# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **SB 1672, as amended by HA 2** May 24, 2011

SPONSOR (S): Raoul (McCarthy)

SYSTEM(S): General Provisions Article, Chicago Police, Chicago Fire, Downstate Police, Downstate Fire

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FISCAL IMPACT: According to the Commission's actuary, there is not an appreciable difference between the projected unit credit actuarial cost method and the entry age normal cost method. The actuary notes that the projected unit credit method, which was mandated by P.A. 96-1495, the Police and Fire Reform Act of 2010, generally produces a 1-2% reduction in a pension fund's accrued liabilities. Since this bill strikes the requirement that the projected unit credit method be used, police and fire pension funds would be allowed to choose either cost method after the bill becomes law.

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SUBJECT MATTER: SB 1672, as amended by HA 2, amends the Downstate and Chicago Police and Fire Articles of the Pension Code to alter various aspects of P.A. 96-1495, the Police and Fire Pension Reform Act of 2010. Specifically, the bill deletes the requirement that police and fire funds use the projected unit credit actuarial cost method. The bill also makes technical changes to the language regarding the Chicago funds' ability to intercept State funds if the City is delinquent in making the required employer contributions beginning in 2017.

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COMMENTS:

*Change in Actuarial Cost Method for Downstate Police, Downstate and Chicago Fire Pension Funds*

P.A. 96-1495 (SB 3538), the Police and Fire Pension Reform Act of 2010, required Downstate Police and Fire pension funds to reach a funding level of 90% by FY 2040. The Act specified that employer contributions are to be determined under the projected unit credit actuarial cost method. The projected unit credit method requires that the normal cost be calculated as the cost of the pension benefit earned during a particular year, whereas the entry age normal cost method levels out contributions as a percentage of payroll over an employee's period of active service. Prior to P.A. 96-1495, Downstate police and fire funds had mostly utilized the entry age normal cost method. SB 1672, as amended by HA 2, deletes the language requiring the utilization of the projected unit credit cost method. The bill also amends the Chicago Fire Article of the Pension Code to delete the language from P.A. 96-1495 pertaining to the implementation of the projected unit credit cost method.

*Financing for Chicago Police and Fire Pension Funds*

The Police and Fire Pension Reform Act of 2010 contained a funding "hammer" for the City of Chicago, under which the police and fire pension funds are empowered to notify the State Comptroller of any delinquent employer contributions to the respective funds. Beginning in 2016, the Comptroller must deduct and deposit into the respective funds the certified amounts from State funds to the city in increasing proportions over a three-year period until 2018, when the total amount of any grants of State funds to the city may be deducted for purposes of making the city's contribution to the police and fire pension funds.

SB 1672, as amended by HA 2, pushes back this three-year phase-in by one year so that the full amount of delinquent City contributions may not be deducted from State grants until 2019. Under the bill, the first year in which a portion of State grants may be accessed for fulfilling delinquent city payments to the respective pension funds is also delayed one year, from 2016 to 2017. According to the Chicago Fire pension fund, this change was suggested by the fund's actuary in order to better comply with the funding requirements of P.A. 96-1495.

The bill also changes the timeframe for when payments from the city are considered "delinquent" from 90 days after the payment due date to 90 days after the last day of the fiscal year in which the contributions in question are due.

*Delay in Implementation of Asset Smoothing for Chicago Police, Fire Pension Funds*

The Police and Fire Reform Act of 2010 implemented "asset smoothing" for the Chicago Police and Fire pension funds. Under asset smoothing, any actuarial gains or losses from investment returns are recognized in equal annual amounts over a 5-year period. P.A. 96-0043 implemented asset smoothing for the State systems in the wake of the 2008 market downturns. SB 1672, as amended by HA 2, delays the implementation of asset smoothing for the Chicago Police and fire pension funds from March 30, 2011 to December 31, 2013.

*Change in Survivor's Annuities for Chicago Police*

The Police and Fire Pension Reform Act of 2010 set survivor's benefits at 66 2/3% of the policeman's earned annuity at the date of death. This benefit level was extended to surviving spouses, children, and dependent parents. SB 1672, as amended by HA 2, removes children and parents from this benefit so that only surviving spouses will be eligible.

*Federal Heroes Earnings Assistance and Relief Tax Act (HEART Act) of 2008*

SB 1672, as amended by HA 2, amends the General Provisions Article of the Pension Code to stipulate that all pension funds and retirement systems subject to the Pension Code must comply with the federal Heroes Earnings Assistance and Relief Act of 2008. The Act confers certain benefits for military personnel who die in combat. These benefits include accelerated vesting and survivor benefits that would be provided if the participant had returned to work and then died. These additional benefits are retroactive to January 1, 2007.

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