EARLY RETIREMENT INCENTIVE

Guidelines for Employers

07/2024

Locally funded, financially sound.

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Features of the IMRF Early Retirement Incentive

- The IMRF Early Retirement Incentive (ERI) is a permanent part of the IMRF benefit program.
- It is a tool eligible IMRF employers can use, if and when they need it, to save fringe benefits and payroll costs by providing an incentive for long-term members to retire. Employers are encouraged to either:

    (i) Replace no more than 80% of members electing to retire under the program, or

    (ii) Reduce replacement staff salaries to no more than 80% of current salary levels.

- Eligible members can purchase between one month and five years of age and service credit for the purpose of determining retirement benefits.
- The legislation provides flexibility for employers by allowing the employer to determine the timing of member terminations. Members may terminate up to a year from the effective date of the employer's ERI program. However, if a member requests to retire before July 1 so he or she will be eligible to receive the following year's Supplemental Benefit Payment ("13th Payment"), the employer must allow the member to do so.
- The employer cost of adopting the ERI can be paid for over a period of no more than 10 years. (Details regarding employer costs can be found on page 10.)
- Before an employer can adopt ERI, it must have a cost estimate completed by IMRF.
- If an employer adopts the program, the ERI applies to all IMRF members, including elected officials participating in IMRF.

Incentive for members to retire early

Tier 1

- Without the ERI, Regular Tier 1 members can retire at age 55. With ERI, they can retire at age 50 provided they have 20 years of service credit before adding the incentive.
- Without the ERI, Regular Tier 1 members receive reduced benefits if they are less than age 60 with less than 35 years of service credit when they retire. Under ERI, Regular Tier 1 members age 55 to 60 can avoid the reduction by purchasing sufficient service/age to reach age 60 or 35 years.

Tier 2

- Without the ERI, Regular Tier 2 members can retire at age 62. With ERI, they can retire at age 57 provided they have 20 years of service credit before adding the incentive.
- Without the ERI, Regular Tier 2 members receive reduced benefits if they are less than age 67 with less than 35 years of service credit when they retire. Under ERI, Regular Tier 2 members age 62 to 67 can avoid the reduction by purchasing sufficient service/age to reach age 67 or 35 years.

Regular and SLEP Members

- Both Regular IMRF and SLEP pensions are based on a formula which provides a member with a percentage of his or her Final Rate of Earnings (up to the wage cap for Tier 2 members) for each year of service credit. A member will be able to increase the percentage he or she receives by purchasing one month to five years of additional service credit.

Adopting the IMRF ERI

- All IMRF employers can adopt the IMRF ERI, unless the employer is dissolved or considering dissolving. Refer to page 6.
- If an employer is considering adopting the ERI, a cost estimate must be prepared and shared with the employer's governing body before it adopts ERI. (See "Cost estimate requirement" on page 5.) If an employer is dissolved or considering dissolving, refer to page 6.
- The governing body would need to pass a resolution or ordinance adopting the ERI and attach a copy of the cost estimate to the resolution. If you want to use IMRF's suggested form of resolution, please send us a secure message to request a "Suggested Form of Resolution to Adopt Early Retirement Incentive" form. If you are unable to send a secure message, please call our employer-only phone number at 1-800-728-7971.
- The ERI would be available for one year from the program effective date.
- If an employer adopts the program, the ERI applies to all eligible IMRF members, regardless of the position held or length of service with the unit of government. The ERI would also apply to elected officials participating in IMRF.

Please note: Although an employer may believe it knows which/how many of its IMRF members will retire under the ERI, it is possible that other members may also be eligible. A member may have previous IMRF service credit with a former employer, a separation refund he or she plans to repay, past service credit he or she plans to purchase, etc.

