



# Commission on Government Forecasting and Accountability

## PENSION IMPACT NOTE *103<sup>RD</sup> General Assembly*

BILL NO: SB 2024

February 27, 2023

SPONSOR (S): Martwick

SYSTEM: General Provisions, IMRF, SURS, Downstate Teachers

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### FISCAL IMPACT

**SB 2024 amends the Downstate Teachers, SURS, and IMRF articles of the Pension Code. The bill changes the Tier 2 annuity calculation for the aforementioned systems (the bill only impacts Tier 2 regular employees under IMRF who are employees of an educational employer). The bill provides a lower Tier 2 retirement age, reduces the number of consecutive months used to calculate final average salary, and increases the rate by which pensionable salary is increased. A comprehensive actuarial study would be needed to calculate the extent to which the proposed legislation would ultimately increase the accrued liability of each respective pension system, and to evaluate the corresponding increase in annual employer contributions that would be required were the bill to become law.**

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SUBJECT MATTER: SB 2024 amends the General Provisions, Illinois Municipal Retirement Fund (IMRF), State Universities, and Downstate Teacher Articles of the Pension Code. For Tier 2 members under the Downstate Teacher or SURS Article, and Tier 2 regular employees under IMRF who are employees of an educational employer, age and service credit requirements are reduced under this bill. In addition, the bill increases the amount by which annual Tier 2 cost-of-living adjustments are made. For calculating Tier 2 final average salary, SB 2024 reduces the number of consecutive months in which final average salary is calculated. The changes are discussed in more detail below in the Comment section.

COMMENT: SB 2024 makes fundamental changes to the Tier 2 schedule of benefits for members of TRS and SURS, as well as IMRF Tier 2 employees who participate in Regular IMRF who are employees of an educational employer. The following changes made as a result

of this bill apply to all members under the various funds mentioned, and apply equally to active and retired members (meaning retired members would be eligible for a re-calculation of their annuities were the bill to become law). Whether or not retired members would receive backpay or whether annual increases to retirement annuities would apply to all future payments is not specified in SB 2024.

- **Age and Service Credit Requirements:**
  - Currently, Tier 2 members can retire at age 67 with 10 years of service credit, or at age 62 with 10 years of service credit. A member who retires at age 62 will receive a reduction in annuity equal to  $\frac{1}{2}$  of 1% for each month under age 67. Under SB 2024, a member would be entitled to a retirement annuity if they are at least 60 years old with at least 35 years of service credit; or if they are 62 years old with at least 10 years of service credit.
- **Automatic Annual Increases to Retirement Annuities**
  - Currently, Tier 2 cost-of-living increases (COLA's) are calculated at a rate of 3% or one-half the CPI-U, whichever is less, of the originally granted pension (non-compounded). For all members affected by SB 2024, each annual increase shall be the *greater* of the following: (1) 3% or (2) one-half the annual unadjusted percentage increase in the CPI-U. The new Tier 2 COLA will remain non-compounded.
- **Calculating Final Average Salary**
  - Under current law, Tier 2 members in all affected systems receive a pension based upon their final average salary, which is calculated by using the yearly average of the highest 96 consecutive months (8 years) of service within the last 120 months (12 years) of service. SB 2024 amends the FAS calculation by reducing the number of consecutive months from which the average annual salary is calculated from 96 to 72, or 6 years within the last 120 months of service.
- **Annual Earnings/ Final Salary Limitation**
  - Currently, the pensionable salary for Tier 2 members cannot exceed \$119,892 as of 2022. Current law dictates that the cap must be increased by the lesser of 3% or one-half the annual unadjusted percentage increase in the CPI-U. However, beginning in 2024, SB 2024 would grow the Tier 2 pensionable salary cap by the *greater* of (1) 3%, or (2) the annual unadjusted percentage increase in the CPI-U.

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