

# The Nuts and Bolts of Illinois Pension Systems

Understand the basics of TRS & IMRF  
plus, Additional Savings Options

This presentation is to be informative and not to promote specific products, services companies, etc. Illinois ASBO Member Programs are permitted to promote products and services in accordance with the Service Associate Ethics Policy and Code of Conduct.



December 1, 2023 | **NIU NAPERVILLE**



# Introductions

Jennifer Akin, Speaker

Business & HR Systems Supervisor, Hawthorn CCSD 73



Albert Lerman, RICP<sup>®</sup> ChFC<sup>®</sup>  
Horace Mann Companies



December 1, 2023 | **NIU NAPERVILLE**



# Pension Systems

- Licensed Staff are members of TRS
- Support Staff are members of IMRF



# Membership Tiers

Tier	Eligibility requirement	Vesting requirement
Tier 1	First contribution reported on or BEFORE December 31, 2010.	8 years of service
Tier 2	First contribution reported on or AFTER January 1, 2011.	10 years of service



# How Does my Tier Impact my Pension?

Tier determines:

- Member eligibility for benefits
- Formula used in the calculation of benefits
- Death benefit coverage
- Service credit



# How Much Do Members and Employers Contribute?

System	Member Rate	Description	Employer Rate
Teachers Retirement System (TRS)	9%	7.5% retirement annuity 0.50% annual increases 1.5% death and survivor benefits	.58%
Teachers Health Insurance Security (THIS)	.90%	.90% retirement health insurance *TRIP insurance for retirees before Medicare eligible **TRAIL insurance for retirees eligible for Medicare benefits	.67%
Illinois Municipal Retirement System	4.5%	3.75 retirement annuity 0.75% surviving spouse benefits	average 10% * <a href="#">employer rate</a> varies for each district



December 1, 2023 | **NIU NAPERVILLE**



# Reciprocity

What is system reciprocity?

Many of the Illinois Retirement Systems recognize other systems

Why is this important?

- Your tier in a reciprocal system applies to all
- You will have the option to combine service credit at retirement



December 1, 2023 | **NIU NAPERVILLE**





# Which Systems are Reciprocal?

Teachers Retirement System	State Employees' Retirement System of Illinois	Judges' & General Assembly Retirement
Illinois Municipal Retirement System	Laborers' Annuity and Benefit Fund of Chicago	Municipal Employees' Annuity and Benefit Fund of Chicago
Park Employees' Annuity & Benefit Fund of Chicago	Cook Employees' Annuity & Benefit Fund of Cook County	Metropolitan Water Reclamation District Retirement Fund
Forest Preserve District Employees' Annuity & Benefit Fund Cook County	Chicago Teachers Pension Fund	State Universities Retirement System





# Why Reciprocity Matters...

## Real Life Examples:

Suzie was a teacher's aide from 2007 to 2012 and a member of IMRF Tier 1.

In 2012, Suzie became a classroom teacher.

Suzie would be enrolled as tier 1 with TRS because these pensions systems are reciprocal.

Tony worked as a full-time groundskeeper for 2 years (2008 and 2009) at District AA before trade school.

In 2012, Tony is hired as a full-time HVAC specialist at District BB and is enrolled in IMRF as Tier 2

Tony attends an IMRF member benefit event and learns about the tiers and wonders if he is eligible for Tier 1.

IMRF does an audit of District AA and discovers that Tony worked more than 600 hours in 2008 and 2009.

Tony's membership changes from Tier 2 to Tier 1 immediately.



# Wage Caps

Contributions are limited by the Wage Cap Amount for the membership Tier.

Pension benefits are limited by the Wage Cap Amount for the membership Tier.

Bottom line: Tier 2 members will receive less pension benefits based on wage cap at time of retirement.



