Teachers' Retirement System of the State of Illinois
Illinois' New Pension Law
Frequently Asked Questions
Public Act 98-0599 (Senate Bill 1)

February 1, 2014

These questions and answers:

Are only applicable to Tier I members.

Assume that all contracts or collective bargaining agreements (CBAs) have not been amended or extended after the effective date of the law. If an existing contract or CBA is amended or extended after the effective date of the law, the amendment or extension will cause the contract to lose its status as a "grandfathered" contract under the new law. The loss of this "grandfathered" status would begin at the start of the fiscal year in which the amendment or extension is effective.

GENERAL QUESTIONS

QUESTION: What is the General Assembly's rationale behind this new law?

ANSWER: The legislature's stated goal is to stabilize TRS finances long-term and eliminate the System's $55.7 billion unfunded liability by 2044, primarily by reducing benefits for retired and active members and creating funding guarantees and contribution levels that will gradually, over 32 years, fully fund TRS.

Eliminating the TRS unfunded liability would guarantee continuous pension payments for all generations of TRS members when they retire. With a current funded ratio of 40.6 percent, TRS cannot right now make that guarantee for all members of the System.

Because of decades of insufficient funding by the General Assembly, TRS right now has less than 41 cents on hand for every $1 promised in retirement benefits to TRS members.

The law also is designed to reduce the cost of TRS pensions to state government. This year, state government contributes $3.4 billion on TRS pensions. Legislators say that expenditure takes money away from other government programs and priorities, such as education funding, healthcare and social services, public safety and economic development. The law would reduce total state contributions to TRS over the next 32 years by an estimated $85 billion; money that can be used to fund other state services and programs.

QUESTION: What is the effective date of the law?

ANSWER: The effective date of Public Act 98-0599 is June 1, 2014, and TRS is preparing to implement the law on that date. There are multiple court challenges to the law and a court may act to delay the implementation of the law, but there is no indication this will happen. Until a court says otherwise, June 1, 2014 is the date that the new law will take effect. No one should rely on or make plans based on the potential for a delay in the law's implementation.

QUESTION: Describe the provisions in the law that boost state government funding for TRS and the other state pension systems in the future. Will this make a difference for TRS finances?

ANSWER: A significant portion of the new law spells out the commitment that state government is expected to make over the next 30 years with the goal of eliminating the systems' unfunded liabilities:

- Beginning in 2016, the state will start using more standard actuarial principles and formulas to calculate the cost of pensions for the year and its annual contribution to all of the systems. Under the old pension law, the formula did not follow standard actuarial principles and resulted in funding levels that were consistently below the amounts needed to fully fund TRS and the other four retirement systems. This "underfunding" since 1939 created the current TRS unfunded liability of $55.7 billion. The System's funded status is 40.6 percent.
- In fiscal years 2010 and 2011, the state paid its annual pension contribution by borrowing money through the sale of "pension obligation bonds."

  The annual payments on these bonds shrink in 2019 and end completely in 2020. In 2019, the state will automatically begin earmarking additional payments to TRS and the other state pension systems until the systems' funding status reaches 100 percent. These payments will be in addition to the state's regularly set pension contribution. TRS will receive 55.45 percent of these new "additional" contributions.

  In FY 2019 the extra payment will be $350 million and then $1 billion in every year beginning in FY 2020. For TRS, this means a "supplemental" payment of $194 million in FY 2019 and $554 million in FY 2020 and every year after that until the unfunded liability is paid off.

  Also, beginning in FY 2016, as an additional payment, the state will each year earmark 10 percent of the savings the state will realize from the law's provisions to TRS. This will continue until the System's funded status reaches 100 percent.
- Under the new law, if the state does not pay the monthly portion of its annual contribution to TRS within 90 days of the regularly established target date, TRS has the power to go to court to force the state to pay the contribution in the same way that the Illinois Municipal Retirement Fund can force local governments to pay their contributions.

QUESTION: This new power to force state payments can be repealed at any time by the General Assembly. It is not a guarantee of on-going adequate funding by the state, is it?

ANSWER: Yes, this provision in the law can be repealed by the General Assembly.

