Commission on Government Forecasting and Accountability

703 Stratton Ofc. Bldg., Springfield, IL 62706

MONTHLY BRIEFING FOR THE MONTH ENDED: JULY 2016

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ECONOMY: At A Standstill

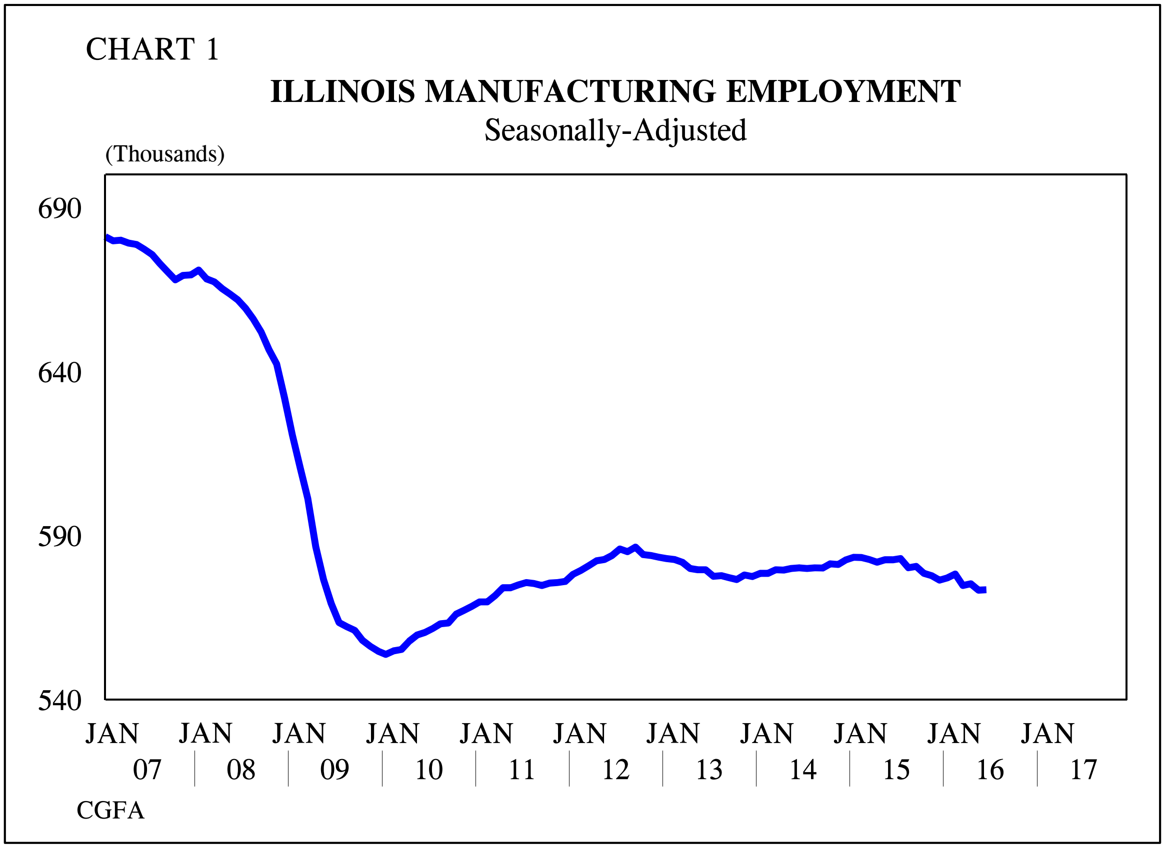
Edward H. Boss, Jr., Chief Economist

The economy slowed sharply in the first half of 2016 with the release of the advance report on real GDP for the second quarter that recorded modest growth at an annual rate of 1.2%, less than half that expected by many forecasters. Moreover, the first quarter's gain was revised downward to 0.8% from 1.1%. If the second half of the year was to repeat that of the first half, growth would be held to 1.0% this year. That would be the worst yearly performance since 2009, when at the end of the recession and beginning of the recovery, the economy declined 2.8%.

The disappointment in second quarter GDP data largely was due to a reduction in inventories for the fifth straight quarter. In addition, business spending on nonresidential fixed investment fell for the third consecutive quarter due to a retrenchment in spending on both structures and equipment. Even residential investment, which has been strong, rising 11.5% in 2015, declined in the second quarter for the first time since the first quarter of 2014.

While household formation is rising, the percentage of home ownership is declining. In the second quarter of 2016, home ownership rates stood at 62.9%, the lowest amount since 1967 and well below the peak rate of 69% in 2004. Indeed in Chicago not only are many new rental units being built, but some condominiums are converting to rental units, the reverse of that which occurred in earlier years where many rental units were converted into condominiums.

The major contributor to growth has been the consumer which accounts for about 70% of economic activity. Personal consumption spending rose at an annual rate of 4.2% in the past quarter, the fastest pace since the final quarter of 2014. It is hoped that this will encourage business to restock inventories and increase investment spending and have a positive impact on employment. How-



ever, even if the rate of GDP in the second half of the year were at twice that of the first half, it would still leave overall growth at 1.5%. This compares with an average annual rate of growth of 2.2% from 2012 to 2015, and continues to be the weakest economic expansion from recession since at least the end of WWII.

