COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

99TH GENERAL ASSEMBLY

BILL NO: **SB 2437, as amended by HA 6** December 1, 2016

SPONSOR (S): Cullerton – Harris (Currie - Turner)

SYSTEM(S): Municipal Employees & Laborers

FISCAL IMPACT: SB 2437, as amended by HA 6, makes several changes to city contribution rates for the Municipal Employees' Annuity and Benefit Fund and Laborers' Annuity and Benefit Fund. Such changes include defined maximums for tax levies on the city's taxable property for years 2018 through 2022, and a new method for calculating maximums for years following 2022. The bill also offers increased employee contribution rates to Tier 2 employees who opt for reduced retirement ages. This bill also introduces an annuity for Tier 3 members, and all new city officers who are members of the Municipal Employees' Annuity and Benefit Fund will not be eligible for alternative annuity or alternative disability benefits.

There are several factors in this bill that will likely make a significant fiscal impact on both the Municipal Employees' and Laborers' Fund. At this time, no actuarial cost study has been made available to CGFA, thus the long-term fiscal impact cannot be determined. An updated impact note will be issued when an actuarial cost study has been obtained from the affected pension funds.

SUBJECT MATTER: If enacted, SB 2437, as amended by HA 6, will make several changes to the employee benefit formulas and contribution rates for both the Chicago Municipal Employees' and Chicago Laborers' Annuity and Benefit Funds as well as adjustments to city property tax levies for future years. There are also a variety of procedural and technical changes, including the method for calculating normal cost, benefit eligibility for new members, and consequences for delinquent contribution payments.

COMMENT: SB 2437, as amended by HA 6, proposes the following changes to the following Articles of the Illinois Pension Code:

Chicago Municipal Employees' & Laborers' Annuity and Benefit Funds

Age and Service Requirements for Tier 3

- Employees who first become members after the effective date of this bill (Tier 3 members) are entitled to a retirement annuity if he or she has attained the age of 65 and has at least 10 years of service credit. An employee may still receive a retirement annuity if he or she is younger than 65 but at least 60-years-old, but that annuity shall be reduced by 0.5% for each full month that the member's age is under age 65.

Employee Contribution Rates for Tier 2 Members who Opt Into Tier 3

- Current Tier 2 members shall make an irrevocable election to opt to be eligible for the reduced retirement ages described for Tier 3 members above, in exchange for increased employee contributions. Members who do not make this election will continue with the current Tier 2 contribution rate (8.5% of salary).

    - Employee contribution rates for Tier 2 members who make the election to opt into Tier 3:
        - Prior to the effective date of this bill: 8.5%
        - From the effective date of this bill to January 1, 2018: 9.5%
        - From January 1, 2018 to January 1, 2019: 10.5%
        - From January 1, 2019 and thereafter: the lesser of:
            - The total normal cost projected for that fiscal year for the benefits and expenses of the plan of benefits applicable to new members as well as Tier 2 members who made this election.
                - This amount cannot be less than 6.5% of salary combined with 1.5% of salary for the spouse's annuity and 0.5% of salary for the COLA, for a total of 8.5% (in other words, the minimum amount is the current statutory employee contribution rate).
                - This is calculated using the entry age normal actuarial cost method

            - The aggregate employee contribution consisting of 9.5% of salary combined with 1.5% of salary for the spouse's annuity and 0.5% of salary for the COLA, for a total of 11.5%.

        - Once the funding ratio reaches 90%, and for as long as the Fund mantains a funding ratio of at least 75%: 7.5%.
            - If the funding ratio falls below 75%, the member contribution reverts back to the formula previously described for the period starting on January 1, 2019. If the funding ratio reaches 90% again, the rate reverts back to 7.5%.

  - This election for Tier 2 members shall be made between June 1, 2017 and July 15, 2017. Any member that fails to make an election within the specified time will continue with the current Tier 2 contribution rate.

