COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102ND GENERAL ASSEMBLY

BILL NO:	**HB 417, as amended by SA 1**	May 26, 2021
SPONSOR (S):	Burke (Martwick)	
SYSTEM(S):	Chicago Park District (Park Employees' Annuity and Benefits Fund of Chicago)	

FISCAL IMPACT: HB 417, as amended by SA 1, reforms the funding policy of the Park Employees' Annuity and Benefit Fund of Chicago so that the pension fund could attain a 100% funded ratio by the end of 2058. According to the pension fund's actuarial valuation report as of December 31, 2019, the fund currently has a 29.9% funded ratio and is projected to run out of assets by the end of 2027 if all future assumptions are met and no additional contributions are made. Under this legislation, the Tier 3 plan will be created for employees who first become members on or after January 1, 2022, or Tier 2 members who irrevocably elect into the Tier 3 plan as described below. Compared to the current Tier 2 plan, the Tier 3 total employee contribution rate will be increased to 11% from 9%, in exchange for having age retirement eligibility reduced by 2 years. It is unknown how many Tier 2 members would opt into Tier 3.

SUBJECT MATTER: HB 417, as amended by SA 1, amends the Chicago Park District Article of the Illinois Pension Code. This legislation creates a Tier 3 benefits structure that provides, compared with the Tier 2 benefits structure, a lower age retirement eligibility and a higher employee contribution rate for new employees who first become members on or after January 1, 2022, or Tier 2 members who elect to opt-in for the Tier 3 plan as described below.

COMMENT:

Creation of Tier 3 Benefits

Under current law, the Tier 2 retirement eligibility under the Chicago Park District Article is age 67 with 10 years of service for regular benefits and age 62 with 10 years of service for reduced benefits, respectively. The current total employee contribution rate is 9% of salary, comprised of 7% for the retirement pension, 1% for the spouse's pension, and 1% for the annual increase in retirement benefit.

HB 417, as amended by SA 1, creates a Tier 3 benefits structure for employees who first become members on or after January 1, 2022. The Tier 3 plan provides a higher employee contribution rate in exchange for having a lower age retirement eligibility. The age eligibility will be reduced by 2 years (age 65 for regular benefits and age 60 for reduced benefits), and the employee contribution rate for the retirement pension will be increased to 9% from 7%, resulting in the total employee contribution rate of 11%.

Under this legislation, the two following options will be offered to Tier 2 members who first became members prior to January 1, 2022. Tier 2 members who choose Option 1 could irrevocably elect to opt-in for the Tier 3 plan.

- **Option 1**: To **agree** with the Tier 3 benefits structure, which is to have an increased total employee contribution rate of 11% in exchange for the reduced age eligibility by 2 years (age 65 for regular benefits and age 60 for reduced benefits); or
- **Option 2**: To **not agree** to Option 1. In this case, the current age retirement eligibility and employee contribution rate will remain the same.

This election shall be made between January 1, 2022, and April 1, 2022. The legislation stipulates that Option 2 is the default decision for those who fail to make an irrevocable election by April 1, 2022.

<u>Chicago Park District Required Annual Pension Contributions and Tax Levy</u>

Currently, a tax levied by the Chicago Park District (employer) to make the required employer contributions to the pension fund shall be equal to the employee contributions in the fiscal year two years prior to the year for which the tax is levied, multiplied by 1.1.

Under this legislation, beginning in levy year 2020, the levy shall not exceed the amount of the Park District's total required contribution for the next payment year ("Payment year" means the year immediately following the levy year). For payment years 2021 to 2023, the required employer contributions, determined by the pension fund's actuary, shall ramp up as follows:

1. For payment 2021: **25%** of the amount, equal to the sum of employer normal cost, plus an amount, using a 35-year period starting on December 31, 2020, with the entry age normal actuarial cost method, that is sufficient to attain a funded ratio of 100% by the end of **2055**;
2. For payment 2022: **50%** of the amount, equal to the sum of employer normal cost, plus an amount, using a 35-year period starting on December 31, 2021, with the entry age normal actuarial cost method, that is sufficient to attain a funded ratio of 100% by the end of **2056**; and
3. For payment 2023: **75%** of the amount, equal to the sum of employer normal cost, plus an amount, using a 35-year period starting on December 31, 2022, with the entry age

normal actuarial cost method, that is sufficient to attain a funded ratio of 100% by the end of **2057**;

For payment years 2024 through 2058, the Park District's required annual contribution shall be **100%** of the amount, equal to the sum of employer normal cost, plus an amount, using a 35-year period starting on December 31, 2023 with the entry age normal actuarial cost method, that is sufficient to bring the funded ratio up to 100**%** by the end of **2058**.

For payment year 2059 and each year thereafter, the required contribution shall be the amount so that the pension fund's funded ratio would reach 100%, if needed, using the entry age normal actuarial cost method as of the end of the year.

In determining the required employer contributions, any actuarial losses or gains from investment returns that differ from the expected investment returns shall be recognized in equal annual amounts over the 5-year period following the fiscal year. This technique is known as "asset smoothing."

Authorization of the Issuance of Bonds

This legislation allows the Chicago Park District to issue from time to time bonds in the principal amount of $250 million for making supplementary employer contributions to the pension fund to reduce the unfunded liability of the pension fund. However, the Chicago Park District may not issue bonds in excess of $75 million in any one year. The proceeds of the bonds should not be used to reduce the amount of the required employer contributions.

Also, an additional employer contribution of $40 million shall be made no later than November 1, 2021, to reduce the pension fund's unfunded liability.

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