BEM

HOUSE REPUBLICAN STAFF ANALYSIS

BILL: SB 3538 **DATE:** 12/2/2010

EFFECTIVE DATE: January 1, 2011 **STATUS:** Floor

COMMITTEE VOTE: DPA 6-4-0

SENATE THIRD READING VOTE: 46-00-00

COMMENTS: *Floor Amendment #3 becomes the bill. It includes the language from Floor Amendment #2 with certain technical changes.*

Creates a 2-tier pension plan for Downstate Police and Fire, Chicago Police and Fire, and IMRF SLEP. ***The changes only impact employees that are newly hired after January 1, 2011.***

- *Retirement age changes to 55 with 10 years of service for an unreduced benefit, age 50 with 10 years for a benefit that is reduced by 6% for every year under age 55*
- *Maximum pension benefit is 75% of base salary(no overtime included), reached after 30 years of service*
- *The simple interest COLA is the lesser of 3% or ½ CPI, starting at age 60*
- *Employee contributions do not change*

Creates a mandatory funding mechanism for police and fire pension funds by directing the Comptroller to divert Local Government Distribution Funds to the pension fund if a municipality is delinquent in payment.

- *Starting in FY16 all municipalities, including Chicago, are subject to having a portion of their LGDF diverted to the municipal pension fund, if the pension fund is not properly funded*
- *The Comptroller cannot divert more money to the pension fund than what is owed by the municipality*
- ***Funding requirements change from being 100% funded in 2033 to 90% funded in 2040.***

Calls for COGFA to study topics relating to Downstate Police and Downstate Fire Pension Funds. They must report their findings by January 1, 2013.

Municipalities have no position on this bill. Labor, including the Chicago Police and Fire, AFFI, and FOP are opposed. The Metro Counties and the Taxpayer's Federation are in support.

The City of Chicago is opposed to the bill; they state that their property tax levy will increase $550 million in the next 5 years in order to pay for pension costs. The Chicago Police and Chicago Fire Pension Funds are currently around 35% funded.

EFFECT AS INTRODUCED

Amends the Chicago Firefighter Article of the Illinois Pension Code. Allows a fireman, prior to retirement on annuity, to elect to take a lesser amount of annuity and provide, with the actuarial value of the amount by which his or her annuity is reduced, a reversionary annuity for a spouse. Provides that a fireman exercising the option to provide a reversionary annuity may not reduce his or her annuity by more than $400 per month or elect to provide a reversionary annuity of less than $100 per month. Provides that a reversionary annuity shall begin on the day following the death of the annuitant and shall continue monthly thereafter until the death of the reversionary annuitant. Provides a method for calculating the amount of the reversionary annuity. Amends the State Mandates Act to require implementation without reimbursement.

COMMITTEE AMENDMENT #1 (McCarthy) DPA 6-4-0

Shell bill. Will be used as a vehicle for municipal pension reform.

FLOOR AMENDMENT #2 (McCarthy)

Becomes the bill. Amends the Downstate Police, Downstate Fire, Chicago Police, and Chicago Fire Articles of the Illinois Pension Code, as well as provisions in the IMRF Article regarding sheriff's law enforcement employees. Makes changes concerning eligibility for a pension, the method of calculating retirement pensions, the amount of survivor pensions, and the amount and timing of annual increases. Authorizes the Comptroller to deduct amounts owed by a municipality from specified percentages of grants of State funds to the municipality, if the municipality fails to transmit required contributions within a specified time. Changes the way that public safety tax levies are calculated. Specifies the means for calculating the value of fund assets. Authorizes the Commission on Government Forecasting and Accountability to conduct a study of the specified funds. Provides that a downstate police or downstate firefighter pension fund that has net assets of at least $10,000,000 and has appointed an investment adviser may, through that investment adviser, invest an additional portion of its assets in certain common and preferred stocks, mutual funds, and corporate bonds. Defines "consumer price index-u" and "final average salary". Effective January 1, 2011.

