

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

100TH GENERAL ASSEMBLY

BILL NO: HB 166, as amended by HA 1 Nov. 20, 2018
SPONSOR (S): Zalewski (Mulroe)
SYSTEM(S): Chicago Municipal, Laborers

FISCAL IMPACT: HB 166, as amended by HA 1, will have no discernible fiscal impact on either the Chicago Laborers or Municipal pension funds. The bill provides various administrative changes to allow the two pension funds to better implement the Tier 3 schedule of benefits prescribed by P.A. 100-0023.

SUBJECT MATTER: HB 0166, as amended by HA 1, amends the Chicago Laborers' and Municipal Articles of the Pension Code to add clarifying language to facilitate administration of Tier 3 benefits as prescribed by P.A. 100-0023.

COMMENT:

P.A. 100-0023 implemented a new schedule of benefits for new entrants into the Chicago Municipal and Laborers' Pension Funds (referred to as "Tier 3 benefits.") Under the Act, employees who begin service on or after July 6, 2017, the effective date of P.A. 100-0023, can retire at age 65 with 10 years of service. Tier 3 members can take a reduced annuity at age 60 with 10 years of service credit, reduced by 0.5% for each month that their age is under 65. Current Tier 2 members can opt into the Tier 3 schedule of benefits by making an affirmative election and by agreeing to pay the higher contribution amounts.

HB 0166, as amended by HA 1, makes administrative changes to both articles to allow for the implementation of the Tier 3 schedule of benefits, as outlined below:

Reduced Employee Contribution Pay Period

Under P.A. 100-0023, whenever the funding ratio of each respective fund reaches 90%, employee contributions for annuity purposes are scheduled to drop to 5.5% of salary. Current law specifies that this rate shall take effect on the first "pay period" after the date when the 90% funding ratio is deemed to have been achieved. HB 0166, as amended by HA 1, clarifies

this period of reduced contributions shall be in effect “for the one year period” in January after the date when the funding ratio of 90% is deemed to exist in the prior year’s actuarial valuation.

Determination of Normal Cost for Purposes of Calculating Employee Contributions for Tier 2 Members Making an Election to Participate in Tier 3

Under P.A. 100-0023, employee contributions for elective Tier 3 participants (those Tier 2 participants who opt into Tier 3) are specified to be the lesser of 11.5% or the normal cost of the fund. HB 0166, as amended by HA 1, specifies that normal cost for contribution purposes is calculated using the prior fiscal year projections of benefits and expenses.

Hold Harmless Provision for Payments of Annuities to Financial Institutions (Chicago Laborers)

HB 0166, as amended by HA 1, contains language stating that the Chicago Laborers Pension Fund shall be held harmless from any loss related to the federal insurance of a financial institution when an annuitant directs the board to pay the annuity to the financial institution.

City Contributions for Money Purchase Annuity

P.A. 100-0023 deleted city contributions for the Money Purchase Option in both the Chicago Municipal and Laborers articles of the Pension Code. The Money Purchase Option is a defined benefit option in which employee contributions, employer contributions, and a prescribed rate of interest are used to calculate an aggregate dollar amount that becomes payable as an annuity. The Money Purchase option is utilized in very few instances; for example, according to the Chicago Municipal fund, of the 1,200 members who retired last year, less than 10 opted to take a Money Purchase annuity. HB 0166, as amended by HA 1, re-inserts the City contribution amounts that were deleted by P.A. 100-0023.

EW: bj

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