

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **HB 4553**

April 11, 2016

SPONSOR (S): D. Burke

SYSTEM(S): Chicago Firefighters

FISCAL IMPACT: According to a cost study performed by the fund's actuary, HB 4553 will result in an increase in Unfunded Liability of \$165 million, as well as an increase in the City's Contribution of \$13 million by 2017. However, the long-term impact of HB 4553 is significantly smaller. By 2056, Unfunded Liability for the Fund will have only increased by less than \$11 million, and the City's Contribution will have increased by approximately \$1.6 million. See *Appendix A* at the end of this note, for a detailed breakdown of the fiscal effects of HB 4553.

SUBJECT MATTER: HB 4553 sets the minimum retirement annuity for retired Chicago Firefighters, as well as the minimum widow's annuity, to be no less than the Federal Poverty Level. The bill also grants retired Firefighters, age 55 and born prior to January 1, 1966, 3% non-compounded annual increases to their monthly annuities.

COMMENT: HB 4553 amends the Chicago Firefighters Article of the Illinois Pension Code in the following ways:

- Beginning on January 1, 2017, the minimum retirement annuity payable to any person who has retired or will retire from service at age 50 or over with 20 or more years of service and is entitled to receive a retirement annuity, shall be no less than 125% of the Federal Poverty Level.
- Beginning on January 1, 2017, the minimum widow's annuity under this Article shall be no less than 125% of the Federal Poverty Level, for all persons receiving widow's annuities on or after that date.
- Firefighters who are age 55 or older, born before January 1, 1966, and who qualify for a minimum annuity upon retiring from service, shall have his or her then fixed and payable monthly annuity increased by 1 ½% annually, up to a maximum increase of 30%. If the aforementioned firefighters retire after September 1, 1967, but have not received the initial increase before January 1, 2017, they are then entitled to receive an initial increase either on January

1, 2017, the first anniversary of the date of retirement, or the attainment of age 60, whichever occurs last, in an amount equal to 3% for each complete year following the date of retirement or attainment of age 55, whichever occurs later. Beginning on January 1, 2017, for firefighters born after December 31, 1954, such increases shall be 3% annually, and such firefighters shall not be subject to the 30% maximum increase.

Appendix A – Actuarial Study Performed by System Actuary

The following tables show the shorterm impact of HB 4553 on Unfunded Liability, Funded Ratio, and the City’s Contribution. The liability and cost estimates are based on the same assumptions and methods used to develop the results of the Firefighter’s Annuity and Benefit Fund Actuarial Valuation for the year ending December 31, 2014.

Impact of HB 4553 by December 31st, 2016 (\$ rounded to the nearest million)				
	Total Before HB 4553	Change due to: 125% FPL Minimum Benefits	Change due to: Extension of 3% COLA to Members born on and before 12/31/1965	Total After HB 4553
Unfunded Actuarial Liability	\$3,379	\$25	\$140	\$3,544
Funded Ratio	26.17%	(0.15%)	(0.60%)	25.41%
City's Contribution	\$289.0	\$1.7	\$11.3	\$302.0
City's Contribution Rate (% of Capped Pay)	59.2%	0.4%	2.3%	61.9%