

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **HB 0545**

February 2, 2007

SPONSOR (S): Flowers

SYSTEM(S): Cook County Employees' Pension Fund

FISCAL IMPACT: According to the Commission's actuary, the alternative retirement annuity and survivor's benefits outlined in HB 0545 would increase the Cook County Pension Fund's total actuarial liability by \$634.4 million. Total annual costs would increase by \$87.7 million (normal cost plus a 30-year level dollar amortization of the increase in actuarial liability). As of December 31, 2005 the Cook County Pension Fund's funded ratio was 75.8%. The Commission's actuary has determined that the formula increase outlined in HB 0545 would reduce the funded ratio to 71.0%.

Based on data provided by the Cook County Pension Fund, a total of 6,860 participants out of the fund's 25,726 total participants as of December 31, 2005 would be eligible for the alternative annuity and survivors benefits outlined in HB 0545.

SUBJECT MATTER: HB 0545 amends the Cook County Article of the Pension Code to create an alternative retirement annuity and survivor's benefits for sworn Cook County sheriff's personnel.

FISCAL IMPACT: According to the Commission's actuary, the alternative retirement annuity and survivor's benefits outlined in HB 0545 would increase the Cook County Pension Fund's total actuarial liability by \$634.4 million. Total annual costs would increase by \$87.7 million (normal cost plus a 30-year level dollar amortization of the increase in actuarial liability). As of December 31, 2005 the Cook County Pension Fund's funded ratio was 75.8%. The Commission's actuary has determined that the formula increase outlined in HB 0545 would reduce the funded ratio to 71.0%.

Based on data provided by the Cook County Pension Fund, a total of 6,860 participants out of the fund's 25,726 total participants as of December 31, 2005 would be eligible for the alternative annuity and survivors benefits outlined in HB 0545.

COMMENTS: Currently, members of the Cook County Police Department are eligible to receive a retirement annuity based on the following formula: 50% of final average salary for each year of service credit up to 20 years, plus 2% of final average salary for each year in excess of 20, up to a maximum of 80% of final average salary. A Cook County police officer can begin to receive an unreduced retirement annuity upon attainment of age 50 with 20 years of service credit. The regular Cook County Employees' retirement formula is 2.4% of final average salary for each year of service credit, up to a maximum of 80% of final average salary. Members who participate in the regular formula can begin to receive an unreduced annuity at age 60 with at least 10 years of service credit or anytime after age 50 with at least 30 years of service credit.

HB 0545 allows all sworn sheriff's personnel (police officers, correctional officers, and bailiffs) to be eligible for an optional alternative retirement annuity and survivor's benefit. HB 0545 allows sworn sheriff's personnel who reach 50 years of age with 10 years of service credit or age 55 with 8 years of service credit to receive an alternative annuity based on the following formula: 3% of final salary for the first 8 years of service credit, plus 4% of final salary for the next 4 years, plus 5% of final salary for each year after 12 years of service for a maximum retirement annuity of 80% of final salary ("final salary" means the salary of the sworn sheriff's personnel at the time of termination of service). Under this enhanced formula, sworn Cook County sheriff's personnel would reach the maximum retirement benefit after 20 years. Employees participating in the alternative annuity would contribute an additional 3% of salary after electing this option and 3% of salary plus interest at the "effective rate" (4% per year) to upgrade past service credit. HB 0545 also includes disability benefits calculated with the same formula as the alternative annuity.

Survivor's benefits under the alternative plan would provide a spouse with an annuity of 66 2/3% of the sworn officer's earned annuity if the officer dies while in active service. If the sworn officer dies after termination of service or while in receipt of a retirement annuity, the maximum survivor's annuity would be limited to 75% of the sworn officer's earned retirement annuity. Currently, surviving spouses receive an annuity equal to 65% of the deceased member's earned annuity, regardless of whether the member died while in active service or after retirement. Under the proposed bill, remarriage prior to age 55 will disqualify a surviving spouse from receiving an annuity.

The plan of optional alternative benefits and contributions outlined in HB 0545 is effective January 1, 2008 or the date upon which approval is received from the Internal Revenue Service, whichever is later.

HB 0545 amends the State Mandates Act to require implementation without reimbursement.

DH:dkb

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