

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 97TH GENERAL ASSEMBLY

BILL NO: **HB 4513, as amended by HA 1** March 29, 2012

SPONSOR (S): Nekritz – Lang, et al.

SYSTEM(S): Metropolitan Water Reclamation District Pension Fund

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**FISCAL IMPACT:** An actuarial cost study for HB 4513, as amended by HA 1, is displayed on page 2 of this impact note. MWRD’s actuary, Sandor Goldstein, estimates that the 2013 required employer contribution would be \$65.8 million, and the 2014 required employer contribution would be \$66.7 million. This is compared to a 2011 employer contribution of \$34.4 million. Under HB 4513, as amended by HA 1, MWRD’s funding ratio would gradually increase each year until 2050, when a 90% funding ratio would be attained.

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**SUBJECT MATTER:** HB 4513, as amended by HA 1, amends the Metropolitan Water Reclamation article of the Illinois Pension code. The bill increases employee contributions for employees hired before Jan. 1, 2011. The bill also creates a new amortization schedule for the pension fund, with increased employer contributions and a mandate of reaching a 90% funding ratio by 2050.

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**COMMENT:** Under current law, the MWRD levies a tax equal to the total amount of contributions made by employees in the calendar year 2 years prior to the year of the levy, multiplied by 2.19. HB 4513 would change this employer contribution rate such that the MWRD would make employer contributions to the pension fund as a level percentage of payroll with a goal of reaching a 90% funding ratio by 2050. The bill specifies that the employer contribution shall not exceed an amount equal to the total employee contributions 2 years prior to the year of the levy, multiplied by 4.19. According to the MWRD pension fund’s actuary, Sandor Goldstein, 2040 would be the

first year in which the 4.19 multiplier would be less than the normal cost plus an amortization component (for more details on the long-term fiscal impact of HA 1, please see the chart below).

Also under current law, MWRD employees contribute 9% of salary towards their pensions, 7.0% of which is dedicated to the retirement annuity, 0.5% of which is dedicated to the annual COLA, and 1.5% of which is dedicated to the surviving spouse's annuity and COLA. HB 4513, as amended by HA 1, would gradually ramp up contributions for employees hired before Jan. 1, 2011 (the effective date of P.A. 96-0889) such that by Jan. 1, 2015, MWRD employees would be contributing 12.0% of salary towards their pensions. HA 1 contains a provision that states that once the MWRD pension fund has reached a 90% funding ratio, the employee contribution rate will drop back to 9.0% of salary. According to current actuarial projections, this decreased employee contribution amount would not occur until 2050, the date by which HA 1 requires the MWRD fund to have attained a 90% funding ratio.

Funding Projections for HB 4513								
Projections Generated by MWRD Actuary								
(\$ in millions)								
Fiscal Year	Annual Payroll	Employee Contributions	MWRD Contributions	Employer Contribution as a % of Payroll	Actuarial Liability	Actuarial Assets	Unfunded Liability	Funded Ratio
2010					\$2,036.7	\$1,151.6	\$885.1	56.5%
2011	\$174.5	\$15.7	\$34.4	19.7%	2,109.2	1,118.3	990.9	53.0%
2012	179.0	17.8	66.5	37.2%	2,180.9	1,119.4	1,061.5	51.3%
2013	184.7	20.0	65.8	35.6%	2,252.7	1,195.7	1,057.0	53.1%
2014	191.2	22.2	66.7	34.9%	2,324.6	1,255.3	1,069.2	54.0%
2015	196.9	22.6	67.4	34.2%	2,395.8	1,304.1	1,091.7	54.4%
2016	203.7	23.1	68.7	33.8%	2,466.4	1,352.7	1,113.7	54.8%
2017	210.1	23.6	70.1	33.4%	2,536.0	1,400.8	1,135.2	55.2%
2018	217.1	24.0	71.5	32.9%	2,604.4	1,448.3	1,156.1	55.6%
2019	223.3	24.4	72.8	32.6%	2,670.5	1,494.3	1,176.2	56.0%
2020	231.0	24.8	74.4	32.2%	2,734.8	1,539.4	1,195.3	56.3%
2021	238.6	25.2	76.0	31.9%	2,797.0	1,583.6	1,213.5	56.6%
2022	246.2	25.6	77.7	31.6%	2,856.9	1,626.6	1,230.4	58.9%
2023	254.3	26.0	79.5	31.3%	2,914.4	1,668.5	1,245.9	57.3%
2024	262.1	26.3	81.4	31.1%	2,969.0	1,709.1	1,259.9	57.6%
2025	270.6	26.7	83.5	30.9%	3,020.7	1,748.6	1,272.1	57.9%
2026	279.8	27.0	85.7	30.6%	3,069.6	1,787.3	1,282.4	58.2%
2027	289.1	27.3	88.0	30.4%	3,115.5	1,825.1	1,290.4	58.6%
2028	299.4	27.7	90.5	30.2%	3,158.8	1,862.9	1,295.9	59.0%
2029	309.3	28.0	93.0	30.1%	3,199.0	1,900.2	1,298.7	59.4%
2030	319.4	28.2	95.6	29.9%	3,236.0	1,937.4	1,298.5	59.9%