

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 5354**

February 19, 2020

SPONSOR (S): Durkin

SYSTEM(S): GARS

FISCAL IMPACT: HB 5354 would have an uncertain fiscal impact on pension liabilities, as no information is available regarding the number of active employees who would choose to participate in the proposed benefit reduction. An actuarial analysis would be required before any estimate could be made.

SUBJECT MATTER: HB 5354 amends the General Assembly Article of the Illinois Pension Code to establish a “consideration model” for active Tier 1 members to choose one of two benefit reduction options, as explained below in the Comment section.

COMMENT: HB 5354 sets forth two options for active Tier 1 participating members. All Tier 1 members must make a “consideration” election no later than March 31, 2021. Option 1 reduces the current annual 3% compounded retirement and survivor’s annuity increases to the Tier 2 COLA, which is the lesser of 3% or one-half the increase in the CPI-U, non-compounded. The Tier 2 COLA is payable at age 67. Tier 1 members who opt to receive the Tier 2 COLA will have their employee contributions reduced from 11.5% of salary to 10.35% of salary, and will receive a 10% “consideration payment” of all prior contributions.

Option 2 will not impact the Tier 2 member’s COLA, but does not allow future income increases to be treated as pensionable income. This legislation also makes various smaller changes to allow implementation and appropriation for consideration payments. Any Tier 1 employee who fails to make an election shall automatically be deemed to have rejected Option 1 and will retain the 3% compounded COLA, with all future pay increases being deemed non-pensionable.

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