

## 99TH GENERAL ASSEMBLY State of Illinois 2015 and 2016 HB0426

by Rep. Thomas Morrison

## SYNOPSIS AS INTRODUCED:

40 ILCS 5/16-153.6 new
40 ILCS 5/16-203
40 ILCS 5/20-121 from Ch. 108 1/2, par. 20-121
40 ILCS 5/20-123 from Ch. 108 1/2, par. 20-123
40 ILCS 5/20-124 from Ch. 108 1/2, par. 20-124
40 ILCS 5/20-125 from Ch. 108 1/2, par. 20-124

Amends the Downstate Teacher Article of the Illinois Pension Code. Directs the System to establish a self-managed plan. The plan applies only to teachers whose employers adopt the plan and only to teachers who make an election to participate in the plan. Specifies the terms and contents of the plan and the method of electing to participate. Defines terms. Contains a new benefit increase exception. Makes conforming changes to the Retirement Systems Reciprocal Act (Article 20 of the Code). Effective immediately.

LRB099 03587 RPS 23595 b

FISCAL NOTE ACT
MAY APPLY

PENSION IMPACT NOTE ACT MAY APPLY 1 AN ACT concerning public employee benefits.

## Be it enacted by the People of the State of Illinois, represented in the General Assembly:

- 4 Section 5. The Illinois Pension Code is amended by adding
- 5 Sections 16-153.6 and 16-153.7 and changing Sections 16-203,
- 6 20-121, 20-123, 20-124, and 20-125 as follows:
- 7 (40 ILCS 5/16-153.6 new)
- 8 Sec. 16-153.6. Retirement program elections.
- 9 (a) For the purposes of this Section and Section 16-153.7:
- 10 "Traditional benefit package" means the package of
- 11 benefits provided under this Article (including Section 1-160
- and Article 20, where applicable), other than the self-managed
- 13 plan.
- "Self-managed plan" means the self-managed plan
- 15 <u>established under Section 16-153.7.</u>
- "Employer" means an employer of teachers who participate in
- this System.
- "Eligible teacher" means a teacher (as defined in Section
- 19 16-106) who is either a currently eligible teacher or a newly
- 20 eligible teacher.
- 21 <u>"Currently eligible teacher" means a teacher who is</u>
- 22 employed by an employer on the date on which that employer
- 23 offers the self-managed plan to its teachers as an alternative

- to the traditional benefit package.
- 2 "Newly eliqible teacher" means a teacher who first becomes
- 3 employed by an employer after the effective date on which that
- 4 employer offers the self-managed plan to its teachers as an
- 5 <u>alternative to the traditional benefit package.</u>
- 6 (b) Every teacher who is a member of this System
- 7 participates in the traditional benefit package, unless he or
- 8 she has elected under this Section to participate in the
- 9 self-managed plan.
- 10 (c) Beginning on the date that an employer chooses to offer
- 11 the self-managed plan to its teachers as an alternative to the
- 12 <u>traditional benefit package</u>, each of that employer's eligible
- 13 <u>teachers shall be given the opportunity to elect to participate</u>
- in the self-managed plan with respect to all periods of covered
- 15 employment occurring on or after the effective date of the
- 16 teacher's election. The election must be made in writing, in
- the manner prescribed by the System, and within the time period
- prescri<u>bed in subsection (d).</u>
- The election to participate in the self-managed plan is a
- 20 one-time, irrevocable election. If a teacher terminates
- 21 employment after making that election, then upon his or her
- 22 subsequent re-employment by an employer who has adopted the
- 23 self-managed plan, that election shall automatically continue
- in effect.
- 25 (d) A currently eligible teacher must make the election
- 26 <u>within one year af</u>ter the effective date of the employer's

