COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **SB 3538, as amended by HA #3** December 21, 2010

SPONSOR(S): McCarthy (Link – Althoff, et al)

SYSTEM(S): Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, Illinois Municipal Retirement Fund (SLEP)

FISCAL IMPACT: Funding projections for Chicago Police, Chicago Fire, and IMRF are not yet available, but please refer to the paragraphs below and also pages 15-17 to view funding projections and active membership comparisons of Tier 1 and Tier 2 members of Downstate Police and Downstate Fire pension funds.

Downstate Police Pension Funds

The Commission's actuary performed a preliminary actuarial valuation that estimates the normal cost for the current benefits provided under the Pension Code to be 20.35% of payroll. In addition, the Commission's actuary estimates the employer's normal cost for the proposed benefits under SB 3538 HA #3 to be 7.67% of payroll. It is therefore estimated that the proposed benefit changes would reduce the employer's normal cost for newly hired employees by 12.68% of payroll. In the first few years, this reduction in the employer's normal cost will apply to a relatively small percentage of employees. However, over future years, this percentage will increase, and by the end of 30 years, this reduction in the employer's normal cost will apply to almost all employees.

Downstate Firefighters' Pension Funds

Based on the Commission's preliminary actuarial valuation, the employer's normal cost for the current benefits provided under the Pension Code is estimated to be 22.52% of payroll. The employer's normal cost for the proposed benefit changes under SB 3538 HA #3 is estimated to be 10.20%. Therefore, it is estimated that the proposed benefit changes would reduce the employer's normal cost for newly hired employees by 12.32% of payroll. In the first few years, this reduction in the employer's normal cost will apply to a relatively small percentage of employees. However, over future years, this percentage will increase, and by the end of 30 years, this reduction in the employer's normal cost will apply to almost all employees.

SUBJECT MATTER: SB 3538, as amended, amends the Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, and IMRF Articles of the Illinois Pension Code to make various changes concerning retirement benefits for new employees. In addition, SB 3538, as amended, provides a funding mandate for municipalities and change in the amortization period for Downstate Police and Downstate Fire pension funds.

FISCAL IMPACT: Funding projections for Chicago Police, Chicago Fire, and IMRF are not yet available, but please refer to the paragraphs below and also pages 15-17 to view funding projections and active membership comparisons of Tier 1 and Tier 2 members of Downstate Police and Downstate Fire pension funds.

Police Pension Funds

The Commission's actuary performed a preliminary actuarial valuation that estimates the normal cost for the current benefits provided under the Pension Code to be 20.35% of payroll. In addition, the Commission's actuary estimates the employer's normal cost for the proposed benefits under SB 3538 HA #3 to be 7.67% of payroll. It is therefore estimated that the proposed benefit changes would reduce the employer's normal cost for newly hired employees by 12.68% of payroll. In the first few years, this reduction in the employer's normal cost will apply to a relatively small percentage of employees. However, over future years, this percentage will increase, and by the end of 30 years, this reduction in the employer's normal cost will apply to almost all employees.

Firefighters' Pension Funds

Based on the preliminary actuarial valuation, the employer's normal cost for the current benefits provided under the Pension Code is estimated to be 22.52% of payroll. The employer's normal cost for the proposed benefit changes under SB 3538 HA #3 is estimated to be 10.20%. Therefore, it is estimated that the proposed benefit changes would reduce the employer's normal cost for newly hired employees by 12.32% of payroll. In the first few years, this reduction in the employer's normal cost will apply to a relatively small percentage of employees. However, over future years, this percentage will increase, and by the end of 30 years, this reduction in the employer's normal cost will apply to almost all employees.

COMMENT:

List of Permitted Investments for Downstate Police and Downstate Fire Funds

SB 3538, as amended, specifies that any Downstate Police and Downstate Fire fund may invest in pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act, interest bearing funds or pooled accounts of the Illinois Metropolis Investment Funds, and interest bearing funds or pooled accounts managed, operated, and administered by banks, subsidiaries of banks, or subsidiaries of bank holding companies in accordance with the laws of the State of Illinois. In addition, SB 3538, as amended, allows any Downstate Police and Downstate Fire fund to invest in corporate bonds managed through an investment advisor so long as they meet the following requirements:

1. The bonds must be rated as investment grade by one of the two largest rating services at the time of purchase.
2. If subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days after being downgraded by the manager.

List of Additional Permitted Investments for Pension Funds with New Assets of $10 Million or More

SB 3538, as amended, provides that a Downstate Police or Downstate Fire pension fund that has net assets of at least $10,000,000 and has appointed an investment adviser is allowed to invest an additional portion of its assets in common and preferred stocks, mutual funds, and corporate bonds. In order to do this, certain requirements must be met for stocks, mutual funds, and corporate bonds managed through an investment adviser.

SB 3538, as amended, states that a pension fund's total investment in said items must not exceed 50% (effective July 1, 2011) and 55% (effective July 1, 2012) of the market value of the pension fund's net present assets stated in its most recent annual report on file with the Department of Insurance. Also, all pension funds investing in stocks, mutual funds, or corporate bonds must electronically file with the Division any reports of its investment activities.

