COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **HB 1154, as amended by SA 2** May 27, 2014

SPONSOR(S): Madigan (Raoul - Sandoval)

SYSTEM(S): Cook County Employees' Pension Fund, Cook County Forest Preserve Employees' Pension Fund

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FISCAL IMPACT: HB 1154, as amended by SA 2, has a presently indiscernible, but positive fiscal impact. A revised note will be issued when an actuarial study has been made available.

SUBJECT MATTER: HB 1154, as amended by SA 2, amends the Cook County Employees' and the Cook County Forest Preserve Articles of the Illinois Pension Code by changing the calculation of automatic annual increases of pension annuities and by increasing employee contributions. This bill also makes changes to the systems' funding methodology and tax levy multipliers.

COMMENT:

County and District Contributions

- A 30-year amortization schedule (FY 2020 through 2049) will be implemented that requires the Funds to contribute 90% of the ARC payment starting in 2020. Any investment gains or losses will be acknowledged on a 5-year asset smoothing model.

- As of current law, Cook County and the Forest Preserve District of Cook County use funds from a levied tax to pay the employer contribution to both the County and the Forest Preserve Pension Funds.
    - This employer contribution is calculated as a statutorily-set multiplier of the employee contributions of 2 years previous.
        - The current multipliers are 1.54 for County and 1.30 for Forest Preserve.

- HB 1154, as amended by SA 2, proposes to increase the tax multiplier used to fund the employer contributions, beginning in FY 2016. The multiplier shall not exceed an amount that is needed to make the County contributions for that year.

  Cook County
    - For FY 2016 and 2017, the multiplier shall be 1.90, assuming employee contributions were 10.5% of salary.
    - For FY 2018 and 2019, the multiplier shall be 1.90, with the employee contributions certified by the Board.
    - For FY 2020 and beyond, the County contribution shall be the greater of:
        1. A multiplier of 1.90, or;
        2. An amount that meets the Minimum Required Contribution, as certified by the Board.

- If and when two consecutive Annual Actuarial Reports determine that the funded ratio exceeds 101%, the County's contribution shall be equal to the amount projected to maintain this funded ratio in 30 years' time, multiplied by 0.60.

Cook County Forest Preserve

- For FY 2016-2019, the multiplier shall be 1.75.
- For FY 2020 and beyond, the County contribution shall be the greater of:
  1. A multiplier of 1.75, or;
  2. An amount that meets the Minimum Required Contribution, as certified by the Board.
- If and when 2 consecutive Annual Actuarial Reports determine that the funded ratio exceeds 101%, the District's contribution shall be equal to the amount projected to maintain this funded ratio in 30 years' time, multiplied by 0.60.

- Beginning with the effective date of this bill, the Pension Funds will be empowered to seek writs of mandamus to compel the County and District to make the annual required pension contributions.

- No contributions will be used by the Funds as a healthcare subsidy.

Reforms to Employees

- Employee contributions will increase by 2% of salary over two years beginning January 1, 2015, for both Tier 1 and Tier 2 employees.

- Calculation of Benefits
  - 2.4% of the employee's final average salary for each service year prior to January 1, 2015, and 2.3% for each year thereafter. The annuity shall not exceed 80% of the final average salary.

- Changes in retirement age beginning January 1, 2015:
  - For Tier 2 employees, the normal retirement age will decrease from 67 to 65. The earliest retirement age (with age penalty) will remain at 62.

  - A Tier 1 employee with less than 30 years of service, or an elected county official with less than 10 years of service, shall not be entitled to receive an annuity unless they have attained the minimum age requirements:
    - At least 60 if the annuity begins in 2015;
    - At least 61 if the annuity begins in 2016 or 2017;
    - At least 62 if the annuity begins in 2018 or 2019;
    - At least 63 if the annuity begins in 2020 or 2021;
    - At least 64 if the annuity begins in 2022 or 2023;
    - At least 65 if the annuity begins in any year thereafter.

