



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: **HB 3906**

February 28, 2023

SPONSOR (S): Stuart

SYSTEM: State Universities' Retirement System (SURS) Article

FISCAL IMPACT

A full actuarial workup would be needed to ascertain the increase in State contributions associated with reducing the Tier 2 retirement age from 60 to 55 for police officers and firefighters in SURS. This change will be studied by CGFA's actuary, and an updated note will be issued when that study is complete.

SUBJECT MATTER: HB 3906 amends the State Universities' Retirement System (SURS) article of the Pension Code. This bill changes the minimum age Tier 2 police officers and firefighters can receive retirement annuities from 60 to 55. The vesting period of 20 years for Tier 2 police officers and firefighters is unchanged. This change is retroactive to January 1, 2011.

COMMENT: Under current law, Tier 1 participants in SURS are entitled to a retirement annuity when they reach the following criteria – age 62 with at least 5 years of service, age 60 with at least 8 years of service or any age with at least 30 years of service. Tier 1 participants may also choose to receive a reduced annuity at age 55 with at least 8 years of service (any Tier 1 member with less than 30 years of service credit will have their annuity reduced by ½ of 1% for each month under age 60). The retirement annuity for Tier 1 participants is equal to 2.2% of their final average salary for each year of service, with a 3% compounded annual adjustment.

Tier 2 participants are entitled to a retirement annuity when they attain the age of 67 and have at least 10 years of service credit. Tier 2 participants may also choose to receive a reduced annuity at age 62 with at least 10 years of service (reduced by ½ of 1% for each month under age 67). The retirement annuity for these Tier 2 participants is equal to 2.2% of their final

average salary for each year of service, with a simple 3% or half the increase in the CPI-u, whichever is less.

Certain special features apply in SURS for police officers and firefighters. Tier 1 participants who are at least 50 with 25 years of service as a police officer or firefighter and Tier 2 participants who are at least 60 with at least 20 years of service as a police officer or firefighter are entitled to the following defined benefit (DB) retirement annuity. The retirement annuity for these police officers and firefighters is equal to 2 1/4% of the final rate of earnings for each of the first 10 years of service as a police officer or firefighter, 2 1/2% for each of the next 10 years of service as a police officer or firefighter, and 2 3/4% for each year of service as a police officer or firefighter in excess of 20. The retirement annuity is increased by 3% compounded annually for Tier 1 participants and the lesser of 3% or half the CPI-u for Tier 2 participants. HB 3906 changes the minimum age for Tier 2 police officers and firefighters from 60 to 55. The vesting period of 20 years is unchanged. This change is retroactive to January 1, 2011.

Note - P.A. 102-0719, which became effective on May 6, 2022, lowered the SERS Tier 2 Alternative Formula retirement age from 60 to 55 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 would add an additional \$103 million in State contributions from FY 2023-FY 2045, and would increase the FY 2045 accrued liability by \$179 million. The cost associated with the Tier 2 Police and Fire retirement age reduction in SURS will be studied by CGFA's actuary, and an updated impact note will be issued when that study is complete.

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