Cost estimate requirement

- Before an employer can adopt an ERI and in order to utilize the ERI as a budgeting tool, the employer must have IMRF prepare an actuarial cost estimate.
- The cost estimate must be based on the same time period as the ERI being considered by the governing body. If your employer does not know when it will offer the ERI, your IMRF Employer Services Representative can prepare multiple cost estimates each using a different time period.
- If an employer submits the ERI resolution without a cost estimate, IMRF will not implement the program, and the employer will need to both conduct the cost estimate and adopt a second resolution.
- Adoption of an ERI will result in increased pension costs because members will be allowed to retire earlier than normal with a larger pension benefit.
- Increased pension costs may be offset by reductions in payroll and fringe benefit costs through eliminating vacated positions, delaying filling vacated positions, and/or paying replacement employees lower salaries.
- Past study results indicated that most employers who reduce salary expenses of the employees retiring under ERI by 30% can expect to offset increased pension costs. An employer could accomplish the 30% reduction through any combination of not re-staffing positions or by paying lower salaries to replacements. For example, an employer could re-staff 85% of the positions and pay the new employees 80% of the former salaries. Or, an employer could re-staff 80% of the positions and pay the new employees 85% of the salaries.
- To request a cost estimate, please contact your IMRF Employer Services Representative. The cost estimate will be completed at no charge to the employer.
- ERI cost estimates prepared by IMRF will not include potential cost savings of the ERI. Because the figures used to estimate cost savings are not under IMRF's control, estimates of potential cost savings are more appropriately prepared by the employer using the ERI costs provided by IMRF.
- Your local Employer Services Representative will be able to calculate the annual increased pension costs.

Dissolving units of government

- If an employer is aware—or has reason to be aware—of its future dissolution under state law, the process of adopting an ERI differs. If a dissolving employer is being succeeded by:

  One successor unit of local government

  - The employer must provide the ERI Cost Study to the successor, and the successor must also approve the ERI.
  - Submit to IMRF a copy of the resolution of the successor unit of local government's approving the adoption of the ERI program.

  More than one successor unit of local government

  - The employer must provide the ERI Cost Study to each successor, and a majority of the successors must pass resolutions approving the adoption of the ERI program.
  - Submit the IMRF copies of the resolutions of successor unit(s) of local government's approving the adoption of the ERI program.

  No successor unit(s) of local government and the law does not specify responsibility for the IMRF assets and obligation

  - The employer must submit its ERI resolution to IMRF with a request for IMRF Board of Trustees approval.

- If a dissolving employer submits the ERI resolution without approval by successor unit(s) of local government or without a request for IMRF Board of Trustees approval when no successors exist, IMRF will not implement the ERI program.

- If IMRF is unaware that these requirements were not met and pays an ERI enhanced pension to a member who:

  - Retired at age 55 (Tier 1) or older (age 50 for SLEP and SLEP ECO) or age 62 or older (Tier 2), the member will lose the ERI enhancements and be required to pay IMRF the difference between the ERI enhanced pension and the pension he or she would have received without the ERI—less the amount he or she paid for the ERI.
  - Retired at less than age 55 (Tier 1) or less than age 62 (Tier 2), the member will be required to repay IMRF for all pension payments received—less the amount he or she paid for the ERI.

Informing members of the ERI

- After an employer adopts the ERI by resolution, it should inform its members of the program for two reasons:

  1) IMRF will not inform members of an individual employer that their employer has adopted the program. Adoption of the program is an internal personnel matter for the employer. Members can learn more about ERI by visiting **www.imrf.org**.

Determining member termination dates

- The ERI legislation provides flexibility for employers by allowing the employer to determine the timing of member terminations. A member may terminate up to one year from the effective date of the employer's ERI program.

  Example:

  Effective date of ERI program: **September 30, 2021**
  Termination date can be: **September 30, 2021, through September 30, 2022**

- If a member requests to retire before July 1 so he or she will be eligible to receive the following year's Supplemental Benefit Payment ("13th Payment"), the employer must allow the member to do so.
- Employers are to give a member at least 30 days notice of his or her designated termination date. The 30-day notice may be waived by the member.

