COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 3474 as amended by House Amendment 1** April 4, 2011

SPONSOR (S): May

SYSTEM(S): All Pension Systems except GARS, JRS, Police/Fire (All)

FISCAL IMPACT: HB 3474 will have a positive fiscal impact on affected pension systems. The various changes will cause more money to be paid into pension systems and less money paid out in certain cases. Specific calculation of total money saved is not possible based on the language of the amendment.

SUBJECT MATTER: HB 3474 combines a number of pension changes covering almost all Illinois pension systems into one piece of legislation. Specifically, this legislation seeks to reduce pension payouts to pensioners who see large increases in compensation in their last 10 years of employment, standardize disability payouts, eliminates pension payouts to employees who contract to work for their previous employer, excludes certain leadership and trustee positions from pension eligibility, and requires documentation to be signed off on for municipality compensation increases to officers, executives and managers. In addition, the 6% limit on employee compensation increases is initiated for municipalities; the municipalities would be required to pay the benefits difference to the pension funds for most compensation increases that result in an employee salary that is over 6% above the previous Calendar Year salary.

FISCAL IMPACT: HB 3474 will have a positive fiscal impact on affected pension systems. The various changes will cause more money to be paid into pension systems and less money paid out in certain cases. Specific calculation of total money saved is not possible based on the language of the amendment.

COMMENT: This legislation makes a number of changes to the Illinois Pension Code that affect most pension systems in the state of Illinois. Specifically, the changes include:

1. Pension payment stoppage for pensioners who accept contracts to work for the governmental entity from which they have retired. The pensioner must also

notify their contract employer of their retirement status before accepting contractual employment.

2. A standard definition of "Final Average Salary" is made that affects all new hires after effective date of this act: the final average salary is the average monthly/annual salary determined by dividing the total salary/earnings calculated under the relevant Article of the Pension Code of the highest paid 8 years of the last 10 years of employment by the number of months/years in that period. This is limited to the base salary and does not include overtime, commissions, bonuses, retirement anticipation payments, termination/severance pay, lump sum payments for sick/compensatory/vacation/etc. time and benefits, housing/vehicles/lodging/travel/clothing allowances, or "any other type of payment that is a divergence from the normal progression patterns on which an individual's benefits should be based." **(Affects all pension systems except GARS, all Police/Firefighters pension systems, SURS, TRS, and JRS)**
3. Disability payments will be calculated based on the last 24 months before disability for participants who first become participants after this legislation is effective instead of being calculated on the last 3 months for current participants.
4. Municipalities and participating instrumentalities have a 6% limit in compensation for employees over the previous calendar year in years that are used to determine a participants annuity, not counting overload/overtime earnings and increases due to "standard employment promotions resulting in increased responsibility and workload." Any amount of compensation over 6% must be paid to the pension fund in terms of the total increase in benefits resulting from the portion of the compensation increase that is over 6%. The municipality or participating instrumentality has 90 days to pay the amount before interest is applied and 3 years total to pay the entire amount to the pension/annuity fund.
5. In the case of an employee's non-concurrent service in multiple municipalities/instrumentalities, the charges for non-concurrent service are calculated based on: (A) the annuity is based on service and adjusted earnings per employer with no regard to vesting and (B) the difference between the municipality charges for the actual annuity granted and the sum total of the municipality charges based upon the ratio of each from the calculations to the sum total described in (A). Also, the total municipality charges for concurrent service are prorated based on the employee's earnings. The municipality charges for retirement annuities calculated under subparagraph (a) of subparagraph 1 of subsection 7-142 shall be prorated based on actual contributions.
6. The following positions/people are removed from the definition of "state employee" in regards to pension/annuity applicability: new Civil Service Commission members, new Department of Employment Security Board of Review members (other than the director of Employment Security), new Civil Service Commission members, new Illinois Liquor Control Commission members, new Secretary of State Merit Commission members, new Human Rights Commission members, new State Mining Board members, new Property Tax Appeal Board members, new Illinois Racing Board members, new Department of State Police Merit Board members, new Illinois State Toll Highway Authority members, and new Illinois State Board of Elections members on or after the effective date of this legislation.

7. New Chicago Transit Authority trustees on or after the effective date of this legislation will not be able to participate in the CTA pension/retirement system.
8. New Suburban Bus Board, Commuter Rail Board and Regional Transportation Authority Board of Directors members on or after the effective date of this legislation will not be able to participate in the pension system.
9. Before the salary of a municipal officer/executive/manager is increased, the municipality authorities authorizing the increase must contact IMRF to inquire as to the effect of the increase in salary on the participant's pension benefits. IMRF must, in return, respond with a written "Pension Impact Statement" stating the effect of the salary increase on the individual's pension benefits and any other relevant effect of the increase, including potential payment of present value of benefits resulting from the potential salary increase being over 6% of the previous year. The municipal authorities must sign off on the Pension Impact Statement and acknowledge receiving and understanding the effects of the increase.

HB 3474 also amends the State Mandates Act to require implementation without reimbursement.

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