



104TH GENERAL ASSEMBLY

State of Illinois

2025 and 2026

HB2765

Introduced 2/6/2025, by Rep. Jackie Haas

SYNOPSIS AS INTRODUCED:

40 ILCS 5/16-207 new
40 ILCS 5/Art. 25 heading new
40 ILCS 5/25-5 new
40 ILCS 5/25-10 new

Amends the Illinois Pension Code. Creates the Deferred Retirement Option Article. Provides a deferred retirement option plan (DROP) for certain participants under the Downstate Teacher Article who are eligible to retire and meet other criteria. Provides that a participant in the DROP may elect to participate for up to 5 years. Provides that on the effective date of the member's election, the System shall credit the member's account on a monthly basis, for as long as the member participates in the DROP, an amount equal to the monthly amount of retirement annuity the member would otherwise be eligible to receive had the member retired on the date of the election. Provides that the DROP member shall be considered in active service for purposes of participation in a collective bargaining agreement, for health care benefits, and for other purposes. Establishes a DROP administered by the State Treasurer for pension funds or retirement systems that are required to establish a DROP and elect to transfer administrative responsibility for the DROP to the State Treasurer. Sets forth provisions concerning interest on the account; termination of the DROP; contributions; administrative costs; and a DROP advisory board. Effective immediately.

LRB104 11963 RPS 22056 b

1 AN ACT concerning public employee benefits.

2 **Be it enacted by the People of the State of Illinois,**
3 **represented in the General Assembly:**

4 Section 5. The Illinois Pension Code is amended by adding
5 Section 16-207 and Article 25 as follows:

6 (40 ILCS 5/16-207 new)

7 Sec. 16-207. Deferred retirement option plan. The System
8 shall provide a deferred retirement option plan in accordance
9 with Article 25.

10 (40 ILCS 5/Art. 25 heading new)

11 ARTICLE 25. DEFERRED RETIREMENT OPTION.

12 (40 ILCS 5/25-5 new)

13 Sec. 25-5. Deferred retirement option plan administered by
14 a retirement system.

15 (a) As used in this Section:

16 "Board" means the board of trustees of the retirement
17 system.

18 "Deferred retirement option plan" or "DROP" means the plan
19 created under this Section that provides an alternative method
20 of benefit accrual in the retirement system.

21 "Eligible member" means a participating employee of the

1 retirement system who, at the time of electing to participate
2 in the DROP:

3 (1) is otherwise eligible to retire under the
4 applicable Article with an unreduced retirement annuity;

5 (2) has never received a retirement annuity from the
6 retirement system;

7 (3) is an active participant in the retirement system;
8 and

9 (4) is not subject to mandatory retirement under law
10 and will not become subject to mandatory retirement under
11 law during the period of time covered by the DROP.

12 "DROP member" means an eligible member who makes an
13 election to participate in the DROP no later than January 1,
14 2030.

15 "Retirement system" means the retirement system
16 established under Article 16.

17 (b) The DROP shall be made available to eligible members
18 no later than July 1, 2028.

19 (c) Eligible members must make their election to
20 participate in the DROP in writing with the retirement system
21 in a form acceptable to the retirement system. The retirement
22 system must process the election and begin crediting an
23 account on behalf of the DROP member as soon as is practicable
24 after the election has been received by the retirement system.

25 (d) An eligible member may elect to participate in the
26 DROP for a period not to exceed 5 years from the date of

1 election.

2 (e) During the period of the DROP, the retirement system
3 shall credit into a notional account on behalf of the DROP
4 member an amount equal to the monthly amount of retirement
5 annuity the DROP member would otherwise be eligible to receive
6 had the DROP member retired on the date of the election under
7 this Section, less any amounts required to be deducted under
8 State or federal law, including, but not limited to, payments
9 required under a Qualified Illinois Domestic Relations Order
10 under Section 1-119. Any automatic annual increases that would
11 have otherwise been applied to the DROP member's benefit had
12 the DROP member elected to retire instead of participating in
13 the DROP shall accrue to the DROP member's monthly payment
14 placed into the account prior to the expiration of the DROP and
15 shall otherwise apply to the DROP member's annuity upon
16 expiration of the DROP. The account shall be held on behalf of
17 the DROP member.

18 (f) DROP members shall make contributions to the
19 retirement system during their participation in the DROP in an
20 amount equal to the employee contributions that would
21 otherwise be required if the DROP member were an active
22 participant of the retirement system. Those amounts shall be
23 credited to DROP account.

24 (g) The amounts credited to the DROP account shall be held
25 in notional accounts by the retirement system and shall be
26 credited interest annually on January 1. Interest shall be

1 calculated at a rate equal to the 10-year Treasury rate in
2 effect at that time and will be based on the amount in the
3 notional account on December 31 of the preceding year.

4 (h) Upon expiration or termination of the DROP member's
5 participation in the DROP, the account balance shall be paid
6 to the DROP member as a lump sum. The retirement system shall
7 provide options for the transfer of the account consistent
8 with its fiduciary duty and any applicable State or federal
9 law. An expiration or termination of a DROP member's
10 participation in the DROP may not occur after January 1, 2033.

11 (i) The DROP election is irrevocable and the DROP member
12 may not access the account prior to termination or expiration
13 of the DROP member's participation in the DROP. The DROP
14 member must terminate employment with the employer upon
15 expiration of their participation in the DROP. The DROP
16 member's participation in the DROP shall terminate prior to
17 the expiration date:

18 (1) if the DROP member terminates employment with the
19 employer prior to the expiration of the designated DROP
20 period;

21 (2) if the DROP member becomes eligible for and begins
22 collecting a disability benefit from the retirement
23 system; or

24 (3) upon the death of the DROP member.

