



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: **HB 1075, as amended by SA 004**

June 6, 2025

SPONSOR (S): Gabel - Guzzardi (Sims)

SYSTEM: TRS, SURS, and SERS

FISCAL IMPACT

HB 1075, as amended by SA 004, does not empower the Big 3 State systems (TRS, SERS and SURS) to unilaterally raise the Tier 2 earnings limit, nor does the bill change the FY 2026 certified contribution. The bill creates a special fund in the State Treasury called the Social Security Wage Base (SSWB) Reserve Fund for the purpose of funding the actuarial value of any future increase in the Tier 2 earnings limit. The bill transfers \$75 million from GRF to the SSWB fund in FY 2026 for this purpose. In addition, HB 1075, as amended by SA 004, creates a reactive mechanism in the event that affected retirement system employers (those in TRS, SERS, and SURS) are found to not satisfy Social Security's Safe Harbor requirements. The reactive mechanism is meant to make Tier 2 retirees whole in the event their benefits are ruled to be insufficient under federal Safe Harbor standards, as detailed below.

SUBJECT MATTER: HB 1075, as amended by SA 004, is the Fiscal Year 2026 Budget Implementation Act. The legislation includes a reactive mechanism to protect employers and employees participating in Tier 2 pension plans in TRS, SURS, and SERS from potential Social Security Safe Harbor violations, detailed in the Comment section below.

COMMENT: Illinois' non-public safety Tier 2 pension benefit plan, created in 2010 via the enactment of P.A. 96-1495, covers public employees hired on or after January 1, 2011. It includes a cap on pensionable earnings equal to \$127,283 in 2025 – significantly below the current Social Security Wage Base (SSWB) of \$176,100. The disparity between the Tier 2 pensionable earnings cap and the SSWB has raised concerns that benefits may fall below federal minimums required to avoid Social Security taxes for not meeting IRS Safe Harbor requirements. These requirements generally hold that a defined benefit plan that operates independently of Social Security must offer benefits at least as generous as those offered under Social Security.

A June 5, 2023 report provided by CGFA's consulting actuary, Segal, analyzed a potential Tier 2 benefit change that would satisfy Safe Harbor requirements. The findings include, but are not limited to, those outlined below:

- Increasing the cap on pensionable earnings from the current amount to the SSWB for TRS, SERS, and SURS Tier 2 members under the general formula would eliminate the Safe Harbor adjustment for compensation and would eliminate any compliance issues for impacted employees and employers; and
- Increasing the cap on pensionable earnings from the current amount to the SSWB for SURS Police and Fire Tier 2 employees with less than 20 years of service would eliminate the Safe Harbor adjustment for compensation and would also eliminate any compliance issues for impacted employees and employers.

HB 1075, as amended by SA 004, creates the FY 2026 Budget Implementation Act. The bill includes two provisions in response to the potential Tier 2 Safe Harbor issues.

The first provision creates the Tier 2 SSWB Reserve Fund. Subject to appropriation, the fund would make additional State contributions tied to future legislative adjustments to the Tier 2 earnings limitation (i.e., raising the Tier 2 pensionable salary cap to the SSWB). An initial amount of \$75 million is transferred from the General Revenue Fund (GRF) to the Tier 2 SSWB Reserve Fund. Distributions from the Fund shall be allocated as follows:

- 5.1% to the State Employee's Retirement System of Illinois;
- 83.3% to the Teachers' Retirement System of the State of Illinois; and
- 11.6% to the State Universities Retirement System.

According to TRS, this provision does not empower systems to raise the cap unilaterally; a substantive change to the Tier 2 earnings limit must be enacted by the General Assembly.

The second provision included in HB 1075, as amended by SA 004, creates a fallback mechanism in the event that a ruling from a federal authority finds an Illinois Tier 2 plan does not satisfy the Safe Harbor requirement and Federal Insurance Contributions Act (FICA) taxes become applicable. HB 1075, as amended by SA 004, allows the SSWB Reserve Fund to be used to supplement benefits for affected members in the event such a ruling is passed down from a federal authority. The language of this provision focuses on benefit payouts, not system changes such as the accrual rate of service or the salary used to determine benefits. This is framed as a continuing appropriation to make impacted Tier 2 employees' pensions whole if a Safe Harbor failure occurs.

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