

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

102<sup>nd</sup> GENERAL ASSEMBLY

BILL NO: **HB 4196**

January 12, 2022

SPONSOR (S): Zalewski

SYSTEM(S): Chicago Laborers' Article

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**FISCAL IMPACT:** There is no discernible fiscal impact associated with codifying the practice of awarding ordinary disability “continuation annuities” to Tier 2 members, as this benefit is presumed to exist in the calculation of the fund’s actuarial liabilities. The fiscal impact of awarding Tier 1 members the greater of the minimum retirement annuity (\$850 per month) and the amount of the continuation annuity is actuarially insignificant, according to the pension fund’s actuary. In the past 20 years, only 1.2% of all annuities (32 people), have been occupational disease continuation annuities.

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**SUBJECT MATTER:** HB 4196 amends the Chicago Laborer Article of the Illinois Pension Code to clarify that ordinary disability “continuation annuity” benefits are payable to Tier 2 members who exhaust their regular ordinary disability benefits, as enumerated below. The bill also awards Tier 1 members the greater of the ordinary disability continuation annuity or the minimum retirement annuity amount (\$850 per month).

**COMMENT:** Under current law, the Chicago Laborers Article of the Pension Code provides for ordinary disability annuities (For Tier 1 and Tier 2), which are payable for personal, non-duty related illnesses. Ordinary disability benefits are paid in an amount equal to 50% of the member’s salary as of their last day worked prior to the commencement of the disability leave. Eligible employees are entitled to receive ordinary disability benefits for a period up to one-quarter of the length of their total service, not to exceed a period of 5 years. The Chicago Laborers Article provides for “continuation” annuities for members who exhaust their ordinary disability benefits and withdraw from service while still disabled, without any minimum age or service requirement. The amount of continuation annuities are explained below.

Continuation Annuities for Tier 2 recipients of Ordinary Disability Benefits

Public Act 96-889, the 2010 Tier 2 Act, provides that Tier 2 members will receive a “retirement annuity” at age 67 with 10 years of service. The Act provides that in the

event of a conflict between the provisions of Section 1-160 of the General Provisions Article of the Pension Code (which added the Tier 2 language) and any other provision of the Pension Code, the provisions of Section 1-160 shall control.

The pension fund's legal counsel says that it is unclear if the term "retirement annuity" in the Tier 2 Act refers to the ordinary disability continuation annuities, as described above. Therefore, the fund says that it is unsure if the Legislature intended to eliminate ordinary disability continuation annuities for Tier 2 members. HB 4196 amends the Chicago Laborers Article of the Pension Code to ensure that upon exhaustion of ordinary disability benefits, Tier 2 members will receive a continuation annuity, which is an annuity calculated based upon the sum total of employee and employer contributions computed based upon the employee's age as of the date of withdrawal from service (this type of annuity is referred to as an "accumulation annuity"). This accumulation annuity benefit amount is currently enshrined in statute; HB 4196 merely clarifies the eligibility of Tier 2 employees to receive continuation disability annuities once ordinary disability benefits are exhausted.

#### Application of Minimum Annuities for Tier 1 Ordinary Disability Continuation Annuity Recipients

As previously explained, when Tier 1 members of the Chicago Laborers Pension Fund exhaust their ordinary disability benefits, they are entitled to receive ordinary disability continuation annuities. This benefit is calculated based upon the sum total of employee and employer contributions based upon the employee's age as of the date of withdrawal from service ("accumulation annuity"). HB 4196 amends the Chicago Laborers Article to stipulate that if the current statutory minimum retirement annuity of \$850 per month exceeds the amount of the continuation annuity, then the disabled Tier 1 member shall receive the minimum retirement annuity in lieu of the continuation annuity amount that would otherwise be payable.

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