

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 95TH GENERAL ASSEMBLY

BILL NO: **HB 1974** April 10, 2007  
SPONSOR (S): Burke - Joyce  
SYSTEM(S): Chicago Firefighters' Pension Fund

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**FISCAL IMPACT:** The Fund's actuary performed a cost study on a similar "back DROP" proposal in 2006 that would have increased the accrued liabilities of the Fund by approximately \$6.6 million. In order to amortize this increase in accrued liabilities over a 30-year period, additional annual employer contributions of \$535.0 thousand would have been required. It should be noted that the legislative proposal that the Fund's actuary examined in 2006 included a three-year phase-in of eligibility for the "back DROP" lump sum benefit. HB 1974 allows eligible firefighters to receive the full lump sum benefit upon retirement; hence, the cost of implementing HB 1974 would be significantly higher.

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**SUBJECT MATTER:** HB 1974 amends the Chicago Firefighters' Article of the Pension Code to allow an active fireman who is not in receipt of a disability pension and has at least 23 years of creditable service and has attained age 50 to make an election to receive a lump sum payment of employee contributions credited to his or her account that correspond to a period not to exceed 3 years immediately preceding withdrawal from service, plus an amount equal to 2.26 times the corresponding employer contributions made to the fund.

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COMMENTS: Currently, members of the Chicago Firefighters' Pension Fund who have attained 50 years of age and have at least 20 years of service credit are entitled to receive a minimum annuity of 50% of final average salary, plus an amount equal to 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. (For purposes of determining the retirement annuity, "final average salary" means the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement). The retirement annuity cannot exceed 75% of final average salary. Chicago Firefighters contribute 9.125% of salary towards their pensions and are not eligible to receive Social Security benefits.

HB 1974 amends the Chicago Firefighters' Article of the Pension Code to allow an active fireman who is not in receipt of a disability pension and has at least 23 years of creditable service and has attained age 50 to make an election to receive a lump sum payment of employee contributions credited his or her account that corresponds to a period not to exceed 3 years immediately preceding withdrawal from service, plus an amount equal to 2.26 times the corresponding employer contributions made to the fund. In exchange for receiving this lump sum, the firefighter must agree to forfeit all service credit and any applicable benefits that correspond to that three-year time period.

HB 1974 stipulates that service credit forfeited by acceptance of a lump sum shall not be included in the calculation of the fireman's retirement annuity. The monthly retirement annuity, as reduced by the amount of the lump sum payment, will constitute the originally granted retirement annuity.

HB 1974 amends the State Mandates Act to require implementation without reimbursement.

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