



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: **HB 5498**

March 5, 2024

SPONSOR (S): Haas

SYSTEM: TRS

FISCAL IMPACT

HB 5498 establishes in the TRS Article a Deferred Retirement Option Plan (DROP) for eligible members. A basic explanation of the mechanics of the DROP is provided below in the Comment section. An actuarial analysis would be needed to assess the fiscal impact of implementing a DROP for TRS.

SUBJECT MATTER: HB 5498 amends the TRS Article and creates Article 25 (Deferred Retirement Option) of the Illinois Pension Code. The bill provides a deferred retirement option plan (DROP) maintained by the System for eligible members of the TRS Article. Along with the provisions outlining the DROP created, HB 5498 provides a mechanism for the System to transfer administrative responsibility of DROP accounts to the State Treasurer if elected by the System.

COMMENT:

Deferred Retirement Option Plans (DROP) are designed to encourage continued employment past the eligible retirement age for a period of time (usually 3-5 years). HB 5498 creates the Deferred Retirement Option Article (Article 25) and amends the TRS article within the Illinois Pension Code to mandate that the System provide a plan in accordance with the newly created Article 25. This DROP features provisions common to other DROP plans across the country, summarized as follows:

- Workers continue to draw a salary but are considered retired (for annuity purposes);
- The pension annuity amount the worker is entitled to starting at the date they are considered “retired” (DROP date) is credited to the member’s individual DROP account; and

- Upon completion of the DROP period, the member's DROP account balance is available as lump-sum amount, which can be distributed in any of the following ways:
 - a one-time payment;
 - a payment plan over time;
 - a payment rolled into an IRA.

No later than July 1, 2024, HB 5498 mandates that a DROP be made available for TRS members, regardless of tier status. Eligible participants must meet the following criteria:

- be eligible to retire with a full and unreduced pension;
- not be in receipt of a disability or retirement annuity at the time of election; and
- be actively employed in a position that is covered under a collective bargaining agreement.

Participation in the DROP is not to exceed 5 years, must be elected by the eligible members no later than January 1, 2027, and is irrevocable, unless:

- The DROP member terminates employment prior to the expiration of the designated DROP period;
- The DROP member becomes eligible for and begins collecting a disability benefit from the pension fund or retirement system; or
- The death of the DROP member occurs during the designated DROP period;

The amounts credited to the DROP accounts of individual members will be equal to:

- The monthly retirement annuity the participant would have been eligible to receive if the participant had terminated service on the date of participation in the DROP, as well as any benefits from a reciprocal system;
- Employee contributions paid by the participant during the DROP period; and
- Any automatic increases the member would have been eligible to receive if the participant had terminated service on the DROP date.

Amounts credited to DROP accounts shall accrue interest annually on January 1, calculated at a rate equal to the 10-year Treasury rate then in effect and applied to the amount in the account on December 31st of the previous year. Upon expiration or termination of the DROP member's participation, the member will receive the retirement annuity that they would have received had they retired on the date they entered the DROP with applicable automatic increases accrued during the DROP duration, plus the balance in their individual DROP account. Expiration or termination of a DROP member's participation may not occur after January 1, 2032.

HB 5498 mandates that the System hold administrative power over member's individual accounts. A mechanism is provided that transfers administrative power over this DROP to the State Treasurer if this option is chosen by the TRS Board of Directors.

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