In assessing economic conditions in terms of maximum employment and price stability, the Federal Open Market Committee on July 27th decided to maintain the current stance of monetary policy "*thereby supporting further improvement in labor market conditions and a return to 2% inflation.*" The vote was 9 to 1 with the no vote preferring to continue to normalize the federal funds rate by raising its range to ½ to ¾%. This was prior to the release of the weak GDP data.

There can be little doubt that the labor market has improved. The national unemployment rate is currently at 4.9% and latest data show the Midwest unemployment rate at 4.7%. However, the unemployment rate in Illinois is at 6.2%. All the unemployment rates were little different in 2007 but began to differentiate as the recovery got underway. A recurrence in manufacturing in the rust belt drove the Midwest unemployment rate below the national rate, a gap that continues.

Illinois, however, is an exception. As shown in the Chart, after reaching a peak in July 2012, the level of Illinois manufacturing jobs no longer shows gains and currently is 12,400 below the recent peak reached in July 2012. Recent announcements by Caterpillar that it plans to cut as many as 5,000 employees by the end of this year which could climb to more than 10,000 through 2018 do not auger well for improving the manufacturing picture in Illinois.

INDICATORS OF ILLINOIS ECONOMIC ACTIVITY

INDICATORS *	June 2016	May 2016	June 2015
Unemployment Rate (Average)	6.2%	6.4%	5.8%
Annual Rate of Inflation (Chicago)	0.6%	0.3%	5.5%

	LATEST MONTH	% CHANGE OVER PRIOR MONTH	% CHANGE OVER A YEAR AGO
Civilian Labor Force (thousands) (June)	6,625.0	-0.5%	1.9%
Employment (thousands) (June)	6,215.7	-0.3%	-1.5%
NonFarm Payroll Employment (June)	6,003.6	-2,200	41,300
New Car & Truck Registration (June)	56,988	14.6%	-6.7%
Single Family Housing Permits (June)	1,084	-0.4%	-4.5%
Total Exports ($ mil) (May)	4,828.7	-1.4%	-13.4%
Chicago Purchasing Managers Index (July)	55.8	-1.7%	2.0%

* Due to monthly fluctuations, trend best shown by % change from a year ago

State Employees Group Insurance Program Status Update

Anthony Bolton, Revenue Analyst

Over the past fiscal year, the lack of an enacted budget has resulted in the State Employee Group Insurance Program (SEGIP) building up a large backlog of unpaid claims. As of the end of June, approximately $3.34 billion in claims were being held by the state from various insurers, organizations, and companies. Of this total, the largest portion was approximately $1.6 billion of HMO/Medicare Advantage claims. The second largest portion, Open Access Plans, totaled $741.2 million. The third largest portion of the overall claims hold came from CIGNA, which had $556 million in claims currently held by the state. Concurrently, the estimated time for claims to be held was 314-557 days for Managed Care, 477-547 days for Open Access Plans, and 497-574 days for CIGNA. This information and other pertinent data is displayed on the chart on page 5. Despite a stop-gap budget being passed, however, claims will continue to build up and estimated claims hold times will increase due to no appropriation for Group Insurance. This data includes claims from the Local Government Health Plan, Teachers' Retirement Insurance Program, and the College

Insurance Program, though they are only a small fraction (4% total) of the total claims.

As a result of the State Employees Group Insurance Program (SEGIP) building up a large backlog of unpaid claims from health care vendors, alternative options for payment have been explored. One option that has arisen in recent years is a program called the Vendor Payment Program (VPP), which is organized through the Department of Central Management Services (CMS).

Under the VPP, vendors for the state of Illinois who would otherwise receive prompt payment interest would instead partner with a "qualified purchaser" who would purchase the voucher from them. The vendor would receive approximately 90% of the total invoice owed to them with the other 10% paid to them once the qualified purchaser is paid by the state. The qualified purchaser would keep any interest paid out by the state on the voucher. However, the State has not been able to pay out vouchers without appropriation, so CMS has switched to the Vendor Support Initiative program (VSI), which is procedurally similar to the Vendor Payment Program, but does not require a voucher to receive payment. As of the end of April 2016, approximately $612 million in group insurance program debts had been purchased through the VSI program from Health Alliance, Blue Cross Blue Shield of Illinois, Fidelity, and Coventry.

Vendor Support Initiative Group Insurance Purchases	
Health Alliance	$310,311,326
HMO Illinois (Blue Cross Blue Shield)	$258,950,788
Blue Advantage (Blue Cross Blue Shield)	$28,565,276
Fidelity (Vision Care)	$5,371,363
Coventry	$9,292,356
Total	**$612,491,109**