CGFA Study on Financial Condition of All Downstate Police and Downstate Fire Funds

SB 3538, as amended, states that the Commission on Government Forecasting and Accountability will conduct a study of all Downstate Police and Downstate Fire pension funds and report its finding to the General Assembly on or before January 1, 2013. The study must include, but not be limited to, the following:

1. fund balances;
2. historical employer contribution rates for each fund;
3. the actuarial formulas used as a basis for employer contributions, including the actual assumed rate of return for each year, for each fund;
4. available contribution funding sources;
5. the impact of any revenue limitations caused by PTELL and employer home rule or non-home rule status; and
6. existing statutory funding compliance procedures and funding enforcement mechanisms for all municipal pension funds.

CGFA Investment Pool / Normal Cost Study

SB 3538, as amended, provides that the Commission on Government Forecasting and Accountability must conduct a study on the feasibility of (1) the creation of an investment pool to supplement and enhance the investment opportunities available to boards of trustees of the Downstate Police and Downstate Fire pension funds, and (2) enacting a contribution cost-share component where employing municipalities and members of Downstate Police and Downstate Fire pension funds each contribute 50% of the normal cost of the defined-benefit plan. The study is to include an analysis on any cost or cost savings associated with establishing the system and transferring assets for management under the investment pool. The Commission must issue the report on its findings on or before December 31, 2011.

Pensions for Downstate Police Pension Funds

Currently, a police officer of a Downstate Police Pension Fund who is age 50 or older with 20 or more years of creditable service and who is no longer in service as a police officer, receives a pension of ½ the salary attached to the rank held by the officer on the last day of service or for one year prior to the last day, whichever is greater. The pension is increased by 2.5% of such salary for each additional year over 20 years of service through 30 years of service, to a maximum of 75% of such salary.

For any Downstate police officer who first becomes a Downstate police officer on or after January 1, 2011, SB 3538, as amended, increases the retirement age to 55 with 10 years of service, and provides a pension of 2.5% of the police officer's final average salary for each year of service, to a maximum of 75% of final average salary. Under SB 3538, as amended, final average salary is obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. In addition, SB 3538, as amended, provides a reduced benefit option of a one-half of 1% per month reduction for Downstate police officers who retire at age 50 with 10 years of service for each month that the police officer's age is under age 55.

In addition, SB 3538, as amended, provides that beginning on January 1, 2011, the annual salary of a police officer based on the plan year for any purposes shall not exceed $106,800; however, that amount shall annually be increased by the lesser of (a) 3% of that amount, including all previous adjustments, or (b) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, including all previous adjustments.

Increase in Pensions for Downstate Police Pension Funds

Currently, the monthly pension of a police officer aged 55 or older is increased by 3% of the originally granted pension for each full month that has elapsed since the pension began, and by an additional 3% of the pension then payable in every January after. SB 3538, as amended, provides that the monthly pension of a police officer who first becomes a member in a Downstate Police pension fund on or after January 1, 2011 shall be increased on the January 1 occurring either on or after the police officer attains age 60 or the first anniversary of the pension start date, whichever is later. Each annual increase shall be calculated by 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted pension. SB 3538, as amended, clarifies that if the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the pension shall not be increased.

Survivor Annuities for Downstate Police Pension Funds

Currently, upon the death of a police officer entitled to a pension, the surviving spouse is entitled to the entire pension of the deceased officer. SB 3538, as amended, provides that for a police officer who first becomes a police officer for a Downstate Police pension fund on or after January 1, 2011, the survivor annuities would be set at 66 2/3% of the police officer's earned pension at the date of death. Under SB 3538, as amended, the survivor annuity will be increased on the January 1 after attainment of age 60 by the recipient of the survivor's pension and each January 1 following by 3%

or one-half the annual adjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted pension. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the pension shall not be increased.

Financing for Downstate Police Pension Funds

Currently, the city council or the board of trustees of the municipality annually levies a tax on all the taxable property of the municipality at the rate on the dollar that produces an amount which, when added to the deductions from the salaries or wages of police officers, and revenues available from other sources, equals a sum sufficient to meet the annual requirements of the police pension fund. These annual requirements provided by the tax levy are equal to (1) the normal cost of the pension fund for the year involved, plus (2) the amount necessary to amortize the fund's unfunded accrued liabilities. SB 3538, as amended, provides that the annual requirements to be provided by the tax levy must be equal to (1) the normal cost of the pension fund for the year involved, plus (2) an amount sufficient to bring the total assets of the pension fund up to 90% of the total actuarial liabilities of the pension fund by the end of the municipal fiscal year 2040, as annually updated and determined by an enrolled actuary employed by the Illinois Department of Insurance or by an enrolled actuary retained by the pension fund or the municipality. SB 3538, as amended, states that in making these determinations, the required minimum employer contribution must be calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040 and must be determined under the projected unit credit actuarial cost method.

Asset Smoothing for Downstate Police Pension Funds

SB 3538, as amended, clarifies for purposes of determining the required employer contribution to a pension fund, the value of the pension fund's assets must be equal to the actuarial value of the pension fund's assets, which will be calculated as follows:

(1) On March 30, 2011, the actuarial value of a pension fund's assets must be equal to the market value of the assets as of that date.
(2) In determining the actuarial value of the System's assets for fiscal years after March 30, 2011, any actuarial gains or losses from investment return incurred in a fiscal year must be recognized in equal annual amounts over the 5-year period following that fiscal year.