# Historical Wage Caps

Pension System	Tier	Wage Cap 2021-2022	Wage Cap 2022-2023	Wage Cap 2023-2024
TRS	Tier 1	\$290,000.00	\$305,000.00	\$330,000.00
	Tier 2	\$116,740.42	\$119,892.41	\$123,489.18
IMRF	Tier 1	none	none	none
	Tier 2	\$116,740.42	\$119,892.41	\$123,489.18



# Service Credit

- Key component for vesting and retirement benefits
- Granted based on time worked
- TRS and IMRF grant service credit differently



# TRS Service Credit

- Measured in days
- 170 days = one year of service credit
- Unpaid days do **NOT** count towards service credit
- Optional service credit (buy-back) option for leave of absence



**Teachers' Retirement System  
of the State of Illinois**

December 1, 2023 | **NIU NAPERVILLE**

support**Con**



# IMRF Service Credit

- Measured in months
- 1-20 days = one month of service credit
- Work one day in June, receive credit for one month
- Seasonal work (aides, hall monitors, bus drivers) for one full school year will earn the equivalent to a full year of service credit.



## Illinois Municipal Retirement Fund

December 1, 2023 | **NIU NAPERVILLE**



# Supplemental Savings Options

Will my retirement pension benefits be enough to meet my personal needs?

What other savings options are available?



December 1, 2023 | **NIU NAPERVILLE**





# TRS Supplemental Savings Plan



- Defined contribution plan (optional)
- 457 account with Voya Financial
- PRE-tax payroll deduction
- IRS contribution limits vary each year



December 1, 2023 | **NIU NAPERVILLE**



# IMRF Voluntary Additional Contribution (VAC)

- Savings account structure
- Post-tax payroll deduction
- Contributions limited to 10% of IMRF reportable earnings
- 7.25% annual interest
- VAC may be paid in a lump-sum or annuity upon retirement



# VAC SALARY CONTRIBUTION COMPARISON

Both members started contributing to VAC at age 25 and earned \$30,500 with 2% raises each year before retiring at age 67.

Total Benefit

**\$104,209**

or

**\$765** monthly\*

Interest

**\$83,725**

His Contributions

**\$20,484**

\*Gross for life with increases according to your Tier



Total Benefit

**\$521,044**

or

**\$3,868** monthly\*

Interest

**\$418,625**

Her Contributions

**\$102,418**

\*Gross for life with increases according to your Tier



# 403b and 457b Options

## Retirement Savings



December 1, 2023 | **NIU NAPERVILLE**





# What is a 403b Plan?

- Established in 1958, a 403(b) plan is an employer-sponsored, tax-deferred retirement plan that may be offered to employees of public schools and tax-exempt organizations.
- 403(b) plans are also referred to as a tax-sheltered annuity (TSA) although since 1974 they no longer are restricted to an annuity form and participants can also invest in mutual funds.
- Beginning in 2006, 403(b) plans may also include designated Roth contributions, i.e., after-tax contributions, which will allow tax-free withdrawals if certain requirements are met.



# What is 457b Plan

- 457(b) plan, also known as deferred compensation plan, was created with the passage of the Revenue Act of 1978.
- Employer-sponsored, tax-deferred retirement plan that may be offered to employees of the State and Federal government and tax-exempt organizations.
- Employees defer compensation into it on a pre-tax or after-tax (Roth) basis.
- For the most part the plan operates similarly to a 403(b) plan, but there are some key differences.



# 403b Contribution Limits

## Generally, the lesser of

- 100% of includible compensation, or
- \$22,500 contribution amount for 2023 (this limit typically increases every year)

## Your district may allow

- An additional \$3000 if eligible for 15 years of service catch-up
- An additional \$7500 if eligible for age 50 or older catch-up
- Aggregate limits for multiple plans





# 457b Contribution Limits

## Generally, the lesser of

- 100% of includible compensation, or
- \$22,500 contribution amount for 2023 (this limit typically increases every year)

## Your district may allow

- An additional \$7500 if eligible for age 50 or older catch-up
- Special catch-up contributions allowing a participant in the last three years before normal retirement age to contribute the lesser of:
  - Twice the annual limit (\$45,000 in 2023)
  - The basic annual limit plus the amount of the basic limit not used in prior years (only allowed if not using age 50 or over catch-up contribution)



