

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

BILL NO: **HB 4275**

January 18, 2008

SPONSOR(S): Molaro

SYSTEM(S): Chicago Teachers Pension Fund

FISCAL IMPACT: By increasing the retirement formula to 2.4%, HB 4275 would increase the Fund's total actuarial liability by \$183.1 million and increase annual costs by \$22.0 million, or 1.12% of payroll. The Fund has not provided a cost estimate for the provision eliminating employee contributions to upgrade, but that provision could result in a significant increase in employer contributions.

SUBJECT MATTER: HB 4275 amends the Chicago Teachers' Article of the Pension Code to increase the retirement formula to 2.4% of final average salary (rather than 2.2%) for each year of service credit. HB 4275 also eliminates the upgrade contribution requirement for the optional increase in retirement annuity to the 2.2% formula, beginning on the effective date of the Amendatory Act. In addition, any upgrade contributions that have already been made would be refunded to the member (with 5% interest) and the annuities of retirees who chose not to upgrade prior service would have the annuity recalculated using the 2.2% of final average salary benefit formula.

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COMMENTS: HB 4275 makes the following changes to the Chicago Teachers' Article of the Pension Code:

Retirement Formula Increase

Public Act 90-582 increased the CTPF benefit formula to 2.2% of final average salary for each year of service earned after June 30, 1998. Members may elect to upgrade service credit earned prior to July 1, 1998 by making additional contributions.

For members retiring after the effective date, HB 4275 increases the retirement formula to 2.4% of final average salary for each year of service credit. The bill does not require upgrade payments for past service.

In 1998, the Teachers' Retirement System and State Universities Retirement System converted to a 2.2% formula. Annuitants of the State Employees' Retirement System receive 1.67% of final average salary for each year of service. Chicago Park Employees, Chicago Laborers, Municipal Employees, and Cook County Employees all have 2.4% formulas.

Eliminate Upgrade Contributions

Currently, members may elect to have service credit earned prior to July 1, 1998, upgraded to the new formula by contributing 1.0% of the member's average salary (for the four years immediately preceding application) for each year of service upgraded. The contribution is reduced by 1.0% of that salary rate for every 3 full years of creditable service earned by the member after June 30, 1998. The maximum contribution is set at 20% of salary. Public Act 92-416 eliminated the contribution for members with at least 30 years of service at retirement.

The contributions required to upgrade past service to the 2.2% formula may be made in one of three ways: in a lump sum before the date of retirement; deducted from the employee's salary in installments over a period not to exceed five years; or deducted from the retirement annuity in equal monthly installments over a 24-month period (if the member becomes an annuitant before June 30, 2003).

HB 4275 eliminates the required upgrade contributions for the optional increase in retirement annuity, beginning on the effective date of the Amendatory Act. In addition, the bill provides that any upgrade contributions that have already been made would be refunded to the member (with 5% interest) and the annuities of retirees who chose not to upgrade past service would have the annuity recalculated using the 2.2% of average salary formula. These annuitants would receive a lump sum equal to the difference in the annuity that would have been provided by the 2.2% formula, and the amount of the annuity actually received.

HB 4275 amends the State Mandates Act to require implementation without reimbursement.

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