FLOOR AMENDMENT #3 (McCarthy) RBA 8-2-0

Replaces everything after the enacting clause. Amends the Illinois Pension Code. In the Downstate Police, Downstate Fire, Chicago Police, and Chicago Fire Articles of the Code, as well as provisions in the IMRF Article regarding sheriff's law enforcement employees, makes changes concerning eligibility for a pension, the method of calculating retirement pensions, the amount of survivor pensions, and the amount and timing of annual increases; authorizes the Comptroller to deduct amounts owed by a municipality from specified percentages of grants of State funds to the municipality, if the municipality fails to transmit required contributions within a specified time; changes the way that public safety tax levies are calculated; and specifies the means for calculating the value of fund assets. In the General Provisions Article of the Code, provides that a downstate police or downstate firefighter pension fund that has net assets of at least $10,000,000 and has appointed an investment adviser may, through that investment adviser, invest an additional portion of its assets in certain common and preferred stocks and mutual funds; authorizes Downstate Police and Downstate Fire pension funds to invest in corporate bonds that meet certain requirements; and requires COGFA to conduct a study on the feasibility of creating an investment pool and enacting a contribution cost-share component. Effective January 1, 2011.

DETAIL

Starting January 1, 2011, new employees in Downstate Police and Fire Funds, Chicago Police and Fire Funds, and IMRF SLEP will have the following benefits;

Downstate Police & Fire, Chicago Police & Fire, IMRF SLEP

Retirement Age	Benefit Formula	COLA	Final Average Salary	Maximum Pensionable Salary	Survivor Benefit
55 with 10 years (unreduced) 50 with 10 years (reduced 6% for every year under 55)	2.5% of salary per year, with a maximum benefit of 75% at 30 years, base salary only	Simple interest, lesser of 1/2 CPI or 3% starts at age 60	Highest consecutive 8 years in the last 10 years of service	$106,800 with an annual growth of 1/2 of CPI	66.7% with a COLA of the lesser of 3% or 1/2 CPI at age 60

Public Safety Pensions Funding Changes

- Starting in FY16, if a municipality, including Chicago, fails to meet its funding obligation to a pension fund, the Comptroller is mandated to redirect payment from the Local Government Distribution Fund (LGDF) in the pension fund.

- In FY16, if a municipality fails to make the certified contribution to a police or fire pension fund, the Comptroller shall redirect 1/3 of the total LGDF funds directed for that municipality into the pension fund for that year’s contribution.

- In FY17, if a municipality fails to make the certified contribution to a police or fire pension fund, the Comptroller shall redirect 2/3 of the total LGDF funds directed for that municipality into the pension fund for that year’s contribution.

- In FY18 and all years following, if a municipality fails to make the certified contribution to a police or fire pension fund, the Comptroller shall redirect the total LGDF funds directed for that municipality into the pension fund for that year’s contribution.

- The Comptroller shall not direct any money towards the pension fund that exceeds the total amount of delinquent funding for the year. For example if a municipality owes $5,000 to the police pension fund, the Comptroller can only send $5,000 to the fund.

- Currently police and fire funds are to be 100% funded by 2033. In order to remove pressure from the municipalities this bill moves that to 90% by 2040.

- Asset smoothing for all funds will begin in FY12. It is a 5 year smoothing plan that would spread out huge gains and losses by the fund so that the municipalities payment will remain more constant.

- A downstate police or downstate firefighter pension fund that has net assets of at least $10,000,000 and has appointed an investment adviser may, through that investment adviser, invest an additional portion of its assets in certain common and preferred stocks, mutual funds, and corporate bonds.

- Starting in 2015 the City of Chicago must levy a property tax that will meet the new actuarial requirements of the fund. Currently Chicago only levies a percentage of payroll that is not based on actuarially reports.

COGFA Study

- COGFA shall study the following topics relating to Downstate Police and Downstate Fire Pension Funds. They must report their findings by January 1, 2013.
    - Fund Balances
    - Historical Employer Contribution Rates
    - Actuarial Formulas Used
    - Available Funding Sources
    - Impact of Revenue Limitations caused by PTELL
    - Existing Statutory Funding Compliance Procedures
    - Downstate Police and Fire Fund Investment Pooling
    - Employer and Employee Cost Sharing Plans

CURRENT LAW

<u>Current Public Safety Pension Benefits</u>

Downstate Police Pension Funds

<u>Retirement Age</u>

- Age 50 with 20 years of service

<u>Retirement Formula</u>

- 2.5% of final salary for each year of service.

<u>Maximum Annuity</u>

- 75% of final average salary after 30 years of service.

<u>Salary Used to Calculate Pension</u>

- Salary on last day of service.

<u>Annual COLA</u>

- 3% compounded.

<u>Employee Contributions</u>

- 9.91% of salary.

Downstate Fire Pension Funds

<u>Retirement Age</u>

- Age 50 with 20 years of service

<u>Retirement Formula</u>

- 2.5% of final salary for each year of service.

