Understanding Pension Code Changes in the FY 19 Budget Implementation Bill

The FY 2019 Illinois state budget contained revisions to the Illinois Pension Code, adopted with the intent of addressing the growing unfunded pension liability in the state's five retirement systems.

These changes create two temporary and voluntary "buyout" programs of earned retirement benefits for participants in SERS (the State Employees' Retirement System), SURS (the State Universities Retirement System) and TRS (the Teachers' Retirement System). None of the pension systems have yet issued formal rules as to how these new programs will be implemented. The following summarizes the provisions of the legislation.

1. **Tier 1 participants (all employees hired before January 1, 2011) retiring through June 30, 2021** in SERS, SURS and TRS will have the irrevocable option of accepting a significantly reduced annual annuity increase (AAI) —also referred to as a COLA—in retirement in exchange for a one-time lump sum payment.

- Under this voluntary program, at retirement an active Tier 1 participant can renounce their right to the 3% compounded annual increase to their pension benefit and accept an alternative annual increase of 1.5% that is calculated only from their original pension amount (i.e. not compounded).
- In addition, the first COLA increase is delayed to January 1 following age 67 or the first anniversary of the annuity start date, whichever is later.
- In return for agreeing to the lower and delayed AAI, the participant would receive a lump sum payment equal to **70%** of the difference in the value between the 3% compounded AAI and the 1.5% simple AAI.
- This one-time lump sum buyout will only be paid in the form of a "rollover" into the employee's qualified retirement plan (e.g. an IRA or 401(k))—not as a cash payment to the individual employee.
- If a Tier 1 participant chooses the AAI buyout at retirement and then returns to active employment, their AAI will be 1.5% when they retire again. Any survivor annuity will also be subject to the diminished COLA rate.

2. **Through June 30, 2021, vested inactive members** (persons who left employment prior to retirement and maintained their contributions in the retirement system) in SERS, SURS and TRS will have the irrevocable option of accepting a lump sum payment in return for renouncing their entire earned pension benefit.

- The lump sum payment will be equal to **60%** of their calculated pension benefit.
- The lump sum payment will not be a cash payment to the individual, but will be paid in the form of a "rollover" into a qualified retirement plan.
- If an inactive member chooses this voluntary buyout, their participation in the retirement system is terminated and any service credit earned from future employment starts over in its accumulation.
- Selecting the payment does not impact service credits for qualifying for retiree health insurance.

The buyout programs are opt-in and completely voluntary. **Participants retain full rights to their earned pension benefit if they choose not to participate.** The state will be using the proceeds from Pension Obligation Bonds to fund any buyouts.

Upon implementation, buyout offers will be subject to program rules and timeframes for acceptance. Because participation in a buyout program could have a significant and adverse impact on an individual's financial security in retirement, employees and inactive participants need to be fully informed of all the facts and repercussions of the buyout plans before making a decision. It will be essential to carefully review the informational materials that will be provided by the retirement systems and consult with your own financial advisor so that the consequences of choosing a buyout are fully understood.

Currently both SERS and SURS are in the process of formulating protocols for how the buyouts will be implemented. Neither system anticipates being prepared to offer the buyout options until later this fall.

AFSCME Council 31 will provide updates on these buyout programs as they develop.