



Rep. Daniel J. Burke

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LRB097 08901 JDS 51796 a

1 AMENDMENT TO HOUSE BILL 3466

2 AMENDMENT NO. _____. Amend House Bill 3466 by replacing
3 everything after the enacting clause with the following:

4 "Section 5. The Illinois Pension Code is amended by adding
5 Section 14-110.5 as follows:

6 (40 ILCS 5/14-110.5 new)

7 Sec. 14-110.5. Deferred Retirement Option Plan.

8 (a) As used in this Section:

9 "Deferred eligibility date" means the first day of any
10 month to which a vested member is eligible to defer his
11 election to participate in DROP. A vested member who has
12 reached 26 years and 8 months of actual service and has not
13 reached the age of 50 may enter the DROP and be eligible for
14 contributions to this fund. If the member resigns or dies prior
15 to age 50 he or his designee is not eligible to collect any of
16 the DROP contributions. For a member with dual normal

1 retirement dates, the DROP eligibility date may be determined
2 by the member as the first day of the month in which normal
3 retirement is achieved in either class.

4 "Deferred Retirement Option Plan" or "DROP" means a program
5 available to certain members who are eligible to receive
6 benefits under Section 14-110 of this Code under which members
7 effectively retire and have their retirement accumulate, after
8 applicable taxes, in the System while they continue covered
9 employment for up to 5 years.

10 "DROP begin date" means the first day of the month in which
11 the member's DROP participation period begins and is always the
12 same date as the member's effective date of retirement. Such
13 date shall be the first day of the month in which the eligible
14 member submits a DROP application, or any future month after
15 the member reaches his or her DROP eligibility date, as
16 selected by the member. However, a member's DROP begin date
17 cannot precede the month the Board receives the DROP
18 application.

19 "DROP break in service" means a period for which no
20 compensation is reported for a DROP participant during one full
21 month of the participant's work year and there is no continuing
22 employer-employee relationship. A member who is on leave of
23 absence without pay or on a workers' compensation leave has an
24 employer-employee relationship.

25 "DROP eligibility date" means the first day of the month in
26 which a vested member becomes eligible to elect to participate

1 in DROP by virtue of reaching either his normal retirement date
2 or a deferred eligibility date, if a deferred eligibility date
3 is applicable and elected by the member. Both the 12-month
4 period during which the member may elect to participate in the
5 DROP and the 60-month period that a member is allowed to
6 participate in DROP begin on the member's DROP eligibility
7 date.

8 "DROP end date" means the date DROP participation ceases
9 and shall be the date termination of all employment occurs. The
10 DROP end date shall be effective as of the date of the
11 participant's designated deferred resignation or earlier if
12 the participant terminates prior to the designated resignation
13 date.

14 "DROP participation period" means the period of time a
15 member participates in DROP, not to exceed 60 months.

16 "Initial eligibility date" means the first day of the month
17 in which a vested member first becomes eligible to elect to
18 participate in DROP by virtue of reaching his or her normal
19 retirement date.

20 "Normal retirement date" means when the member becomes age
21 50 or when the member completes 26 years and 8 months of
22 service. The member may either include or exclude optional
23 service credit in determining the date on which 26 years and 8
24 months of service has been attained.

25 "Optional service credit" includes credit for prior
26 service, past service purchased by the member, and military

1 service. "Optional service credit" does not include workers'
2 compensation credit or past service credit paid for by the
3 employer.

4 (b) A member who is eligible for benefits under Section
5 14-110 of this Code is eligible to participate in the DROP
6 provided the member attains a normal retirement date and is
7 employed in a regularly established position within their
8 Department.

9 An eligible member must elect to participate in DROP no
10 less than 3 months prior to the member's DROP eligibility date,
11 subject to the following conditions:

12 (1) A member who reaches age 50 with 25 years of
13 service or 26 years and 8 months at any age.

14 (2) A member may elect to include or exclude any
15 optional service credit from the total service used to
16 establish the DROP begin date when determining the DROP
17 eligibility date.

