

Illinois Pensions

Member, employer, and State contributions are statutorily defined by the **Illinois Pension Code** (40 ILCS 5/16), which is subject to amendment by the Illinois General Assembly and approval by the governor.

The **State** of Illinois provides the largest source of contributions (*approx. 95%*) through State appropriations from the **Common School Fund**.

Employers make contributions for the **2.2 benefit formula** and for teachers who are paid from federal funds.

Effective **July 1, 2005**, member contributions increased from **9%** to **9.4%** of salary. These contributions are allocated as follows:

- 7.5% for retirement
- 0.5% for post-retirement increases
- 1% for death benefits
- **0.4%*** to help cover the cost of Early Retirement Option (ERO), which is refundable if member did not retire using ERO or now that the ERO program has been terminated (*see below*).

* Effective **July 1, 2016** upon sunset of the Early Retirement Option, member contribution decreased to **9.0%**.

Early Retirement Option Ends

The legislature decided not to renew the authorization of the TRS Early Retirement Option (ERO) and the program automatically expired on July 1, 2016. The program was created in 1980 and extended by the General Assembly many times. The last extension in 2013 required legislators to reauthorize the ERO in order for the program to continue beyond FY16.

Because of the ERO sunset, TRS must offer active and inactive members a refund of the 0.4% payroll contributions they paid between 2005 and 2016 to help fund the program.

ERO Sunset Refund Options

- **Cash refund to member**
 - Mandatory 20% federal withholding
 - Early withdrawal 10% federal penalty may apply if under 59
 - Subject to involuntary withholding
 - Delinquent payments including student loans, child support, state and federal taxes and others
- **Rollover to Qualified Retirement Plan**
 - 403(b), 401(k), traditional IRA, and other pre-tax plans
 - TRS does not provide financial advice

- **Leave ERO contributions with TRS until retirement**
 - Refund available at any time, but no interest paid
 - ERO Sunset refunds cannot be applied to other TRS balances due or to purchase TRS optional service

Important Dates:

July 1, 1998 – 2.2 Formula Implemented

July 1, 2005 – Member contributions increased from **9%** to **9.4%**

June 2013 – Public Act 98-0042 (*extended ERO to July 1, 2016*)

July 1, 2016 – Sunset of TRS Early Retirement Option, member contributions decreased to **9.0%**.

	TIER 1 MEMBERS First contributed to TRS or reciprocal retirement system prior to January 1, 2011	TIER 2 MEMBERS First contributed to TRS or reciprocal retirement system on or after January 1, 2011
Comparison	<p>Tier II teachers have later retirement dates, longer vesting requirements, salary caps for pensions lower than the Social Security wage base, and lower cost of living increases after retirement that are not compounded.</p> <p>Until June 30, 2016, both tiers paid 9.4% of pay towards the cost of their benefits. On July 1, 2016, the rate decreased to 9.0%.</p>	
Eligibility to Draw Retirement Benefit	<p>Full Benefits</p> <ul style="list-style-type: none"> • Age 55 – at least 35 yrs. of service <p>Members can retire at age 55 (<i>full benefits</i>) with 35 yrs. of service credit if member elected to have pension determined by the 2.2% Formula and paid required fee OR under 3 for 1 Service Credit Upgrade on 2.2 Formula (<i>3 yrs. = 1 yr. service credit</i>).</p> <ul style="list-style-type: none"> • Age 55 – at least 20 yrs. of service • Age 60 – at least 10 yrs. of service • Age 62 – at least 5 yrs. of service 	<ul style="list-style-type: none"> • Age 67 – at least 10 yrs. of service • Age 62 – at least 10 yrs. of service, but will receive retirement benefits reduced by 6% for every year under age 67*. • 10 yrs. of service is equal to 22% of member’s average salary before age reductions. <p>* January 1 following attainment of age 67 or on January 1 following first anniversary in retirement, whichever is later.</p>

