

## FY 2019 Budget Implementation

HB 3342 creates the FY2019 Budget Implementation Act. It authorizes the use of money in the State Pensions Fund as part of the annual required state contribution to SURS for FY 2019. It also amends the State Employees' Retirement System, State Universities Retirement System and Teachers' Retirement System articles of the Illinois Pension Code to provide two types of accelerated pension benefit payment options under each System: (1) an accelerated pension benefit payment in lieu of a pension benefit for vested inactives and (2) an accelerated pension benefit payment for Tier I members who accept a reduced and delayed automatic annual increase in retirement annuities and survivors annuities. The SURS Board of Trustees must establish an implementation date for each accelerated pension benefit payment option by board resolution. The board must endeavor to make the options available as soon as possible after the effective date of the legislation. The SURS Board of Trustees must adopt any rules, including emergency rules, necessary to implement the accelerated pension benefit payments.

### Accelerated Pension Benefit Payment In Lieu Of Pension Benefit for Vested Inactives

Beginning on the implementation date established by the SURS Board of Trustees, SURS must offer each eligible person the opportunity to irrevocably elect to receive an amount determined by SURS to be equal to 60 percent of the present value of his or her pension benefits in lieu of receiving any pension benefit from SURS. The term "pension benefit" means the benefits under SURS, or the General Provisions Article of the Illinois Pension Code as it relates to the benefits under SURS, including any anticipated annual increases, that an eligible person is entitled to upon attainment of the applicable retirement age. It also includes any applicable survivors benefits, disability benefits or disability retirement annuity benefits.

SURS must calculate, using actuarial tables and other assumptions adopted by the SURS Board of Trustees, the present value of pension benefits for each eligible person upon his or her request in writing to the System. SURS cannot perform more than one calculation per eligible member in a state fiscal year. The offer must specify the dollar amount that the eligible person will receive if he or she so elects and must expire when a subsequent offer is made to the eligible person. SURS must make a good faith effort to contact every eligible person to notify him or her of the election and the amount of the accelerated pension benefit payment.

To be eligible for the accelerated pension benefit payment, the person must: (1) have terminated service; (2) have accrued sufficient service credit necessary for retirement (i.e., five years for Tier I members and 10 years for Tier II members); (3) have not received a retirement annuity under SURS; (4) have not made the election as a Tier I member to accept a reduced and delayed automatic annual increase in retirement in exchange for an accelerated pension benefit payment; and (5) not be a participant in the SURS Self-Managed Plan. The accelerated pension benefit payment must be deposited into a tax qualified retirement plan or account identified by the eligible person at the time of the election.

An eligible person may irrevocably elect to receive an accelerated pension benefit payment in lieu of any pension benefit from SURS between the implementation date established by the SURS Board of Trustees and June 30, 2021. A person who elects to receive an accelerated pension benefit payment cannot elect to proceed under the Retirement Systems Reciprocal Act with respect to service under SURS. Upon payment of an accelerated pension benefit payment from SURS, the person forfeits all accrued rights and credits in SURS and no other benefit can be paid from SURS based on those forfeited rights and credits. However, an eligible person who receives an accelerated pension benefit payment may still be eligible for any applicable retiree health insurance benefits.

If a person who has received an accelerated pension benefit payment from SURS returns to participation under SURS, any benefits under SURS earned as a result of that return to participation must be based solely on his or her credits and creditable service arising from the return to participation. Upon return to participation, the person must be considered a new employee subject to all of the qualifying conditions for participation and eligibility for benefits

applicable to new employees. The accelerated pension benefit payment cannot be repaid to SURS, and the forfeited rights and credits cannot under any circumstances be reinstated.

#### Accelerated Pension Benefit Payment for Tier I Members Who Accept Reduced and Delayed Automatic Annual Increases in Retirement Annuities and Survivor Annuities

Beginning on the implementation date established by the SURS Board of Trustees and until June 30, 2021, SURS must implement an accelerated pension benefit payment option. SURS must calculate, using actuarial tables and other assumptions adopted by the board, an accelerated pension benefit payment amount for an eligible person upon his or her request in writing to SURS and must offer that eligible person the opportunity to irrevocably elect to have his or her automatic annual increases in retirement annuity, as well as in any survivor annuity, reduced and delayed in exchange for the accelerated pension benefit payment. SURS cannot perform more than one calculation per eligible person in a state fiscal year. The election must be made before any retirement annuity is paid to the eligible person, and the eligible survivor, spouse, or contingent annuitant, as applicable, must consent to the election.

The accelerated pension benefit payment is a lump-sum payment equal to 70 percent of the difference of: (1) the present value of the Tier I automatic annual increases in the retirement annuity and survivor annuity; and (2) the present value of the reduced and delayed automatic annual increases in the retirement annuity and survivor annuity.