MEMBER QUESTIONS

QUESTION: What effect will the new law have on my pension?

ANSWER: The law, in general, reduces the annual cost-of-living adjustments (COLA) of all retired Tier I members and could reduce the initial pensions, as well as the annual COLAs, of all active and inactive Tier I members compared to pensions calculated under the old law.

TRS has created a COLA Calculator on its website that will estimate an active member's first pension COLA under the new law. Many of the variables in the calculation are specific to each member.

QUESTION: How is the pension of a Tier I member reduced under the new law and what are the differences in the pension calculation compared to the formula under the old law?

ANSWER: The basic calculation of a member's initial pension is unchanged from the old law. That formula for most Tier I members is Final Average Salary multiplied by total creditable service multiplied by 2.2 percent.

The major change in the new law is the way that a member's Final Average Salary is calculated. For Tier I members, the Final Average Salary is the member's highest consecutive four salaries out of the last 10 years of

service. The new law may cap the salaries that can be used in this formula and if so, the cap would impact the Final Average Salary that is used in the pension calculation.

The cap for Tier I members is equal to the salary cap for Tier II members at the time the law takes effect, which is June 1. In fiscal year 2014, the Tier II cap on a salary that can be used to determine the Final Average Salary is $110,631. Under state law, this salary cap rises annually by a rate that is equal to one-half of the annual rate of inflation in the previous year.

There are exceptions to the salary cap in the new state law, however, that allow for a member to establish a cap that is higher than the statutory Tier I and Tier II cap. In general, if a member's salary at the time the law takes effect is higher than the Tier II cap, then the Tier II cap does not apply to that member. Specifically:

- For any member covered by an individual contract or collective bargaining agreement that is in effect on or prior to the effective date of the law, the cap will be the member's annualized salary on the day that contract expires, even if it is higher than the statutory cap. A contract cannot be amended or extended after the effective date of the law to increase the cap.
- For any member not under contract but with a current salary that exceeds the cap, that member's salary cap would be set at their salary on the bill's effective date, which right now is June 1. Members with a "grandfathered" salary would each have their own cap.

QUESTION: What is the change in the COLA formula?

ANSWER: The biggest change from the old law to the new law is in the basic calculation of each year's COLA. Under the old law, the COLA increase every year is calculated by multiplying a member's current pension amount by 3 percent. This is referred to as "3 percent compounded."

Effective in fiscal year 2015, there will be two formulas used to determine the size of each year's cost of living adjustment. The COLA formula to be used will be determined each year by the current size of the member's pension. Here is how TRS is interpreting the basic COLA calculations under the new law:

Step 1: A member, upon retirement, will multiply his/her total service credit by a "multiplier" to determine the member's initial "pension threshold." For TRS members, the multiplier will be $1,000 when the bill takes effect. The threshold will be used every year in the future to determine the annual COLA. It is important to note that in 2016 and every year thereafter, the initial $1,000 multiplier will be increased by the rate of inflation, but this rate will not fall below 0 percent in case inflation is negative.

Step 2: TRS calculates the member's initial pension under current state law. The basic calculation for most members is: Final Average Salary multiplied by Years of Service multiplied by 2.2 percent.

Step 3: As long as a member's pension is less than their threshold in any year, when the member is eligible for a COLA for that year it is 3 percent compounded.

Step 4: Once a member's pension equals or exceeds their threshold in any year, the COLA in every year becomes 3 percent of the member's current threshold amount. There is no COLA applied to the pension greater than the threshold amount.

Step 5: Every year after retirement, each member's threshold is recalculated and when there is inflation in the economy the threshold will increase.

The other change affecting future COLAs is the provision that requires many members to forfeit a certain number of COLAS after they retire.

QUESTION: What is the COLA forfeiture?

ANSWER: Tier I members that retire on or after July 1, 2014 would forfeit at least one COLA increase, and as many as five increases, based on a sliding scale tied to the member's age at the time the law takes effect. Following the prescribed forfeiture time frame, members will receive continual COLAs annually:

- Any TRS member eligible to retire that retires on or before June 30, 2014 will not have to forfeit any COLA increases.