- 1 <u>adoption of the self-managed plan. A newly eligible teacher</u>
- 2 <u>must make the election within 6 months after the date on which</u>
- 3 the System receives the report of status certification from the
- 4 employer.
- 5 (e) If a teacher elects to participate in the self-managed
- 6 plan, no employer contributions shall be remitted to the
- 7 self-managed plan when the teacher's account balance transfer
- 8 <u>is made. Employer contributions to the self-managed plan shall</u>
- 9 commence as of the first pay period that begins after the
- 10 System receives the teacher's election.
- 11 (f) An eligible teacher shall be provided with written
- 12 information prepared or prescribed by the System which
- describes the teacher's retirement program choices. The
- 14 eligible teacher shall be offered an opportunity to receive
- 15 counseling from the System prior to making his or her election.
- 16 This counseling may consist of video materials, group
- 17 presentations, individual consultation with an employee or
- 18 authorized representative of the System in person or by
- 19 telephone or other electronic means, or any combination of
- these methods.
- 21 (40 ILCS 5/16-153.7 new)
- Sec. 16-153.7. Self-managed plan.
- 23 (a) Findings; plan. The General Assembly finds that it is
- 24 important for school districts to be able to attract and retain
- 25 the most qualified teachers and that in order to attract and

1 retain these teachers, school districts should have the

2 <u>flexibility to provide a defined contribution plan as an</u>

alternative for eligible teachers who elect not to participate

in the traditional benefit package provided under this Article.

Accordingly, the System is hereby authorized to establish and administer a self-managed plan, which shall offer participating teachers the opportunity to accumulate assets for retirement through a combination of teacher and employer contributions that may be invested in mutual funds, collective investment funds, or other investment products and used to purchase annuity contracts, either fixed or variable or a combination thereof. The plan must be qualified under the Internal Revenue Code of 1986.

The System shall be the plan sponsor for the self-managed plan and shall prepare a plan document and prescribe such rules and procedures as are considered necessary or desirable for the administration of the self-managed plan. Consistent with its fiduciary duty to the participants and beneficiaries of the self-managed plan, the Board of Trustees of the System may delegate aspects of plan administration as it sees fit to companies authorized to do business in this State, to the employers, or to a combination of both.

(b) Adoption by employers. Each employer of teachers under this Article may elect to adopt the self-managed plan established under this Section; this election is irrevocable.

An employer's election to adopt the self-managed plan makes

1	available to the eligible teachers of that employer the
2	election described in Section 16-153.6.
3	(c) Service providers and funding vehicles. The System, in
4	consultation with the employers, shall solicit proposals to
5	provide administrative services and funding vehicles for the
6	self-managed plan from insurance and annuity companies and
7	mutual fund companies, banks, trust companies, or other
8	financial institutions authorized to do business in this State.
9	In reviewing the proposals received and approving and
10	contracting with no fewer than 2 and no more than 7 companies,
11	the Board of Trustees of the System shall consider, among other
12	things, the following criteria:
13	(1) the nature and extent of the benefits that would be
14	<pre>provided to the participants;</pre>
15	(2) the reasonableness of the benefits in relation to
16	the premium charged;
17	(3) the suitability of the benefits to the needs and
18	interests of the participating teachers and the employer;
19	(4) the ability of the company to provide benefits
20	under the contract and the financial stability of the
21	<pre>company; and</pre>
22	(5) the efficacy of the contract in the recruitment and
23	retention of teachers.
24	The System, in consultation with the employers, shall
25	periodically review each approved company. A company may

continue to provide administrative services and funding

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teacher's account balances.

- vehicles for the self-managed plan only so long as it continues
- to be an approved company under contract with the Board.
- 3 (d) Teacher direction. Teachers who are participating in the program must be allowed to direct the transfer of their 4 5 account balances among the various investment options offered, subject to applicable contractual provisions. The participant 6 shall not be deemed a fiduciary by reason of providing such 7 investment direction. A person who is a fiduciary shall not be 8 9 liable for any loss resulting from such investment direction 10 and shall not be deemed to have breached any fiduciary duty by 11 acting in accordance with that direction. Neither the System 12 nor the employer guarantees any of the investments in the
  - (e) Participation. To participate in the self-managed plan, an eligible teacher must make a written election in accordance with Section 16-153.6 and the procedures established by the System. Participation in the self-managed plan by an electing teacher shall begin on the first day of the first pay period following the later of (1) the date the teacher's election is filed with the System or (2) the effective date on which the teacher's employer begins to offer participation in the self-managed plan. A teacher's participation in the traditional benefit package under this Article shall terminate on the date that participation in the self-managed plan begins.
- 26 A teacher who has elected to participate in the

