COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: SB 3424 March 12, 2018

SPONSOR (S): Althoff

SYSTEM(S): Downstate Firefighters and the Illinois Municipal Retirement Fund

(IMRF)

<u>FISCAL IMPACT</u>: There are currently 299 active Downstate firefighters' funds that could be consolidated into the Downstate Firefighters Pension Fund. Currently, there is no actuarial analysis for SB 3424. It is difficult to discern the extent of a fiscal impact of SB 3424, without an actuarial study. A revised impact note would be provided once an actuarial analysis becomes available.

<u>SUBJECT MATTER</u>: SB 3424 amends the Downstate Firefighters Article of the Illinois Pension Code by consolidating all individual firefighters' pension funds under the Downstate firefighters Article (Article 4) into a single Downstate Firefighters Pension Fund on January 1, 2020, and by making corresponding changes.

<u>COMMENT:</u> SB 3424 will consolidate 299 individual Downstate firefighters' funds into the Downstate Firefighters Pension Fund (the Fund) under direction of a Transition Board of the Fund on January 1, 2020.

Transition Board of the Downstate Firefighters Pension Fund

A Transition Board that consists of 11 members will be created and placed in charge of planning, overseeing, and administering the consolidation of all existing downstate firefighters' funds under Article 4. During the consolidation process, the Illinois Municipal Retirement Fund (IMRF) shall assist the Transition Board, and the Transition Board may enter into contracts with the IMRF. Among various duties of the Transition Board, some of main duties are briefly summarized below:

- Providing for the custody and transfer of the assets and liabilities of the existing funds to the Fund;
- Providing for the long-term investment of assets that excludes assets set aside for short-term payments;

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 Managing accounting for the assets and liabilities attributable to the existing pension funds and establishing separate reserves for each participating municipality;

- Determining, administering, receiving, and enforcing the required municipality contributions to the Fund;
 - The municipality contribution rate for each municipality shall be determined annually by the Transition Board; and
- Ensuring the uninterrupted payment and administration of benefits.

In implementation of the consolidation, the Public Pension Division of the Department of Insurance shall provide reasonably necessary resources including temporary office space, technical and clerical support, and monetary or other assistance at the request of the Transition Board. Also, the Transition Board is authorized to expend the assets of the Fund for the reasonable expenses of the Fund, including payment of benefits and administrative expenses.

60 days after the Board of Trustees of the Fund begins its duties, the Transition Board would be abolished.

Consolidation of the Individual Downstate Firefighters Pension Funds

As mentioned previously, all the individual Downstate firefighters' pension funds will be merged into the Fund on January 1, 2020. A participating municipality shall participate in the Downstate Firefighters Pension Fund (the Fund) for pension benefits of firefighters and cooperate with the Transition Board. In administering the Fund, IMRF shall assist the Fund, and the Fund may enter into contracts with the IMRF.

Main purposes of the consolidation of the individual funds into the Fund would be as follow:

- Centralized investment of fund assets;
- Consistent interpretation and application of the Pension Code by the Fund; and
- Securing the future funding of pension benefits by determining each municipality's required annual contribution rate through an independent determination of each municipality's contribution rate.

All assets and liabilities arising from or belonging to the individual pension funds, except for assets needed for immediate use, shall be transferred to the Fund and become assets and liabilities of the Fund. Beginning on January 1, 2020, the Fund shall pay all benefits payable under Article 4.

The consolidation of the existing funds into the Fund shall not diminish, impair, or increase the benefits of any current or former firefighters who already participated in an existing pension under the Article 4. Also, the consolidation does not provide recalculation or combination of any person's benefits or to a refund if any contribution previously granted.

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Upon the consolidation, creditable service earned under the existing pension funds shall be deemed to be creditable service in the Fund, subject to following features:

- Any service credits shall not be counted more than once;
- All service credits previously established in more than one pension fund for a
 particular activity shall be preserved under the Fund even if the total amount of
 service credits established exceed a limit on an amount of service to be
 established for a particular activity. However, service credits for such activity
 shall not be counted under the Fund in the future; and
- The consolidation shall not entitle any person or pension fund to a refund of any contribution or payments previously paid in order to establish creditable service.

Contributions by Each Participating Municipality

Each participating municipality shall pay required contributions calculated using a prescribed rate of interest, determined by the Board of Trustees of the Fund (the Board), immediately to the Board after deducting an employee's portion of contributions from the employee's earning. (Each firefighter under Article 4 pays 9.455% of salary under current law, and the employee contribution rate would remain unchanged.)

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