  - A Tier 1 employee with at least 30 years of service, and at least the final 10 years of service as a county security official, shall not be entitled to receive an annuity unless they have attained the minimum age requirements:
    - At least 50 if the annuity begins in 2015;
    - At least 51 if the annuity begins in 2016 or 2017;
    - At least 52 if the annuity begins in 2018 or 2019;
    - At least 53 if the annuity begins in 2020 or 2021;
    - At least 54 if the annuity begins in 2022 or 2023;
    - At least 55 if the annuity begins in any year thereafter.

  - A Tier 1 or Tier 2 county security officer who has at least 10 years of service as a county security official, but does not have at least 30 years of service, shall not be entitled to receive an annuity unless they have attained the minimum age requirements:

    - At least 60 if the annuity begins in 2015;
    - At least 61 if the annuity begins in 2016 or 2017;
    - At least 62 if the annuity begins in any year thereafter.

- Tier 1 Cost of Living Adjustments
  - For a Tier 1 annuitant who began receiving an annuity on or before January 1, 2015, the COLA shall be 3% compounded.
    - No annuitant will receive a COLA in FY 2016.
    - Beginning in FY 2020 - For any year the funded ratio falls below 59%, the annual increase in benefits will be 0%.
  - For a Tier 1 annuitant who will first receives an annuity after January 1, 2015, the COLA shall be the greater of 2% or ½ the CPI-U, not to exceed 4%. These COLAs are to be compounded.
  - Beginning in FY 2020, the COLA will be dependent of the funded ratio of the Fund. For Tier 1 annuitants:
    - No COLA will be received in FY 2016.
    - The second year after the funded ratio is found to be between 59% and 100%, the COLA shall be the greater of 2% or ½ the CPI-U, not to exceed 4%. These COLAs are compounded.
    - If the funded ratio is above 100%, the COLA shall be the greater of 3% or ½ the CPI-U, not to exceed 4%, compounded.
    - If the funded ratio falls below 59%, the COLA shall be 0%.

- Tier 2 Cost of Living Adjustments
  - For a Tier 2 annuitant the COLA shall be the lesser of 3% or ½ the CPI-U non-compounded.
  - Beginning in FY 2020, the COLA will be dependent on the funded ratio of the Fund. For Tier 2 annuitants:
    - No COLA will be received in FY 2016.
    - The second year after the funded ratio is found to be between 59% and 100%, the COLA shall be the lesser of 3% or ½ the CPI-U non-compounded.
    - If the funded ratio is above 100%, the COLA shall be the greater of 2% or ½ the CPI-U, not to exceed 4%, non-compounded.
    - If the funded ratio falls below 59%, the COLA shall be 0%.

- COLAs will be delayed as follows:
  - Tier 1 Employees:
    - COLAs will be delayed until the first day of January following 24 months from the date the employee receives his/her annuity.
    - An employee who retires before age 60 with less than 30 years of service, and who first receives his/her annuity after January 1, 2015, shall not receive a COLA until January of the year immediately following the year they reach 60, or the first day of January following 24 months from the date the employee receives his/her annuity.
  - Tier 2 Employees:
    - COLAs will be delayed until January 1 of attainment age 65, or the age of general eligibility for Medicare.
- Upon retirement, the first COLA will be delayed to the member's 2nd retirement anniversary and pro-rated based on the month of retirement for all employees retiring on or after January 1, 2015.

<u>Miscellaneous</u>

- An Annual Actuarial Report including actuarial values and projections is required to be submitted to the County every July.
- Beginning January 1, 2015, elected county officials that elect to enter the alternative annuity formula will be subject to a new calculation of average annual salary.
- For Tier 1 employees, the pensionable salary cap will be the greater of the Social Security wage base ($117,000 in 2014) or the annuitant's salary as of December 31, 2014. For Tier 2

employees, the pensionable salary cap will be the Social Security wage base ($117,000 in 2014).

- Board structure is changed to allow the president of the board to appoint both members that are not elected. Also, to change actuarial assumptions or discount rates will now need 8 of 9 votes in favor to adopt.

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