Funding Mandate for Downstate Police Pension Funds

Under SB 3538, as amended, if a participating municipality fails to transmit to the fund contributions required of it for more than 90 days after the payment of those contributions is due, the fund may, after giving notice to the municipality, certify to the State Comptroller the amounts of the delinquent payments. Beginning in fiscal year 2016, the Comptroller must deduct and deposit into the fund the certified amounts or a portion of those amounts from the following proportions of grants of State funds to the municipality:

(1) in fiscal year 2016, one-third of the total amount of any grants of State funds to the municipality;
(2) in fiscal year 2017, two-thirds of the total amount of any grants of State funds to the municipality; and

(3) in fiscal year 2018 and each fiscal year after, the total amount of any grants of State funds to the municipality.

SB 3538, as amended, clarifies that the State Comptroller may not deduct from any grants of State funds to the municipality more than the amount of delinquent payments certified to the State Comptroller by the fund.

Pensions for Downstate Fire Pension Funds

Currently, a member of a Downstate Fire Pension Fund who is age 50 or older with 20 or more years of creditable service and who is no longer in service as a firefighter, receives a monthly pension of ½ the salary attached to the rank held by the firefighter at the date of retirement. The monthly pension is increased by 1/12 of 2.5% of such salary for each additional month over 20 years of service through 30 years of service, to a maximum of 75% of such monthly salary.

SB 3538, as amended, increases the retirement age to 55 with 10 years of service, and provides a pension of 2.5% of the firefighter's final average salary for each year of service, to a maximum of 75% of final average salary. Under SB 3538, as amended, final average salary is obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. In addition, SB 3538, as amended, provides a reduced benefit option of a one-half of 1% per month reduction for Downstate firefighters who retire at age 50 with 10 years of service for each month that the firefighter's age is under age 55.

In addition, SB 3538, as amended, provides that beginning on January 1, 2011, the final average salary of a firefighter based on the plan year for any purposes shall not exceed $106,800; however, that amount shall annually be increased by the lesser of (a) 3% of that amount, including all previous adjustments, or (b) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, including all previous adjustments.

Increase in Pensions for Downstate Fire Pension Funds

Currently, the monthly pension of a firefighter is increased upon either the first of the month following the first anniversary of the date of retirement if the firefighter is 55 years of age or over, or upon the first day of the month following the attainment of age 55 if it occurs after the first anniversary of retirement, by 1/12 of 3% of the originally granted pension for each full month that has elapsed since the pension began, and by an additional 3% of the pension then payable in every following January. SB 3538, as amended, provides that the monthly pension of a firefighter who first becomes a firefighter for a Downstate Fire pension fund on or after January 1, 2011 shall be increased on the January 1 occurring on or after the attainment of age 60 or the first anniversary of the pension start date, whichever is later. Each annual increase will be calculated by 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted pension. SB 3538, as amended, clarifies that if the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the pension shall not be increased.

Survivor Annuities for Downstate Fire Pension Funds

Currently, upon the death of a firefighter entitled to a pension, the surviving spouse is entitled to the monthly pension to which the firefighter was then entitled. SB 3538, as amended, provides that for a firefighter who first becomes a firefighter for a Downstate Fire pension fund on or after January 1, 2011, the survivor annuities would be set at 66 2/3% of the firefighter's earned pension at the date of death. Under SB 3538, as amended, the survivor annuity will be increased on the January 1 after attainment of age 60 by the recipient of the survivor's pension and each January 1 following by 3% or one-half the annual unadjusted percentage increase in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted pension. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the pension will not be increased.

Financing for Downstate Fire Pension Funds

Currently, the city council or the board of trustees of the municipality annually levy a tax on all the taxable property of the municipality at the rate on the dollar that produces an amount which, when added to the deductions from the salaries or wages of firefighters and revenues available from other sources, equals a sum sufficient to meet the annual requirements of the pension fund, as determined by an enrolled actuary employed by the Illinois Department of Insurance or by an enrolled actuary retained by the pension fund or municipality. These annual requirements of the pension fund are equal to (1) the normal cost of the pension fund, or 17.5% of the salaries and wages to be paid to firefighters for the year involved, whichever is greater, plus (2) the annual amount necessary to amortize the fund's unfunded accrued liabilities over a period of 40 years from July 1, 1993. SB 3538, as amended, provides that the annual requirements of the pension fund must be equal to (1) the normal cost of the pension fund, or 17.5% of the salaries and wages to be paid to firefighters for the year involved, whichever is greater, plus (2) an annual amount sufficient to bring the total assets of the pension fund up to 90% of the total actuarial liabilities of the pension fund by the end of the municipal fiscal year 2040, as annually updated and determined by an enrolled actuary employed by the Illinois Department of Insurance or by an enrolled actuary retained by the pension fund or the municipality. SB 3538, as amended, states that in making these determinations, the required minimum employer contribution must be calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040 and must be determined under the projected unit credit actuarial cost method.

