



Tier I Automatic Annual Increase (AAI) Buyout

The Fiscal Year 2019 budget implementation law (Public Act 100-587), signed June 4, 2018, amended the Illinois Pension Code and created provisions for a Tier I AAI Buyout. The Tier I AAI Buyout, which will be available to retiring SURS members from July 1, 2019, through June 30, 2024, provides a Tier I member with an optional lump-sum buyout payment at retirement in exchange for a permanently reduced and delayed AAI. The final election to retire with the Tier I AAI Buyout and waive the 3 percent compounded AAI is irrevocable.

Lump-Sum Buyout Payment in Exchange for Reduced and Delayed AAI

The lump-sum buyout payment is equal to 70 percent of the difference between the present value of a 3 percent compounded AAI beginning the Jan. 1 after retirement and the present value of a 1.5 percent non-compounded and delayed AAI. The delayed AAI begins the Jan. 1 following the first anniversary of the retirement date, or the Jan. 1 following age 67, whichever is later. The reduced and delayed AAI will also apply to survivor benefits that may be payable upon the member’s death.

Eligibility Requirements

To be eligible for a Tier I AAI Buyout, a member:

- Must be a Tier I member (originally certified in SURS or a reciprocal system prior to Jan. 1, 2011)
- Must terminate service
- Must meet minimum age and service credit requirements for vesting status and apply for retirement
 - Age 55 with eight years of service credit
 - Age 62 with five years of service credit
 - 30 years of service credit at any age
 - 25 years of police/fire service at age 50 or 20 years of police/fire service at age 55
- Must not have elected to receive the Vested Inactive Buyout (the other buyout created by Public Act 100-587)
- Must not have received a SURS retirement benefit
- Must not be enrolled in the SURS Retirement Savings Plan

Calculation and Payment

SURS will calculate the lump-sum buyout payment using actuarial factors. Payments will be made by SURS and will be funded through the sale of state of Illinois bonds issued for this purpose. Calculations and resulting payments will take several months. Buyout payments must be rolled over to an eligible retirement plan and will be taxable at the time of distribution from the rollover institution. Tier I AAI Buyout payments will be made until the bond proceeds are exhausted. If that occurs, the Tier I AAI Buyout will end prior to the deadline date of June 30, 2024.

It is important to understand the value of a 3 percent compounded AAI. The table below provides an example of how automatic annual increases will affect a monthly retirement annuity of \$2,800 at 10 years and 20 years post-retirement. As illustrated below, you will receive a significantly higher monthly annuity over time if you do not elect a Tier I AAI Buyout.

	Monthly Annuity at age 57 May 1, 2021	Monthly Annuity 10 Years Post-retirement	Monthly Annuity 20 Years Post-retirement
Without Tier I AAI Buyout (3% compounded AAI)	\$2,800	\$3,760	\$5,050
With Tier I AAI Buyout (1.5% non-compounded and delayed AAI)	\$2,800	\$2,800	\$3,220

For more information, please refer to the frequently asked questions on the next page.

Frequently Asked Questions

When can I apply for the Tier I AAI Buyout?

The Tier I AAI Buyout is available to retiring members from July 1, 2019, and June 30, 2024. Your selected retirement date must be on or after the date that SURS receives your retirement application.

If I elect to retire with the Tier I AAI Buyout will I still get my monthly annuity?

Yes, if you elect the Tier I AAI Buyout you will still receive your monthly annuity. The calculation of the base monthly annuity is not affected by the buyout. However, you will receive a reduced and delayed AAI for the rest of your life (and your survivor's life, if applicable).

Can I retire under the Reciprocal Act and get a Tier I AAI Buyout?

Yes, if you have service with another Illinois retirement system and plan to retire under the Reciprocal Act, the joint calculation of the retirement annuity is not affected by the election to take a Tier I AAI Buyout. You can elect to retire reciprocally and take a Tier I AAI Buyout from one or more systems. Any buyout payable will be based on each system's portion of the reciprocal retirement benefit.

How can I find out what my Tier I AAI Buyout amount would be?

SURS is in the process of updating the online benefit estimator so it can provide estimated buyout amounts. The estimator will be available by June 1, 2019. SURS counselors will also provide this information during counseling appointments. You can access the online benefit estimator or request a counseling appointment by logging in to the secure member website at www.surs.org.

Is the Tier I AAI Buyout payment taxable?

You are required to do a direct rollover of your AAI buyout payment into an eligible retirement plan (such as a 401(a), 401(k), 403(b), 457 or IRA) to the extent allowed by federal law. The amounts rolled over will not be taxable until you take a distribution from the plan that received the funds. However, if you roll your funds into a Roth IRA, those funds become taxable at the time of the rollover.