Resolution to adopt amortization period

- Employers can customize the ERI to the financial circumstances of their own unit of local government. This flexibility is provided by allowing employers to determine the amount of time needed to pay off the incurred pension liability. (Please refer to page 10 for detailed information on employer costs.)
- An amortization period of 10 years is assumed. Amortization of the incurred pension liability can take no longer than 10 years and no less than five years.
- If an employer would like an amortization period of other than 10 years, it will need to adopt a resolution for this. Please note: Due to the method IMRF uses to calculate employer contribution rates, only whole year (5, 6, 7, 8, 9, 10) amortization periods are allowed. If you want to use IMRF's suggested form of resolution, please send us a secure message to request a "Suggested Form of Resolution to Adopt Amortization Period for IMRF Early Retirement Incentive" form. If you are unable to send a secure message, please call our employer-only phone number at 1-800-728-7971.
- The amortization period resolution should be received in the IMRF office no later than six months from the effective date of the employer's ERI program. If no resolution is received, a 10-year amortization period will be assumed. If an employer would like an amortization period of less than 10 years, it would submit the "Suggested Form of Resolution to Adopt Amortization Period for IMRF Early Retirement Incentive" form.

Limitations on frequency of subsequent ERI offerings

- An employer cannot adopt later ERI programs until the cost of the previous ERI is paid in full.
- An employer must again have IMRF prepare a cost estimate before a second ERI program can be adopted.

Employer costs for the ERI

- Once an employer adopts the ERI and a member retires under it, a separate ERI reserve account will be established.
- Annually, the employer's ERI Reserve Account and amortization period is sent to IMRF's actuary. The actuary calculates the employer's ERI rate based upon that information.
  Please note: Employer rates are on a two-year lag—2020 information sent to the actuary in 2021 is used to determine 2022 rates. If a member retires under ERI in 2020, the employer does not begin paying its ERI costs until 2022.
- The Advance Rate Notice, which is available in the Document Archive of Employer Access in April, and the Official Notice which is available in the Document Archive in November, include a breakdown of an employer's IMRF rate, including the employer's rate for ERI liability. The employer rate also includes costs for retirement, death, disability, and supplemental retirement. The employer's contribution will equal the total rate times payroll.

Concurrent/multiple employers

Concurrent employers

If a member participates with more than one IMRF employer, the employer cost for the ERI is determined as follows:

- If one employer adopts ERI and the other doesn't, the employer adopting ERI bears the entire cost.
- If both employers adopt ERI, both employers will share the cost proportionately based on years of service credit. For example, if the member has 15 years with the first employer and five years with the second employer, the first employer will incur 75% of the cost, and the second employer will incur 25% of the cost.

Multiple employers

If a member participated with more than one IMRF employer during his or her IMRF career, the member's current employer would need to adopt the ERI in order for the member to retire under it.

- The current employer would bear the entire employer cost for the ERI because the current employer will benefit from reduced payroll/fringe benefit costs.
- The member's previous employer(s) would not be affected; they would not share the ERI costs nor would their IMRF rate be affected. This is true even if the previous employer adopts ERI. A member can retire under ERI only if his or her current employer adopts it.

Paying member costs for the ERI

Lump sum payments for sick, vacation time, personal time

- If payments for sick, vacation, or personal time are to be considered IMRF earnings, they must be reported to IMRF no later than one month after the member's termination date. For example, if a member terminates on June 15, but is paid for sick, vacation, or personal time in July, those earnings are reportable to IMRF. However, if the member's earnings are paid in August (or later), those earnings are not reportable to IMRF.
- If the employer will pay the member a lump sum payment for sick, vacation, and/or personal time, the employer must submit the net payment (gross payment less taxes, IMRF contributions, etc.) to IMRF and identify the payment as member ERI cost.
- If the member's net payment for sick, vacation, and/or personal time is greater than the member's ERI cost, the employer would pay IMRF an amount required to pay the member's cost. The employer would pay the member any remaining balance of the net payment.
- If payment for sick, vacation, and/or personal time is spread over several months, the employer must still forward the net payment to IMRF. As long as the lump sum payment for sick, vacation, and/or personal time is due to the member's retirement, the net amount is payable to IMRF.
- The gross amount of the payment would be reported to IMRF as earnings, but the net payment would be held by the employer until it receives an invoice from IMRF for the member cost.
- Members terminating IMRF participation for retirement remain eligible to earn additional service credit for **unpaid** and unused sick leave. For every 20 days of unused, unpaid sick leave (or fraction thereof), a member can earn one month of additional service credit, not to exceed 240 days (one year).