Claims Hold Data for SEGIP	
	End of FY 2016
Total Claims Hold / Total Length of Claims Hold	$3,338,988,413 / Varies 161 - 574 days
CIGNA - PPO (and Member) / Length of Claims Hold	$512,637,500 / 497 days
CIGNA - Non-PPO / Length of Claims Hold	$32,825,644 / 574 days
Dental Claims Hold - PPO / Length of Claims Hold	$54,207,635 / 268 days
Dental - Non-PPO / Length of Claims Hold	$34,916,568 / 478 days
Magellan (Mental Health) Claims / Length of Claims Hold	$5,849,701 / 253 days
Coventry HMO / Length of Claims Hold	$46,873,075 / 314 days
Health Alliance HMO / Length of Claims Hold	$804,029,912 / 467 days
HMO Illinois / Length of Claims Hold	$456,631,229 / 557 days
Blue Advantage / Length of Claims Hold	$58,471,012 / 526 days
HealthLink OAP / Length of Claims Hold	$627,451,531 / 547 days
Coventry OAP / Length of Claims Hold	$113,715,471 / 477 days
Medco / Length of Claims Hold	$116,881,974 / 576 days
CVS/Caremark / Length of Claims Hold	$198,433,327 / 380 days
Coventry Medicare Advantage (MA) / Length of Claims Hold	$7,096,654 / 375 days
Health Alliance MA / Length of Claims Hold	$1,315,634 / 436 days
Humana Benefit Plan MA / Length of Claims Hold	$306,360 / 495 days
Humana Health Plan MA / Length of Claims Hold	$6,093,102 / 495 days
United Healthcare MA / Length of Claims Hold	$200,527,983 / 495 days
Fidelity (Vision) / Length of Claims Hold	$8,683,350 / 161 days
Other Fees (ASC/etc.) / Length of Claims Hold	$46,040,752 / 308 to 587 days

REVENUE

FY 2017 Begins With Weak July

Jim Muschinske, Revenue Manager

Overall base revenues fell $109 million in July as the majority of sources experienced declines. Two less receipting days this July as compared to last year undoubtedly contributed to the fall off.

Gross personal income tax dropped $77 million, or $72 million net of refunds. Other sources declined by $8 million, corporate franchise taxes fell $5 million, cigarette tax dipped $4 million, insurance taxes were down $3 million, and public utility taxes were $1 million lower.

Only a few sources managed gains for the month. Sales taxes finished on an up note, rising $32 million, while inheritance tax and interest income both managed to eke out a $1 million gain.

Transfers into the general funds declined by $8 million in July. While the lottery transfer grew $16 million, likely due to timing of last month's transfer, other transfers offset that growth falling $23 million. Riverboat transfers dipped $1 million. Federal sources started the year by declining $6 million in July.

UPDATED CGFA FY 2017 REVENUE ESTIMATE

The Commission's FY 2017 estimate presented in early March, 2016 was $31.912 billion. A review of that estimate (based on current law), including actual performance over the final third of the fiscal year, FY 2016 actuals, updated economic measures, and certified refund percentages, results in an updated forecast of $30.883 billion. See following summary and detailed estimate on page 9.

"Big Three" – Personal, Corporate, and Sales Taxes

As shown, the net estimate of the large economic related sources has been reduced by $338 million since the March 2016 estimate. The majority of the change stems from the increased percentage of income taxes being set aside for refunds per the IDoR. The net impact of the increased refund percentages makes up approximately $218 million of the change, with the remainder attributed to lower estimated corporate income taxes based on last year's actuals. Growth assumptions are very similar to those used in the spring.

All Other State Sources

The estimate has been reduced $22 million from the earlier forecast. The minor revision reflects actual FY 2016 performance and any necessary adjustments to forecasted growth rates.

Transfers In

The forecast of transfers in, which include gaming transfers, lottery transfers, and other miscellaneous transfers is essentially unchanged.

UPDATED CGFA FY 2017 REVENUE ESTIMATE Based on Current Law ($ millions)			
Revenue Sources	**FY 2017 July-2016**	**FY 2017 March-2016**	**$ Difference**
"Big Three" - Personal, Corporate, and Sales Taxes	$23,000	$23,338	($338)
All Other State Sources	$3,177	$3,199	($22)
Transfers In	$1,606	$1,608	($2)
Federal Sources	$3,100	$3,767	($667)
Toal General Funds Revenue	**$30,883**	**$31,912**	**($1,029)**
NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers.			

Federal Sources

The estimate of federal sources has undergone a significant downward revision since the estimate presented in March. The $667 million reduction better reflects actual federal source receipting to the general funds experienced over the last couple of years. With budgetary difficulties causing scarce general funds resources to become even more precious, reimbursable spending [i.e. Medicaid] has undergone a shift to non-general funds. For example in FY 2016, over $1.6 billion more in federal sources was receipted into the Healthcare Provider Relief Fund than the previous year. Reimbursement returns to the fund from which it was spent. It is assumed that FY 2017 will continue to see an emphasis in reimbursable spending from non-general funds when feasible.

JULY
FY 2017 vs. FY 2016
($ million)

Revenue Sources	**July FY 2017**	**July FY 2016**	**$ CHANGE**	**% CHANGE**
State Taxes				
Personal Income Tax	$937	$1,014	($77)	-7.6%
Corporate Income Tax (regular)	30	65	($35)	-53.8%
Sales Taxes	708	676	$32	4.7%
Public Utility Taxes (regular)	63	64	($1)	-1.6%
Cigarette Tax	25	29	($4)	-13.8%
Liquor Gallonage Taxes	17	17	$0	0.0%
Vehicle Use Tax	3	3	$0	0.0%
Inheritance Tax	29	28	$1	3.6%
Insurance Taxes and Fees	8	11	($3)	-27.3%
Corporate Franchise Tax & Fees	11	16	($5)	-31.3%
Interest on State Funds & Investments	2	1	$1	100.0%
Cook County IGT	0	0	$0	N/A
Other Sources	41	49	($8)	-16.3%
Subtotal	$1,874	$1,973	($99)	-5.0%
Transfers				
Lottery	67	51	$16	31.4%
Riverboat transfers & receipts	19	20	($1)	-5.0%
Proceeds from Sale of 10th license	0	0	$0	N/A
Refund Fund transfer	0	0	$0	N/A
Fund sweeps	0	0	$0	N/A
Other	43	66	($23)	-34.8%
Total State Sources	$2,003	$2,110	($107)	-5.1%
Federal Sources	$339	$345	($6)	-1.7%
Total Federal & State Sources	$2,342	$2,455	($113)	-4.6%
Nongeneral Funds Distribution:				
Refund Fund				
Personal Income Tax	($95)	($100)	$5	-5.0%
Corporate Income Tax	($5)	(10)	$5	-50.0%
Fund for Advancement of Education	($46)	(43)	($3)	7.0%
Commitment to Human Services Fund	($46)	(43)	($3)	7.0%
Subtotal General Funds	$2,150	$2,259	($109)	-4.8%
Short-Term Borrowing	$0	$0	$0	N/A
Interfund Borrowing	$0	$0	$0	N/A
Budget Stabilization Fund Transfer	$0	$0	$0	N/A
Total General Funds	$2,150	$2,259	($109)	-4.8%