- 1 self-managed plan must continue participation while employed
- 2 in an eligible position, and may not participate in the
- 3 traditional benefit package while employed by that employer or
- 4 any other employer that has adopted the self-managed plan,
- 5 unless the self-managed plan is terminated.
- 6 Participation in the self-managed plan under this Section
- 7 shall constitute membership in the System.
- 8 <u>A participant under this Section shall be entitled to the</u>
- 9 benefits of Article 20 of this Code.
- 10 <u>(f) Initial account balance. If at the time a teacher</u>
- 11 <u>elects to participate in the self-managed plan he or she has</u>
- 12 <u>rights and credits in the System due to previous participation</u>
- in the traditional benefit package, the System shall establish
- 14 for the teacher an opening account balance in the self-managed
- 15 plan, equal to the amount of contribution refund that the
- 16 teacher would be eligible to receive under Section 16-138 if
- the teacher terminated employment on that date and elected a
- 18 refund of contributions, except that this hypothetical refund
- 19 shall include interest at the effective rate for the respective
- 20 years. The System shall transfer assets from the defined
- 21 benefit retirement program to the self-managed plan as a tax
- 22 free transfer in accordance with Internal Revenue Service
- 23 guidelines, for purposes of funding the teacher's opening
- 24 account balance.
- 25 (g) Service credit. Notwithstanding any other provision of
- this Article, a teacher may not purchase or receive service or

- 1 service credit applicable to any other retirement program
- 2 <u>administered by the System under this Article for any period</u>
- 3 during which the teacher was a participant in the self-managed
- 4 plan established under this Section.
- 5 (h) Contributions. The self-managed plan shall be funded by
- 6 <u>contributions from teachers participating in the self-managed</u>
- 7 plan and employer contributions as provided in this Section.
- The contribution rate for teachers participating in the

  self-managed plan shall be equal to the teacher contribution

  rate for other participants in the System, as provided in
- 11 <u>Section 16-152. This required contribution shall be made as an</u>
- 12 <u>"employer pick-up" under Section 414(h) of the Internal Revenue</u>
- 13 <u>Code of 1986 or any successor Section thereof. Any teacher</u>
- 14 participating in the System's traditional benefit package
- prior to his or her election to participate in the self-managed
- 16 plan shall continue to have the employer pick up the
- contributions required under Section 16-152. However, the
- 18 <u>amounts picked up after the election of the self-managed plan</u>
- shall be remitted to and treated as assets of the self-managed
- 20 plan. In no event shall a teacher have an option of receiving
- 21 <u>these amounts in cash. A teacher may make additional</u>
- 22 <u>contributions to the self-managed plan in accordance with</u>
- 23 procedures prescribed by the System, to the extent permitted
- 24 <u>under rules prescribed by the System.</u>
- The program shall provide for employer contributions to be
- credited to each self-managed plan participant at a rate of

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7.6% of the participating teacher's salary, less the amount 1 2 used by the System to provide disability benefits for the 3 teacher. The amounts so credited shall be paid into the 4 participant's self-managed plan accounts in a manner to be 5

prescribed by the System.

An amount of employer contribution, not exceeding 1% of the participating teacher's salary, shall be used for the purpose of providing the disability benefits of the System to the teacher. Prior to the beginning of each plan year under the self-managed plan, the Board of Trustees shall determine, as a percentage of salary, the amount of employer contributions to be allocated during that plan year for providing disability benefits for teachers in the self-managed plan.

The State of Illinois shall make contributions by appropriations to the System of the employer contributions required for teachers who participate in the self-managed plan under this Section. The amount required shall be certified by the Board of Trustees of the System and paid by the State in accordance with Section 16-158. The System shall not be obligated to remit the required employer contributions to any of the insurance and annuity companies, mutual fund companies, banks, trust companies, financial institutions, or other sponsors of any of the funding vehicles offered under the self-managed plan until it has received the required employer contributions from the State. In the event of a deficiency in the amount of State contributions, the System shall implement

1 those procedures described in subsection (b-1) of Section

2 <u>16-158 to obtain the required funding from the Common School</u>

Fund.