Asset Smoothing for Downstate Fire Pension Funds

SB 3538, as amended, clarifies for purposes of determining the required employer contribution to a pension fund, the value of the pension fund's assets must be equal to the actuarial value of the pension fund's assets, which will be calculated as follows:

(1) On March 30, 2011, the actuarial value of a pension fund's assets must be equal to the market value of the assets as of that date.

(2) In determining the actuarial value of the System's assets for fiscal years after March 30, 2011, any actuarial gains or losses from investment return incurred in a fiscal year must be recognized in equal annual amounts over the 5-year period following that fiscal year.

Funding Mandate for Downstate Fire Pension Funds

Under SB 3538, as amended, if a participating municipality fails to transmit to the fund contributions required of it for more than 90 days after the payment of those contributions is due, the fund may, after giving notice to the municipality, certify to the State Comptroller the amounts of the delinquent payments. Beginning in fiscal year 2016, the Comptroller must deduct and deposit into the fund the certified amounts or a portion of those amounts from the following proportions of grants of State funds to the municipality:

(1) in fiscal year 2016, one-third of the total amount of any grants of State funds to the municipality;
(2) in fiscal year 2017, two-thirds of the total amount of any grants of State funds to the municipality; and
(3) in fiscal year 2018 and each fiscal year after, the total amount of any grants of State funds to the municipality.

SB 3538, as amended, clarifies that the State Comptroller may not deduct from any grants of State funds to the municipality more than the amount of delinquent payments certified to the State Comptroller by the fund.

Automatic Increase in Annuity for Chicago Police

Currently, a police officer who retires from service with at least 20 years of service credit will, upon either the first of the month following the first anniversary of his or her date of retirement if he or she is age 60 (age 55 if born before January 1, 1955) or over on that anniversary date, or upon the first of the month following his or her attainment of age 60 (age 55 if born before January 1, 1955) if it occurs after the first anniversary of his or her retirement date, have his or her then fixed and payable monthly annuity increased by 1.5% and then increased by an additional 1.5% in January of each year after up to a maximum of 30% (for officers born after 1955).

SB 3538, as amended, provides that for a police officer who first becomes a Chicago police officer on or after January 1, 2011, the annuity to which the surviving spouse, children, or parents are entitled must be in the amount of 66 2/3% of the police officer's earned annuity at the date of death. In addition, under SB 3538, as amended, the monthly annuity of a survivor of a police officer who first becomes a Chicago police officer on or after January 1, 2011 shall be increased on the January 1 after attainment of age 60 by the recipient of the survivor's annuity and each January 1 thereafter by 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted annuity. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

Financing for Chicago Police

Under SB 3538, as amended, beginning in 2015, the Chicago City Council will levy a tax annually at a rate on the dollar of the assessed valuation of all taxable property that will produce when extended an annual amount that is equal to (1) the normal cost to the fund, plus (2) an annual amount sufficient to bring the total assets of the fund up to 90% of the total actuarial liabilities of the fund by the end of fiscal year 2040, as annually updated and determined by an enrolled actuary employed by the Illinois Department of Insurance or by an enrolled actuary retained by the fund or the city. SB

3538, as amended, states that in making these determinations, the required minimum employer contribution must be calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040 and must be determined under the projected unit credit actuarial cost method.

Asset Smoothing for Chicago Police

SB 3538, as amended, clarifies for purposes of determining the required employer contribution to the fund, the value of the fund's assets must be equal to the actuarial value of the fund's assets, which will be calculated as follows:

(3) On March 30, 2011, the actuarial value of the fund's assets must be equal to the market value of the assets as of that date.

(4) In determining the actuarial value of the fund's assets for fiscal years after March 30, 2011, any actuarial gains or losses from investment return incurred in a fiscal year must be recognized in equal annual amounts over the 5-year period following that fiscal year.

Funding Mandate for Chicago Police

Under SB 3538, as amended, if the city fails to transmit to the fund contributions required of it for more than 90 days after the payment of those contributions is due, the Fund may, after giving notice to the municipality, certify to the State Comptroller the amounts of the delinquent payments. Beginning in fiscal year 2016, the Comptroller must deduct and deposit into the fund the certified amounts or a portion of those amounts from the following proportions of grants of State funds to the city:

(4) in fiscal year 2016, one-third of the total amount of any grants of State funds to the city;

(5) in fiscal year 2017, two-thirds of the total amount of any grants of State funds to the city; and

(6) in fiscal year 2018 and each fiscal year after, the total amount of any grants of State funds to the city.

SB 3538, as amended, clarifies that the State Comptroller may not deduct from any grants of State funds to the city more than the amount of delinquent payments certified to the State Comptroller by the fund.

Pension Formula Applicable to New Hires for Chicago Police

SB 3538, as amended, creates a new Section concerning pension provisions applicable to a person who first becomes a Chicago police officer on or after January 1, 2011. Under SB 3538, as amended, a Chicago police officer who withdraws from service at age 55 or older with 10 or more years of creditable service will receive an annuity of 2.5% of the police officer's final average salary for each year of service. The annuity of a police officer who is retiring after attaining age 50 with 10 or more years of creditable service will be reduced by one-half of 1% for each month that the police officer's age is below age 55. The maximum pension is 75% of final average salary. Final average salary is obtained by dividing the total salary of the police officer during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period.