	<p>Early Retirement: Benefit reduced by 6% for every year under age 60 with fewer than 35 yrs.</p>											
<p>Funding Formula</p>	<p>Graduated Formula – Pre-July 1, 1998</p> <table border="0"> <thead> <tr> <th>Years of Service</th> <th>Rate</th> </tr> </thead> <tbody> <tr> <td>1-10</td> <td>1.67%</td> </tr> <tr> <td>11-20</td> <td>1.9%</td> </tr> <tr> <td>21-30</td> <td>2.1%</td> </tr> <tr> <td>31+</td> <td>2.3%</td> </tr> </tbody> </table> <p>38 years of service = 75%</p> <p>2.2 Formula* - All years earn 2.2%</p> <p>Pre-1998 years can be upgraded to 2.2% by paying upgrade cost OR 3 for 1 Service Credit Upgrade</p> <p>34 yrs. of service = 75% at <i>age 60</i> 35 yrs. of service = 75% <i>under age 60</i></p> <p>* Most members retire under 2.2 Formula</p>	Years of Service	Rate	1-10	1.67%	11-20	1.9%	21-30	2.1%	31+	2.3%	<p>The 2.2 Formula also applies to Tier II members.</p> <p>Retirement benefits will be capped in two ways.</p> <ol style="list-style-type: none"> 1. The maximum benefit member can receive is 75% of final average salary. 2. Under the new law, in determining final average salary, no member’s salary will exceed a limit that increases more slowly than the CPI. Current limit is \$109,971.43.
Years of Service	Rate											
1-10	1.67%											
11-20	1.9%											
21-30	2.1%											
31+	2.3%											
<p>Final Average Salary (FAS)</p>	<p>Average of <u>highest 4 consecutive salaries</u> out of last 10 years of service</p> <ul style="list-style-type: none"> • “Salary” includes regular pay, extra-duty stipends, and TRS contributions paid by employer • Salary increases up to 20% with same employer will count towards average <ul style="list-style-type: none"> ○ Employer bears a cost for 	<p>Average of <u>highest 8 consecutive salaries</u> out of last 10 years of service</p>										

	year-to-year increases over 6%.	
Pension Calculation	<p>Regular Retirement Formula Service Credit x <u>Formula Factor</u> Percentage</p> <p>Percentage x <u>Final Average Salary</u> Annual Benefit</p> <p>2.2 Formula: Service Years x 2.2% x FAS (average – highest 4 of 10 yrs.) = Annual Benefit</p>	<p>2.2 Formula: Service Years x 2.2% x FAS (average – highest 8 of 10 yrs.) = Annual Benefit</p>
Automatic Annual Increase (AAI)	The annual cost-of-living increase is 3% , <u>compounded annually</u> .	<p>Annual cost-of-living increases for members calculated using either 3% of original benefit or ½ of CPI, whichever is less. Increase <u>will not</u> be compounded.</p> <p>* Tier II caps creditable earnings and contributions used for retirement purposes at a level lower than Social Security Wage Base. (TRS CAFR FY2016 – Actuarial pg. 98)</p>
Member Contribution	Tier I members contribute 9.0% of creditable earnings.	<p>As of July 1, 2016, members contribute 9.0% of creditable earnings and an additional contribution to a <u>retiree health insurance program</u> that is NOT administered by TRS.</p> <p>* Tier II members partially fund Tier I's liability, as Tier II member <u>contributions</u> are <u>higher than cost</u> of Tier II benefits.</p>
Post-Retirement Employment	Members can be employed in a position covered by a pension	Member's retirement benefits are suspended if member accepts <u>full-</u>

	<p>system that has reciprocal rights with TRS, but the <u>annual length of employment allowed</u> may be capped by that pension system.</p> <ul style="list-style-type: none"> Retired members may be employed in another position covered by TRS and retain their benefits, but service is limited to 120 days or 600 hrs. per yr. On July 1, 2011, this cap was reduced to 100 days or 500 hrs. per yr. 	<p><u>time employment</u> in position covered by another pension system that has <u>reciprocal rights</u> with TRS.</p>
<p>Mortality</p>	<p>The assumed mortality rates are based on the Society of Actuaries RP-2014 mortality tables with adjustments as appropriate for TRS experience. The rates are used on a fully generational basis using projection table MP-2014.</p> <p>For retirees and inactive members, the RP-2014 White Collar table with female rates is multiplied by 76% for ages 50-77, 106% for ages 78 to 114, and multiplied by 115% for males ages 78 to 114.</p> <p>For beneficiaries, the RP-2014 table is used with male and female rates multiplied by 112% for ages 50-114.</p>	

TIER 3

On July 6, 2017, an optional new **Tier III** benefit structure was created by the IL General Assembly. The law changed the Illinois Pension Code by creating a voluntary “Tier III” benefit structure. It also alters the way the state funds TRS. Changes are designed to be cost-saving measures for and were enacted as part of a \$36.1B state government budget for fiscal year 2018.

No changes were made to Retired Members or Tier I Member benefits, active member contributions or health insurance coverage.

The new law gives current Tier II members and future Tier II members the option of joining a new “Tier III” retirement plan. After Tier III is implemented, new members will automatically become a part of Tier III unless they opt into Tier II.

The optional Tier III “hybrid” retirement plan has two parts – a small life-long “defined benefit” (DB) pension and a “defined contribution” (DC) plan similar to a 403(b).

