



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: **HB 2765**

March 3, 2025

SPONSOR (S): Haas

SYSTEM: TRS

FISCAL IMPACT

HB 2765 establishes a Deferred Retirement Option Plan (DROP) for eligible members of the Teachers' Retirement System (TRS). Multiple iterations of DROP frameworks have been proposed in recent years, with **HB 3765**, as amended by **HA 3**, from the 103rd General Assembly, being one of the latest iterations studied by CGFA's consulting actuaries. A flowchart of the different iterations of DROP seen in the 103rd General Assembly can be found in Appendix I.

The actuaries' analysis found that the fiscal impact of a DROP depends on whether individual accounts accrue interest during participation. While **HB 2765** mirrors an interest component found in **HB 3765**, as amended by **HA 3**, the actuarial study prepared by CGFA's consulting actuaries, Segal Consulting, on **HB 3765**, as amended by **HA 3**, did not include analysis of the impact of a DROP program on the TRS Article. A new actuarial study is required to determine the fiscal impact of **HB 2765**.

SUBJECT MATTER: **HB 2765** amends the Teachers' Retirement System Article of the Illinois Pension Code to create a Deferred Retirement Option Plan (DROP) for eligible members of the Teachers' Retirement System (TRS). More detail is provided below in the Comment section.

COMMENT:

DROP Explanation

- 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). Below is a summary of the salient features of DROP designs:
 - Workers continue to draw a salary but are considered retired for annuity purposes;
 - The pension annuity amount the worker is entitled to receive starting on 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 in a 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.

HB 2765 DROP Provisions

- No later than July 1, 2028, a DROP will be made available for eligible members, regardless of Tier, of TRS. Eligible participants must:
 - be eligible to retire;
 - not be in receipt of a retirement annuity from the System;
 - be an active participant in the System; and
 - not be (or expected to become) subject to mandatory retirement under Illinois Law during the time covered by the DROP.
- The DROP duration is 5 years, however;
 - The language of HB 2765 explicitly states that eligible members may participate for a period not to exceed 5 years from the date of election. HB 2765 explicitly states that a “DROP member” is to make the election to participate no later than January 1, 2030, while also explicitly stating that an expiration or termination of a DROP member’s participation may not occur after January 1, 2033.
- Participation in the DROP continues until one of the following occurs:
 - Termination of service;
 - Death of member;
 - Disability for which the member receives a benefit; or
 - Expiration of 5 years from the date the member began participation.
- Individual DROP accounts include:
 - 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 increases or annuities due from a reciprocal fund the member would otherwise be eligible for;
 - Employee contributions paid by the participant during the DROP period;
 - Any reductions due to State or federal law, and;
 - Interest credited annually on January 1.
 - Interest shall be calculated at a rate equal to the 10-year Treasury rate in effect at the time interest is credited.

- Upon completion of DROP participation, the member receives the retirement annuity they would have earned had they retired on the DROP entry date. This includes any applicable automatic increases, paid as a lump sum.
- While participating in the DROP, a member shall not:
 - Accrue additional service; or
 - Purchase service credit under the applicable Article.
- The Board of Trustees hold administrative responsibility for the DROP program, but may vote to transfer responsibility to the State Treasurer. If responsibility is transferred:
 - The rules adopted by the System shall apply, unless and until superseded by the rules of the State Treasurer, and;
 - A DROP Advisory Board shall be created, of which the State Treasurer shall chair.

ZH:bs

LRB104 11963 RPS 22056 b

Appendix I

Below is a flow chart of the various iterations of DROP proposals from the 103rd General Assembly. All of the legislative proposals shown below featured DROP plans for public safety personnel.

