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New Penalty on Illinois Employers Contributing to IMRF

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On May 31, the Illinois legislature passed a bill that would impose a penalty on employers that contribute to the Illinois Municipal Retirement Fund (IMRF) for certain end-of-career salary increases for IMRF-covered employees. Specifically, this new rule imposes a penalty on employers for any salary increases in excess of 6% (or 1.5 times CPI, if higher) in any of the four one-year periods used to calculate an employee's final rate of earnings (typically, the employee's final four years of service). The new penalty provision was included in Senate Bill 1831, which would add a new subsection to the Illinois Pension Code (40 ILCS 5/7-172(k)). If the bill is signed by Governor Quinn and becomes law, the penalty provision will be effective on January 1, 2012.

The penalty is equal to the present value of the amount that the employee's IMRF pension will increase as a result of the salary increase over 6%, computed on an actuarial basis. The penalty must be paid to the IMRF within three years of the assessment.

There are important exceptions to the new penalty provision. First, there is a grandfathering rule providing that salary increases under contracts or collective bargaining agreements entered into prior to January 1, 2012 will not give rise to any penalty. The provision also provides an exception for earnings increases paid to IMRF-covered employees who are 10 or more years from retirement eligibility. Further, salary increases resulting from "standard employment promotions resulting in increased responsibility and workload" are exempt from penalties. Finally, earnings increases that result from an increase in overtime hours or the number of work hours in general will not give rise to a penalty.

This new penalty is substantially similar to a penalty provision under the Illinois Teachers' Retirement System (TRS) that was put in place in 2005. As with the TRS penalty, we expect that the IMRF penalty will have a significant impact on IMRF employers, in particular municipal and educational employers who provide collectively bargained or other contractual retirement incentives to IMRF employees.

Assuming that the bill is signed by Governor Quinn, we anticipate that IMRF will promulgate rules or other guidance that clarify when the exemptions apply, and other aspects of the penalty rule. We will provide further alerts if such guidance is released.

More Information

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