## COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

## 95TH GENERAL ASSEMBLY

BILL NO: HB 4335

February 4, 2008

SPONSOR(S): Bradley, R.

SYSTEM(S): Chicago Teachers Pension Fund

FISCAL IMPACT: The Fund has not provided a cost estimate for the provision eliminating employee contributions to upgrade past service, but that provision could result in a significant increase in employer contributions.

<u>SUBJECT MATTER</u>: HB 4335 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, compounded annually) 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.

<u>FISCAL IMPACT</u>: The Fund has not provided a cost estimate for the provision eliminating employee contributions to upgrade past service, but that provision could result in a significant increase in employer contributions.

<u>COMMENTS</u>: Currently, members may elect to have service credit earned prior to July 1, 1998, upgraded to the 2.2% 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 4335 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 4335 amends the State Mandates Act to require implementation without reimbursement.

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