

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 100TH GENERAL ASSEMBLY

BILL NO: **SB 3426**

March 12, 2018

SPONSOR (S): Althoff

SYSTEM(S): Downstate Police, Downstate Firefighters, and the Illinois Municipal Retirement Fund (IMRF)

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**FISCAL IMPACT:** There are 655 active Downstate Police and Downstate Firefighter pension funds that could be consolidated into IMRF under SB 3426. At this time, the full extent of the long-term impact has not been determined.

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**SUBJECT MATTER:** SB 3426 amends the Downstate Police, Downstate Firefighters, and IMRF Articles of the Illinois Pension Code, most notably by consolidating Downstate Police and Downstate Firefighters pension funds into the Illinois Municipal Retirement Fund (IMRF).

**COMMENT:** SB 3426 proposes the following changes to Illinois Pension Code:

***Individual Police and Fire Pension Fund Consolidation into IMRF***

On January 1, 2020, all of the individual Downstate Police and Fire pension funds will be merged into the Illinois Municipal Retirement Fund (IMRF) by the direction of the Transition Board, and any city, village or incorporated town with 5,000 or more, but less than 500,000 inhabitants shall participate in IMRF for pension benefits of police officers and firefighters. All Downstate Police and Fire pension funds under Articles 3 and 4 of the Pension Code and the municipalities that established the funds shall cooperate with the Transition Board. All assets and liabilities belonging to the individual pension funds will become assets and liabilities of IMRF. This consolidation shall not diminish or impair the benefits of any current or former police officer or firefighter.

Upon consolidation, creditable service acquired while participating in a Downstate Police or Fire pension fund shall be deemed to be creditable service under IMRF, subject to the following:

- Service credit cannot be counted more than once;

- Any creditable service established prior to the consolidation for an activity that would no longer be allowed, shall be preserved under IMRF, but no additional creditable service shall be established for that activity; and
- The consolidation shall not entitle any person or pension fund to a refund of any contribution or payments previously paid in order to establish creditable service.

### Transition Board

This bill proposes the creation of the Downstate Police Pension Fund Transition Board and the Downstate Firefighter Pension Fund Transition Board. Each transition board shall consist of 11 members who are in charge of planning, overseeing, and administering the consolidation of all existing Downstate Police and Fire funds into IMRF. The 11 members shall be as follows:

- The Director of the Illinois Department of Insurance, or his or her designee;
- Two persons with experience in managing an Illinois public employee pension fund, appointed by the Governor;
- One person with experience in providing actuarial services to an Illinois public employee pension fund, appointed by the Governor;
- One person with experience auditing Illinois public pension funds, appointed by the Attorney General;
- Two members of the labor organization representing the largest number of participating police officers or firefighters, appointed by the Governor:
  - One member must be an active participant; and
  - One member must be a retired participant.
- Two persons who are mayors or chief elected officers of municipalities that maintain a downstate police or firefighters pension fund, appointed by the Governor;
- One person familiar with the operation and administration of IMRF, appointed by the Executive Director of IMRF; and
- One person familiar with the investment authority and practices of the Illinois State Board of Investment, appointed by the Executive Director of the Illinois State Board of Investment.

Members of the Transition Board shall act at all times in a manner appropriate for fiduciaries. The Transition Board's powers and duties include, but are not limited to, the following:

- Providing for the preservation and consolidation of membership, beneficiary, financial, and other records relating the funds being merged;
- Obtaining all necessary IRS and all other necessary approval for review;
- Providing for the final auditing of existing Downstate Police and Fire pension funds;
- Providing for the custody and transfer of the assets and liabilities to IMRF;
- Recommending to IMRF an appropriate system of accounting for the assets and liabilities;
- Recommending to IMRF an appropriate system of determining, administering, receiving, and enforcing the required municipal contributions to the Fund;

- Municipal rates shall be determined separately for each municipality on an annual basis.
- Ensuring the uninterrupted payment and administration of benefits;
- Adopting any rules or procedures necessary for the efficient consolidation to IMRF;
- Considering the consequences of the consolidation on any Qualified Illinois Domestic Relations Orders (QILDROs) filed with the pension funds being consolidated and providing appropriate notice and advice to persons affected by those QILDROs;
- Making recommendations to the Governor and the General Assembly with respect to legislation necessary or useful for the consolidation to IMRF; and
- Consulting with IMRF about their policies, practices, rules, and structure.

The DOI shall provide all reasonably necessary temporary office space, technical and clerical support, and monetary or other assistance at the request of the Transition Board. In preparation for the consolidation into IMRF, the Transition Board is authorized to expend the assets of IMRF for any of the reasonable expenses resulting from this consolidation. All members of the Transition Board will be compensated for their service. After 60 days of accomplishment of the consolidation of the individual funds into the Downstate Police or Fire Pension Fund, the Transition Board would be abolished.

#### *The Role of IMRF*

IMRF's Pension Board shall assist in the consolidation of the Downstate Police and Fire pension funds to IMRF and shall provide assistance to the Transition Boards. Beginning January 1, 2020, IMRF shall administer the benefits and other requirements under the Downstate Police and Fire Articles of the Pension Code. IMRF shall adopt any rules and exercise any rights and powers necessary to administer said benefits efficiently and effectively.

#### *New Tier 2 Members (Post Consolidation)*

Police officers and firefighters who first become employed on or after January 1<sup>st</sup>, 2020 that would normally be entered into a Downstate Police or Downstate Fire Pension Fund under current law, would instead become participants in IMRF under Tier 2.

JL:bj

LRB100 20446 MJP 35795 b