CGFA SOURCE: Office of the Comptroller: Some totals may not equal, due to rounding 1-Aug-16

CGFA UPDATED FY 2017 ESTIMATE vs. FY 2016 ACTUALS Based on Current Law ($ millions)			
Revenue Sources	**FY 2017 July-2016**	**FY 2016 Actuals**	**$ Difference**
State Taxes			
Personal Income Tax	$15,557	$15,299	$258
Corporate Income Tax (regular)	$2,286	$2,334	($48)
Sales Taxes	$8,215	$8,063	$152
Public Utility (regular)	$943	$926	$17
Cigarette Tax	$353	$353	$0
Liquor Gallonage Taxes	$171	$170	$1
Vehicle Use Tax	$30	$30	$0
Inheritance Tax	$285	$306	($21)
Insurance Taxes & Fees	$380	$398	($18)
Corporate Franchise Tax & Fees	$206	$207	($1)
Interest on State Funds & Investments	$25	$24	$1
Cook County Intergovernmental Transfer	$244	$244	$0
Other Sources	$540	$534	$6
Subtotal	**$29,235**	**$28,888**	**$347**
Transfers			
Lottery	$705	$677	$28
Riverboat transfers and receipts	$270	$277	($7)
Proceeds from sale of 10th license	$10	$10	$0
Refund Fund transfer	$0	$77	($77)
Fund Sweeps	$0	$0	$0
Other	$621	$550	$71
Total State Sources	**$30,841**	**$30,479**	**$362**
Federal Sources	**$3,100**	**$2,665**	**$435**
Total Federal & State Sources	**$33,941**	**$33,144**	**$797**
Nongeneral Funds Distribution:			
Refund Fund			
Personal Income Tax [11.2% '17 & 9.75% '16]	($1,742)	($1,493)	($249)
Corporate Income Tax [17.25% '17 & 15.2% '16]	($394)	($362)	($32)
Fund for Advancement of Education	($461)	($458)	($3)
Commitment to Human Services Fund	($461)	($458)	($3)
Subtotal General Funds	**$30,883**	**$30,373**	**$510**

NOTE: Totals exclude Budget Stabilization transfers, and other cash flow transfers.

PENSIONS
Legislative Overview
Jerry Lazzara, Pension Analyst

The following bills have passed both chambers during the 2016 State Legislative Session. Those bills that have been approved by the Governor are labeled with the appropriate Public Act number. The remaining bills await the Governor's action.

<u>HB 4259</u>
Sponsors: Moylan (Bertino –Tarrant)

Passed House:	111-0-0
Passed Senate:	59-0-0

HB 4259 removes the employee status from new employees in select organizations within IMRF, SURS, and TRS, beginning on the effective date of the bill.

<u>IMRF</u>
Anyone that becomes an employee of the Illinois Municipal League, the Illinois Association of Park Districts, the Illinois Supervisors, County Commissioners and Superintendents of Highways Association, an association or not-for-profit corporation, the Township Officials of Illinois, the United Counties Council, or the Will County Governmental League on or after the effective date of this bill, will not be considered an employee for the purpose of determining participation eligibility for IMRF.

<u>SURS</u>
Anyone that becomes an employee of the Association of Illinois Middle-Grade Schools, any association of community college boards organized under the Public Community College Act, the Illinois Association of School Administrators, the Illinois Association for Supervision and Curriculum Development, the Illinois Principals Association, the Illinois Association of School Business Officials, or the Illinois Special Olympics on or after the effective date of this bill, will not be considered an employee and shall not be eligible to participate in the System with respect to that employment.

<u>TRS</u>
Anyone that becomes an employee of a school board association on or after the effective date of this bill shall not be considered a teacher for the purpose of determining participation eligibility for TRS.

<u>HB 5684 (P.A. 99-0646)</u>
Sponsors: Breen (Nybo)

Passed House:	100-3-0
Passed Senate:	56-0-0

HB 5684 introduces the Local Government Wage Increase Transparency Act, which applies to members of IMRF who began participation before January 1, 2011 (Tier 1 members) and are not subject to a collective bargaining agreement. It provides that, once an employee announces their retirement from IMRF service, the employer may not pay any "disclosable payments" unless the compensation increase is approved in a meeting, and that meeting must made be open to the public.