# Comparing 403b and 457

## Similarities

- Tax-deferred contributions (requires taxes to be paid upon distribution)
- Roth after-tax contributions an option (if allowed by plan)
- Loan provision (if allowed by plan)
- Rollovers at any age upon separation of service or retirement
- Catch-up contribution provision for age 50 and over (if allowed by plan)

## Differences

- 10% IRS penalty tax on distributions made prior to age 59½ applies to 403(b) but not 457(b)
- 403(b) plan – special 15 years of service catch-up contributions (up to a lifetime maximum of \$15,000) (if allowed by plan)
- 457 plan – special catch-up contributions the last three years before normal retirement age (if allowed by plan)



# When Can I Access My Money?

## Withdrawals from a 403(b) plan may not begin before

- Age 59½
- Loans (if allowed by plan)
- Disability or death of employee
- Financial hardships (if allowed by plan)
- 10% federal penalty tax for early withdrawal
- Taxes are payable when money is withdrawn, unless designated as Roth account

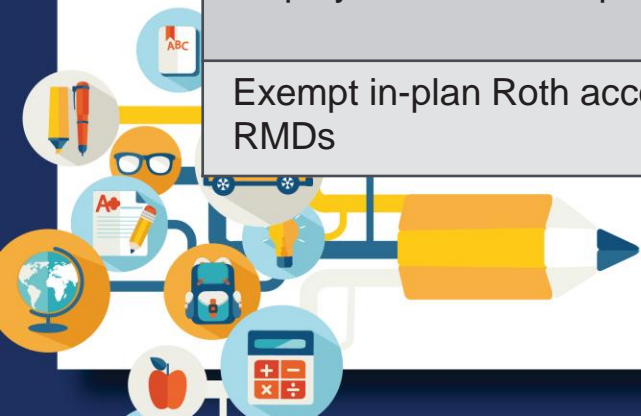
## Withdrawals from a 457(b) can begin

- Age 73
- If you retire or leave your job for any reason
- Loans (if allowed by the plan)
- In situations of unforeseeable emergency (if allowed by the plan)
- Income taxes are payable when money is withdrawn, unless designated as Roth account
- 10% federal penalty tax does not apply for withdrawals before age 59½



# Secure Act 2.0

PROVISION	REQUIRED OR OPTIONAL	EFFECTIVE DATE
Increase the starting age for Required Minimum Distributions (RMDs) from 72 to 73	Required for Plan Sponsor adoption	January 2023
Surviving spouse election to be treated as employee	Required for Plan Sponsor adoption	January 2024
Permit employer matching contributions on a Roth basis	Optional for Plan Sponsor adoption	January 2023
Catch-up contributions must be made on a Roth basis for high income earners	Although not technically required for Plan Sponsor adoption, plans without a Roth option should consider implementing a Roth provision to allow high-net-worth participants to utilize the catch-up contribution provision.  *If a plan does not allow for Roth contributions, the participant will be limited to standard deferral limits.	January 2024
Permit matching contributions on behalf of employees who are repaying student loans	Optional for Plan Sponsor adoption	January 2024
Exempt in-plan Roth accounts from lifetime RMDs	Required if the plan has a Roth provision	January 2024



# Secure Act 2.0 continues

PROVISION	REQUIRED OR OPTIONAL	EFFECTIVE DATE
Create in-plan emergency savings accounts	Optional for Plan Sponsor adoption	January 2024
Replace the Saver's Credit with the Saver's Match	Optional - Savers Credit will be phased out for Plan Sponsor adoption	Tax years beginning January 2027
Self-certification for hardship and unforeseeable emergency withdrawals	Optional for Plan Sponsor adoption	January 2023
Hardship withdrawals from earnings	Optional for Plan Sponsor adoption	January 2024
Require new plans to include auto enrollment and auto escalation	Not required for *Governmental plans, such as public school districts	Plan years beginning January 2025
Increase the catch-up amount for individuals aged 60, 61, 62 and 63	Optional for Plan Sponsor adoption	January 2025



# Does my Pension Impact Social Security and Medicare?



- All public-school staff wages are subject to Medicare contributions.
- All **TRS** members are not subject to Social Security contributions.





