



## *This program is optional. Your decision to participate is final and irrevocable.*

Please review the following information carefully. It will explain how the Accelerated Annual Increase (AAI) Program works. We urge you to consult with a certified financial advisor to help you make the best decision for you and your family. TRS cannot provide you with any advice about whether to elect the AAI Program.

### Overview

In June 2018, the AAI Program for retiring Tier 1 members was signed into Illinois law. The law requires TRS to offer retiring Tier 1 members a one-time accelerated pension benefit payment (AAI payment) equal to a portion of their future annual pension increases. In return for this AAI payment, a retiring Tier 1 member must waive the 3 percent compounded annual increase applied to his/her pension. Instead, the member will receive a 1.5 percent noncompounded annual increase beginning at a later date.

The program is optional. The program expires June 30, 2024 or earlier if designated funds for the program are not available.

### The AAI Program

#### AAI eligibility

- You must be a Tier 1 member. This means that you first contributed to TRS prior to Jan. 1, 2011 or had previous service credit

with TRS or a reciprocal pension system prior to 2011.

- You must submit an application for a retirement date effective Jan. 1, 2019 through June 30, 2024 and meet the age and service requirements to receive an annuity.
- You have never received a TRS retirement or disability retirement.
- If you have a QILDRO (Qualified Illinois Domestic Relations Order) on file with TRS as part of a divorce, you may have to receive permission to elect the AAI Program from the alternate payee.

#### Impact on retirement benefits

If you elect the AAI Program, you will receive a 1.5 percent noncompounded annual increase in your retirement benefit that will begin on the Jan. 1 after you turn age 67 or on the Jan. 1 after your first anniversary in retirement, whichever is later. Each 1.5 percent annual increase is calculated using the **original** retirement benefit.

For example, if your original annual retirement benefit is \$50,000, your AAI program increase will be \$750 (\$50,000 multiplied by 1.5 percent). Under the AAI program, your annual increase will be \$750 per year for the entirety of your retirement.

If you **do not elect** the AAI Program, you will receive a 3 percent compounded annual

increase that will begin on the Jan. 1 after you turn age 61 or the Jan. 1 after your first anniversary in retirement, whichever is later. Each 3 percent annual increase is calculated using the current retirement benefit, which includes prior increases.

#### Impact on death benefits

Beneficiaries of members who elect the AAI Program and are eligible for monthly survivor benefits or monthly reversionary benefits will receive 1.5 percent noncompounded annual increases beginning the Jan. 1 occurring on or after the first anniversary of the applicable annuity. Each 1.5 percent annual increase is calculated using the original survivor or reversionary benefit.

Beneficiaries of members who do not elect the AAI Program and are eligible for monthly survivor benefits or monthly reversionary benefits will receive 3 percent compounded annual increases beginning the Jan. 1 after the applicable annuity begins. Each 3 percent annual increase is calculated using the current survivor or reversionary benefit, which includes prior increases.

The AAI Program does not affect lump-sum survivor benefits.

The AAI Program reduces any beneficiary refunds payable upon death by the amount of the AAI payment.

### Return to active service after retirement

If you elect the AAI Program and subsequently return to active TRS service, you will continue to be subject to all provisions of the AAI Program. You may not repay the AAI payment to TRS to void your AAI election.

### The AAI payment

You have the option to take the AAI payment in cash or roll it over into an eligible retirement plan. If you take the AAI payment in cash, it will be subject to a mandatory 20 percent federal tax withholding and if you are less than 55 years old, subject to additional early withdrawal penalties by the IRS.

A lump-sum payment under the AAI Program will equal 70 percent of the difference in the present value of what you would receive during your lifetime in retirement with a 3 percent compounded annual increase in your pension and what you would receive during your lifetime in retirement with a 1.5 percent noncompounded annual increase.

To determine your lump-sum payment, TRS will start with our calculation of your initial monthly pension payment. TRS then must apply actuarial assumptions about your future, including how long you may live in retirement. The calculation also assumes that the value of the assets available for your retirement will grow in the future at an interest rate of 7 percent (discount rate).

TRS has standardized these assumptions for members that will accept the AAI payment between January 1, 2019 and June 30, 2024 into a table of factors that differ based on age

and retirement date. The factor appropriate for you at your age and retirement date will be multiplied by your initial monthly pension payment. The result will be your AAI lump-sum payment.

- For example, if you retire on June 1, 2019 at age 60 and your initial monthly pension payment is \$3,000, your AAI payment would be \$101,937. (That is \$3,000 multiplied by the TRS AAI factor for age 60 of 33.979)
- If you retire on June 1, 2019 at age 55 and your initial monthly pension payment is \$6,000, your AAI payment would be \$228,564 (\$6,000 multiplied by 38.094)

### AAI Program estimate

TRS encourages all eligible Tier 1 members planning their retirement prior to June 30, 2024 to receive an updated TRS benefit estimate, which includes the estimated AAI payment. An updated TRS benefit estimate also includes an illustration of how the AAI Program will affect your future monthly retirement benefits. An updated benefit estimate may be obtained under the secure member area of the TRS website, <https://trsil.org> or call us for an estimate at 877-927-5877.

### Electing the AAI Program

Approximately six to 12 weeks prior to your retirement date, you will complete the Personalized Retirement Interview (PRI) online or by calling us. If you are eligible for the AAI Program, you will be required to answer whether you want more information.

If you select “No,” you will keep the 3 percent compounded annual increases and you will not be subject to the provisions of the AAI Program. You will not receive the AAI payment.

If you select “Yes,” you will receive an AAI Program Election form when your monthly retirement benefit is calculated (after final employer earnings and all required retirement information is accepted by TRS). The AAI Program Election form will include the amount of the AAI payment and an illustration comparing your projected monthly retirement benefit if you elect the AAI Program and your projected monthly retirement benefit if you do not elect the AAI Program.

You will be required to return the AAI Program Election form to TRS with your decision about the program.

**Payment of your monthly retirement benefit will not begin until the AAI Program Election form is received by TRS.** The election is irrevocable.

### Payment election

If you elect the AAI Program, you will be required to choose how you want the AAI payment paid, as a direct rollover to an eligible retirement plan or as a cash disbursement subject to 20 percent federal tax withholding, after your monthly retirement benefit is finalized.

Before you make your AAI decision, please know that the payment of all accelerated benefit payments under this program are contingent on the availability of funds.

**Funding for this program is the responsibility of the Governor’s Office of Management and Budget (GOMB), not TRS.**

### Unpaid debts

Payments from the AAI Program are subject to involuntary withholding as defined in the Illinois State Collection Act of 1986 (30 ILCS 210). The act covers unpaid debts that include delinquent child support, overpaid state unemployment benefits, delinquent state taxes, federal tax levies and delinquent student loans.

### Questions

If you have other questions regarding your election or the estimate of your accelerated pension benefit payment, please email [members@trsil.org](mailto:members@trsil.org) or call us at (877) 927-5877.

# TIER 1 ACCELERATED ANNUAL INCREASE (AAI) PROGRAM



**Teachers’ Retirement System of the State of Illinois**  
2815 W. Washington | P.O. Box 19253 | Springfield, IL 62794-9453  
[members@trsil.org](mailto:members@trsil.org) | <http://www.trsil.org>  
877-927-5877 (877-9-ASK-TRS) | FAX: (217) 753-0964

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