25 Upon termination or expiration of the DROP period, the
26 DROP member shall commence his or her retirement annuity from

1 the retirement system.

2 (j) The DROP member shall be considered in active service
3 for purposes of eligibility for death and disability benefits
4 and any health care benefits provided for by the employer.

5 The DROP member shall not accrue additional service credit
6 in the retirement system while participating in the DROP,
7 whether service accruals, future pay increases, active cost of
8 living adjustments or promotions. Additionally, the DROP
9 member shall not be eligible to purchase service credit under
10 the applicable Article. Any amounts due to an alternate payee
11 under a Qualified Illinois Domestic Relations Order under
12 Section 1-119 shall be calculated at the time of the DROP
13 election and such amounts shall be payable at the time of
14 election. If the DROP member's designated beneficiary
15 predeceases the DROP member, and the DROP member dies before
16 designating a new beneficiary, the DROP member's DROP account
17 shall be paid to the DROP member's estate.

18 (k) It is intended that the DROP shall not jeopardize the
19 tax qualified status of the pension fund or retirement system.
20 The board of the pension fund or retirement system may adopt
21 rules necessary or appropriate for the DROP to maintain
22 compliance with applicable federal laws and regulations.
23 Notwithstanding any other provision in the Article, all
24 benefits provided under the DROP shall be subject to the
25 requirements and limits of the Internal Revenue Code of 1986,
26 as amended.

1 (1) The board of trustees of the retirement system may
2 transfer the administrative responsibility for the DROP
3 program to the State Treasurer under Section 25-10 after an
4 affirmative vote of the board.

5 (40 ILCS 5/25-10 new)

6 Sec. 25-10. Deferred retirement option plan administered
7 by the State Treasurer.

8 (a) This Section applies only if a pension fund or
9 retirement system transfers administrative responsibility for
10 a deferred retirement option plan to the State Treasurer. Upon
11 the transfer of administrative responsibility for a deferred
12 retirement option plan, the rules adopted by the pension fund
13 or retirement system pertaining to the deferred retirement
14 option plan shall apply to the deferred retirement option plan
15 under this Section and to the State Treasurer, unless and
16 until superseded by the rules of the State Treasurer, and all
17 statutory provisions pertaining to the pension fund's or
18 retirement system's administrative responsibility with regard
19 to the deferred retirement option plan shall apply to the
20 State Treasurer. The State Treasurer shall administer each
21 deferred retirement option plan as a separate plan on behalf
22 of each pension fund or retirement system that has transferred
23 administrative responsibility to the State Treasurer.

24 (b) In this Section:

25 "Deferred retirement option plan" or "DROP" means the plan

1 created under this Section that provides an alternative method
2 of benefit accrual in the pension fund or retirement system.

3 "Pension fund or retirement system" means a pension fund
4 or retirement system established under this Code that has been
5 required by law to establish a DROP and has elected to transfer
6 administrative responsibility for the DROP to the State
7 Treasurer to be administered in accordance with this Section.

8 (c) During the period of the DROP, the applicable pension
9 fund or retirement system shall transfer, and the State
10 Treasurer shall credit into a notional account on behalf of
11 the DROP member, an amount equal to the monthly amount of
12 retirement annuity the DROP member would otherwise be eligible
13 to receive had the DROP member retired on the date of the
14 election under this Section. The pension fund or retirement
15 system, prior to forwarding any funds to the State Treasurer
16 shall deduct any amounts required to be deducted under State
17 or federal law, including, but not limited to, payments
18 required under a Qualified Illinois Domestic Relations Order
19 in Section 1-119. Any automatic annual increases that would
20 have otherwise been applied to the DROP member's benefit had
21 the DROP member elected to retire instead of participating in
22 the DROP shall accrue to the DROP member's monthly payment
23 placed into the account prior to the expiration of the DROP and
24 shall otherwise apply to the DROP member's annuity upon
25 expiration of the DROP. The account shall be held on behalf of
26 the DROP member.

1 (d) DROP members shall make contributions to pension fund
2 or retirement system during their participation in the DROP in
3 an amount equal to the employee contributions under the
4 applicable Article that would otherwise be required if the
5 DROP member were an active participant of pension fund or
6 retirement system. Those amounts shall be forwarded to the
7 State Treasurer and credited to the DROP member's DROP
8 account, less any administrative costs determined by the
9 pension fund or retirement system to be attributable to the
10 administration of the DROP benefits experienced by pension
11 fund or retirement system.

12 (e) The State Treasurer shall be the administrator of the
13 DROP created in this Section. The administration shall be
14 subject to any applicable laws, and the State Treasurer shall
15 administer the program in the best interest of the
16 participating members in a way that a prudent person in a
17 similar circumstance would. The executive director of each
18 pension fund or retirement system, or the executive director's
19 designee, shall participate in the DROP Advisory Board, that
20 shall meet quarterly. The State Treasurer, or the State
21 Treasurer's designee, shall chair the DROP Advisory Board. The
22 State Treasurer may solicit advice and information from the
23 members of the DROP Advisory Board or from the board as a whole
24 while administering the DROP program. Except as otherwise
25 provided by law, the State Treasurer shall be the sole
26 decision maker governing the DROP.

1 Section 99. Effective date. This Act takes effect upon
2 becoming law.