If employer pays member cost (contributions)

- If the employer pays the member cost for the ERI, that payment will be taxable to the member unless the employer passes a resolution specifically stating that the contributions are being made in lieu of the member's contributions, and the member is prohibited from receiving any part of those contributions. [If you want to use IMRF's suggested form of resolution, please send us a secure message to request a "Suggested Resolution (Ordinance) for Employer Pick-Up (Payment) of Member Contributions Required for Purchase of Extra Service under the IMRF Early Retirement Incentive" form. If you are unable to send a secure message, please call our employer-only phone number at 1-800-728-7971.]
- Please note: IMRF is not suggesting that an employer pay the member's ERI costs. This information is provided in the event such action is considered. If the employer does not pass the pick-up resolution, the employer payment of the member's ERI contributions will be taxable income to the member in the year it is paid and must be included on the member's W-2. If the pick-up resolution is passed, the payment will not be taxable when paid. In either case, the payment is not considered IMRF earnings.
- Employer cost savings will be reduced significantly if an employer pays the member cost.

ERI invoice for member cost

- IMRF begins paying an estimated ERI enhanced pension, and an ERI invoice will be forwarded to the member and employer detailing the member's ERI cost.
- IMRF begins deducting 24 equal installments from member's pension toward ERI cost.

Health insurance continuation

- Illinois law allows members entering retirement to continue health insurance coverage through their employer.
- Members retiring under ERI will be eligible for continued insurance coverage as early as age 50 (Tier 1) and age 57 (Tier 2).

Steps to adopt and retire under IMRF ERI

Step 1 Employer requests its IMRF Employer Services Representative to conduct a cost estimate to determine the cost of the ERI.

Step 2 Governing Body reviews the cost estimate and determines the adoption of an early retirement incentive is in the best interests of the employer. *If an employer is aware—or has reason to be aware—of its future dissolution under state law, the process of adopting ERI differs. Refer to page 6 in this booklet.*

Step 3 Governing Body passes resolution adopting the IMRF ERI, attaches a copy of the cost estimate, and files the resolution with IMRF. *See Limitations on Subsequent ERI Offerings on page 8.*

Step 4 Employer informs its IMRF members of the adoption of the ERI and the program's effective date.

Step 5 Employer determines retiring members' termination dates. Employer is to give members 30 days notice of the date. Members may waive the 30-day notice.

Step 6 If the employer wants an amortization period of less than 10 years, the employer passes a resolution adopting an amortization period, preferably within six months of the program's effective date.

Step 7 Member submits "Application for IMRF Pension" form to IMRF 30 days before termination.

Step 8 Employer submits the "Termination of IMRF Participation" form for member.

Step 9 IMRF calculates member's cost for the ERI and sends invoice to the member and employer. IMRF will begin deducting 24 equal installments from member's pension toward ERI cost.

Step 10 IMRF begins paying an estimated ERI enhanced pension. The member is notified of their Benefit options. If they are eligible for a refund of contributions (surviving spouse, SLEP, Voluntary Additional Contributions), members can use their refunds to pay their ERI cost, if desired.

Step 11 After final payroll is received, IMRF recalculates member's pension to determine final pension amount and ERI cost.

Step 12 If the employer will pay the member a lump sum for sick, vacation, and/or personal time, the employer must submit the net payment (gross payment less taxes, IMRF contributions, etc.) to IMRF and identify the payment as member ERI cost.

Step 13 The following April, IMRF provides the employer its Preliminary Rate Notice which details the employer's IMRF rate. The breakdown for the employer's ERI cost for members who have retired under the ERI will be shown in the Reserve Statement.

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3000 Professional Dr.
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Springfield, IL 62703

Members and employers should **mail all correspondence, forms, payments, etc. to our Oak Brook Office** (2211 York Rd., Ste. 500, Oak Brook, IL 60523-2337).

Dedicated Employer Line:
1-800-728-7971

www.imrf.org