(i) Vesting; Withdrawal; Return to Service. A participant in the self-managed plan becomes vested in the employer contributions credited to his or her accounts in the self-managed plan on the earliest to occur of the following:

(1) completion of 5 years of service; (2) the death of the teacher while employed as a teacher, if the participant has completed at least 1 1/2 years of service; or (3) the participant's election to retire and apply the reciprocal

provisions of Article 20 of this Code.

A participant in the self-managed plan who receives a distribution of his or her vested amounts from the self-managed plan while not yet eliqible for retirement under this Article (and Article 20, if applicable) shall forfeit all service credit and accrued rights in the System; if subsequently re-employed, the participant shall be considered a new teacher. If a former participant again becomes a participating teacher (or becomes employed by a participating system under Article 20 of this Code) and continues as such for at least 2 years, all such rights, service credits, and previous status as a participant shall be restored upon repayment of the amount of the distribution, without interest.

(k) Benefit amounts. If a teacher who is vested in employer contributions terminates employment, the teacher shall be

- 1 <u>entitled to a benefit that is based on the account values</u>
- 2 attributable to both employer and teacher contributions and any
- 3 <u>investment return thereon.</u>
- 4 If a teacher who is not vested in employer contributions
- 5 terminates employment, the teacher shall be entitled to a
- 6 <u>benefit based solely on the account values attributable to the</u>
- 7 teacher's contributions and any investment return thereon, and
- 8 the employer contributions and any investment return thereon
- 9 shall be forfeited. Any employer contributions that are
- 10 forfeited shall be held in escrow by the company investing
- 11 those contributions and shall be used as directed by the System
- 12 for future allocations of employer contributions or for the
- 13 restoration of amounts previously forfeited by former
- 14 participants who again become participating teachers.
- 15 (40 ILCS 5/16-203)
- Sec. 16-203. Application and expiration of new benefit
- increases.
- 18 (a) As used in this Section, "new benefit increase" means
- 19 an increase in the amount of any benefit provided under this
- 20 Article, or an expansion of the conditions of eligibility for
- 21 any benefit under this Article, that results from an amendment
- 22 to this Code that takes effect after June 1, 2005 (the
- 23 effective date of Public Act 94-4). "New benefit increase",
- 24 however, does not include any benefit increase resulting from
- 25 the changes made to this Article by Public Act 95-910, by

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- Public Act 98-599, or by this amendatory Act of the 99th 98th
  General Assembly.
  - (b) Notwithstanding any other provision of this Code or any subsequent amendment to this Code, every new benefit increase is subject to this Section and shall be deemed to be granted only in conformance with and contingent upon compliance with the provisions of this Section.
  - (c) The Public Act enacting a new benefit increase must identify and provide for payment to the System of additional funding at least sufficient to fund the resulting annual increase in cost to the System as it accrues.

Every new benefit increase is contingent upon the General Assembly providing the additional funding required under this subsection. The Commission on Government Forecasting and Accountability shall analyze whether adequate additional funding has been provided for the new benefit increase and shall report its analysis to the Public Pension Division of the Department of Insurance. A new benefit increase created by a Public Act that does not include the additional funding required under this subsection is null and void. If the Public Division determines that the additional funding Pension provided for a new benefit increase under this subsection is or has become inadequate, it may so certify to the Governor and the State Comptroller and, in the absence of corrective action by the General Assembly, the new benefit increase shall expire at the end of the fiscal year in which the certification is

