

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 5644**

April 2, 2012

SPONSOR(S): Leitch

SYSTEM(S): Downstate Police and Fire Funds

FISCAL IMPACT: The fiscal impact of HB 5644 will vary by fund. There are approximately 650 Downstate Police and Fire pension funds. P.A. 96-1495 implemented a fixed amortization period for police and fire pension funds whereby these funds must attain a 90% funding ratio by FY 2040. HB 5644 would allow the corporate authorities in cities with Article 3 and Article 4 (police and fire) pension funds to adopt a 30-year rolling amortization. In short, a rolling amortization period means that a plan's obligations will never be fully funded, but that a constant amortization period will be preserved from year to year. An actuarial cost study on a sample number of municipalities would be needed to assess the full impact of changing from a closed amortization period to a rolling amortization period.

SUBJECT MATTER: HB 5644 amends the Downstate Police and Downstate Firefighter Articles of the Illinois Pension Code. The bill authorizes the corporate authorities of a participating municipality to elect, by a duly authorized resolution or ordinance, to calculate actuarial liabilities using a 30-year rolling amortization period. Downstate Police and Fire Pension Funds are currently required by statute to attain a 90% funded ratio by FY 2040.

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COMMENT: Under current law, municipalities that have Article 3 pension funds levy a tax equal to the sum of the normal cost of the Downstate Police pension fund for the year involved and an amount sufficient to bring total assets up to a 90% funded ratio by the end of municipal fiscal year 2040. This funding requirement was implemented by P.A. 96-1495, which became effective on Jan. 1, 2011. HB 5644 would change the non-normal-cost portion of the municipality's levied tax, instead providing a payment in accordance with a rolling 30-year amortization schedule with the goal of a 90% funded ratio. Corporate authorities governed by Article 3 of the Pension Code may, by a duly authorized resolution or ordinance, elect to use the 30-year rolling amortization schedule proposed by HB 5644.

Also under current law, municipalities that have Article 4 pension funds levy a tax equal to the sum of the normal cost of the Downstate Firefighters pension fund for the year involved or 17.5% of the salaries and wages paid to firefighters, and an amount sufficient to bring total assets up to a 90% funded ratio by the end of municipal fiscal year 2040. This funding requirement was implemented by P.A. 96-1495, which became effective on Jan. 1, 2011. HB 5644 would change the non-normal-cost portion of the municipality's levied tax, instead providing a payment in accordance with a rolling 30-year amortization schedule with the goal of a 90% funded ratio. Corporate authorities governed by Article 4 of the Pension Code may, by a duly authorized resolution or ordinance, elect to use the 30-year rolling amortization schedule proposed by HB 5644.

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