- **50 years and older:** Forfeit one COLA increase in a two-year time frame immediately after retirement. The second scheduled COLA would be forfeited.
- **47 to 49:** Forfeit three COLA increases staggered every other year over a six-year time frame immediately after retirement, starting with the 2nd scheduled COLA.
- **44 to 46:** Forfeit four COLA increases staggered every other year over an eight-year time frame immediately after retirement, starting with the 2nd scheduled COLA.
- **43 and younger:** Forfeit five COLA increases staggered every other year over a 10-year time frame immediately after retirement, starting with the 2nd scheduled COLA.

QUESTION: I retired a few years ago at age 55 and I'm accumulating COLAs; but I won't be eligible to receive these COLAs until after I turn 61. Will I receive all of these accumulated COLAs? How will this work under the new law?

ANSWER: You will receive a COLA for each year between the time you retire and when you turn 61. Your accumulated COLAs will be calculated under a two-step formula: The old law will be used up until the date the law is implemented, and the new law would be used for the time period after the law changes.

QUESTION: I was planning to retire in June of 2014 when the school year ends. Because the new law takes effect on June 1, is it to my advantage to retire in May before the law takes effect? Is there any advantage to retiring before the law takes effect?

ANSWER: Your retirement benefits will not be "grandfathered" if you retire before June 1, 2014. If you plan on retiring at the end of the school year in 2014, the important date is July 1, not June 1. There is a benefit to you if you retire prior to July 1, 2014.

Under the new law, if you retire on or after July 1, 2014 you will have to forfeit one COLA increase in the future after your retire. Right now that forfeiture for you would be your second scheduled COLA increase in retirement. But if you retire on or before June 30, 2014 then you will not have to forfeit any COLA increases in the future.

Under the new law, any TRS member retiring on or after July 1, 2014 will have to forfeit between one and five COLA increases on a staggered schedule. The number of forfeitures is determined by the member's age on the law's effective date. The younger the member is, the more COLAs would be forfeited. If you're already retired on the date the law takes effect, you will not have to forfeit any COLAs.

At TRS, a member's official retirement date is the day after his or her last full day of creditable service. That date will be held up to the July 1 deadline to determine whether any future COLAs must be forfeited.

QUESTION: I'm eligible to retire now but I was planning on retiring in a few years. Is there an advantage for me to move up my timetable and retire earlier?

ANSWER: The problem we have with helping people with questions like yours in deciphering the new law is that we have no idea whether the law will be held constitutional by the Illinois Supreme Court, or when that ruling will be. We cannot predict the outcome of the pending court challenges or the timing of the outcome. Without those facts, it's impossible for TRS to predict what the law's effects will be on a person's future because everything depends on the court's decision. And then, if that decision upholds the law, a lot will depend on the date established for implementing the law.

QUESTION: I receive a Social Security benefit from other employment outside of teaching. Does this new law affect that benefit? Because I receive a Social Security benefit, does that mean my pension threshold multiplier is $800 and not $1,000?

ANSWER: If you receive a Social Security benefit in addition to a TRS benefit, your Social Security payment will not be affected by the new law. The federal "Windfall Elimination Provision" and the "Government Pension Offset" laws affecting Social Security benefits will remain in place.

Any TRS member that receives Social Security from other employment or from a spouse's benefit will still use $1,000 as the initial "threshold multiplier" and will still receive their Social Security benefits. Because TRS benefits are not coordinated with Social Security benefits, all TRS members will use $1,000 as their first "threshold multiplier." Because the members of some other state pension systems have their state benefits coordinated with Social Security benefits, their "threshold multiplier" is $800.

QUESTION: I'm still teaching and I understand my payroll contribution to TRS is declining. What's this all about and why is it declining?

ANSWER: An active Tier I member's payroll contribution will decrease from 9.4 percent to 8.4 percent beginning on July 1, 2014 for the 2014-2015 school year. For example, a TRS member earning $70,000 will see his or her contribution to TRS decrease from $6,580 per year to $5,880, or $700.

The reduction in your contribution was included by the law's authors as partial "consideration" for the reduction in benefits that are contained in the law.

