COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO: **SB 1922, as amended by HA 4** April 4, 2014

SPONSOR(S): Raoul (Madigan)

SYSTEM(S): Chicago Laborers' Annuity and Benefit Fund (LABF), Chicago Municipal Employees' Annuity Benefit Fund (CMEABF)

FISCAL IMPACT: SB 1922, as amended by HA 4, has presently indiscernible, but positive fiscal impact. A revised note will be issued when an actuarial study has been made available.

SUBJECT MATTER: SB 1922, as amended by HA 4, amends the Chicago Laborers' and the Chicago Municipal Employees' 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 includes future members of these funds in the Tier 2 pension benefit. This bill also makes changes to the systems' funding methodology and tax levy multipliers.

COMMENT:

City Contributions

- As of current law, the City of Chicago uses funds from a levied tax to pay the employer contribution to both the CMEABF and the LABF.
  - This employer contribution is calculated as a statutorily-set multiplier of the previous year's employee contributions.
    - The current multipliers are 1.25 for CMEABF and 1.00 for LABF.

- SB 1922, as amended by HA 4, proposes that starting FY 2015 and for every FY thereafter, the tax levy will not be any greater than the amount levied in FY 2014.
  - In addition to the current levy, the required employer contribution to each fund will follow a 40-year amortization window (FY 2016 through 2055) in order to bring the assets up to 90% of the given system's actuarial liabilities.
    - Any actuarial gains or losses due to investment returns will be acknowledged on a 5-year asset-smoothing model.
  - However, the required employer contribution to each fund will be capped with regard to the following multipliers that will grow from FY 2016 through 2020.
    - CMEABF: 1.85, 2.15, 2.45, 2.75, and 3.05 for every FY thereafter
    - LABF: 1.60, 1.90, 2.20, 2.50, and 2.80 for every FY thereafter

- Starting Levy Year 2015, the City may levy a separate and new tax as the Pension Stabilization Levy.
    - Revenues derived from this tax shall be used solely on the City's obligations to these funds.
    - The levied amount will not exceed the required contribution for the year.

- However, if the amount of the Pension Stabilization Levy is not at least than 50% of the required contribution for the year, the City will be subject to the following:
    - Beginning payment year 2016, the State Comptroller will deduct from grants of State Funds to the city 1/3 of the delinquent amount;
    - In payment year 2017, 2/3 of the delinquent amount will be deducted;
    - In payment year 2018 through 2021, 100% of the delinquent amount will be deducted from grants of State Funds to the City of Chicago.

- The Pension Funds will be empowered to seek writs of mandamus to compel the City to make the annual required pension contributions.

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

Reforms for Tier 1 Members (employees hired before 2011)
- COLAs
    - will be changed to the Tier 2 COLA of the lesser of 3% or ½ the CPI-U of the original annuity.
        - for current retirees, the COLA will be based on the last annuity before FY 2015.
    - COLAs will be delayed as follows:
        - If the retiree already has received a COLA, they will not receive COLA's in FY 2017, 2019, and 2025.
        - If the annuitant has not received their first COLA prior to the effective date of this act, this annuitant will forego his first COLA.

- Employee contributions will increase from 8.5% of salary by .5% of salary per year starting in FY 2015, capping off at 11% of salary in FY 2019.
    - Every FY after 2019 that the system is under 90% funded, the employee contribution will be 11% of salary; and
    - Every FY after 2019 that the system is over 90% funded, the employee contribution will be 9.75% of salary.

Reforms for New Hires (employees hired after January 1st, 2011)
- Members of the Chicago Laborers' and the Chicago Municipal Employees' Annuity and Benefit Funds hired after the effective date of this bill will receive Tier 2 pensions
    - Tier 2 members of these systems will forgo their regularly-scheduled 1st COLA

Miscellaneous Reforms
- Both the Chicago Municipal Employees' and the Chicago Laborers' Annuity and Benefit Funds will discuss alternative structures to the current Boards.
    - On April 1, 2015, both Boards will dissolve, each Board member will be terminated, and the Boards will be restructured (independently of one another).

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