Tier III “hybrid” – Mixture of Defined Benefit (DB) and Defined Contribution (DC) plans Effects:

- Tier II Members: Option to switch to Tier III
- New members automatically become part of Tier III, unless they opt into Tier II
- Implementation date TBD by TRS Board – Before implementation of Tier III, plan must be reviewed and approved by IRS
- TRS pensions still exempt from IL state income taxes.

Under Tier III Plan:

Members make payroll contributions to pension portion based on cost of benefits, but no more than 6.2% of salary.

- Members contribute **minimum 4%** to DC portion of plan.
- Normal retirement age determined by Social Security (*currently 67 yrs.*)
- **Final Average Salary (FAS)** for calculating initial pension is average salary during **last 10 years of service**.
By comparison:
 - **Tier II FAS** is highest 8 consecutive salaries out of **last 10 years of service**
 - **Tier I FAS** is highest 4 consecutive salaries out of **last 10 years of service**
- **Tier III Pension Calculation: Service Years x 1.25% x FAS** (*ave. – last 10 yrs.*)
For comparison:
 - Tier II Pension Calculation – **Service Years x 2.2% x FAS** (*ave. – highest 8 of 10 yrs.*)
 - Tier I Pension Calculation – **Service Years x 2.2% x FAS** (*ave. – highest 4 of 10 yrs.*)
- **Automatic Annual Increase (AAI)** is similar to Tier II AAI
 - **Tier II AAI** – whichever is less: **3%** original benefit or **½ previous year’s CPI**, not compounded
 - **Tier I AAI** – **3%** annually, compounded
- Local school districts, rather than state, will bear primary burden of making “employer contributions” to both DB and DC plans in Tier III.
- New law makes two changes to how state calculates amount of money TRS will receive from State in FY2018 and in near future:
 - It’s expected that original state contribution for TRS expected in FY2018 (\$4.65B) will be recalculated.
 1. TRS must retroactively “smooth” fiscal effect of any changes made in TRS Assumed Rate of Investment Return over a 5-year period. “Smoothing” applies to any assumption changes from 2012 on.

- Until now, the fiscal impact of change in assumed was totally absorbed at one time.
EX: In 2016, TRS reduced its Assumed Rate of Investment Return from 7.5% to 7% and the result was a \$402M increase in the FY2018 State contribution to TRS.
- Under this new law, that \$402M increase would be phased in over a 5-year period (*This amplifies “balloon mortgage” effect*).
- 2. Local school districts will pay more of the cost of a member’s pension if member’s salary is equal to or greater than governor’s statutory salary (*about \$180,000, but subject to change*).
 - District will be responsible for paying actuarial cost of the portion of member’s pension that exceeds \$180,000.
- In conjunction with FY2018 budget, the General Assembly enacted a **32% increase** in State’s income tax, which will raise an estimated **\$5B** in new revenue for the state.
Effective July 1, 2017*:
 - Individual tax rate will increase from 3.75% to **4.95%**
 - Corporate tax rate will increase from 5.25% to **7%**

* In 2011, legislature voted to raise individual income tax rate from 3% to **5%** and corporate income tax rate from 4.8% to **7%**. In 2015, the individual income tax rate dropped to 3.75% and corporate rate to 5.25%. In FY2014, Total Revenues were \$65B while Total Expenses were \$66.9B. Since 2005, and likely before, State expenses have exceeded revenue (*Statistical Section of IL CAFR2014*). Debt continues to rise exponentially (*Google: Edgar Ramp*).

For more information regarding Tier III legislation, visit: <https://www.trsil.org/node/833>

Service Credit

- **170 paid days** (1,360 hrs.) = 1 yr. of service credit

Unused, uncompensated sick days up to 340 days (2,720 hrs.) = 2 yrs. of service credit

- Every sick day earns service credit
- Current district sick leave does not appear in TRS
- Request Former Employer Sick Leave Certification

Optional Service Credit

- Out-of-system teaching (*K-12 public schools*)
- Pregnancy or adoption - prior to 1983
- Leaves of absence, RIF (*reduction in force*)
- Substitute teaching, homebound, part-time - prior to 1990
- Military service
- Previously refunded TRS service

Reciprocal Service

- IMRF, SURS, SERS, CTRF, others

- Must have at least 1 yr. of service to use reciprocal service unless you were a teacher's aide/assistant under IMRF

TRS can prepare a benefit estimate if YOU can provide:

- Anticipated date of retirement
- Total reportable salary for current and future years
- Total sick leave that will be reported at retirement
- Information about district retirement incentives
- Reciprocal service (*if applicable*)

YOU can also prepare your own TRS estimate using your online account access at <https://www.trsil.org>

Retirement Process

- Call TRS **3 months prior** to your retirement date
 - Personalized Retirement Interview