- 1 made.
- 2 (d) Every new benefit increase shall expire 5 years after
- 3 its effective date or on such earlier date as may be specified
- 4 in the language enacting the new benefit increase or provided
- 5 under subsection (c). This does not prevent the General
- 6 Assembly from extending or re-creating a new benefit increase
- 7 by law.
- 8 (e) Except as otherwise provided in the language creating
- 9 the new benefit increase, a new benefit increase that expires
- 10 under this Section continues to apply to persons who applied
- and qualified for the affected benefit while the new benefit
- 12 increase was in effect and to the affected beneficiaries and
- alternate payees of such persons, but does not apply to any
- 14 other person, including without limitation a person who
- 15 continues in service after the expiration date and did not
- 16 apply and qualify for the affected benefit while the new
- 17 benefit increase was in effect.
- 18 (Source: P.A. 98-599, eff. 6-1-14.)
- 19 (40 ILCS 5/20-121) (from Ch. 108 1/2, par. 20-121)
- Sec. 20-121. Calculation of proportional retirement
- 21 annuities.
- 22 (a) Upon retirement of the employee, a proportional
- 23 retirement annuity shall be computed by each participating
- 24 system in which pension credit has been established on the
- 25 basis of pension credits under each system. The computation

shall be in accordance with the formula or method prescribed by each participating system which is in effect at the date of the employee's latest withdrawal from service covered by any of the systems in which he has pension credits which he elects to have considered under this Article. However, the amount of any retirement annuity payable under the self-managed plan established under Section 15-158.2 or 16-153.7 of this Code or under the defined contribution plan established under Article 2, 14, 15, or 16 of this Code depends solely on the value of the participant's vested account balances and is not subject to any proportional adjustment under this Section.

- (a-5) For persons who participate in a defined contribution plan established under Article 2, 14, 15, or 16 of this Code to whom the provisions of this Article apply, the pension credits established under the defined contribution plan may be considered in determining eligibility for or the amount of the defined benefit retirement annuity that is payable by any other participating system.
- (b) Combined pension credit under all retirement systems subject to this Article shall be considered in determining whether the minimum qualification has been met and the formula or method of computation which shall be applied, except as may be otherwise provided with respect to vesting in State or employer contributions in a defined contribution plan. If a system has a step-rate formula for calculation of the retirement annuity, pension credits covering previous service

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- which have been established under another system shall be considered in determining which range or ranges of the step-rate formula are to be applicable to the employee.
  - (c) Interest on pension credit shall continue to accumulate in accordance with the provisions of the law governing the retirement system in which the same has been established during the time an employee is in the service of another employer, on the assumption such employee, for interest purposes for pension credit, is continuing in the service covered by such retirement system.
- 11 (Source: P.A. 98-599, eff. 6-1-14.)
- 12 (40 ILCS 5/20-123) (from Ch. 108 1/2, par. 20-123)
- Sec. 20-123. Survivor's annuity. The provisions governing 1.3 14 a retirement annuity shall be applicable to a survivor's 15 annuity. Appropriate credits shall be established 16 survivor's annuity purposes in those participating systems which provide survivor's annuities, according to the same 17 conditions and subject to the same limitations and restrictions 18 19 herein prescribed for a retirement annuity. If a participating 20 system has no survivor's annuity benefit, or if the survivor's 21 annuity benefit under that system is waived, pension credit 22 established in that system shall not be considered in determining eligibility for or the amount of the survivor's 23 24 annuity which may be payable by any other participating system.
- 25 For persons who participate in the self-managed plan

established under Section 15-158.2 or the portable benefit package established under Section 15-136.4, pension credit established under Article 15 may be considered in determining eligibility for or the amount of the survivor's annuity that is payable by any other participating system, but pension credit established in any other system shall not result in any right to a survivor's annuity under the Article 15 system.

For persons who participate in the self-managed plan established under Section 16-153.7, pension credit established under Article 16 may be considered in determining eliqibility for or the amount of the survivor's annuity that is payable by any other participating system, but pension credit established in any other system shall not result in any right to a survivor's annuity under the Article 16 system.

For persons who participate in a defined contribution plan established under Article 2, 14, 15, or 16 of this Code to whom the provisions of this Article apply, the pension credits established under the defined contribution plan may be considered in determining eligibility for or the amount of the defined benefit survivor's annuity that is payable by any other participating system, but pension credits established in any other system shall not result in any right to or increase in the value of a survivor's annuity under the defined contribution plan, which depends solely on the options chosen and the value of the participant's vested account balances and is not subject to any proportional adjustment under this