Under SB 3538, as amended, beginning on January 1, 2011, the annual salary of a Chicago police officer based on the plan year cannot exceed $106,800; however, that amount shall annually be increased by the lesser of (a) 3% of that amount, including all previous adjustments, or (b) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, including all previous adjustments.

Survivor Annuities for Chicago Police

Currently, survivor annuities for Chicago Police pension funds are set at 50% of the participant's annuity. SB 3538, as amended, provides that for a police officer who first becomes a Chicago police officer on or after January 1, 2011, the annuity to which the surviving spouse, children, or parents are entitled must be in the amount of 66 2/3% of the police officer's earned annuity at the date of death. The monthly survivor's annuity will be increased on the January 1 after attainment of age 60 by the recipient of the survivor's annuity and then on each January 1 after by 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted annuity. SB 3538, as amended, clarifies that if the unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

Automatic Increase in Annuity for Chicago Fire

Currently, a firefighter qualifying for a minimum annuity who retires from service after September 1, 1959 will, upon either the first of the month following the first anniversary of his or her date of retirement if he or she is age 60 (age 55 if born before January 1, 1955) or over on that anniversary date, or upon the first of the month following his or her attainment of age 60 (age 55 if born before January 1, 1955) if it occurs after the first anniversary of his or her retirement date, have his or her then fixed and payable monthly annuity increased by 1.5% and then increased by an additional 1.5% in January of each year after up to a maximum of 30% (for officers born after 1955). Under SB 3538, as amended, for firefighter who first becomes a Chicago firefighter on or after January 1, 2011, such automatic annual increases will occur on the January 1 on or after the attainment of age 60 or the first anniversary of the annuity start date, whichever is later. Each annual increase will be calculated at 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted retirement annuity. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

Financing for Chicago Fire

Under SB 3538, as amended, beginning in 2015, the Chicago City Council will levy a tax annually at a rate on the dollar of the assessed valuation of all taxable property that will produce when extended an annual amount that is equal to (1) the normal cost to the fund, plus (2) an annual amount sufficient to bring the total assets of the fund up to 90% of the total actuarial liabilities of the fund by the end of fiscal year 2040, as annually updated and determined by an enrolled actuary employed by the Illinois Department of Insurance or by an enrolled actuary retained by the fund or the city. SB 3538, as amended, states that in making these determinations, the required minimum employer contribution must be calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040 and must be determined under the projected unit credit actuarial cost method.

Asset Smoothing for Chicago Fire

SB 3538, as amended, clarifies for purposes of determining the required employer contribution to the fund, the value of the fund's assets must be equal to the actuarial value of the fund's assets, which will be calculated as follows:

(5) On March 30, 2011, the actuarial value of the fund's assets must be equal to the market value of the assets as of that date.

(6) In determining the actuarial value of the fund's assets for fiscal years after March 30, 2011, any actuarial gains or losses from investment return incurred in a fiscal year must be recognized in equal annual amounts over the 5-year period following that fiscal year.

Funding Mandate for Chicago Fire

Under SB 3538, as amended, if the city fails to transmit to the fund contributions required of it for more than 90 days after the payment of those contributions is due, the Fund may, after giving notice to the municipality, certify to the State Comptroller the amounts of the delinquent payments. Beginning in fiscal year 2016, the Comptroller must deduct and deposit into the fund the certified amounts or a portion of those amounts from the following proportions of grants of State funds to the city:

(7) in fiscal year 2016, one-third of the total amount of any grants of State funds to the city;

(8) in fiscal year 2017, two-thirds of the total amount of any grants of State funds to the city; and

(9) in fiscal year 2018 and each fiscal year after, the total amount of any grants of State funds to the city.

SB 3538, as amended, clarifies that the State Comptroller may not deduct from any grants of State funds to the city more than the amount of delinquent payments certified to the State Comptroller by the fund.

Pension Formula Applicable to New Hires for Chicago Fire

SB 3538, as amended, creates a new Section concerning pension provisions applicable to a person who first becomes a Chicago firefighter on or after January 1, 2011. Under SB 3538, as amended, a Chicago firefighter who withdraws from service at age 55 or older with 10 or more years of creditable service will receive an annuity of 2.5% of the firefighter's final average salary for each year of service. The annuity of a firefighter who is retiring after attaining age 50 with 10 or more years of creditable service will be reduced by one-half of 1% for each month that the firefighter's age is below age 55. The maximum pension is 75% of final average salary. Final average salary is obtained by dividing the total salary of the firefighter during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period.

Under SB 3538, as amended, beginning on January 1, 2011, the annual salary of a Chicago firefighter based on the plan year cannot exceed $106,800; however, that amount shall annually be increased by the lesser of (a) 3% of that amount, including all previous adjustments, or (b) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, including all previous adjustments.

SB 3538, as amended, provides automatic increases in annuity beginning on the January 1 on or after the firefighter reaches age 60 or the first anniversary of the annuity start date, whichever is later. Each annual increase shall be calculated at 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted retirement annuity. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero, or when compared with the preceding period, decreases, then the annuity shall not be increased.