Annuity/Retirement Types

- Standard life annuity
- Reversionary annuity

Forms to Return to TRS

- Retirement application (*mandatory*)
- Depository Agreement form (*optional*)
- Health Insurance (TRIP) Participation Election form (*optional*)
 - This will create a record in My Benefits Service Center
- District forms are sent electronically to districts and cannot be returned until after last day of service
 - Can be kept private until you return your retirement application
- Optional service and 2.2 balances must be paid before TRS will process your retirement claim
 - Personal check
 - Rollovers
 - Pension reduction (*2.2 only*)
- First retirement check issued 60-90 days after last required form or payment is received
- Monthly benefits will continue for your lifetime
 - Cost-of-Living Adjustment
 - Federal taxes
 - State taxes – not required, but an option for IL

Excess Contribution Refunds

- Refunds
 - 2.2 Upgrade overpayment
 - ERO – if not already claimed
 - 1% Survivor Benefit Refund (*if eligible*)
 - Forfeits any Survivor Benefit
- Refunds are paid after retirement benefit is calculated
 - Refund checks are always mailed by the Illinois Comptroller's Office
- Taxable refunds over \$200.00 are eligible for rollover

Teachers' Retirement Insurance Program (TRIP) Enrollment

- Eligible with 8.000 years of TRS service credit
- Must **enroll within 30 days** of last day, if enrolling at retirement
- Benefit Choice Period - Month of May with coverage starting July 1
- Involuntary termination of previous insurance coverage
- Medicare becomes available (*age 65 in most cases*)
- Dependents may enroll at same opportunities
- Coverage always starts on the first of a month

My Benefits Service Center

- TRIP health insurance administered through My Benefits Service Center:
<https://mybenefits.illinois.gov>
- Enroll, change coverage, add, terminate and compare insurance coverage

Teachers' Retirement Insurance Program (TRIP)

- HMO & Open Access Plans (OAP) Or Teachers Choice Health Plan (PPO)
- At 65 yrs old TRIP becomes a Supplement to Medicare Parts A & B
- October following 65th birthday enroll in TRAIL - Medicare Advantage MA-PD with Medicare Parts A & B

Post-Retirement Employment

- No restrictions on non-TRS employment
 - If reciprocal, check limitations for other reciprocal retirement system
- TRS-covered employment restricted to 100 days/500 hours per school year
- No work until July 1 of new school year
- Must wait 30 days from the effective date of your resignation with same employer
- Do NOT pre-arrange post-retirement employment
 - Strict penalties will apply
- **Social Security** (www.socialsecurity.gov)
- IL teachers do not contribute on TRS covered employment
- Earned SSA benefits may be reduced under Windfall Elimination Provision and/or Governmental Pension Offset
- Social Security (800) 772-1213

Medicare (www.medicare.gov)

- Qualify through non-TRS employment
- TRS employment after March 1, 1986
- Qualify through spouse
- Medicare election in 2004
- Medicare (800) 633-4227
- www.medicare.gov

Contact TRS

- members@trsil.org
- <https://www.trsil.org>
- [Facebook.com/TRSillinois](https://www.facebook.com/TRSillinois)
- Twitter: @ILLTRS
- Phone & Hours
 - Toll free: (877) 927-5877
 - M/W/F: 7:30 a.m. to 4:30 p.m.
 - T/TH: 7:30 a.m. to 5:00 p.m.

SOURCES:

TRS IL FY2016 CAFR: <https://www.trsil.org/sites/default/files/documents/CAFRfy16.pdf>

TRS IL: <https://www.trsil.org/sites/default/files/documents/2017LGMpresentationslides.pdf>

Tier I Retirement Calculation Examples

Example – Age 60

$$\begin{aligned} & 30 \text{ years of service} \\ & \times 2.2\% \\ & = 66.0\% \\ & \times \$65,000 \text{ (FAS – final average salary)} \\ & = \$42,900 \text{ Non-Discounted Annual Benefit} \end{aligned}$$

Example – Age 55

$$\begin{aligned} & 30 \text{ years of service} \\ & \times 2.2\% \\ & = 66.0\% \\ & \times \$65,000 \text{ (FAS – final average salary)} \\ & = \$42,900 \text{ Annual Benefit} \\ & \quad - 30\% \text{ (Age discount)} \\ & = \$30,030 \text{ Discounted Annual Benefit} \end{aligned}$$

Common Mistakes

- Waiting until your last year of service to buy optional service, talk about 2.2 upgrade, or verify eligibility
- Assuming that your friend's retirement situation also applies to you
- Assuming your district will "take care of things"
- Thinking that it's too early to start talking about your retirement benefits with TRS
- Leaving your district email account and phone number as your contact information after retiring.