COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102ND GENERAL ASSEMBLY

BILL NO: **HB 0308** February 4, 2021

SPONSOR (S): West, II

SYSTEM(S): Downstate Police, Downstate Fire

FISCAL IMPACT: A comprehensive actuarial study would be required to ascertain the fiscal impact of HB 0308. Please see Appendix 1 on the following page for a statement by the Commission's actuary on actuarial best practices regarding amortizing unfunded liabilities and the general consequences of lengthening the amortization period for Downstate Police and Fire pension funds.

SUBJECT MATTER: HB 0308 amends the Downstate Police and Downstate Fire articles of the Pension Code. The bill extends the statutory amortization period under which these funds must attain a 90% funding ratio from 2040 to 2050.

COMMENT: Pension funds established under Articles 3 and 4 of the Pension Code are commonly referred to as "Downstate" police and fire pension funds. These funds cover municipal police and fire personnel in all municipalities except for Chicago and those municipalities under 5,000 in population. P.A. 96-1495, which took effect on January 1, 2011, put in place a new funding policy for municipalities under which Downstate police and fire pension funds must attain a 90% funding ratio by municipal year 2040. The annual employer contribution amount to be made by the pertinent employer is determined by an actuary employed by the Illinois Department of Insurance, although the law allows either the pension fund or the employer to employ their own actuary to make the annual contribution determination.

HB 0308 amends the Downstate Police and Fire articles of the Pension Code to extend the amortization period by 10 years, such that employer contributions to Downstate police and fire pension funds must now be made in order to attain a 90% funding ratio by 2050, rather than 2040.

APPENDIX 1 – Statement by Segal Consulting on changing the amortization period for Downstate Police and Fire Pension Funds:

HB 308 proposes to extend the statutory target date for Downstate Police and Firefighter plans achieving a 90% funded percentage from 2040 to 2050 – an additional ten years. The current 2040 target represents a 20-year period from the last fiscal year end; the proposed 2050 target extends that to a 30-year period. Model practice according to a Conference of Consulting Actuaries (CCA) white paper on public sector pension funding suggests a period of 15 to 20 years to amortize experience gains and losses and 15 to 25 years to amortize assumption or method changes. Model practice also assumes a 100% funding target. The current 20-year amortization period and 90% target results in a method that is outside the parameters for model practice according to the CCA white paper. Furthermore, the current methodology, even with a 20-year amortization period, does not even pay interest on the existing unfunded actuarial accrued liability. Extending the amortization period to 30 years would move even further away from model practice and would result in unfunded actuarial accrued liabilities that will increase for more than a decade. Longer amortization periods increase the volatility of contribution requirements, backload contributions and violate the concept of intergenerational equity. Longer amortization periods for plans that are significantly underfunded increase the possibility that the funded percentage will not improve over time.

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