

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 3854**

November 25, 2019

SPONSOR (S): Skillicorn

SYSTEM(S): General Provisions Article

FISCAL IMPACT: HB 3854 effectively establishes a maximum retirement annuity of \$132,900 for people who become members in a public pension fund governed by the General Provision Article on or after the effective date of the bill. All other provisions of Tier 2, as summarized below in the Comment section, would remain in force for such new members. It should be noted that this bill does not alter the current Tier 2 pensionable salary cap, but expressly sets out a new maximum annuity independent of the current Tier 2 cap. An actuarial study would be necessary to estimate the impact of this new cap on pension payouts for affected members.

SUBJECT MATTER: HB 3854 creates a \$132,900 cap on annual annuities or pension benefits for any person who begins participating in a pension system governed under the General Provisions Article on or after the effective date of this bill. However, the cap will be annually increased by the percentage increase in the consumer price index-u.

COMMENT: P.A. 96-0889, which took effect on January 1, 2011, established a second tier of benefits for most pension funds governed under the Illinois Pension Code (police and fire were excluded). For those who began contributing to those systems after its effective date, the following provisions apply, among others:

Retirement Age

- Normal Retirement: 67 years old with 10 years of service.
- Early Retirement: 62 years old with 10 years of service with a 6% per year reduction in benefits for each year age is under 67.

Cost of Living Adjustment (COLA)

- Increases begin at the later of the first anniversary of retirement or at age 67
- Increases equal to the lesser of 3% or one-half the annual increase in the CPI-U; if increase in CPI is zero or if there is a decrease in CPI, then no COLA is payable.
- Increase not compounded.

Final Average Salary

- May not exceed \$106,800, as automatically increased by the lesser of 3% or one-half of the annual increase in the CPI-U.

HB 3854 would amend the General Provisions Article to create a \$132,900 limit on the total amount of retirement annuity or pension benefits a person may receive in a year, annually increased by the percentage increase in the consumer price index-u. This new limit on retirement annuity would apply to any person who first becomes a member of a retirement system governed under the General Provisions Article on or after the effective date of the legislation. It is not clear how this new cap on annuities is intended to function in concert with the current Tier 2 pensionable salary cap, as described above. The bill does not alter current law with regard to the Tier 2 pensionable salary cap.

CM:bj

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