COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **SB 3612** February 27, 2020

SPONSOR (S): Cunningham

SYSTEM(S): Chicago Police, Chicago Firefighter Articles

FISCAL IMPACT: According to the Policemen's Annuity and Benefit Fund of Chicago, removing the Tier 1 COLA birthdate restriction would impact 6,901 active officers and 229 retired officers. The pension fund reports that the increase in city contributions would be as follows: \$443,000 after 5 years, \$27.5 million after 10 years, \$158 million after 15 years, \$459 million after 20 years, \$990 million after 25 years, and \$1.7 billion after 30 years. No actuarial data has been obtained as yet from the Chicago Fire pension fund.

Further actuarial study would be needed to assess the impact of the Tier 2 final average salary and surviving spouse provisions of the bill.

SUBJECT MATTER: SB 3612 amends the Chicago Police and Firefighter Articles of the Pension Code to remove a birthdate restriction regarding Tier 1 eligibility for an automatic annual increase in retirement annuity of 3% not subject to a maximum increase of 30%. The bill also adjusts the Tier 2 final average salary period and Tier 2 survivor benefits to match those benefits granted under the Downstate Police and Firefighter articles as part of P.A. 101-0610, the Downstate Police and Fire Investment Consolidation Act of 2019.

<u>COMMENT</u>: SB 3612 removes a birthdate restriction on eligibility for a Tier One 3% non-compounded annual increase with no 30% maximum for both Chicago Firefighters and Police Officers. SB 3612 also provides that any police officer or firefighter born after January 1, 1966 who qualifies for a minimum annuity and has not received the 3% increase is entitled to receive it on (1) January 1, 2020, (2) the first anniversary of the date of retirement, or (3) attainment of age 55, whichever occurs last.

P.A. 101-0610, signed into law December 18, 2019, established the Police Officers' Pension Investment Fund and the Firefighters' Pension Investment Funds. The Act also amended final average salary calculation and the method of calculating survivor benefits for Tier 2 Downstate police officers and firefighters. SB 3612 nearly mirrors the aforementioned Tier 2 final average salary calculation method and survivor benefit changes made in P.A. 101-0610 for the Chicago Police and Chicago Firefighter Articles, as explained below:

Making Chicago Police and Firefighter Tier 2 Final Average Salary akin to P.A. 101-0610

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Currently, pensions for Tier 2 police officers under the Chicago Police and Chicago Firefighters Articles are calculated based upon the 96 consecutive months within the last 120 months of service in which the total salary was highest.

SB 3612 amends the Chicago Police and Chicago Firefighters Articles so that:

- Final average salary is calculated using the greater of: (i) the method stated above, or (ii) the 48 consecutive months within the last 120 months of service (as opposed to last 60 months of service in P.A. 101-0610) in which the total salary was highest.
- The bill would not cause any retroactive adjustment of employee contributions.

Under current law, the highest salary that can be used for calculation of a final average salary for Tier 2 employees in an Article 3 (Downstate Police) or Article 4 (Downstate Fire) fund is \$106,800. However, that amount has been increased annually since 2011 by the lesser of (i) 3% of that amount, or, one-half the increase in the consumer price index-u. Public Act 101-0610 changed this calculation for Tier 2 Downstate Police and Fire participants to the lesser of 3% or the full unadjusted percentage increase in the CPI-U.

SB 3621 grants the same final average salary calculation to Chicago police officers and firefighters, increasing the annual final average salary base by the lesser of 3% or the annual unadjusted percentage increase in the full CPI-U.

Matching Chicago Police and Firefighter Tier 2 Survivor Benefits to P.A. 101-0610

Current law entitles spouses, children, or parents of a Tier 2 Chicago police officer or firefighter to survivor pensions equal to $66\ 2/3\%$ of the police officer or firefighter's earned pension at the date of death.

SB 3612 amends Chicago Police Article so that:

- The survivors are entitled to the greater of (i) the current survivor benefit, as mentioned above, or (ii) 54% of the police officer or firefighter's monthly salary at the date of death.
- If a survivor is a spouse, then the guardian of any minor children, including children not yet born, is entitled to 12% of such monthly salary for each child until they reach 18.
- A monthly pension of 20% of such monthly salary is granted upon the death of the surviving spouse, or upon the death of a police officer or firefighter leaving one or more minor children but no surviving spouse, to an appointed guardian until the children reach 18.

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