

Fact Sheet

Tier II Pensions

Issue & Background

Tier II pension benefits were established in 2010 through Public Act 96-0889 (Senate Bill 1946), signed on April 14, 2010. This legislation created a separate, lower tier of retirement benefits for most public employees who first participated in an Illinois public pension system on or after January 1, 2011 designed to reduce long-term pension liabilities for state and local governments.

Concerns

- 1) Federal Safe Harbor – this refers to IRS requirements ensuring public pension plans like TRS provide benefits at least equal to Social Security. If Tier II benefits fall below these standards and fail to meet the Safe Harbor tests, the employees' wages would be subject to Social Security withholding (i.e. 6.2% of the employee's salary (up to the SSWB) and the employer must also pay 6.2% of the employee's salary.
- 2) Teacher Vacancies – there have also been concerns raised that these lower retirement benefits are contributing to the teacher shortage and that teachers are leaving the profession rather than working to age 67.

Feature	Tier I Benefits (before 1/1/2011)	Tier II Benefits (after 1/1/2011)	Tier II Pension Reform (SB1937)
Full Retirement Age	Age 55 with 35 years of service or age 60 with 10 years of service	Age 67 with 10 years of service to receive full benefits	Age 65 with 10 years of service or Age 62 with the maximum years of service
Final Average Salary	Highest 4 years in the last 10	Highest 8 years in the last 10	Highest 6 years of the last 10
Cost of Living Adjustment (COLA)	Annual increase of 3% compounded	Annual increase lesser of 3% or ½ CPI, non-compounding	3% simple interest
Salary Cap (Safe Harbor Provision)	None (only IRS limits apply)	\$129,192 in 2026 (in 2026, the social security wage base is \$184,500)	Raises Salary Cap to Social Security Wage Base

IASB Ask:

Address the Tier II Federal Safe Harbor Issue to ensure Illinois pension systems are in compliance.