Survivor Annuities for Chicago Fire

Currently, survivor annuities for Chicago Fire pension funds are set at 50% of the participant's annuity. SB 3538, as amended, provides that for a firefighter who first becomes a firefighter on or after January 1, 2011, the annuity to which the surviving spouse, children, or parents are entitled must be in the amount of 66 2/3% of the firefighter's earned annuity at the date of death. The monthly survivor's annuity will be increased on the January 1 after attainment of age 60 by the recipient of the survivor's annuity and then on each January 1 after by 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted annuity. SB 3538, as amended, clarifies that if the unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

New Hires of Sheriff's Law Enforcement Employee (SLEP) in IMRF

SB 3538, as amended, makes changes to the pension formula for new hires on or after January 1, 2011. Under SB 3538, as amended, a sheriff's law enforcement employee age 55 or older who has 10 or more years of creditable service in that capacity will be entitled at his or her option to receive a monthly retirement annuity for his or her service as a sheriff's law enforcement employee computed by multiplying 2.5% for each year of service by his or her final rate of earnings. In addition, the annuity of a sheriff's law enforcement employee who is retiring after age 50 with 10 or more years of creditable service will be reduced by one-half of 1% for each month that the sheriff's law enforcement employee's age is under 55. The maximum pension is 75% of final average salary under HB 5873, as amended. SB 3538, as amended, states that final average salary is calculated by dividing the total salary of the sheriff's law enforcement employee during the 96 consecutive months of service within the last 120 months of service in which the total salary was the highest by the number of months of service in that period. The final average salary of a sheriff's law enforcement employee based on the plan year must not exceed $106,800; however, that amount shall annually be increased by the lesser of (a) 3% of that amount, including all previous adjustments, or (b) one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, including all previous adjustments.

Automatic Increase in Annuity for New Hires in SLEP

Under SB 3538, as amended, the monthly annuity of a sheriff's law enforcement employee shall be increased on the January 1 occurring either on or after the attainment of age 60 or the first anniversary of the annuity start date, whichever is later. Each annual increase will be calculated at 3% or one-half the annual unadjusted percentage increase (but not less than zero) in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted retirement annuity. SB 3538, as amended, clarifies if the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

Survivor Annuities for New Hires in SLEP

SB 3538, as amended, states that the annuity to which the surviving spouse, children, or parents are entitled will be in the amount of 66 2/3% of the sheriff's law enforcement employee's earned annuity at the date of death, and will be increased on the January 1 after attainment of age 60 by the recipient of the survivor's annuity and each January 1 after by 3% or one-half the annual unadjusted percentage increase in the consumer price index for the 12 months ending with the September preceding each November 1, whichever is less, of the originally granted pension. If the annual unadjusted percentage change in the consumer price index for a 12-month period ending in September is zero or, when compared with the preceding period, decreases, then the annuity will not be increased.

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FUNDING PROJECTIONS FOR DOWNSTATE POLICE PENSION FUNDS COMBINED
CGFA Projections Based on Reduced Benefits for Employees Hired after January 1, 2011
and Changes in Funding Provisions Under SB 3538 HA#3
($ in millions)

