two buyout programs will sunset on June 30, 2024, pursuant to P.A. 101-0010. Under HB 4292, eligible members of SERS, SURS, or TRS will be allowed to elect to participate in the pension buyout programs until June 30, 2026; so, in essence, the bill extends the buyout program sunset date by 2 years.

Currently, the State Pension Obligation Acceleration Bonds of \$1 billion are authorized for the purpose of making the accelerated pension benefit payments to those who elected to participate in the buyout programs. HB 4292 will authorize the issuance of an additional \$1 billion of State Pension Obligation Acceleration Bonds, allowing a total of \$2 billion bonds to be issued for the buyout programs to reflect the extended window period.

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