18 (3) A member with dual normal retirement dates, due to
19 an employment history in 2 different classes of membership
20 with different normal retirement date and age
21 requirements, may elect to participate in DROP within 12
22 months of attaining normal retirement date in either
23 membership class.

24 (c) It is the responsibility of the eligible member to make
25 proper application to the System to participate in DROP. To
26 qualify for DROP, the member shall submit a notice of election

1 to participate that shall specify the DROP begin date and the
2 DROP termination and resignation date and is acknowledged by
3 the employer, and the notice of election to participate shall
4 be received by the System no later than the end of the last
5 month of the member's election period described in subsection
6 (b) of this Section or a later date, if authorized in
7 subsection (b). Such termination and resignation date shall
8 constitute a binding letter of resignation with the employer.
9 Failure to complete the notice of election to participate
10 within the limitations of subsection (b) of this Section shall
11 result in the member being ineligible for DROP participation.

12 An application for service retirement and the DROP shall be
13 accepted by the System up to 6 months, but no later than 3
14 months, in advance of the intended DROP begin date and shall
15 establish the member's effective date of retirement and DROP
16 begin date. The effective date of retirement and the DROP begin
17 date shall both be the first day of the month that the member
18 indicates on his or her application as the date he or she
19 wishes his or her DROP participation to begin, provided the
20 System receives the member's application no later than the
21 close of business on the last day 3 months prior to when the
22 DROP begin date occurs. If a member fails to apply for DROP by
23 the last day of the month in which his or her intended DROP
24 begin date occurs, the effective date of retirement and the
25 DROP begin date shall be the first day of the month in which
26 the System receives the member's application, provided the

1 application is received within the 3-month election period.

2 (d) When the System receives a member's application for
3 DROP, the System must:

4 (1) acknowledge receipt of the member's application
5 and advise him or her of any required information or
6 documents that have not yet been received; such information
7 may include, but is not limited to, birth date, beneficiary
8 designation, option selection, any payments due the
9 member's account for purchase of additional service credit
10 or a written statement from the member that the member does
11 not wish to claim such service credit, and certification of
12 final salary and accumulated annual leave payments;

13 (2) establish the DROP begin date; and

14 (3) send a follow-up notice, reminding the member of
15 any required information or documents that have not yet
16 been received.

17 (e) Subject to timely submission of all required documents,
18 the effective date of DROP participation shall be the effective
19 date of retirement. The DROP participant may not modify or
20 cancel his or her retirement benefit after the last day of the
21 month of the DROP begin date. The DROP benefit shall be deemed
22 cashied or deposited as of the last day of the month following
23 the DROP begin date.

24 (f) If all the required information and documents have not
25 been received by the System after 3 follow-up notices have been
26 sent to the member, the System must send the member a certified

1 letter, advising the member that he has 21 days to provide such
2 information or documents without loss of his DROP begin date.
3 If the System has not received all of the required information
4 and documents after the 21 days specified in the certified
5 letter, the System must send a final agency action letter to
6 the member advising the member that his or her application is
7 canceled and that he or she must reapply to join DROP, if
8 eligible, with a new effective DROP begin date to be
9 established upon application.

10 (g) All employers paying the salary of a DROP participant
11 shall contribute the required percentage of such participant's
12 gross compensation. In addition, health insurance benefits
13 continue in accordance with the State Employees Group Insurance
14 Act of 1971.

15 (h) The retirement benefit of a member who has elected to
16 participate in the DROP shall be calculated as provided in this
17 Section.

18 A member may choose to receive his accumulated annual leave
19 and applicable sick time payments and earned in accordance with
20 agency policy, either upon beginning or terminating DROP. This
21 early annual leave payment shall be based on the hourly wage of
22 the member at the time he or she begins participation in DROP.
23 Any additional annual leave payment made at the DROP end date
24 according to the employer's leave policy cannot be included in
25 the retirement benefit, which was determined and fixed by law
26 when the member elected to participate in DROP. If the member

1 elects to receive the annual leave payment upon termination of
2 DROP and termination of employment with his or her employer,
3 any accumulated annual leave payment made at that time cannot
4 be included in the retirement benefit, which was determined and
5 fixed by law when the member elected to participate in DROP.