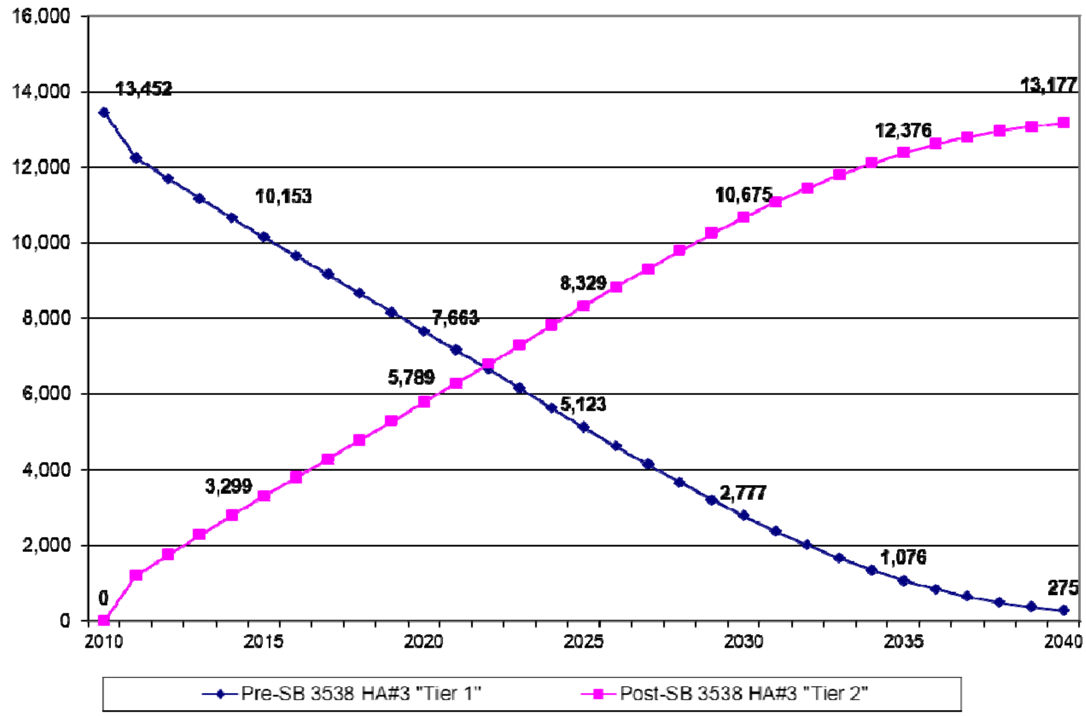
Fiscal Year	Annual Payroll	Total Payout	Total Employer Contribution	Employer Contribution as a % of Payroll	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio	Reduction in Employer Contribution	Present Value Reduction in Employer Contribution
2009					$8,987.8	$4,615.7	$4,372.1	51.4%		
2010	$931.7	$388.6	$440.8	47.3%	9,523.1	5,088.3	4,434.8	53.4%	$0.0	$0.0
2011	960.0	417.4	425.0	44.3%	10,051.0	5,550.5	4,500.5	55.2%	33.4	31.2
2012	988.9	446.6	437.8	44.3%	10,590.7	6,030.8	4,559.9	56.9%	37.5	32.8
2013	1,017.9	476.9	450.6	44.3%	11,142.2	6,529.6	4,612.6	58.6%	42.0	34.3
2014	1,046.4	508.5	463.2	44.3%	11,704.8	7,046.7	4,658.2	60.2%	47.0	35.9
2015	1,074.4	540.9	475.6	44.3%	12,278.6	7,582.4	4,696.3	61.8%	52.6	37.5
2016	1,102.4	574.6	488.0	44.3%	12,863.1	8,136.7	4,726.4	63.3%	58.7	39.1
2017	1,129.4	610.5	500.0	44.3%	13,456.5	8,708.4	4,748.1	64.7%	65.5	40.8
2018	1,154.9	648.6	511.3	44.3%	14,056.7	9,295.6	4,761.1	66.1%	73.2	42.6
2019	1,179.0	689.0	521.9	44.3%	14,661.5	9,896.4	4,765.0	67.5%	81.8	44.5
2020	1,201.1	731.8	531.7	44.3%	15,268.1	10,508.4	4,759.7	68.8%	91.5	46.5
2021	1,221.3	776.5	540.7	44.3%	15,874.3	11,129.4	4,744.9	70.1%	102.3	48.6
2022	1,239.9	823.2	548.9	44.3%	16,477.3	11,757.1	4,720.3	71.4%	114.1	50.7
2023	1,256.3	873.3	556.2	44.3%	17,073.1	12,387.6	4,685.5	72.6%	127.0	52.7
2024	1,269.6	927.1	562.0	44.3%	17,655.9	13,015.5	4,640.4	73.7%	141.4	54.8
2025	1,278.5	982.5	566.0	44.3%	18,221.9	16,636.9	4,585.1	74.8%	157.4	57.1
2026	1,285.8	1,039.8	569.2	44.3%	18,767.6	14,248.5	4,519.2	75.9%	174.6	59.1
2027	1,291.2	1,097.9	571.6	44.3%	19,290.3	14,847.9	4,442.4	77.0%	193.0	61.1
2028	1,295.3	1,157.1	573.4	44.3%	19,787.1	15,432.7	4,354.4	78.0%	212.5	62.9
2029	1,298.5	1,218.7	574.8	44.3%	20,253.6	15,999.0	4,254.5	79.0%	233.1	64.5
2030	1,300.1	1,280.2	575.5	44.3%	20,687.2	16,544.9	4,142.4	80.0%	255.1	65.9
2031	1,301.7	1,341.9	576.3	44.3%	21,086.0	17,068.9	4,017.2	80.9%	278.1	67.2
2032	1,301.7	1,402.9	576.2	44.3%	21,448.6	17,569.6	3,879.1	81.9%	302.7	68.3
2033	1,300.7	1,463.5	575.8	44.3%	24,773.6	18,045.6	3,728.0	82.9%	329.2	69.4
2034	1,299.6	1,523.2	575.3	44.3%	22,059.7	18,496.1	3,563.6	83.8%	-194.0	-38.2
2035	1,296.4	1,579.6	573.9	44.3%	22,308.5	18,922.0	3,386.5	84.8%	-305.2	-56.2
2036	1,293.3	1,633.7	572.5	44.3%	22,521.1	19,324.2	3,196.9	85.8%	-304.1	-52.4
2037	1,292.0	1,682.9	572.0	44.3%	22,701.1	19,707.2	2,993.9	86.8%	-303.4	-48.8
2038	1,292.6	1,728.9	572.2	44.3%	22,851.2	20,074.0	2,777.2	87.8%	-303.2	-45.6
2039	1,292.9	1,771.4	572.4	44.3%	22,974.5	20,427.4	2,547.0	88.9%	-303.0	-42.6
2040	1,293.7	1,810.8	572.7	44.3%	23,073.5	20,770.2	2,303.3	90.0%	-302.4	-39.7