QUESTION: The new law increases the retirement age for active members younger than 46. How do I figure out what my new retirement age is under the law?

ANSWER: The law will gradually increase, over the next 30 years, the retirement age for all teachers from a minimum of 55 with 20 years of service to a new minimum of 60 years with 20 years of service.

The retirement age for members younger than 46 is set on a sliding scale based on your age at the time the law takes effect, which is June 1, 2014. Under this formula, the law essentially adds four months to the old minimum retirement age of 55 for every year that a member is under age 46 at the time the bill takes effect; until a total of five years has been added to the minimum retirement age.

For members 46 and older at the time the bill takes effect, the old retirement ages and eligibility remain in force: A member can retire between the age of 55 and less than 60 years with at least 20 years of service and receive a reduced benefit; or at age 60 or more with at least 10 years of service and receive a "full," or non-reduced benefit.

For a member aged 45 at the time the bill takes effect, he/she can retire as early as 55 years and four months with at least 20 years of service and receive a reduced benefit, or as early as age 60 years and four months with at least 10 years of service and receive a "full," or non-reduced benefit.

At the bottom of the scale, for a member aged 31 or younger at the time the bill takes effect, he/she can retire as early as age 60 years with at least 20 years of service and receive a reduced benefit, or as early as age 65 years with at least 10 years of service and receive a "full," or non-reduced benefit.

QUESTION: As a Tier I member, will my accumulated, unused sick leave still be counted as service credit when my initial pension is calculated?

ANSWER: If you are a TRS member prior to June 1, 2014 then you will still be allowed to count up to two years of accumulated, unused sick time in your total service credit at retirement. Teachers who become TRS members after June 1, 2014 will not be allowed to include unused sick time in their service credit totals.

QUESTION: What service credit will be used under the new law to calculate my new pension threshold?

ANSWER: The service credit that will be used in calculating your new "pension threshold" will equal all of the service credit that TRS used or will use to calculate your initial pension at retirement. This eligible service credit includes all regular service; any service time purchased by the member under an early retirement incentive; any optional service purchased by the member, such as leaves of absence, substitute teaching and teaching service in another state; and, for anyone who is a TRS member prior to June 1, 2014, unused sick time.

However, after June 1, 2014, under the new law reciprocal service credit from another state pension system will not be used in calculating total service credit. That service credit will be counted in the calculation of the benefit you receive from that pension system. This will apply to all members.

QUESTION: How can I find my years of service?

ANSWER: If you are an active or inactive Tier I member, your total service credit can be found on your last annual TRS Statement of Account.

If you are a retired Tier I member, your total service credit can be found on the "Notification of First Payment," which is the letter sent to you by TRS informing you that you have successfully completed the retirement process and will begin receiving benefits.

QUESTION: How does the new defined contribution retirement plan work?

ANSWER: Up to 5 percent of active Tier I TRS members will be able to freeze their current defined benefit (DB) pension plan and join a new defined contribution (DC) plan that will be in effect until the day they retire. Right now, a TRS DC plan could accept approximately 7,000 Tier I members.

The DC plan would begin on July 1, 2015. Members would have one opportunity to elect membership in the new DC plan. Once members elect to join the DC plan, they cannot rejoin the DB plan unless the DC plan is ended by the legislature. A member would need to contribute to the DC plan for at least five years in order to be vested in the DC plan.

On July 1, 2015, all members that have joined the DC plan would have their creditable service on that date frozen for purposes of determining a DB pension when they retire. To determine a member's eligibility for a DB pension after the member switches to the DC plan, TRS would use the member's service credit accumulated under both the DB plan and the DC plan.

Active members in the DC plan will pay an 8.4 percent salary contribution to the plan. The state's contribution would be determined annually.

Upon retirement, members would receive a perpetual DB annuity, plus equal payments from an accumulated DC retirement account until the funds in the DC account are exhausted.

EMPLOYER QUESTIONS

QUESTION: Is the salary cap based on base salary or total reportable creditable earnings?

ANSWER: The salary cap would be equal to the total reportable creditable earnings in the final year of an exempt contract or CBA.

