Illinois Education Association-NEA
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FACT SHEET

— From the Department of Government Relations —

HB 4045 (Martwick)

Creates Pension Options for Tier 1 and Tier 2 TRS and SURS Members
(Does not force any members to diminish their pensions)

IEA Position- NEUTRAL

The proposal creates a consideration option for Tier 1 active employees. It gives any Illinois pension system, including the Teachers' Retirement System (TRS), Illinois Municipal Retirement Fund (IMRF) and State University Retirement System (SURS), the authority to offer a Tier 1 active employee an opportunity to accept a reduced Cost of Living Adjustment (COLA) (the lesser of 3% simple or half the rate of inflation and non-compounded) and agree to delay receiving COLA until age 67 or the fifth year after a person retires, whichever is earlier. In exchange, the employee receives (1) payment equal to 10% of the employee's previous contributions, and (2) a reduction in future employee pension contributions equal to 10% of what was previously required. **An employee has the option of keeping his/her current benefits without any diminishment (a "status quo" option).** Consideration payments are paid from system funds rather than the General Revenue Fund (GRF).

This proposal allows the TRS and SURS pension boards the option of offering a pension buyout plan to vested, inactive members. A buyout payment is equal to 70% of the present value of the annuity, including automatic annual increases, survivor benefits and disability benefits. Buyout payments are paid from system funds.

The proposal also attempts to fix Tier 2 and creates a Tier 3 hybrid plan. Beginning July 1, 2018, new employees in TRS, SURS and the State Employees Retirement System (SERS) (only non-covered) would participate in a new Tier 3 hybrid defined contribution (DC)/defined benefit plan (DB). However, they would still have the option to participate in Tier 2. This Tier 3 plan is a benefit enhancement over the Tier 2 plan. Local employers, rather than the State, would be responsible for the normal cost component of both the DB and DC plan. Furthermore, for TRS and SURS a surcharge of 2% of total Tier 3 payroll will be contributed by the State for FY 19 and FY 20. Beginning in FY 21, the 2% surcharge will be the responsibility of the local employer. Additionally, Tier 2 employees would have an opportunity to opt-in to the Tier 3 hybrid plan.

The Tier 3 DB multiplier would be 1.25% times years of service. The cost of living adjustment would be half of the Consumer Price Index (CPI) or 3%, simple COLA, whichever is less. Final average salary would be determined as the average salary over the last 10 years of service. Additionally, the retirement would be payable when a member leaves service with a minimum of 10 years of service and the attainment of age 67. TRS and SURS members would contribute at most 6.2% of their salary towards this benefit. This could be reduced if the respective retirement system determines that a member's contribution exceeds the annual cost of the DB plan being provided.

The Tier 3 DB plan requires that the employer of a Tier 3 member pay at least 2% of salary, but not more than 6% of salary, to an employee's DC account.

This bill creates a voluntary DC plan for Tier 1 members. It requires the General Assembly Retirement System (GARS), SERS, SURS and TRS to create a voluntary DC retirement option. Participation in this program would be limited to only 5% of Tier 1 members. Members would contribute the same amount as they would have under the Tier 1 DB plan. Employer contributions would match the employer's normal cost of the Tier 1 members.

The proposal would have the state continue to fund the retirement systems as prescribed by current law.