FUNDING PROJECTIONS FOR DOWNSTATE FIRE PENSION FUNDS COMBINED
CGFA Projections Based on Reduced Benefits for Employees Hired after January 1, 2011
and Changes in Funding Provisions Under SB 3538 HA#3
($ in millions)

Fiscal Year	Annual Payroll	Total Payout	Total Employer Contribution	Employer Contribution as a % of Payroll	Accrued Liabilities	Assets	Unfunded Liabilities	Funded Ratio	Reduction in Employer Contribution	Present Value Reduction in Employer Contribution
2009					$6,417.0	$3,342.0	$3,075.1	52.1%		
2010	$635.2	$306.5	$320.9	50.5%	6,761.7	3,652.9	3,108.7	54.0%	$0.0	$0.0
2011	655.8	325.6	275.3	42.0%	7,112.3	3,920.7	3,191.6	55.1%	57.9	54.2
2012	677.3	345.2	284.3	42.0%	7,472.3	4,198.5	3,273.8	56.2%	61.3	53.6
2013	699.4	365.8	293.6	42.0%	7,841.4	4,486.2	3,355.1	57.2%	64.9	52.9
2014	721.3	387.4	302.7	42.0%	8,218.7	4,783.5	3,435.2	58.2%	68.7	52.4
2015	743.5	410.4	312.1	42.0%	8,603.3	5,089.7	3,513.6	59.2%	72.9	52.0
2016	765.8	433.6	321.4	42.0%	8,994.9	5,405.2	3,589.7	60.1%	77.3	51.5
2017	789.2	457.9	331.2	42.0%	9,393.1	5,730.0	3,663.1	61.0%	81.9	51.0
2018	812.4	483.3	341.0	42.0%	9,796.7	6,063.7	3,733.1	61.9%	86.9	50.6
2019	836.3	509.2	351.0	42.0%	10,205.4	6,406.5	3,798.9	62.8%	92.1	50.1
2020	860.3	536.2	361.1	42.0%	10,617.9	6,758.0	3,859.9	63.6%	97.7	49.7
2021	884.7	564.4	371.3	42.0%	11,032.9	7,117.7	3,915.2	64.5%	103.5	49.2
2022	909.5	593.3	381.7	42.0%	11,449.3	7,485.6	3,963.7	65.4%	109.7	48.7
2023	935.0	622.8	392.4	42.0%	11,866.4	7,861.9	4,004.5	66.3%	116.2	48.2
2024	960.9	653.3	403.3	42.0%	12,282.8	8,246.4	4,036.4	67.1%	123.1	47.8
2025	987.7	683.9	414.5	42.0%	12,697.9	8,639.9	4,058.0	68.0%	130.3	47.2
2026	1,015.1	715.3	426.1	42.0%	13,110.5	9,042.4	4,068.1	69.0%	137.9	46.7
2027	1,043.6	746.6	438.0	42.0%	13,520.1	9,455.1	4,065.0	69.9%	145.8	46.1
2028	1,073.9	778.4	450.7	42.0%	13,926.2	9,879.0	4,047.2	70.9%	153.9	45.5
2029	1,105.2	811.3	463.9	42.0%	14,326.8	10,314.1	4,012.7	72.0%	162.5	44.9
2030	1,137.8	844.2	477.5	42.0%	14,720.9	10,761.7	3,659.3	73.1%	171.4	44.3
2031	1,172.5	876.9	492.1	42.0%	15,108.6	11,223.8	3,884.8	74.3%	180.7	43.6
2032	1,208.7	908.9	507.3	42.0%	15,489.9	11,702.8	3,787.1	75.6%	190.4	43.0
2033	1,247.6	940.0	523.7	42.0%	15,866.1	12,202.3	3,663.8	76.9%	200.8	42.4
2034	1,288.8	970.5	540.9	42.0%	16,237.6	12,725.3	3,512.3	78.4%	-174.5	-34.4
2035	1,332.5	999.2	559.3	42.0%	16,606.8	13,276.5	3,330.3	79.9%	-261.8	-48.2
2036	1,379.0	1,026.6	578.8	42.0%	16,975.4	13,860.4	3,115.0	81.6%	-270.9	-46.6
2037	1,428.	1,052.	599.4	42.0%	17,345.	14,482.	2,863.5	83.5%	-280.5	-45.1

	2	5			6	0				
2038	1,480.5	1,076.4	621.4	42.0%	17,720.2	15,147.7	2,572.6	85.5%	-290.8	-43.7
2039	1,535.8	1,099.0	644.6	42.0%	18,101.7	15,863.0	2,238.7	87.6%	-301.7	-42.4
2040	1,593.7	1,119.8	668.9	42.0%	18,492.8	16,634.5	1,858.3	90.0%	-313.2	-41.1

DOWNSTATE POLICE PENSION FUNDS
Projected Active Membership
Comparison of Active Members Under SB 3538 HA #3 Tier 1 & Tier 2
FY 2010 - FY 2040



DOWNSTATE FIRE PENSION FUNDS
Projected Active Membership
Comparison of Active Members Under SB 3835 HA #3, Tier 1 & Tier 2
FY 2010 - FY 2040