QUESTION: If a member's salary is capped, will the cap increase each year?

ANSWER: If a member's salary cap is equal to the Tier II salary cap, his/her salary cap will increase each year with the Tier II cap. The Tier II salary cap increases each year by a rate that is equal to one-half of the inflation rate from the previous year. The Tier II cap in 2014 is $110,631

If a member's salary cap is greater than the Tier II salary cap when the law takes effect, his/her salary cap will not increase annually, unless the Tier II cap grows to equal or exceed the member's initial cap. At that point, the member's cap each year will equal the Tier II cap.

For example, in 2014 the Tier II cap is $110,631 and a member's creditable earnings are $111,000 when the law takes effect, so the member's cap is $111,000. If, in 2015, the Tier II cap rises to $111,500, then the member's cap is no longer $111,000 but $111,500, and will continue to rise with the Tier II cap.

QUESTION: Can you explain how the cap on creditable earnings works with regard to collective bargaining agreements (CBAs) and contracts?

ANSWER: Under the new law, contracts and CBAs that are in force on the effective date of the law, which is June 1, 2014, will be honored in full. The cap on creditable earnings for TRS members under contract will be the

member's highest salary in that contract. These "grandfathered" contracts cannot be amended or extended after the law takes effect to further raise the creditable earnings cap.

To avoid a loss of "grandfather" status, it is imperative that employers strictly follow the terms of the grandfathered employment contract or CBA regarding the payment of creditable earnings. A deviation from the express provisions regarding payment of creditable earnings in an otherwise grandfathered employment contract or CBA will be considered an amendment resulting in the loss of "grandfather" status.

Here are some examples of how the creditable earnings cap works with regard to contracts and CBAs:

SCENARIO 1: An administrator is currently working under a twelve month contract that is set to expire June 30, 2014. He/she enters into a new contract in May 2014 extending the contract period through June 30, 2019. On what year's salary will the salary cap be calculated?

ANSWER: The salary cap will be determined at the expiration of the contract ending June 30, 2019.

SCENARIO 2: An administrator is working at District 1 under a twelve month contract that is set to expire June 30, 2014. In April 2014 he signs a five year contract accepting employment at District 2 beginning July 1, 2014. On what year's salary will the salary cap be calculated?

ANSWER: The salary cap will be determined at the expiration of the District 1 contract ending June 30, 2014.

SCENARIO 3: An administrator is working under a contract that was entered into on July 1, 2013 and expires on June 30, 2016. On what year's salary will the salary cap be determined?

ANSWER: The salary cap will be determined at the expiration of the contract ending June 30, 2016.

SCENARIO 4: An administrator is working at District 1 under a contract that was entered into July 1, 2013 and expires June 30, 2016. At the end of the 2014-15 school year he terminates his employment with District 1 and accepts employment with another TRS-covered employer. On what year's salary will the salary cap be determined?

ANSWER: The cap is the salary during the 2014-15 school year.

SCENARIO 5: An administrator is covered by a contract that was entered into prior to June 1, 2014 and expires June 30, 2018. The contract provides for 3 percent increases annually until the member retires in June 2018. What will be reportable to TRS in each year?

ANSWER: The amounts paid will be reportable each year. If the administrator works beyond 2017-18 his future years' salary will be capped based upon his 2017-18 salary.

SCENARIO 6: A teacher is working under a CBA that was entered into July 1, 2013 and expires June 30, 2016. On what year's salary will the salary cap be determine?

ANSWER: The salary cap will be determined at the expiration of the CBA ending June 30, 2016.

SCENARIO 7: A teacher is covered by a CBA that expires on June 30, 2014. The teacher has turned in his/her intent to retire in 2016 under the terms of a CBA that expires in 2014. On what year's salary will the salary cap be calculated?

ANSWER: The cap is the salary during the 2013-14 school year.

SCENARIO 8: A teacher is covered by a CBA that expires June 30, 2016. The teacher terminated employment at the district at the end of the 2014-15 school year to accept employment at another TRS-covered employer. On what year's salary will the salary cap be determined?

ANSWER: The cap is the salary during the 2014-15 school year.