COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO:	SB 0777, as amended by HA 4	
JILL NO.	SD 0777, as amenaed by 1111 4	
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June 3, 2015

SPONSOR (S): Cullerton – Martinez, et al. (Currie – Acevedo)

SYSTEM(S): Chicago Police and Chicago Fire

FISCAL IMPACT: Under current law, the city is required make annual employer contributions to the Chicago Police and Fire Pension Funds in order that they may be 90% funded by the year 2040. SB 0777, as amended by HA 4, would not only extend that period by 15 years (2055), but it is estimated to lower the city's contributions to the Police and Fire Pension Funds for the next 5 years by 23.2% and 17.1% respectively. This reduction would result in a 5-year funding reduction of \$990.2 million. Under this bill, Chicago would gain additional funding for the Police and Fire Pension Funds via any proceeds from a casino. The minimum monthly annuity payments to retired police and firemen would increase to a value based on the federal poverty guidelines. These numbers vary based on the number of heads in a household, therefore is difficult to predict a fiscal impact. A revised impact not will be issued when an actuarial study of SB 0777, HA 4 has been obtained by CGFA.

<u>SUBJECT MATTER</u>: SB 0777, as amended by HA 4, amends the Chicago Police and Chicago Fire Articles of the Illinois Pension Code. This bill redefines the minimum monthly annuity for retired police and firemen. In addition, the bill extends the deadline for achieving a 90% funded ratio from 2040 to 2055. It also sets defined contribution amounts for the city in the years 2016 – 2020.

<u>COMMENT</u>: SB 0777, as amended by HA 4, proposes several changes to the Chicago Police and Fire Articles of the Illinois Pension Code. These changes can be summarized as follows:

- 1) Several technical changes are made, the most common of which is changing "year" to "tax levy year."
- 2) Current law states that the fixed and granted monthly annuity payment for any eligible policeman or fireman be no less than \$1,050. This bill will increase the minimum monthly annuity to an amount calculated by the

poverty guidelines provided by the United States Department of Health and Human Services.

3) The bill states that for the fiscal years 2016 through 2020, the city's contribution to the Police and Fire Pension Fund will be reduced as shown in the following tables:

Chicago Police							
	Current Law*	<u>SB 0777, HA 4</u>	Reduction	% Reduced			
2016	\$613,100,000	\$420,000,000	\$193,100,000	31.5%			
2017	\$634,800,000	\$464,000,000	\$170,800,000	26.9%			
2018	\$655,900,000	\$500,000,000	\$155,900,000	23.8%			
2019	\$677,300,000	\$557,000,000	\$120,300,000	17.8%			
2020	\$699,100,000	\$579,000,000	\$120,100,000	17.2%			
Total	\$3,280,200,000	\$2,520,000,000	\$760,200,000	23.2%			
Chicago Fire							
	Current Law*	SB 0777, HA 4	Reduction	% Reduced			
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2016	\$253,200,000	\$199,000,000	\$54,200,000	21.4%			
2016 2017	\$253,200,000 \$260,400,000						
		\$199,000,000	\$54,200,000	21.4%			
2017	\$260,400,000	\$199,000,000 \$208,000,000	\$54,200,000 \$52,400,000	21.4% 20.1%			
2017 2018	\$260,400,000 \$268,300,000	\$199,000,000 \$208,000,000 \$227,000,000	\$54,200,000 \$52,400,000 \$41,300,000	21.4% 20.1% 15.4%			

Beginning in tax levy year 2020, the city shall levy a tax annually in a manner that will increase the funding ratio to 90% by 2055 rather than 2040.

- 4) The minimum employer contribution will be determined using the "entry age normal actuarial cost method," rather than the "projected unit credit actuarial cost method." In both methods, the total contribution to the empolyees' pension fund is the same. The projected unit credit actuarial cost method puts aside less money in their early years of service and more in their later years of service. This bill proposes that the entry age normal actuarial cost method be used instead, which reserves a level amount each year.
- 5) Any proceeds collected from a casino by the city, shall be contributed to both the Chicago Police and Chicago Fire Pension Funds.
- 6) If the city does not make the required contributions by December 31st of the year in which such amount is due, the Fund may take legal action to ensure that obligations are met in a timely manner.

*The values listed under the "Current Law" columns were taken from the 2013 actuarial valuation of the Chicago Police and Chicago Fire Pension Funds.