<u>Maximum Annuity</u>

- 75% of final salary after 30 years of service.

<u>Salary Used to Calculate Pension</u>

- Salary on last day of service.

<u>Annual COLA</u>

- 3% compounded.

<u>Employee Contributions</u>

- 9.45% of salary.

Firemen's Annuity and Benefit Fund of Chicago

<u>Retirement Age</u>

- Age 50 with 20 years of service.
- Age 50 with 10 years of service (accumulated annuity).

<u>Retirement Formula</u>

- For employees with 20 or more years of service, 50% of final average salary plus 2.5% of final average salary for each year in excess of 20.

<u>Maximum Annuity</u>

- 75% of final average salary.

<u>Salary Used to Calculate Pension</u>

- Average of 4 highest consecutive years within final 10 years of service.

<u>Annual COLA</u>

- 3% non-compounded with no limit at age 60, or age 55 if born before 1/1/55.
- 1.5% non-compounded if born after 1/1/55 with 30% maximum.

<u>Employee Contributions</u>

- 9.125% of salary.

<u>Required Employer Contributions</u>

- The City of Chicago is required to contribute an amount equal to the employee contributions to the fund two years prior to the year for which the tax is levied, multiplied by 2.26.

Illinois Municipal Retirement Fund

Sheriff's Law Enforcement Personnel Plan (SLEP)

<u>Retirement Age</u>
- Age 50 with 20 or more years of service.

<u>Retirement Formula</u>
- 2.5% of final rate of earnings for each year of service.

<u>Maximum Annuity</u>
- 80% of final average salary.

<u>Salary Used to Calculate Pension</u>
- Average of the 4 highest consecutive years within the final 10 years.

<u>Annual COLA</u>
- 3% non-compounded.

<u>Employee Contributions</u>
- 7.5% of salary.

<u>Employer Contributions</u>
- Each IMRF employer makes contributions to individual accounts which, when combined with member contributions and investment income, will be sufficient to provide future benefits for its own employees. In 2007, IMRF employers contributed, on average, 18.42% of payroll to fund SLEP benefits.

Policemen's Annuity and Benefit Fund of Chicago

<u>Retirement Age</u>
- Age 50 with 20 years of service.
- Age 50 with 10 years of service (accumulated annuity).
- Mandatory retirement at age 63.

<u>Retirement Formula</u>
- For employees with 20 or more years of service, 50% of final average salary plus 2.5% of final average salary for each year in excess of 20.

<u>Maximum Annuity</u>
- 75% of final average salary.

<u>Salary Used to Calculate Pension</u>
- Average of 4 highest consecutive years within final 10 years of service.

<u>Annual COLA</u>
- 3% non-compounded with no limit if born before 1/1/55.
- 1.5% non-compounded if born after 1/1/55, subject to 30% maximum.

<u>Employee Contributions</u>
- 9.0% of salary.

<u>Employer Contributions</u>
- The City of Chicago is required to contribute an amount equal to the employee contributions to the fund two years prior to the year for which the tax is levied, multiplied by 2.00.

REASON FOR CHANGE

Police and fire pensions have become unmanageable costs for many municipalities. Most funds are edging towards insolvency while local governments continue to layoff workers to meet pension costs. Recently the Chicago Tribune estimated that every suburban household owes $2,700 to local public safety pensions.

SUGGESTED BY

Sponsor

FISCAL IMPACT

COGFA's early projections show that the employer costs for Police and Fire Funds will be halved and after 30 years in the new system will be around 7-9% of payroll. Currently the percentage of employer payroll that goes towards pension costs range from 18-22%.

PROPONENTS

Metro Counties
Taxpayer's Federation
Il Assoc of County Board Members

OPPONENTS

Fraternal Order of Police
Chicago Police
Chicago Fire
Teamsters
AFFI
City of Chicago
Illinois Retirement Security Initiative

COMMENTS

DuPage Mayors and Managers, the Illinois Municipal League, the Northwest Municipal Conference, and the South Suburban Mayors and Managers have no position on the bill.

Fraternal Order of Police opposes the bill due to the lack of language that would make municipalities liable if the pension fund becomes insolvent. Ever other pension system in the state, besides downstate police, has that language in the pension code.

The City of Chicago is opposed to the bill; they state that their property tax levy will increase $550 million in the next 5 years in order to pay for pension costs. The Chicago Police and Chicago Fire Pension Funds are currently around 35% funded.