"Disclosable payments" are defined as a payment that would be made by an employer to a participating employee, in the form of an increase in the rate of earnings by more than 6%, after that employee has announced their retirement. These payments would be made between 12 months and 90 days prior to the employee's expected termination date.

HB 6021 (P.A. 99-0682)
Sponsors: Yingling (Breen)

Passed House:	102-4-0
Passed Senate:	49-3-0

Under current law, members of IMRF, SURS, and TRS may elect to receive a refund of their survivors' annuity credits upon retirement. This option entitles members who do not have a qualifying spouse to a substantial one-time, lump-sum payment.

HB 6021 enables members who have taken this refund to repay the refund, with interest at the respective fund's assumed rate of return, thereby re-establishing a survivor's annuity for a now-eligible spouse. This provision rectifies scenarios where an annuitant first marries or remarries after retirement. HB 6021 adds to this by allowing members who retired prior to civil unions/marriage equality passing in Illinois, who then got married under those provisions to repay their surviving spouse refund and re-establish eligibility for the benefit. The window of opportunity for these members is 12 months, beginning 5 months after the effective date of this Amendatory Act. They must pay the full refund amount, plus interest compounded at the current actuarially assumed rate. It's applicable to three groups who retired prior to the effective date of Civil Unions and Marriage Equality statutes:

1. Those who entered in to a civil union in Illinois;
2. Those who married under the Marriage Equality Act after that date; or
3. Those who were married or entered into a civil union in another jurisdiction prior to that relationship being recognized in Illinois, which was then recognized by those Acts.

It's only applicable to these three funds because the other systems governed under the Pension Code have permanent provisions in their respective articles allowing retirees who marry after retirement to repay a surviving spouse refund.

<u>HB 6030 (P.A. 99-0683)</u>
Sponsors: Conroy (Cullerton)

Passed House:	112-0-0
Passed Senate:	54-0-0
House Concurrence:	118-0-0

Under HB 6030, all Systems, except for downstate police and firefighters pension funds, under the Pension Code shall check for deceased annuitants at least on a monthly basis by using commonly used methods including, but not limited to, the use of 1) a specialized third party entity for the identification of deceased persons, 2) data provided by the Social Security Administration, 3) data provided by the Department of Public Health's Office of Vital Records, or 4) any other method commonly used by other states to identify deceased persons.

This bill also amends the Vital Records Act that any information regarding the vital records shall become available at no cost to all systems, except for downstate police and firefighters pension funds, pursuant to the new provision associated with the identification of deceased annuitants.

<u>HB 6298</u>
Sponsors: Nekritz (Biss)

Passed House:	101-2-0
Passed Senate:	50-0-1
House Concurrence:	85-33-0

HB 6298 would allow the Chicago Teachers' Pension Fund Board the power to subpoena witnesses and to force them to provide documents and records, along with the determination of the employer required payments based on the final average salary period, a disability claim, an administrative review proceeding, and an attempt to obtain information to help collect amounts payable to the Fund or a felony forfeiture investigation.
HB 6298 also specifies that a pension shall not be cancelled for a retiree who teaches only driver education courses after regular school hours and does not teach any other subject area as long as the person does not 1) teach for more than 900 hours and 2) earn more than $30,000 in a school year.

<u>SB 318 (PA 99-0521)</u>
Sponsors: Cullerton (Evans, Jr.)

Passed Senate:	37-1-18
Passed House:	82-29-0
Senate Concurrence:	40-14-0

For the purpose of making an employer contribution to the Public School Teachers' Pension and Retirement Fund of Chicago, SB 318 allows the Board of Education to levy annually, upon all taxable property located within the district, a tax at a rate no greater than 0.383%. The proceeds from this additional tax shall be paid directly to the Retirement Fund and not the Board. For the 2016 tax year only, the Board shall certify the tax rate to the county clerk.

Upon receiving the certification, the county clerk shall extend that tax rate against all taxable property within the district.

SB 440

Sponsors: Mulroe (Burke)

Passed Senate:	52-0-0
Passed House:	86-24-0
Senate Concurrence:	39-15-0

SB 0440 proposes a multitude of changes for the Chicago Police and Chicago Fire Pension Funds including:

1. Retirees in receipt of a Tier 2 monthly retirement annuity are included when determining death benefit eligibility.

2. Police officers and firefighters who were eligible for a Tier 2 monthly retirement annuity are eligible for a refund of the amount deducted from his/her salary, if he/she withdraws before age 50 or before age 57 with less than 10 years of service.

3. Salary deductions for present employees and future entrants will contribute to the Funds for Tier 2 monthly retirement annuity, in addition to age and service annuity and widow's annuity.

4. A police officer or firefighter who retires from service with at least 20 years of service, is born before January 1, 1966, and is at least age 55, shall have his or her monthly annuity increased by 1½% on the first anniversary of his/her date of retirement or on the first day of the month following his/her attainment of age 55.
   a. This increase will occur annually in January of each year thereafter up to a maximum increase of 30%. Beginning January 1, 2017, for police officers and firefighters born on or after January 1, 1955 but before January 1, 1966, such annuity increases shall be 3% and they will not be subject to the 30% maximum increase.
   b. Any qualifying police officer or firefighter born before January 1, 1966 and who retires after September 1, 1967, but has not received the initial annuity increase, is entitled to receive an initial increase of 3% per full year since retirement or 55th birthday on whichever of the following dates occurs last:
      i. January 1, 2017
      ii. The first anniversary of the date of retirement
      iii. The attainment of age 55

5. Beginning January 1, 2017, the minimum widow's annuity shall be no less than 125% of the Federal Poverty Level regardless of whether or not the police officer or firefighter is in service after this bill passes.

