



EMPLOYER BULLETIN

Early Retirement Option Extended, Federal Contribution Rate Decreasing in 2014-15

September 2013

Public Act 98-0042 extends ERO through June 30, 2016

Under the extension of the Early Retirement Option (ERO) program, the member and employer ERO contributions increased. For employers, the new ERO contribution is 29.3 percent of the member's salary for every year the member is under age 60. For members, the new ERO contribution is 14.4 percent of salary for every year the member is under age 60 or for every year the member's creditable service is less than 35 years, whichever is less.

Employers are no longer required to permit at least 10 percent of ERO eligible employees to exercise ERO. Eligibility for a member to retire under ERO requires the approval of the member's last employer(s). Approval is granted based on eligibility criteria adopted by the employer and the union representing a majority of the members in the district.

If a member has more than one employer during his/her final year, all of the member's employers must approve the member's use of ERO and certify his/her eligibility for the program. If all employers from the final year do not approve and certify the member's eligibility for ERO, then the member cannot retire under ERO.

For example, if a member is employed as a full-time teacher by District "A" and as a coach for District "B," both districts must certify and approve the member's ERO eligibility for the member to be able to retire under ERO.

The TRS Retirement Application form that members complete will include a section that the employer(s) must sign and indicate if they have approved or denied the member's ERO election. For the member to be eligible to retire under ERO all of his/her employers in the final year must approve his/her eligibility for ERO on the Retirement Application. For additional information on ERO, please refer to Chapter 11 of the TRS *Employer Guide*.

Contributions due on salaries paid from federal funds

The Teachers' Retirement System Board of Trustees voted on August 15, 2013 to lower the future employer retirement contribution rate that school districts must pay for all TRS-covered employees whose salaries are funded by the federal government.

The change will take effect in the 2014-15 school year. With the change, the employer contribution rate that TRS-covered employers must pay for federally-funded salaries will decrease from the fiscal year 2014 rate of 35.41 percent to approximately 7 percent of salary.

Under state law, TRS has the authority to set the contribution rate and in the past has tied the federal rate to the contribution rate paid by state government. However, since 2004, the state rate has increased considerably because of the growing unfunded liability carried by TRS. Currently, about 80 percent of the state's contribution rate is dedicated to paying off the unfunded liability and only 20 percent is dedicated to paying for the current year's pension costs.

The decision by TRS will untie the federal contribution rate from the state rate and restrict the federal rate to cover only a share of the current year's pension cost. The annual cost of retiring the unfunded liability will be born entirely by state government.

TRS will notify all employers of the finalized rate prior to the 2014-15 school year.

Please forward a copy of this bulletin to the individual(s) responsible for grant applications.

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