



ISSUE BRIEF

House Bill 3520: Tier 2 Benefit Increases

IMRF Position:
OPPOSE

Sponsor:
Representative Stephanie Kifowit

Proposed Change in the Law

In the provisions applicable to IMRF, the bill makes the following changes to the benefits for Tier 2 members:

- Allows retirement without reduction at age 60 with 20 years of service credit (currently, requires 10 years of service credit at age 67);
- Changes the FRE period from the highest 8 years out of the last 10 to the highest 5 years out of the last 10;
- Changes the annual increase from the lesser of 3% of the original amount and one-half of the CPI-u to the greater of these amounts;
- Indexes the maximum reportable wages for Tier 2 members to the annual Social Security wage base (currently, it increases annually by the lesser of 3% or one-half of the CPI-u).

The bill would also include county correctional officer or probation officer in SLEP.

All changes are retroactive to 1/1/2011 and are applicable regardless of whether the member was in service as of the effective date.

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Reasons for Position

There are some administrative concerns with the bill that would require all Tier 2 retirements to be recalculated and potentially require employers and members to owe additional contributions not only for some retirees, but for some active and inactive members as well.

As of the end of 2022, IMRF already had nearly 500 Tier 2 retirees. Because the bill language is retroactive to January 1, 2011 and is applicable regardless of whether the member was in service on the effective date, the bill would require all Tier 2 pensions to be recalculated to factor in the FRE and annual increase changes.

It would also require the funds (and, in turn, the employers) to recalculate the reportable wages for all active, inactive, and retired members. If the wages were greater than the maximum reportable wages under the current version of Tier 2, the employers would need to submit amended wage reports and both would owe additional contributions for these higher salaries, including for those who are already retired.

The bill also doesn't clarify if the changes are meant to apply to regular IMRF members only or if it is meant to apply to both regular and SLEP members. SLEP Tier 2 benefits are different than regular IMRF, reflecting both their different structures and that their Tier 2 changes were done in different bills.

In addition to the concerns above with the SLEP changes, members who are county correctional officers or probation officers would need to be retroactively enrolled in SLEP. This would increase not only their benefit from the regular plan, but also their (and their employers') contributions. It also has the potential of moving Tier 1 regular members into Tier 2 SLEP (Tier 1 regular service cannot be used to place SLEP members into Tier 1). There is also likely to be members who have applicable service both before and after 1/1/2011, meaning that they would have some service in that position in the regular plan and some in SLEP.

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