

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 100TH GENERAL ASSEMBLY

BILL NO: **SB 3444**

March 9, 2018

SPONSOR (S): Althoff – Rooney

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

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**FISCAL IMPACT:** There are 655 active Downstate Police and Downstate Firefighter pension funds that could be consolidated into IMRF under SB 3444. Currently, there is no actuarial analysis for SB 3444. It is difficult to discern the extent of a fiscal impact of SB 3444, without an actuarial study. An updated impact note will be submitted, when a proper analysis is available.

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**SUBJECT MATTER:** SB 3444 amends the Downstate Police, Downstate Firefighters, and IMRF Articles of the Illinois Pension Code, most notably by consolidating individual Downstate Police and Downstate Firefighters pension funds into the aggregated Downstate Police Officers Pension Fund and Downstate Firefighters Pension Fund.

**COMMENT:** SB 3444 proposes the following changes to Illinois Pension Code:

*Individual Police and Fire Pension Fund Consolidation*

On January 1, 2021, all of the individual Downstate Police Pension Funds will be consolidated into a single pension fund, known as the Downstate Police Officers Pension Fund, and the individual Downstate Fire Pension Funds will be consolidated into a single pension fund, known as the Downstate Firefighters Pension Fund. By the direction of the Transition Board, any city, village or incorporated town with 5,000 or more, but less than 500,000 inhabitants shall participate in the Downstate Police Officers Pension Fund or Downstate Firefighters Pension Fund for pension benefits of police officers and firefighters respectively.

All police and fire pension funds under Articles 3 and 4 of the Pension Code and the municipalities that established the funds shall cooperate with the Transition Board. All assets and liabilities belonging to the individual police and fire pension funds will become assets and liabilities of the Downstate Police Officers Pension Fund or Downstate Firefighters Pension Fund. This consolidation shall not diminish or impair the benefits of any current or former police officer or firefighter.

Upon consolidation, creditable service acquired while participating in a Downstate Police or Fire pension prior to January 1<sup>st</sup>, 2021, shall be deemed to be creditable service under the consolidated pension funds, subject to the following:

- Service credit cannot be counted more than once;
- Any creditable service established prior to the consolidation for an activity that would no longer be allowed, shall be preserved under IMRF, but no additional creditable service shall be established for that activity;
- 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.

Members who have acquired creditable service under more than one participating municipality shall have those service credits calculated as though they were from a single fund. However, the Board shall consider those municipalities and pension funds separately in determining how benefits will be chargeable to the appropriate municipal accounts and reserves.

*Contributions by Participating Municipalities*

Each participating municipality shall make payment to the appropriate consolidated pension fund as follows:

- Municipality contributions in an amount determined by applying the municipality contribution rate to each payment of earnings paid to each of its participating members;
- An amount equal to the employee contributions;
- All accounts receivable including interest;
- If there are no active members with current earnings, an amount payable that will amortize unfunded obligations over a 20 year period, at the prescribed rate for that year;
- If there is a negative balance in its municipal reserve, the greater of:
  - An amount payable that will amortize unfunded obligations over a 20 year period, at the prescribed rate for that year
  - Municipality contributions in an amount determined by applying the municipality contribution rate to each payment of earnings paid to each of its participating members

A separate municipality contribution rate shall be determined for each calendar year for all participating municipalities. The municipality contribution rate shall be the sum of:

- The percentage of earnings of all the participating members of all participating municipalities that, if paid over the entire period of their service, will be sufficient, when combined with all employee contributions available for the payment of benefits, to provide all annuities for participating police officers, such percentage to be known as the normal cost rate.
- The percentage of earnings of participating members of each participating municipality necessary to adjust for the difference between:
  - The present value of all benefits, excluding disability and death benefits

- The sum of its accumulated municipality contributions and the accumulated employee contributions and the present value of expected future employee and municipality contributions
- The percentage of earnings of the participating members of all participating municipalities necessary to provide the present value of all disability benefits granted during the most recent year for which information is available
- The percentage of earnings necessary to meet any deficiency arising in the terminated municipality reserve

### Transition Boards

This bill proposes the creation of the Downstate Police Officers Pension Fund Transition Board and the Downstate Firefighters Pension Fund Transition Board. Each transition board shall consist of 9 members who are in charge of planning, overseeing, and administering the consolidation of all existing downstate police funds into IMRF. The 11 members shall be as follows:

- The Director of Insurance, or his or her designee
- Three persons with experience in managing an Illinois public employee pension fund, appointed by the Governor
- One person with experience in providing actuarial services to an Illinois public employee pension fund, appointed by the Governor
- One person with experience auditing Illinois public pension funds, appointed by the Governor
- One member of the labor organization representing the largest number of participating police officers or firefighters, appointed by President of that organization
- One person who is the mayor or chief elected officer of a municipality that maintains a Downstate Police or Downstate Firefighters pension fund, appointed by the Governor
- One person familiar with the operation and administration of IMRF, appointed by the Executive Director of IMRF

The DOI shall provide all reasonably necessary temporary office space, technical and clerical support, and monetary or other assistance at the request of the Transition Board. In preparation for the consolidation, IMRF is authorized to provide any reasonable managerial, professional, clerical, or other assistance to the Transition Board that is consistent with its fiduciary and other obligations. All members of the Transition Board will be compensated for their service. After 60 days of accomplishment of the consolidation of the individual funds into the Downstate Police Pension Fund, the Transition Board would be abolished.

### The Role of IMRF

IMRF's Pension Board shall assist in the consolidation of the Downstate Police and Fire pension funds to the consolidated Downstate Police Officers Pension Fund or

Downstate Firefighters Pension Fund respectively and shall provide assistance to the Transition Boards.

JL:bj

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