

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

REVISED

BILL NO: **HB 4342**

April 16, 2008

SPONSOR (S): Molaro

SYSTEM(S): Chicago Teachers' Pension Fund

FISCAL IMPACT: HB 4342 increases the annual cost to the Chicago Teachers' Pension Fund (CTPF) by \$10 million. Additionally, as the increased amount paid as reimbursement for retiree health insurance costs will no longer be available for reinvestment by the Fund, the potential for lower investment earnings in future years exists. According to the CTPF, the rate at which the fund rebates retirees for their health insurance costs (currently 70%) would have to be lowered in FY 2009 unless the reimbursement cap is raised to \$75 million. The reimbursement rate for retiree health insurance is determined by the Chicago Teacher Pension Fund's board of trustees.

SUBJECT MATTER: HB 4342 amends the Chicago Teachers' Article of the Pension Code to stipulate that the annual limit on the amount of reimbursement to annuitants for health insurance costs shall not exceed \$75,000,000 (currently \$65,000,000) plus any amount authorized to be paid in the preceding year that was not actually paid.

FISCAL IMPACT: HB 4342 increases the annual cost to the Chicago Teachers' Pension Fund (CTPF) by \$10 million. Additionally, as the increased amount paid as reimbursement for retiree health insurance costs will no longer be available for reinvestment by the Fund, the potential for lower investment earnings in future years exists. According to the CTPF, the rate at which the fund rebates retirees for their health insurance costs (currently 70%) would have to be lowered in FY 2009 unless the reimbursement cap is raised to \$75 million. The reimbursement rate for retiree health insurance is determined by the Chicago Teacher Pension Fund's board of trustees.

COMMENTS: Current law allows the Chicago Teachers' Pension Fund to reimburse retirees, survivors, and disability annuitants for a portion of their health insurance coverage. The total reimbursement amount is not to exceed \$65 million annually, plus any amount that was

authorized to be paid in any preceding year that was not actually paid. (P.A. 93-0677, which became effective on June 28, 2004, raised the cap from \$40 million to \$65 million). The Pension Code further specifies that the total annual amount of payments made for retiree health insurance reimbursement may not exceed 75% of the total cost of the coverage for all recipients who receive payments in that year. HB 4342 raises the annual retiree health insurance reimbursement cap to \$75 million, plus any amount that was authorized to be paid in the preceding year that was not actually paid.

The charts below show the amounts available for expenditure for retiree health insurance over the last two fiscal years:

Year Ended June 30, 2007	
July 1, 2006 Balance	\$41,057,585
Add Statutory Annual Limit	\$65,000,000
Add Interest	\$2,373,014
Add Other Adjustments	\$0
Less FY 2006 Expenditures	(\$61,028,841)
June 30, 2007 Balance	\$47,401,758

Year Ended June 30, 2006	
July 1, 2005 Balance	\$31,630,533
Add Statutory Annual Limit	\$65,000,000
Add Interest	\$2,420,040
Add Other Adjustments	\$286,912
Less FY 2006 Expenditures	(\$58,279,900)
June 30, 2006 Balance	\$41,057,585

It should also be noted that the June 30, 2007 Financial Statements for the Chicago Teachers' Pension Fund show a total actuarial liability of approximately \$2.0 billion for health insurance. As shown in the chart above, the fund had \$47.4 million in assets as of June 30, 2007. Pursuant to the GASB 43 reporting requirement on other post-employment benefits (OPEB), the CTPF had a June 30, 2007 OPEB funding ratio of 2.3%.

HB 4342 amends the State Mandates Act to require implementation without reimbursement.

DH:dkb

LRB095 14502 AMC 40409 b