# Social Security Offsets

**TRS will never reduce your TRS benefit because of Social Security benefits.**

- However, the Social Security benefits of many eligible members will be reduced because of public employment not covered by Social Security. Only the SSA can provide this information.
- The Windfall Elimination Provision (WEP) may reduce your Social Security benefit based on your record. The Government Pension Offset (GPO) may reduce your Social Security benefit based on your spouse's record.
- You must report changes in your TRS benefits (such as your annual increases) to the SSA because such changes may affect the Social Security amount you receive.





# Does Work Injury Interfere with my Pension?

In general, Workers' Compensation payments are not reportable to either pension system as creditable earnings when staff member receives 66- $\frac{2}{3}$ % of salary directly from insurance carrier.

- Payroll is suspended until staff member returns to work.
- No service credit is earned while off work due to injury.



# Does my Pension Offer Disability Benefits?

Yes, both TRS and IMRF pension systems offer temporary disability benefits based on key factors.



December 1, 2023 | **NIU NAPERVILLE**



# TRS Temporary Disability Benefits

- Eligibility requirement, 3 years of service credit
- Condition must qualify
- Exhaust all paid time off (sick and personal days)
- Apply and submit all necessary documentation
- If approved, 40% of salary paid plus earn service credit



# IMRF Temporary Disability Benefits

- Eligibility, minimum of 12 consecutive months service credit
- Condition must qualify
- Exhaust all paid time off (sick, personal and vacation days)
- Payments begin after 30 unpaid days
- Apply and submit all necessary documentation
- If approved, 50% of salary paid plus earn service credit



# Death Benefits

Why does the pension system want beneficiary information?

When a member of the pension system passes away, beneficiary receives the death benefit.

- Keep your beneficiary information up to date
  - Life Events happen and we forget to update our beneficiary
- Inform the beneficiary of your wishes and provide pension contact info.

Death benefits are not insurance payments and therefore not subject to federal tax.



# Unused Sick Days

- What happens to my unused sick days when I retire?
- Pension system converts reported unused sick days into service credit.



# TRS Unused Sick Day Guidance

- 2 years of additional service credit allowed
- 170 days equal one year of service credit
- Maximum of 340 unused sick days may be reported
- Check contract language for District limits
- Additional service credit may impact pension





# IMRF Sick Day Guidance

- 1 year of additional service credit allowed
- 20 days equal one month of service credit
- Maximum of 240 unused sick days may be reported
- Check contract language for District limits
- Additional service credit may impact pension



# How will my Future Pension be Calculated

## Contributing Factors for Retirement Benefits

- Membership Tier
- Age
- Service Credit
- Final Average Salary (FAS)



# When Can I Retire with FULL Benefits?

Tier 1 members can retire with full benefits

- Age 55 with 35 years of service
- Age 60 with 10 or more years of service
- Age 62 with 5 years of service

Tier 2 members can retire with full benefits

- Age 67 with 10 years of service



# *Questions and Answers*

*We thank you for your time!*



December 1, 2023 | **NIU NAPERVILLE**



# Presenters:

## PANELISTS INFO:

Jennifer Akin, Business & HR Systems Supervisor  
Hawthorn Community Consolidated School District 73  
[akinj@hawthorn73.org](mailto:akinj@hawthorn73.org)

Albert Lerman, RICP<sup>®</sup> ChFC<sup>®</sup>  
Horace Mann Companies  
[Albert.lerman@horacemann.com](mailto:Albert.lerman@horacemann.com)



December 1, 2023 | **NIU NAPERVILLE**

