COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **SB 843, as amended by HA 1** May 20, 2015

SPONSOR(S): Mulroe (Madigan)

SYSTEM(S): Cook County Employees' and Officers' Annuity and Benefit Fund and Forest Preserve District Employees' Annuity and Benefit Fund

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FISCAL IMPACT: Under current law, Cook County is obligated to levy a tax annually equal to the total amount of contributions made by employees in the calendar year two years prior to the year of the levy, multiplied by 1.54. SB 843, as amended by HA 1, changes this funding methodology in the following manner: starting in FY 2016, the County will contribute an amount equal to 1.9 times the employee contributions two years prior; starting in FY 2020, the County will contribute an amount necessary to achieve a 90% funding ratio utilizing a layered closed-loop actuarial calculation. An actuarial study has not been provided to COGFA; hence the actual dollar amounts associated with the revised contribution schedule is not available at this time. An updated note will be issued when an actuarial forecast becomes available.

SUBJECT MATTER: SB 843, as amended by HA 1, amends the Illinois Pension Code by overhauling the annuities provided to Cook County employees and officers, changing the funding formula, and by extending these changes to the Forest Preserve District Fund. This bill establishes salary caps; raises retirement ages; lengthens the Final Average Salary averaging period; reduces annuity accumulation multipliers for new sheriffs; and ties COLA availability, annuity accumulation multipliers, and county and aggregate employee contribution rates to the Fund's funded ratio. This bill also creates the Cook County Annuitant Healthcare Trust and the budget stabilization fund which are intended to finance and provide healthcare benefits to eligible annuitants of the Cook County and Cook County Forest Preserve District (FPD) pension systems.

COMMENT:

County Contributions

- Starting FY 2016, County contributions will be 1.9 times the employee contributions of 2 years prior, if those contributions were made at 10.5% of salary instead of at 8.5%;
- Starting in FY 2020, County contributions will be the greater of the above formula or the sum of the normal cost plus a rolling amortization payment towards 90% funded.
  - The above funding schedule will utilize the Entry-Age Normal cost method and will be a level percent of payroll.
- The second year following 2 consecutive years of having a funded ratio over 101%, the County's contribution will be 60% of the amount required to maintain a funded ratio of 101% in 30 years.
- The retirement funds will be empowered to circumvent funds from both the State and County comptrollers and to seek writs of mandamus to compel the County to make the annual required pension contributions.

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

<u>Reforms for Members of The Cook County Fund</u>

- Pensionable salary
    - Tier 1 Members: the amount of salary used to calculate an employee's pension is limited to the greater of the Tier 2 pensionable salary cap, or the employee's salary during the 365 days preceding the effective date of this amendatory Act.
        - Both limits will grow at ½ CPI-U, up to 3% per year

- COLAs will depend on Pension Tier, retirement date, and years of service
    - If T1 and retiring before 2016, COLA will be 3% compounding; except
        - No COLA in the second year after the Fund has a Funded Ratio under 59% (this provision may first be applied in 2020)
        - No COLA in 2016

    - If T1 and retiring after 1/1/2016, COLA will be a compounding ½ CPI-U but no less than 2% and no more than 4% in any year; except
        - No COLA in the second year after the Fund has a Funded Ratio under 59% (this provision may first be applied in 2020)
        - No COLA in 2016
        - The second year after the Fund records a Funded Ratio greater than 100%, the COLA will be no less than 3%

    - If the first available COLA comes on or after 2016…
        - T1: COLA is delayed until the 24-month anniversary of your annuity
        - T1 and fewer than 30 years of service: COLA is delayed until your 60th birthday but no less than 24 months.
        - T2: COLA is delayed until the member is eligible for Medicare but no less than 24 months
        - Regardless of Tier: The first available COLA will be prorated by month of retirement (0/12 if on a January up to 11/12 if on a December)