1 Section.

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- 2 (Source: P.A. 98-599, eff. 6-1-14.)
- 3 (40 ILCS 5/20-124) (from Ch. 108 1/2, par. 20-124)
- 4 Sec. 20-124. Maximum benefits.
  - (a) In no event shall the combined retirement or survivors annuities exceed the highest annuity which would have been payable by any participating system in which the employee has pension credits, if all of his pension credits had been validated in that system.
  - If the combined annuities should exceed the highest maximum as determined in accordance with this Section, the respective annuities shall be reduced proportionately according to the ratio which the amount of each proportional annuity bears to the aggregate of all such annuities.
    - (b) In the case of a participant in the self-managed plan established under Section 15-158.2 of this Code to whom the provisions of this Article apply:
      - (i) For purposes of calculating the combined retirement annuity and the proportionate reduction, if any, in a retirement annuity other than one payable under the self-managed plan, the amount of the Article 15 retirement annuity shall be deemed to be the highest annuity to which the annuitant would have been entitled if he or she had participated in the traditional benefit package as defined in Section 15-103.1 rather than the

self-managed plan.

- (ii) For purposes of calculating the combined survivor's annuity and the proportionate reduction, if any, in a survivor's annuity other than one payable under the self-managed plan, the amount of the Article 15 survivor's annuity shall be deemed to be the highest survivor's annuity to which the survivor would have been entitled if the deceased employee had participated in the traditional benefit package as defined in Section 15-103.1 rather than the self-managed plan.
- (iii) Benefits payable under the self-managed plan are not subject to proportionate reduction under this Section.
- (c) In the case of a participant in a defined contribution plan established under Article 2, 14, 15, or 16 of this Code to whom the provisions of this Article apply:
  - (i) For purposes of calculating the combined retirement annuity and the proportionate reduction, if any, in a defined benefit retirement annuity, any benefit payable under the defined contribution plan shall not be considered.
  - (ii) For purposes of calculating the combined survivor's annuity and the proportionate reduction, if any, in a defined benefit survivor's annuity, any benefit payable under the defined contribution plan shall not be considered.
    - (iii) Benefits payable under a defined contribution

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- (d) In the case of a participant in the self-managed plan established under Section 16-153.7 of this Code to whom the provisions of this Article apply:
  - (i) For purposes of calculating the combined retirement annuity and the proportionate reduction, if any, in a retirement annuity other than one payable under a self-managed plan, the amount of the Article 16 retirement annuity shall be deemed to be the highest annuity to which the annuitant would have been entitled if he or she had participated in the traditional benefit package instead of in the self-managed plan.
  - (ii) For purposes of calculating the combined survivor's annuity and the proportionate reduction, if any, in a survivor's annuity other than one payable under a self-managed plan, the amount of the Article 16 survivor's annuity shall be deemed to be the highest survivor's annuity to which the survivor would have been entitled if the deceased person had participated in the traditional benefit package instead of in the self-managed plan.
  - (iii) Benefits payable under the self-managed plan are not subject to proportionate reduction under this Section.
- (Source: P.A. 98-599, eff. 6-1-14.)

- 1 (40 ILCS 5/20-125) (from Ch. 108 1/2, par. 20-125)
- 2 Sec. 20-125. Return to employment suspension of benefits.
- 3 If a retired employee returns to employment which is covered by
- 4 a system from which he is receiving a proportional annuity
- 5 under this Article, his proportional annuity from all
- 6 participating systems shall be suspended during the period of
- 7 re-employment, except that this suspension does not apply to
- 8 any distributions payable under the self-managed plan
- 9 established under Section 15-158.2 or 16-153.7 or under a
- defined contribution plan established under Article 2, 14, 15,
- 11 or 16 of this Code.
- The provisions of the Article under which such employment
- would be covered shall govern the determination of whether the
- 14 employee has returned to employment, and if applicable the
- 15 exemption of temporary employment or employment not exceeding a
- specified duration or frequency, for all participating systems
- 17 from which the retired employee is receiving a proportional
- 18 annuity under this Article, notwithstanding any contrary
- 19 provisions in the other Articles governing such systems.
- 20 (Source: P.A. 98-599, eff. 6-1-14.)
- 21 Section 99. Effective date. This Act takes effect upon
- 22 becoming law.