6 (i) The beneficiary eligible to receive any accrued DROP
7 benefits payable if the DROP participant dies before the
8 completion of the DROP participation period is the most recent
9 joint annuitant or beneficiary designated to receive
10 retirement benefits upon the death of the participant, as
11 directed by the participant on his or her beneficiary forms.
12 However, if the beneficiary or joint annuitant dies during the
13 DROP participation period, the participant may designate a new
14 beneficiary as follows:

15 (1) If the participant retired under option 1 or 2, he
16 or she may name a new beneficiary. Such beneficiary is
17 eligible for both the DROP benefits and any benefits
18 provided by the option selected.

19 (2) If the participant retired under option 3 or 4, he
20 or she may name a new qualified joint annuitant or spouse.
21 Such beneficiary is eligible for both the accrued DROP
22 benefits and any continuing benefits.

23 (3) If the participant retired under option 3 or 4, he
24 or she may name a new beneficiary who will receive only the
25 accrued DROP benefits. Such beneficiary shall not replace
26 the joint annuitant or spouse or be eligible for any

1 continuing benefits.

2 (4) The participant may not name a beneficiary to
3 receive DROP benefits who is different from the beneficiary
4 designated to receive the retirement benefits.

5 (j) Effective with the DROP begin date, the member's
6 initial normal monthly benefit shall be fixed and shall accrue
7 monthly in the System Trust Fund. The system shall earn any
8 interest that may accrue at an effective annual rate of 3%
9 compounded monthly, on the prior month's accumulated ending
10 balance, up to the month of the DROP participant's termination
11 or death. Any accrued interest in excess of 3% shall be divided
12 equally between the System and the DROP participant. The DROP
13 benefit is increased by the annual cost-of-living adjustment as
14 otherwise provided in this Article.

15 (k) A DROP participant is not eligible to apply for or
16 receive retiree health insurance subsidy payments until such
17 participant has terminated employment and DROP participation.
18 A member shall not earn creditable service applicable to the
19 health insurance subsidy while participating in DROP.

20 (l) A DROP participant is considered an annuitant; however,
21 participation in DROP does not alter the participant's
22 employment status. Terms and conditions of employment,
23 including, but not limited to, salary, insurance coverage,
24 leave accrual and seniority status, do not change as a result
25 of DROP participation. However, employment is not guaranteed
26 during the DROP participation period.

1 Employment continues during participation in DROP through
2 the date the member preselected to stop participation in DROP,
3 except that elected officers may continue in office after the
4 DROP end date. A DROP participant may change jobs or have more
5 than one employer under this Article, as long as the
6 participant does not have a break in service. If a break in
7 service occurs, DROP participation ceases as of the end of the
8 month in which no compensation is received for covered
9 employment. All employers are required to acknowledge the
10 participant's DROP termination date and to acknowledge
11 potential liability for any additional retirement
12 contributions and interest required if the participant fails to
13 timely terminate employment.

14 (m) DROP participants shall not be eligible for disability
15 benefits under this Article.

16 (n) If a participant continues employment beyond the
17 preselected DROP end date and prior to completion of the
18 maximum 60 months allowed, a new form must be submitted with a
19 new DROP end date acknowledged by both the participant and any
20 affected employer.

21 (o) DROP benefits shall be subject to the provisions of
22 this Article pertaining to assignment, execution, or
23 attachment of benefits, and forfeiture of benefits,
24 respectively.

25 (p) Eligibility to participate in the DROP ends upon the
26 death of the participant.