6. Clarifying language has been added to refer to annuities paid to police officers and firefighters who began service on or after January 1st, 2011 as "Tier 2 monthly retirement annuities".

Tier 2 Provisions

The following provisions have been added for Tier 2 police officers and Tier 2 firefighters:

1. Surviving spouses shall be deemed qualified to receive a Tier 2 surviving spouse's annuity. The Tier 2 surviving spouse annuity is in lieu of the standard widow's annuity. Surviving spouses are entitled to this annuity as long as the surviving spouse would not otherwise be excluded from receiving said annuity under the following eligibility requirements:
    a. If the deceased member was receiving a Tier 2 monthly retirement annuity at the date of his/her death, the Tier 2 surviving spouse's annuity shall be in the amount of 66 2/3% of the member's monthly annuity at the date of death.
    b. If the deceased member was not receiving a Tier 2 monthly retirement annuity at the time of death, the Tier 2 surviving spouse's annuity shall be the greater of:
        i. 30% of the annual maximum salary attached to the rank of a first class police officer or firefighter at the time of death.
        ii. 66 2/3% of the Tier 2 monthly retirement annuity that the deceased member would have been eligible to receive, based upon actual service accrued through the day before the member's death, but determined as though the member was at least age 55 on the day before his/her death and retired on that day.
    c. If the deceased member was in active service with at least 1 ½ but less than 10 years of service at the time of death, the Tier 2 surviving spouse's annuity shall be 30% of the annual maximum salary attached to the rank of a first class police officer or firefighter at the time of death.
    d. If a member's death resulted from an act of duty or prevented him/her from resuming active service, and if the member's Tier 2 surviving spouse would otherwise meet the eligibility requirements, then in addition to the Tier 2 surviving spouse's annuity, the spouse shall be qualified to receive compensation annuity or supplemental annuity, in order to bring the total benefit up to the applicable 75% salary limitation, but subject to the existing Tier 2 salary cap. However, no such annuity shall be paid to the surviving spouse of a member who dies while in receipt of disability benefits when the death was caused by an intervening illness or injury unrelated to the duty-related incident that prevented him/her from resuming active service.
    e. Tier 2 surviving spouse's annuities shall not be less than the amount of the minimum widow's annuity.

2. Surviving children of a deceased member, upon meeting the eligibility requirements, shall be deemed qualified to receive a Tier 2 child's annuity. The Tier 2 surviving child's annuity is in lieu of, but equal to, the standard child's annuity.
    a. Any salary used for computing a Tier 2 child's annuity shall be subject to the existing Tier 2 salary cap.

3. Surviving parents of a deceased member, upon meeting the eligibility requirements, shall be deemed qualified to receive a Tier 2 parent's annuity. The Tier 2 surviving parent's annuity is in lieu of, but equal to, the standard parent's annuity.
    a. Any salary used for computing a Tier 2 parent's annuity shall be subject to the existing Tier 2 salary cap.

SB 777 (PA 99-0506)

SB 777 was vetoed by Gov. Rauner on May 27, 2016. The House and Senate overrides took place on May 30, 2016, as denoted in the vote tally below.

Sponsors: Cullerton (Currie)

Passed House:	65-45-2
Passed Senate:	50-0-0
Senate Concurrence	38-20-1
House Veto Override	72-43-2
Senate Veto Override	39-19-0

SB 777 adjusts the minimum fixed and granted monthly annuity for retirees with a Chicago Police or Chicago Firefighters Pension Fund from $1,050 to 125% of the "Federal Poverty Level".

The bill states that for the fiscal years 2016 through 2020, the City's contribution to the Police and Fire Pension Fund will be reduced the following amounts:

Chicago Police

Year	Contribution
2016	$420,000,000
2017	$464,000,000
2018	$500,000,000
2019	$557,000,000
2020	$579,000,000

Chicago Fire

Year	Contribution
2016	$199,000,000
2017	$208,000,000
2018	$227,000,000
2019	$235,000,000
2020	$245,000,000

Beginning in tax levy year 2020, the city shall levy a tax annually in a manner that will increase the funding ratio to 90% by 2055, rather than 2040 under current law.

The minimum employer contribution will be determined using the "entry age normal actuarial cost method," rather than the "projected unit credit actuarial cost method. "In both methods, the total contribution to the employees' pension fund is the same. The projected unit credit actuarial cost method puts aside less money in their early years of service and more in their later years of service. This bill proposes that the entry age normal actuarial cost method be used instead, which reserves a level amount each year.

Any proceeds collected from a casino by the city, shall be contributed to both the Chicago Police and Chicago Fire Pension Funds.

If the city does not make the required contributions by December 31st of the year in which such amount is due, the Fund may take legal action to ensure that obligations are met in a timely manner.

SB 2156

Sponsors: Cunningham (Burke)

Passed Senate:	52-0-0
Passed House:	110-0-1
Senate Concurrence:	57-0-0

SB 2156 prohibits an individual who starts working with certain entities, on or after the effective date of this bill, from being eligible to participant in SURS with respect to that employment. The bill also places restrictions on certain items which are currently included in basic compensation and earnings for an employee who first becomes a participant on or after the effective date of this bill. In addition, a participant who takes voluntary or involuntary furlough or voluntary pay reduction instead of furloughs from July 1, 2015 to June 30, 2017 may establish credit for such period. SB 2156 also specifies that a participant in the Self-Managed Plan (SMP) should be informed his or her investment options offered by SURS at his or her initial retirement selection time.

