



103RD GENERAL ASSEMBLY

State of Illinois

2023 and 2024

HB5498

Introduced 2/9/2024, 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.

LRB103 36931 RPS 67045 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 election in the DROP:

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

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

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

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

11 "DROP member" means an eligible member who makes an
12 election to participate in the DROP no later than January 1,
13 2027.

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

16 (b) The DROP shall be made available to eligible members
17 no later than July 1, 2024.

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

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

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

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

23 (g) The amounts credited to the DROP account shall be held
24 in notional accounts by the retirement system and shall be
25 credited interest annually on January 1. Interest shall be
26 calculated at a rate equal to the 10-year Treasury rate in

1 effect at that time and will be based on the amount in the
2 notional account on December 31 of the preceding year.

3 (h) Upon expiration or termination of the DROP member's
4 participation in the DROP, the account balance shall be paid
5 to the DROP member as a lump sum. The retirement system shall
6 provide options for the transfer of the account consistent
7 with its fiduciary duty and any applicable State or federal
8 law. An expiration or termination of a DROP member's
9 participation in the DROP may not occur after January 1, 2032.

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

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

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

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

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

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

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

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

26 (l) The board of trustees of the retirement system may

1 transfer the administrative responsibility for the DROP
2 program to the State Treasurer under Section 25-10 after an
3 affirmative vote of the board.

4 (40 ILCS 5/25-10 new)

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

7 (a) This Section applies only if a pension fund or
8 retirement system transfers administrative responsibility for
9 a deferred retirement option plan to the State Treasurer.

10 (a) "Deferred retirement option plan" or "DROP" means the
11 plan created under this Section that provides an alternative
12 method of benefit accrual in the pension fund or retirement
13 system.

14 "Eligible member" means a participating member under a
15 pension fund or retirement system established who, at the time
16 of election in the DROP:

17 (1) is otherwise eligible to retire under the
18 applicable Article with a full and unreduced pension as
19 determined by the pension fund or retirement system;

20 (2) is an active member of the pension fund or
21 retirement system;

22 (3) is not in receipt of a disability or retirement
23 annuity; and

24 (4) is actively employed in a position that is covered
25 under a collective bargaining agreement.

1 "DROP member" means an eligible member who makes an
2 election to participate in the DROP no later than January 1,
3 2027.

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

9 (b) The DROP shall be made available to eligible members
10 no later than July 1, 2024.

11 (c) Eligible members must make their election to
12 participate in the DROP in writing with the State Treasurer in
13 a form acceptable to the State Treasurer. The State Treasurer
14 must process the election and begin crediting an account on
15 behalf of the DROP member as soon as is practicable after the
16 election has been received.

17 (d) An eligible member may elect to participate in the
18 DROP for a period not to exceed 5 years from the date of
19 election.

20 (e) During the period of the DROP, the applicable pension
21 fund or retirement system shall transfer, and the State
22 Treasurer shall credit into a notional account on behalf of
23 the DROP member, an amount equal to the monthly amount of
24 retirement annuity the DROP member would otherwise be eligible
25 to receive had the DROP member retired on the date of the
26 election under this Section. The pension fund or retirement

1 system, prior to forwarding any funds to the State Treasurer
2 shall deduct any amounts required to be deducted under State
3 or federal law, including, but not limited to, payments
4 required under a Qualified Illinois Domestic Relations Order
5 in Section 1-119. Any automatic annual increases that would
6 have otherwise been applied to the DROP member's benefit had
7 the DROP member elected to retire instead of participating in
8 the DROP shall accrue to the DROP member's monthly payment
9 placed into the account prior to the expiration of the DROP and
10 shall otherwise apply to the DROP member's annuity upon
11 expiration of the DROP. The account shall be held on behalf of
12 the DROP member.

13 (f) DROP members shall make contributions to pension fund
14 or retirement system during their participation in the DROP in
15 an amount equal to the employee contributions under the
16 applicable Article that would otherwise be required if the
17 DROP member were an active participant of pension fund or
18 retirement system. Those amounts shall be forwarded to the
19 State Treasurer and credited to the DROP member's DROP
20 account, less any administrative costs determined by the
21 pension fund or retirement system to be attributable to the
22 administration of the DROP benefits experienced by pension
23 fund or retirement system.

