



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 3628

March 4, 2024

SPONSOR (S): Turner, D.

SYSTEM: SERS, IMRF, General Provisions Article

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 overall accrued liability to increase by \$465.1 million. A comprehensive actuarial study would be needed to assess the impact of the other components of the bill: granting the Tier 2 COLA after one year of retirement, regardless of age; and lowering the normal (non-police) Tier 2 retirement age.

SUBJECT MATTER: SB 3628 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Juvenile Justice security employees to retire under the alternative (state police) formula in SERS if the employee has withdrawn from service with at least 20 years of credible service and has attained age 55 (currently age 60).

The bill also retroactively changes the retirement age for Tier 2 employees in IMRF, Chicago Municipal, Cook County, SERS, and SURS members from age 67 to age 60 (the current Tier 2 vesting period of 10 years is unchanged; however, a Tier 2 employee would need to work 20 years to retire at age 60), as well as the final average salary calculation. SB 3628 permits Tier 2 employees in certain funds to begin receiving the Tier 2 cost-of-living increase (COLAs) after one year of retirement, regardless of age, and amends the choice of formula used to determine that annual COLA.

COMMENT:

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. SB 3628 would lower the Tier 2 retirement age to 55 with 20 years of service for these two respective job titles.

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/month under age 67. SB 3628 would lower the retirement age for individuals in these systems to age 67 with at least 10 years of service credit or age 60 with 20 years of service credit. Additionally, if any of these systems permits 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 SB 3628, this reduced-annuity provision would now apply to Tier 2 members who wish to retire before age 60.

Adjusting the Final Average Salary Calculation in the Following Systems: IMRF, Chicago Municipal, Cook County, SERS, and SURS

Currently, the "final average salary" used to determine a member's retirement annuity is the average of total salary and earnings earned by the member during the highest earning period of 96 consecutive months (8 years) within the last 120 months (10 years) of service. This amount is currently capped at \$125,773.73.

SB 3628 would change the period of time used to determine a member's final average salary to the highest earning period of 60 consecutive months (5 years) within the last 120 months (10 years) of service. SB 3627 would set the pensionable salary cap in line with the federal Social Security Wage Base, currently set at \$168,800 for 2024.

Earlier Payment of Tier 2 COLAs in the Following Systems: IMRF, Chicago Municipal, Cook County, SERS, and SURS

SB 3628 would allow Tier 2 participants in the aforementioned systems to receive their Cost-of-Living Adjustment (COLA) yearly in the same manner and eligibility as Tier 1. Thus, Tier 2 retirees would receive the standard Tier 2 COLA 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. However, the proposed Tier 2 COLA rate would remain unchanged, at the lesser of $\frac{1}{2}$ the increase to the CPI-U or 3%, non-compounded, but instead of using the lesser of these options, the greater will be used.

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