SB 2156 makes several changes as follows:

Employers and Employees for the Purposes of Pension

Certain entities will not be considered employers for the purposes of participation in SURS for individuals who start working on or after the effective date of this bill. These entities are listed below.

- Any association of community college boards organized under the Public Community College Act;
- The Association of Illinois Middle-Grade Schools;
- The Illinois Association of School Administrators;
- The Illinois Association for Supervision and Curriculum Development;
- The Illinois Principals Association;
- The Illinois Association of School Business Officials;
- The Illinois Special Olympics; or
- An entity not defined as an employer

However, if an individual who is employed by such entity listed above is already participating in the System with respect to that employment on the effective date of this bill, he or she shall be allowed to continue participating in the System for the duration of that employment. The Board of SURS will become empowered to promulgate rules to determine who is deemed an employee, and make a final decision in the case of doubt regarding this matter.

Basic Compensation and Earnings

Housing allowances, vehicle allowances, social club dues, or athletic club dues which are currently included in basic compensation and earnings shall not be included in basic compensation and earnings for an employee who first becomes a participant on or after the effective date of this bill.

Furloughs and Voluntary Reduced Pay
A participant may be eligible to earn service credit for periods of taking voluntary or involuntary furloughs or deciding to receive voluntarily-reduced-pay in lieu of furloughs from July 1, 2015 to June 30, 2017. In order to receive this credit, the participant should 1) write to SURS to apply before December 31, 2018, 2) not receive any compensation during such furlough period (only applicable to a case of taking furloughs), and 3) make, on after-tax basis, the required employee contributions during such period, plus an amount, determined by the board of SURS, equal to the employer's normal cost of the benefit as well as compounded interest at the actuarially assumed rate from the starting date of such periods to the date of the payment. Earnings that would have been paid to the participant if the participant had not taken furloughs or a voluntary pay cut should be reported to SURS by an employer.

The Self-Managed Plan (SMP)
In a case where a participant fails to make his or her investment decisions offered by SURS at his or her initial retirement selection, the participant's employer and employee contributions are required to invest in a default investment fund. However, the participant can transfer his or her account balances out of a default investment fund during time periods designated by SURS.

To Require Information and Audit Employers
SURS can request information necessary for the proper operating of the system from any participant or beneficiary or annuitant or any current or former employer of a participant or annuitant.

- If an employer does not respond within the 90 calendar days of the System's request, beginning on the 91st calendar day a penalty of $250 per calendar day would be charged until the System receives such information, with a maximum penalty of $25,000.
- In a case that a participant, beneficiary, or annuitant fails to provide information that the System requests within 90 calendar days, the System may immediately cease processing the benefit and may not pay any additional benefit payment to the participant, beneficiary, or annuitant until the requested information is provided.

When SURS requests information to audit an employer, the employer should respond within the 60 calendar days of the System's request. Otherwise, beginning on the 61st calendar day, there will be a penalty of $250 per calendar day until SURS receives the information, with a maximum penalty of $25,000.

SB 2439
Sponsors: Sandoval (Zalewski)

Passed Senate:	47-7-0
Passed House:	88-23-0

SB 2439 amends the IMRF Article of the Illinois Pension Code by providing participating firefighters and police officers Sheriffs' Law Enforcement Personnel (SLEP) status with the approval of the employing municipality. The participating municipality must have at least 50 full-time firefighters, at least 30 full-time police officers, and must not have established a

Downstate Police or Fire Pension Fund; also, the governing authority of the employer must approve the SLEP status for the aforementioned firefighters. This bill is intended to alleviate the issue in the Village of Bedford Park that doesn't allow their firefighters or police officers to participate in a Downstate Police or Downstate Fire pension fund, due to having a population of less than 5,000. These employees are already members in the standard IMRF program, so prior service would not apply; however any service as a firefighter or police officer since 1/1/2011 would be upgraded to SLEP service credit, with no additional cost to the employee. The bill also specifies that any adopted resolution to grant SLEP status to police officers or firefighters must specify that SLEP status shall be applicable on or after January 1, 2011 rather than January 1, 2017.

SB 2584 (P.A. 99-0702)
Sponsors: Hutchinson (Riley)

Passed Senate:	58-0-0
Passed House:	113-0-0

Under SB 2584, for an employee under the Chicago Teacher Article of the Pension code who first becomes a member after the effective date of this bill, the benefit shall not commence more than one year prior to the date of the Fund's receipt of an application for the benefit. Under the CTPF article, an employee's retirement pension shall begin on the effective date of resignation, retirement, the day following the close of payroll period for which service credit was validated, or the time the person attains age 55, or on a date elected by the teacher, whichever shall be latest. According to CTPF, if employees apply for pension benefits or lump-sum payments after resignation, the benefit would be paid retroactively back to the date of his or her resignation, which could result in substantial lump-sum payments for some retirees in some cases. This bill attempts to close a loophole in the current law whereby the Fund pays higher pension costs due to such substantial lump-sum payments.

