

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 1804**

February 22, 2021

SPONSOR (S): Ramirez

SYSTEM(S): Chicago Teachers

FISCAL IMPACT: There is no discernible fiscal impact associated with HB 1804. The Chicago Teachers Pension Fund says that the expanded employer pick-up language would match current practice, specifically with regard to charter schools that employ CTPF members.

SUBJECT MATTER: HB 1804 amends the Chicago Teacher Article of the Pension Code. The bill makes a clarifying change, specifying that both employers and the Board of Education can either “pick-up” or make employee contributions on behalf of employees (rather than just the Board of Education).

COMMENT: Federal tax law permits public employers to “pick up” employee retirement contributions. Under a pick-up plan, the “picked-up” employee contributions are tax deferred for federal income taxation purposes until the member receives the contributions in the form of a refund or retirement benefit.

Under the Chicago Teachers’ Article of the Pension Code, the Chicago Board of Education can either “pick up” employee contributions on behalf of Chicago teachers, or make the employee contributions for the members. As previously explained, an employer “pick up” is a mechanism whereby the employee contributions are tax deferred. If the employer makes the employee contribution on behalf of the employee, the Chicago Teacher article of the Pension Code stipulates that such contributions are treated as *employer contributions* in determining federal tax treatment.

HB 1804 clarifies that employers beyond the Board of Education can also make employee pick-ups and/or employee contributions on behalf of employees, including, for example, charter schools. The pension fund says that this change matches current practice.

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