Can I backdate my retirement claim and elect a Tier I AAI Buyout?

No. The date of retirement must be on or after the date SURS receives the Application for a Tier I AAI Buyout.

What is the application process?

Applying for the Tier I AAI Buyout is a two-step process:

Step 1) Application Process: The Application for a Tier I AAI Buyout will be an optional form included in the Application for Retirement Annuity. To apply for the buyout, both forms must be submitted to SURS. SURS will begin paying a Preliminary Estimated Payment (PEP). The PEP is a monthly benefit of approximately 80-90 percent of the finalized monthly benefit. While PEPs are being paid to you, SURS will work to finalize the monthly benefit payment and the Tier I AAI Buyout amount. After finalizing these calculations, which can take several months, SURS will provide you a final offer letter that notifies you of these final payment amounts.

Step 2) Offer and Election Process: Once you receive the final offer letter, you will need to make your final irrevocable election to retire without the buyout and retain the 3 percent compounded AAI or retire with the buyout, electing a reduced and delayed AAI and a lump-sum buyout payment.

Once I receive the final offer how much time do I have to return the election form?

- You have 120 days from the date on the offer letter to make a final election. If you do not make a final election to receive the Tier I AAI Buyout within 120 days, your retirement annuity will be finalized without the Tier I AAI Buyout and you will retain your right to the 3 percent compounded AAI.
- The Tier I AAI Buyout final election is irrevocable upon SURS' receipt of the final election form.

When can I expect the buyout payment?

Tier I AAI Buyout payments are not made until after SURS receives irrevocable confirmation of your election. This may be 6 months or more after the date of retirement. Given this time frame and the fact that these payments must be rolled over, the Tier I AAI Buyout should not be considered a short-term solution in times of financial hardship. The buyout payments are also contingent upon the availability of funds from the state of Illinois.

What if I accept a Tier I AAI Buyout at retirement and then return to work?

- Tier I return to work rules apply. Refer to the Employment After Retirement Fact Sheet at www.surs.org.
- If you return to work with a SURS-covered employer prior to SURS' receipt of your buyout election form, you will lose your eligibility for the Tier I AAI Buyout.
- If you return to SURS-covered employment within 60 calendar days of the date of retirement you must return the full buyout amount to SURS.
- If you are reemployed by a SURS-covered employer and choose to suspend your retirement annuity, your subsequent retirement annuity which includes your post-retirement service will also be subject to the reduced and delayed AAI.

What if I have a Qualified Illinois Domestic Relations Order (QILDRO)?

If you are subject to a QILDRO and you are interested in taking the Tier I AAI Buyout, your buyout election form must be returned with the QILDRO Calculation Court Order (if required due to division of benefits based on percentage) and a stipulated court order specifying that you are allowed to elect the buyout and further specifying how the Tier I AAI Buyout payment is to be shared between you and the alternate payee(s) on your account.

Disclaimer and Assumptions

"Future value" is an estimated total of future lifetime pension benefits based on your monthly benefit at retirement. For the purpose of these calculations, "future value" includes annual increases and applicable survivor benefits. To determine present value, the stream of future payments is discounted by a specified rate of return (the discount rate.) The discount rate used to calculate the buyout payment is SURS' prescribed rate of interest which is currently set at 6.75 percent.

All actuarial tables used to calculate the buyout amount are based on the most recent actuarial assumptions adopted by the SURS Board of Trustees. Life expectancies are based on the mortality assumptions used in SURS' 2018 Actuarial Valuation, which indicates an average life expectancy ranging between 86 and 90 years of age.

The buyout payment amount provided in estimates and on final offer letters represents the calculated buyout amount only. It does not include any potential investment returns that may be earned outside of SURS after the payment has been made.

All aspects of administration of the State Universities Retirement System (SURS), including but not limited to benefit calculation and payment, must comply with state and federal law. No employee of SURS has the authority to bind the System to take action contrary to law, even in the event of misstatement of fact or law. Furthermore, the information contained herein states SURS' current understanding of the law which could change over time due to court opinions, statutory changes, or other legal matters or interpretations (e.g., attorney general opinions). SURS is required under law to correct any mistake in benefit amount, even after payments have begun. This document was created for general information only. Any information provided by SURS does not represent personal tax or legal advice, either express or implied. You are encouraged to seek professional legal and/or tax advice for your personal income tax questions and for all other legal purposes.