- Retirement age is increased, but it depends on the situation and year of retirement
    - T1 Members eligible for the "alternative annuity" and with fewer than 10 years of credit OR T1 members eligible for an "age and service annuity" with fewer than 30 years of credit must meet the minimum age dependent on the year of retirement
        - 2015: age 60
        - 2016-2017: age 61
        - 2018-2019: age 62
        - 2020-2021: age 63
        - 2022-2023: age 64
        - After 2024: age 65

    - T1 members eligible for an "age and service annuity" with at least 30 years of credit must meet the minimum age dependent on the year of retirement
        - 2015: age 50
        - 2016-2017: age 51
        - 2018-2019: age 52
        - 2020-2021: age 53
        - 2022-2023: age 54
        - After 2024: age 55
    - T1 members applying for a minimum annuity, retiring in or after 2016, and with at least 10 years of service credit must meet the minimum age dependent on the year of retirement

        - 2016-2017: age 51
        - 2018-2019: age 52
        - 2020-2021: age 53
        - 2022-2023: age 54
        - After 2024: age 55

    - T1 members with 30 years of credit, 10 of which were as a security officer, may retire at age 50

    - Members of either tier who have at least 10 years of credit as a security officer must meet the minimum age dependent on the year of retirement
        - 2015: age 60
        - 2016-2017: age 61
        - 2018 or later: age 62

- Employee contributions increased by:
    - 1% of salary during the first Cook County Fiscal Year (December 2015 thru November 2016)
        - 2% of salary thereafter
    - The second year following 2 consecutive years of having a funded ratio over 101%, the aggregate employee contribution will be 40% of the amount required to maintain a funded ratio of 101% in 30 years.
        - It is unclear what will happen to employees' individual contributions if their cumulative contributions exceed this amount.

- Employee Annuity Accrual of % of FAS (Final Average Salary)
    - Alternative Annuity Accruals
        - Service before 2016: accruals are based on FAS
        - Service on/after 1/1/2016:
            - 2.9% of FAS for first 8 years
            - 3.9% of FAS for next 4
            - 4.9% of FAS for any additional credit
            - Each of the above accrual tiers will be reduced by .1% point in the second year after a year in which the Funded Ratio is less than 59%.

    - Deputy Sheriff Annuity Accruals
        - Service before 2016: 2% of FAS
        - Service on/after 1/1/2016: 1.8% of FAS
            - This will be reduced by .1% point in the second year after a year in which the Funded Ratio is less than 59%.

    - Minimum Annuity Accruals
        - 2.4% of FAS per year for every full or partial year of service before 2016
        - 2.3% of FAS per year for every year of service starting 2016
        - Capped at 80% of FAS
        - T1 members are subject to reduction of .5% of FAS per month under minimum retirement age
            - T2 members are subject to the same reduction but per month under the age of 65 or the age at which Medicare is first available.

<u>Healthcare Trust Budget Stabilization Fund:</u> The healthcare trust budget stabilization fund will be initially funded by a $40 million contribution from Cook County and $10 million from the Cook County FPD. In addition, the county will contribute $50 million yearly in the future, though it has the option to require repayment of the portion contributed on behalf of the Cook County FPD. A six member board of trustees is set up in this amendment, consisting of two appointees of the Cook

County Board President, the CFO of the Cook County FPD, and three members appointed by the Retirement Board of the Cook County Employees' and Officers' Annuity and Benefit Fund. The trustees are responsible for creating and implementing a yearly budget to provide healthcare to annuitants within the $50 million budgeted allocation from Cook County. Cook County may bond out money to provide payments to this fund if necessary. The $50 million budgeted amount is increased yearly by the percentage increase in the Consumer Price Index-U (CPI-U) for the previous year as determined by the Illinois Department of Insurance. The board may make investments, allowing for a funding reserve. The board must make a yearly assessment of the healthcare trust funding levels and submit a budget for the ensuing fiscal year at least 90 days prior to the end of the current fiscal year, and report to the County Board at least 45 days prior to the end of the trust's fiscal year.

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