Employee Contribution Rates for Newly-Hired (Tier 3) Members

- Employee contribution rates for new members (Tier 3) shall be 11.5% until January 1, 2018. Beginning January 1, 2018, employee contributions for employees, who first became members on or after the effective date of this bill, shall be the lesser of:
  - The total normal cost projected for that fiscal year for the benefits and expenses of the plan of benefits applicable to new members as well as Tier 2 members who made this election.
    - This amount cannot be less than 6.5% of salary combined with 1.5% of salary for the spouse's annuity and 0.5% of salary for the COLA, for a total of 8.5%.
    - This is calculated using the entry age normal actuarial method
  - The aggregate employee contribution consisting of 9.5% of salary combined with 1.5% of salary for the spouse's annuity and 0.5% of salary for the COLA, for a total of 11.5%.
- Once the funding ratio reaches 90%, and for as long as the Fund mantains a funding ratio of at least 75%, contributions for employees, who first became members on or after the effective date of this bill, shall be 7.5%.
  - If the funding ratio falls below 75%, the member contribution reverts back to the formula previously described for the period starting on January 1, 2019. If the funding ratio reaches 90% again, the rate reverts back to 7.5%.

Tier 3 Cost of Living Adjustments

- Any new members or Tier 2 members that made the aforementioned reduced retirement age election, and are of the age of 65 or older, shall have their annuities subject to annual increases of the lesser of 3% or one-half of the annual unadjusted price index-u.

Intercept of State Grants due to Delinquent Contributions

- If the City fails to pay the required contribution by December 31st of that year, the Fund may deduct the following:
  - In payment year 2018: one-third of the total amount of any grants of State funds to the city.
  - In payment year 2019: two-thirds of the total amount of any grants of State funds to the city.
  - In payment year 2020 and each payment year thereafter: the total amount of any grants of State funds to the city.

Miscellaneous Provisions

- The State Comptroller may not deduct from any grants of State funds to the city more than the amount of delinquent payments certified to the State Comptroller by the Fund.
- The board will now be required to certify the annual amounts required from the city by July 1st of each year, rather than January 10.
- Refunds for members convicted of a felony shall be calculated based on that person's contributions to the Fund, less the amount of any annuity benefit previously received by that person or his or her beneficiaries.

Municipal Employees' Annuity and Benefit Fund ONLY

City of Chicago Tax Levy Rates

- The current multiplier for tax levy on taxable property in the City of Chicago is 1.25. Beginning in 2017, the tax levy shall not exceed the amount of the city's total required contribution to the Fund for the next payment year. Those required contributions are as follows:
    - 2018: $266,000,000
    - 2019: $344,000,000
    - 2020: $421,000,000
    - 2021: $499,000,000
    - 2022: $576,000,000
    - 2023 – 2058: The city's portion of the projected normal cost for that year, in addition to an amount determined on a level percentage of applicable employee payroll basis that is sufficient to bring the funding ratio to 90% by the end of 2058.
    - 2059 and beyond: The amount required to reach a 90% funding ratio by the end of the year.
        - Contributions for 2023 and all following years will be determined using the entry age normal actuarial cost method, and any gains or losses from investment incurred in a fiscal year shall be subject to a 5-year smoothing period.

Elimination of Alternative Annuity for New Members

- City officers, who first become members on or after the effective date of this bill, shall not be elligible for the alternative annuity or alternative disability benefits as described below:
    - Any city officer, elected by vote, who meets the requisite age and service requirements is eligible to accrue a pension at the following formula rate:
        - 3% of salary at the time of termination of service for each of the first 8 years of service credit
        - 4% of salary for each of the next 4 years of service credit
        - 5% of salary for each year of service credit in excess of 12 years
            - This is subject to a maximum of 80% of salary

Laborers' Annuity and Benefit Fund ONLY

City Tax Levy Rates

- Beginning in 2017, the tax levy shall not exceed the amount of the city's total required contribution to the Fund for the next payment year. Those required contributions are as follows:
    - 2018: $36,000,000
    - 2019: $48,000,000
    - 2020: $60,000,000
    - 2021: $72,000,000
    - 2022: $84,000,000
    - 2023 – 2058: The city's portion of the projected normal cost for that year in addition to an amount determined on a level percentage of applicable employee payroll basis that is sufficient to bring the funding ratio to 90% by the end of 2058.
    - 2059 and beyond: The amount required to reach a 90% funding ratio by the end of the year.
        - Contributions for 2023 and all following years will be determined using the entry age normal actuarial cost method, and any gains or losses from investment incurred in a fiscal year shall be subject to a 5-year smoothing period.

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