1 (q) A DROP participant must terminate employment on or
2 before the preselected resignation date. If a participant fails
3 to terminate on or before the DROP termination and resignation
4 date: (1) retirement and DROP participation are voided; (2) the
5 DROP accumulation and any monthly retirement benefits received
6 are forfeited; (3) membership in the System is retroactively
7 reestablished to the date the member initiated DROP
8 participation; (4) each employer is liable for payment of or
9 eligible for a refund of, as applicable, the difference between
10 the DROP contributions paid and the required retirement
11 contributions for the applicable class of membership during the
12 period of DROP participation, plus interest at an annual
13 effective rate of 3%, compounded annually; no interest is
14 payable on refunds to employers; and (5) the designated
15 beneficiary shall remain the named beneficiary, unless
16 revised.

17 (r) Upon the participant's termination of all employment,
18 the deferred resignation becoming effective, and the
19 conclusion of the DROP participation period, or upon the death
20 of the participant, benefits shall be paid or distributed as
21 follows:

22 (1) The previously determined normal monthly
23 retirement benefits, plus applicable cost-of-living
24 increases, commence in accordance with the method of
25 payment chosen by the participant at the time he or she
26 began DROP participation.

1 (2) The total accumulated DROP benefits are
2 distributed to the participant, or, if deceased, to the
3 participant's joint annuitant or beneficiary as
4 appropriate, provided the System receives the proper forms
5 signed by both the participant and employer verifying
6 termination of employment and notifying the System as to
7 which of the following methods of payment he or she has
8 chosen: (i) lump sum (if the participant is deceased, a
9 beneficiary, other than a spouse, must receive the lump sum
10 distribution only), (ii) direct rollover, or (iii)
11 combined partial lump sum and rollover.

12 A DROP participant or beneficiary who submits all required
13 forms, but fails to elect a method of payment within 60 days of
14 termination of DROP, automatically receives a lump sum
15 distribution, less applicable withheld taxes.

16 A participant who elects a rollover must have the rollover
17 paid directly to the custodian of an eligible retirement plan.
18 Eligible retirement plans include an individual retirement
19 account as described in Section 408(a) of the Internal Revenue
20 Code, an Individual Retirement Annuity as described in Section
21 408(b) of the Internal Revenue Code, excluding an endowment
22 contract, a qualified trust established in accordance with
23 Section 401(a) of the Internal Revenue Code, for the sole and
24 exclusive benefit of employees or their beneficiaries, an
25 annuity plan as described in Section 403(a) of the Internal
26 Revenue Code, excluding a plan described in Sections 403(b) and

1 457 of in the Internal Revenue Code, an eligible deferred
2 compensation plan described in Section 457(B) of the Internal
3 Revenue Code that is maintained by an eligible employer as
4 described in Section 457(e)(1)(A) of the Internal Revenue Code,
5 and an annuity contract as described in Section 403(b) of the
6 Internal Revenue Code. If the DROP participant dies and the
7 surviving spouse wishes to roll over the DROP account, it can
8 only be rolled over into an individual retirement account, an
9 individual retirement annuity, an eligible deferred
10 compensation plan, or an annuity contract.

11 (s) Benefits accumulating in the DROP are not subject to
12 federal benefit limitations specified in Section 415 of the
13 Internal Revenue Code until DROP participation ends and the
14 participant begins receiving his monthly retirement benefits.
15 The amount of the accumulated DROP at the time the member
16 ceases DROP is amortized over the member's expected lifetime,
17 in the manner required by the Internal Revenue Code, and the
18 annualized value of the DROP account reduces the federal
19 maximum annual benefit the member is entitled to receive.

20 (t) Reemployment with an employer during the first calendar
21 month after concluding DROP shall result in cancellation of
22 DROP and retirement. The member's DROP application shall be
23 void, and he or she shall be required to repay all DROP and
24 monthly retirement benefits received. The employer who
25 re-employs such member is liable for payment of or eligible for
26 a refund of, as applicable, the difference between the DROP

1 contributions paid and the required SERS retirement
2 contributions for the applicable class of membership during the
3 period of DROP participation. Payment of additional
4 contributions for the applicable class of membership during the
5 period of DROP participation. Payment of additional
6 contributions shall include interest at an annual effective
7 interest rate of 3%, compounded annually. No interest will be
8 paid on refunds to employers.

9 Section 99. Effective date. This Act takes effect upon
10 becoming law.".