SB 2701
Sponsors: Althoff (Franks)

Passed Senate:	57-0-0
Passed House:	111-0-0
Senate Concurrence:	57-0-0

SB 2701 amends the IMRF Article of the Pension Code, by providing that a person who holds elective office as a member of a governing body of a participating municipality shall not be considered a participating employee, unless the following are true:

- The person was first elected as a member of a county board before the enactment of this bill;
- The person has elected to become a participating employee;
- The governing body has filed a resolution certifying that a person in that position is expected to work more than 600 hours (or 1,000 hours if the participating municipality has adopted a specified resolution);

- The person has submitted logs evidencing that he or she has met the hourly standard. The bill requires the resolution to be adopted & filed with the Fund no more than 90 days after the general election in which any member of the governing body was elected. The bill also requires participating governing body members to file the log with the authorized agent of the participating municipality.

SB 2817 (P.A. 99-0578)
Sponsors: Mulroe (Nekritz)

Passed Senate:	53-0-1
Passed House:	112-1-0

SB 2817 amends the Cook County Article of the Illinois Pension Code. This bill newly defines a term of "in service" and specifies cases in which the opinion of a licensed physician would not be needed to establish proof of ordinary or duty disability. Also, this bill prohibits an employee who first becomes a contributor on or after the effective date of this bill from receiving credit for service for any "governmental unit" under the Retirement Systems Reciprocal Act in cases where the employee may have been ineligible to participate in the applicable Reciprocal system.

SB 2819
Sponsors: Mulroe (Nekritz)

Passed Senate:	51-0-1
Passed House:	110-0-0

SB 2819 amends the Cook County Employees' Article of the Illinois Pension Code by granting the county the option to make additional contributions from additional sources to cover administrative expenses, disability benefits, group health benefits, and other annuity costs.

SB 2820
Sponsors: Mulroe (Nekritz)

Passed Senate:	53-0-1
Passed House:	109-0-0
Senate Concurrence:	57-0-0

SB 2820 grants the Board of the Chicago Fire Pension Fund the right to loan securities, owned by the pension fund, to a borrower upon a written, mutual agreement. The borrower is required to provide an amount equal to the market value of the securities as a form of collateral. SB 2820 also allows the board to reproduce records and have those records deemed as original records for all purposes.

<u>SB 2984 (P.A. 99-0632)</u>
Sponsors: Clayborne (Martwick)

Passed Senate:	56-0-0
Passed House:	112-0-0

SB 2894 amends the Illinois Municipal Retirement Fund Article of the Illinois Pension Code by removing the one-year limit on backdating a survivor benefit. Current law states that a surviving spouse annuity shall begin on the 1st day of the month following the month in which the participating employee died, upon a written application, provided that such date is not more than one year prior to the date that the Board received the application. SB 2894 removes the one-year restriction for future retroactive payments of surviving spouse pensions only, in addition to allowing past annuitants to reapply for annuity payments if he or she was denied due to the one-year limitation. This bill also provides that interest based on late payments will no longer be included in paid annuities.

<u>SB 2896</u>
Sponsors: Althoff (Andrade)

Passed Senate:	57-0-0
Passed House:	110-0-0

SB 2896 amends the IMRF Article of the Illinois Pension Code. This bill states that if an employer knowingly fails to notify the IMRF Board to suspend the annuities of an annuitant who returns to service, the employer may be required to reimburse the Fund. The reimbursement amount will be less than or equal to half of the total of all annuity payments that have been made to the annuitant, after the date that the annuity should have been suspended. The annuitant would be responsible for the remaining reimbursement. This is not applicable if the annuitant returned to work for less than 1 year.

In addition, this bill would require IMRF to notify all annuitants that they must immediately notify the Fund if they return to work for any participating employer, and these notifications must occur no less than annually. IMRF will also be responsible for developing and maintaining a system to track annuitants who return to work for an IMRF employer. IMRF will be required to notify the annuitant and employer of the limitations on returning to work provided by this bill, at least once per year.

<u>SB 2972</u>
Sponsors: Harmon (Davis)

Passed Senate:	58-0-0
Passed House:	108-0-0

SB 2972 increases the limitation on a lifetime monthly retirement annuity to $100 from $30 so that an employee whose annuity is less than $100 may elect to take a separation benefit in lieu of the retirement annuity. Under the current law, an employee who receives a monthly retirement annuity of less than $30 may elect to take a separation benefit. The $30 limit has been in place since January 1, 1962, which has not reflected an increase in the cost of living.

SB 2972 raises the minimum monthly retirement annuity from $30 to $100 for purposes of qualifying for a separation benefit. If an employee decides to take a separation benefit, he or she will receive a lump-sum payment (refund) of his or her contributions without interest.

<u>SB 3071 (P.A. 99-0708)</u>
Sponsors: Clayborne (Zalewski)

Passed Senate:	57-0-0
Passed House:	109-0-0
Senate Concurrence:	58-0-0

SB 3071 requires ISBI to appoint and retain a qualified custodian no later than December 31, 2016. Meanwhile, the State Treasurer shall serve as official custodian of the board. Under current law, the securities, funds and other assets transferred to the ISBI or otherwise acquired by the board shall be placed in the custody of the State Treasurer who shall serve as official custodian of the board. The custodian performs the duties of providing adequate safe deposit facilities and holding all securities, funds and other assets subject to the order of the board. Under SB 3071, the Board's custodian would take over the role of the State Treasurer as official custodian of the board.
