COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **HB 1859, as amended by SA 1** November 30, 2022

SPONSOR (S): Burke – Kelly (Martwick – Castro)

SYSTEM(S): Cook County Forest Preserve Pension Fund

FISCAL IMPACT: A full actuarial impact study would be needed to assess the impact of HB 1859, as amended by SA 1. According to the Cook County Forest Preserve's 2021 actuarial valuation, the pension fund had unfunded liabilities of $149.5 million, with a funding ratio of 59.4%. The pension fund's actuary projects that the fund will be depleted of assets by the year 2044 under the current statutory "multiplier methodology" framework.

SUBJECT MATTER: HB 1859, as amended by SA 1, amends the Cook County Forest Preserve article of the Pension Code. The bill replaces the current "multiplier methodology" funding mechanism in favor of a system of employer contributions consisting of the annual normal cost plus a 30-year layered-amortization of unfunded liabilities. The details of the new funding plan are described below in the Comment section.

COMMENT: Under current law, the Cook County Forest Preserve District makes annual contributions to the Cook County Forest Preserve pension fund using a "multiplier methodology." Under this methodology, the District's annual pension contribution is equal to the contributions made by Cook County Forest Preserve employees 2 years prior to the year in which the District's pension contribution is calculated, multiplied by 1.30.

HB 1859, as amended by SA 1, does away with the multiplier methodology funding after payment year 2023 and implements a new funding schedule. Under this bill, the Forest Preserve District's required minimum annual contribution to the pension fund will be based on a 5-year smoothed actuarial value of assets plus a 30-year layered amortization of unfunded liabilities, with the amortization component increasing at 2% per year. The new funding plan will be in effect for payment years 2024 through 2054.

Note – SA 1 also references an unfunded liability amortization period from 2016 through 2046. The pension fund says this language is duplicative and would need to be removed.

According to CGFA's actuary, Segal Consulting, a "layered amortization" program is one in which any actuarial losses trigger a new amortization period. As an example, if an actuarial loss occurred in the Forest Preserve fund during 2024, a new 30-year amortization period would commence for paying down this loss, as opposed to adding the loss to the unfunded liability as of the end of 2023 and paying the loss down over 29 years. Another example: if by 2054 there have been no gains, losses, or assumption changes, and the 2024 unfunded liability would otherwise be expected to be fully amortized but for a large and unexpected investment loss in 2054, the layered approach would give the pension fund a new 30-year period in which to amortize the loss, as opposed to paying it off in one year (the "target" year), as is common under "closed amortization" payment programs. By way of reference, the State Retirement Systems operate under a closed amortization program under P.A. 88-0593.

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