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

1 determined by the State Treasurer. The State Treasurer shall
2 reduce the DROP account on a schedule set by the State
3 Treasurer to cover all of the administrative costs of the
4 State Treasurer deemed to be attributable to the
5 administration of the DROP account and any duties required
6 under this Article.

7 (h) Upon expiration or termination of the DROP member's
8 participation in the DROP, the account balance shall be paid
9 to the DROP member as a lump sum. The State Treasurer shall
10 provide options for the transfer of the account consistent
11 with its fiduciary duty and any applicable State or federal
12 law. An expiration or termination of a DROP member's
13 participation in the DROP may not occur after January 1, 2032.

14 (i) The DROP election is irrevocable and the DROP member
15 may not access the account prior to the date established as the
16 last day of the DROP when the DROP member made the initial
17 election to participate in the DROP. The DROP member must
18 terminate employment with the employer upon expiration of
19 their participation in the DROP. The DROP member's
20 participation in the DROP shall terminate prior to the
21 expiration date:

22 (1) if the DROP member terminates employment with the
23 employer prior to the expiration of the designated DROP
24 period;

25 (2) if the DROP member becomes eligible for and begins
26 collecting a disability benefit from the pension fund or

1 retirement system; or

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

3 Upon termination or expiration of the DROP member's
4 participation in the DROP, the DROP member shall commence his
5 or her retirement annuity from the pension fund or retirement
6 system.

7 The State Treasurer may allow for the payment of the
8 balance of the DROP prior to the last date of participation in
9 the DROP established by the DROP member when the DROP member
10 made the initial election to participate in the DROP if (i) the
11 DROP member's participation in the DROP terminated and (ii)
12 the State Treasurer determines that the DROP member should
13 have access to the DROP balance due to hardship or necessity,
14 as determined by the State Treasurer.

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

18 The DROP member shall not accrue additional service credit
19 in the pension fund or retirement system while participating
20 in the DROP, whether service accruals, future pay increases,
21 active cost of living adjustments, or promotions.
22 Additionally, the DROP member shall not be eligible to
23 purchase any optional service credit or to repay any refunds.

24 (k) Eligibility for a surviving spouse benefit shall be
25 determined at the time of the DROP election.

26 Any amounts due to an alternate payee under a Qualified

1 Illinois Domestic Relations Order under Section 1-119 shall be
2 calculated at the time of the DROP election and such amounts
3 shall be payable at the time of election.

4 If the DROP member's designated beneficiary predeceases
5 the DROP member, and the DROP member dies before designating a
6 new beneficiary, the DROP member's DROP account shall be paid
7 to the DROP member's estate.

8 (l) It is intended that the DROP shall not jeopardize the
9 tax qualified status of the pension fund or retirement system.
10 The board of the pension fund or retirement system may adopt
11 rules necessary or appropriate for the DROP to maintain
12 compliance with applicable federal laws and regulations.
13 Notwithstanding any other provision in the Article, all
14 benefits provided under the DROP shall be subject to the
15 requirements and limits of the Internal Revenue Code of 1986,
16 as amended.

17 (m) The State Treasurer shall be the administrator of the
18 DROP created in this Section. The administration shall be
19 subject to any applicable laws, and the State Treasurer shall
20 administer the program in the best interest of the
21 participating members in a way that a prudent person in a
22 similar circumstance would. The executive director of each
23 pension fund or retirement system, or the executive director's
24 designee, shall participate in the DROP Advisory Board, that
25 shall meet quarterly. The State Treasurer, or the State
26 Treasurer's designee, shall chair the DROP Advisory Board. The

1 State Treasurer may solicit advice and information from the
2 members of the DROP Advisory Board or from the board as a whole
3 while administering the DROP program. Except as otherwise
4 provided by law, the State Treasurer shall be the sole
5 decision maker governing the DROP.

6 Section 99. Effective date. This Act takes effect upon
7 becoming law.