The reduced and delayed automatic annual increase in retirement annuity is calculated at 1.5 percent of the originally granted retirement annuity and begins on the January 1 occurring on or after the later of age 67 or the first anniversary of the annuity start date. (Currently, a Tier I retiree receives a compounding automatic annual increase in his or her retirement annuity equal to 3 percent of the annuity, beginning on the January 1 occurring after retirement, prorated for the first year.)

The reduced and delayed automatic annual increase in survivor annuity is calculated at 1.5 percent of the survivor's original annuity benefit payable and begins on the January 1 occurring on or after the date the annuity begins or the January 1 occurring after the first anniversary of the annuity benefit start date. (Currently, a survivor of a Tier I retiree receives a compounding automatic annual increase in his or her annuity benefit equal to 3 percent of his or her annuity benefit, beginning on the January 1 occurring on or after the date the annuity benefit begins.)

To be eligible for the accelerated pension benefit, the person must: (1) be a Tier I member; (2) have submitted an application for a retirement annuity from SURS; (3) meet the age and service credit requirements necessary for retirement under SURS (i.e., be any age with 30 years of service credit, age 55 with eight years of service credit, age 62 with five years of service credit, or meet the special vesting for the Police/Fire formula); (4) have not received a retirement annuity under SURS; (5) have not made the election to receive an accelerated pension benefit payment in lieu of any pension benefit from SURS; and (6) not be a participant in the SURS Self-Managed Plan. The accelerated pension benefit payment must be deposited into a tax qualified retirement plan or account identified by the eligible person at the time of election.

An eligible person may make the election to receive an accelerated pension benefit payment in exchange for a reduced and delayed automatic annual increase in retirement annuity and survivor annuity from SURS between the implementation date established by the SURS Board of Trustees and June 30, 2021. If an annuitant who has received an accelerated pension benefit payment from SURS returns to participation under SURS then the calculation of any future automatic annual increase in retirement annuity must be calculated at the reduced and delayed rate. The accelerated pension benefit payment cannot be repaid to SURS.

#### Funding and Payment of Accelerated Pension Benefit Payments

HB 3342 amends the General Obligation Bond Act to authorize the issuance of \$1 billion in State Pension Obligation Acceleration Bonds for the purpose of making accelerated pension benefit payments under SERS, SURS and TRS. The proceeds of the bonds, minus the amounts for bond sale expenses, must be deposited directly into the State Pension Obligation Acceleration Bond Fund, and the comptroller and treasurer must, as soon as practical, make accelerated pension benefit payments under SERS, SURS and TRS. The State Pension Obligation Acceleration Bond Fund is created as an unappropriated fund outside of the state treasury that can only be used for the purpose of making accelerated pension benefit payments under SERS, SURS and TRS, or for the payment of principal and interest due on State Pension Obligation Acceleration Bonds. There is a continuing appropriation of all amounts necessary for these purposes.

SURS must submit vouchers to the state comptroller for payment of accelerated pension benefit payments. The state comptroller shall pay the amounts of the vouchers from the State Pension Obligation Acceleration Bond Fund

to SURS, and SURS must deposit the amounts into the applicable tax qualified plans or accounts.

HB 3342 amends the State Pension Funds Continuing Appropriation Act to provide that, if for any reason the aggregate appropriations made available are insufficient to meet the levels required for the payment of principal and interest due on State Pension Obligation Acceleration Bonds, there is a continuing appropriation of all amounts necessary for those purposes.

#### 6% Rule Changed to 3% (Except for Certain Contracts and Collective Bargaining Agreements)

Effective for academic years beginning on or after July 1, 2018, and for earnings paid to a participant under a contract or collective bargaining agreement entered into, amended, or renewed on or after the effective date of the legislation, the legislation reduces the 6% rule to 3%, requiring the employer to pay the present value of the resulting increase in benefits attributable to earnings increases in excess of 3% during the participant's final rate of earnings period.

However, for earnings paid to a participant under a contract or collective bargaining agreement entered into, amended, or renewed before the effective date of the legislation, the employer will continue to pay the present value of the resulting increase in benefits attributable to earnings increases in excess of 6% during the participant's final rate of earnings period.

#### Ends the 6% Rule and 3% Rule for Tier II Hybrid Plan Members and Tier II Defined Benefit Members Who First Participate in SURS after Implementation of the Optional Hybrid Plan

HB 3342 provides that the 6% rule and the 3% rule do not apply to Tier II hybrid plan members and Tier II defined benefit members who first participate under SURS on or after the implementation date of the Optional Hybrid Plan.

#### FY 2019 Recertification

HB 3342 requires the SURS Board of Trustees, between June 15, 2019, and June 30, 2019, to recalculate and recertify the FY 2019 state contribution, taking into account the changes made by the legislation. The recertification must be based on the actuarial assumptions used to certify the original FY 2019 state contribution. The last monthly voucher for FY 2019 must be paid by the comptroller after the recertification is submitted to the governor, comptroller and General Assembly.

#### Effective Date

HB 3342 takes effect immediately upon becoming law.

