COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

98TH GENERAL ASSEMBLY

BILL NO:	**SB 1922, as Enrolled**	May 6, 2014
SPONSOR(S):	Raoul (Madigan)	
SYSTEM(S):	Chicago Laborers' Annuity and Benefit Fund (LABF), Chicago Municipal Employees' Annuity Benefit Fund (MEABF)	

FISCAL IMPACT: SB 1922, as Enrolled, has a 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 Enrolled, 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 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 LABF and the MEABF.
  - This employer contribution is calculated as a statutorily-set multiplier of the employee contributions of 2 years previous.
    - The current multipliers are 1.00 for LABF and 1.25 for MEABF.

- SB 1922, as Enrolled, proposes that starting FY 2015 and for every FY thereafter, the tax levy shall not exceed the next year's required contribution.
  - 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 contribution as calculated when using the following multipliers that will grow from FY 2016 through 2020. Note that these multipliers will be based off of the employee contributions of 3 years previous.
    - LABF: 1.60, 1.90, 2.20, 2.50, and 2.80.
    - MEABF: 1.85, 2.15, 2.45, 2.75, and 3.05.

  - o Beginning FY 2021 or the first year in which the required employer contribution is not capped using the multiplier model; the City will fully abandon the multiplier model for all years afterward.
  - o After FY 2055, the required employer contribution to each system will be not less than the amount to bring the given system up to 90% funded.

- If the full amount of the above-calculated employer contribution is not transmitted to each fund, the City will be subject to the following:
  - o Beginning payment year 2016, the State Comptroller will deduct up to 1/3 of the City's grants for State funding to cover the delinquent amount ;
  - o In payment year 2017, up to 2/3 of grants may be deducted;
  - o In payment year 2018 and each year thereafter, 100% of grants of State Funds to the City of Chicago may be deducted to cover the delinquent contributions.

- Beginning calendar year 2015, 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.
  - o for current retirees, the COLA will be based on the last annuity before FY 2015.
  - o 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 only his first COLA.
  - o Notwithstanding either of the above bullet points, a retiree shall receive a COLA of 1% for any year that their annual pension benefit is below $22,000.
    - ▪ This minimum is based on the last annuity received before CY 2015 or, if the annuity was first awarded after CY 2015, the original amount.

- Employee contributions to each system 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.
  - o Every FY after 2019 that the system is under 90% funded, the employee contribution will be 11% of salary; and
  - o 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 LABF and the MEABF hired after the effective date of this bill will receive Tier 2 pensions
  - o Such members will forgo their regularly-scheduled 1st COLA and the COLA due for FY 2025.
  - o Starting CY 2015, members qualify for full retirement at the age of 65 and reduced benefits at age 60.

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