



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: **HB 3519**

February 4, 2024

SPONSOR (S): Kifowit

SYSTEM: SERS, General Provisions Article (Systems Impacted: IMRF, Chicago Municipal, Cook County, SERS, and SURS)

FISCAL IMPACT

According to the State Employees' Retirement System (SERS), reducing the Tier 2 alternative formula retirement age from 60 to 55 for security employees of the Departments of Corrections and Juvenile Justice would cause the system's accrued liability to increase by \$2.1 billion, with a corresponding increase to the State's annual contribution of \$90 million/year. A comprehensive actuarial study would be needed to assess the impact of the other components of the bill upon IMRF, Chicago Municipal, Cook County, SERS, and SURS: lowering the normal (non-police) Tier 2 retirement age; increasing the Tier 2 COLA to the *greater of 3% or one-half the CPI-U*; increasing the final average salary cap to the Social Security Wage Base; and granting the Tier 2 COLA after one year of retirement.

SUBJECT MATTER: HB 3519 amends the General Provisions and State Employees' articles of the Illinois Pension Code to allow Tier 2 Department of Corrections and Department of Juvenile Justice security employees to retire under the alternative formula in SERS with at least 20 years of credible service at age 55 (currently age 60 with 20 years of service). The bill makes the following changes to regular (non-police) Tier 2 positions in the IMRF, Chicago Municipal, Cook County, SERS, and SURS articles: the Tier 2 cost-of-living adjustment (COLA) is increased to the *greater of 3% or ½ the increase in the CPI-U, non-compounded*; the retirement age is lowered to age 60 with 20 years of service; the pensionable salary cap is increased to the Social Security Wage Base; and the first cost-of-living adjustment (COLA) will be payable after one year of retirement. More detail is provided in the Comment section below.

COMMENT:

Note – all the changes enumerated below are intended to be retroactive to Jan. 1, 2011, the effective date of P.A. 96-1495, the Tier 2 Act of 2010, and apply without regard to whether the member is active or retired. Hence, any retired members would be eligible for a benefit recalculation in conformity with the applicable provisions outlined below.

Reduction in Tier 2 Alternative Formula Retirement Age for IDOC and Dept. of Juvenile Justice Security Employees

Currently, Tier 2 members of the Alternative Formula under SERS must work until age 60 with 20 years of service credit to qualify for a pension. Tier 2 security employees for the Departments of Corrections and Juvenile Justice currently qualify for and participate in the Alternative Formula. HB 3519 would lower the Tier 2 retirement age to 55 with 20 years of service for these two respective job titles. The bill states that this retirement age reduction applies to active and retired members alike. Hence, any retired Tier 2 DOC or DJJ security employees would qualify for a recalculation of their annuities pursuant to the new retirement age and service requirements.

Note - P.A. 102-0719, which became effective on May 6, 2022, lowered the Tier 2 Alt. Formula retirement age in a similar manner for 785 police officers across several job titles, including State Troopers, investigators for the Secretary of State, Conservation Police officers, amongst others. CGFA's actuary estimated that this change will add an additional \$103 million in State contributions from FY 2023-FY 2045, and will increase the FY 2045 accrued liability by \$179 million.

Reduction in Tier 2 Retirement Age in the Following Systems: IMRF, Chicago Municipal, Cook County, SERS, and SURS

Currently, Tier 2 members in the above-mentioned systems can retire at age 67 with 10 years of service credit or between age 62-67 with 10 years of service credit with a 0.5% reduction for each month that their age is under 67. HB 3519 would add a second option for Tier 2 members to retire at age 60 with 20 years of service credit. Additionally, if any of these systems permit a retirement age of under 60 with a reduction in their annuity for Tier 1 members, such a provision would now also apply to Tier 2 members with the same benefit reduction schedule. For example, in SURS, Tier 1 members can retire at age 55 with 8 years of service credit, with a reduction of 0.5% for each month under age 60. Under HB 3519, this reduced-annuity provision would now apply to Tier 2 members who wish to retire before age 60.

Reduction in Final Average Salary Period for Tier 2 Members in the Following Systems: IMRF, Chicago Municipal, Cook County, SERS, and SURS

Currently, Tier 2 pensions are based on a final average salary (FAS) equal to the annual salary that is the average of the highest 8 consecutive years' earnings out of the member's last 10 years of service. HB 3519 would shorten the FAS period to the annual salary that would be the average of the highest 5 consecutive years' earnings within the last 10 years of service for the above-mentioned systems.

Increase in Tier 2 Pensionable Salary Cap in IMRF, Chicago Municipal, Cook County, SERS, and SURS

Currently, Tier 2 members have their pensions limited by a cap on pensionable earnings, known as the final average salary cap (or “FAS Cap”), which is set at \$125,774 as of FY 2024, per Department of Insurance guidelines. HB 3519 would set the Tier 2 FAS cap at the Social Security Wage Base then in effect for the above-mentioned systems. The Social Security Wage Base is \$168,600 as of 2024.

Increase in and Earlier Payment of Tier 2 COLA's in the Following Systems: IMRF, Chicago Municipal, Cook County, SERS, and SURS

Under HB 3519, a new Tier 2 COLA rate is created. Rather than calculating Tier 2 COLAs at the lesser of $\frac{1}{2}$ the increase to the CPI-U or 3%, non-compounded, the bill would grant such COLAs at the *greater of* 3%, or $\frac{1}{2}$ the increase in the CPI-U. Non-compounding of Tier 2 COLAs would remain in force. HB 3519 would also allow Tier 2 annuitants in the aforementioned systems to receive their Cost-of-Living Adjustments (COLA) yearly in the same manner as Tier 1 annuitants. Thus, Tier 2 retirees would receive their COLAs after one year of retirement, regardless of age, rather than having to wait until the attainment of age 67 or one year of retirement, whichever is later.

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