

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

102nd GENERAL ASSEMBLY

BILL NO: **SB 1056, as amended by HA 1** May 21, 2021
SPONSOR (S): Martwick – Stewart (Halpin)
SYSTEM(S): Various

FISCAL IMPACT: The fiscal impact of the various components of the pension omnibus legislation are noted in the Comment section below.

SUBJECT MATTER: SB 1056, as amended by HA 1, is a pension omnibus bill which consists of components of Senate Bills previously introduced. Each provision is summarized in the Comment section below. *Please note that HA 1 is similar in all respects to the engrossed bill, with the exception of the portion of the engrossed bill which made technical and definitional changes to the SURS Article with respect to the implementation of the optional DC plan pursuant to P.A. 100-0769. This provision has been omitted from HA 1. SURS says that the language in SB 2103, as engrossed, is preferable and better serves the purpose of implementation of the optional DC plan.*

COMMENT:

Compliance with the Federal SECURE Act

Under the Internal Revenue Code, as amended by the SECURE Act that took effect on January 1, 2020, a required minimum distribution is the minimum amount that a person must withdraw from a retirement plan when they reach age 72 after January 1, 2020 (the minimum distribution age was 70 ½ before the SECURE Act took effect). SB 1056, as amended by HA 1, amends the GARS, IMRF, SERS, SURS, TRS, and JRS articles of the Illinois Pension Code. Broadly speaking, the bill brings all of the systems' respective Articles of the Pension Code into compliance with the IRS Code pertaining to the required age of distribution of pension benefits; some by referencing the pertinent section of the IRS Code, and others by referencing age 72. *There is no discernible fiscal impact associated with this change.*

Placement of IMRF Tier 2 Provisions in the IMRF Article of the Pension Code

When the non-public safety schedule of Tier 2 benefits was implemented via the enactment of P.A. 96-0889, the provisions of Tier 2 were placed under the General Provisions Article of the Pension Code, rather than under the 11 individual articles for each pension fund impacted. HA 1 to SB 1056 amends the IMRF article of the Pension Code. The bill places

the Tier 2 language in the IMRF Article. The Tier 2 provisions with regard to the other 10 systems under the General Provisions Article remain unchanged. The bill introduces no benefit changes, increases, or enhancements. It is purely a technical bill that IMRF says will bring about easier administration of benefits. ***There is no discernible fiscal impact associated with this change.***

Payments of Ordinary Disability Benefits under the MWRD Article

Under current law, the Metropolitan Water Reclamation District pension fund must make payments of ordinary (non-occupational) disability benefits in intervals of not more than 30 days. SB 1056, as amended by HA 1, amends the MWRD article such that these payments would be made at least monthly. The pension fund is seeking this language for ease of administration, and there is no substantive change to disability benefits. ***There is no discernible fiscal impact associated with this change.***

Remedy for Overpayments and Underpayments of Benefits in CTPF

SB 1056, as amended by HA 1, provides a means by which the Chicago Teachers Pension Fund can rectify overpayments and underpayments of pension benefits. In the case of incorrect payments, the fund shall recalculate the benefit as soon as practicable after the mistake is discovered. For underpayments, the fund shall make a lump sum payment to the beneficiary equal to the difference between the amount received and the amount that should have been paid, plus interest at 3% from the date the unpaid amounts accrued to the date of payment. For overpayments, the fund may recover the amount of overpayment from the recipient, plus interest at 3% from the date of overpayment to the date of recovery. The bill also contains a provision stating that if an officer of the fund whose signature appears upon any check or draft ceases to hold office, the signature shall remain valid and sufficient for all purposes. This part of the bill removes gender specific references to male officers; there is no substantive change being made to this process. ***There is no discernible fiscal impact associated with this change. The retirement system says the underpayment/overpayment issues being addressed by the bill are rare and the changes proposed will allow for prompt rectification of such errors.***

Clarification of Teacher Licensure Requirement in CTPF

The Chicago Teacher Article of the Pension Code currently requires an administrator to be employed in a position that requires a “Type 75 license” issued by the “State Teacher Certification board.” SB 1056, as amended by HA 1, makes definitional changes to update antiquated language. The bill requires that an administrator hold a professional educator license with an administrative endorsement. The bill also replaces “State Teacher Certification Board” with “State Board of Education.” ***These are purely definitional changes that have no substantive impact.***

Clarification of Employer Pick Up under CTPF

Federal tax law permits public employers to “pick up” employee retirement contributions. Under a pick-up plan, the employer “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.

SB 1056, as amended by HA 1, clarifies that employers beyond the Board of Education can also make employee pick-ups and/or contributions, including, for example, charter schools. The pension fund says that this change matches current practice. ***There is no discernible fiscal impact associated with this change.***

Clarifications for SURS Board of Trustee Membership

Under current law, SURS has a board of trustees composed of the Chairperson of the Board of Higher Education, four trustees appointed by the governor, four active participants in the system who are elected by the contributing members, and two annuitants of the system who are elected by annuitants of the system. The governor’s appointees cannot be members of the system or hold public office when they are appointed.

SB 1056, as amended by HA 1, would amend the State Universities Article of the Illinois Pension Code. The bill provides that a governor-appointed trustee shall immediately have his or her term terminated if they become a member of the system, or if they are sworn into an elective State office. The trustee position will then be considered vacant.

The bill also provides if one of the active participant members or retiree members of the board loses their requisite employee or retiree status, their term as a board member shall be terminated immediately. However, this change for active and retiree members would only apply prospectively, for newly-elected board members after the effective date of the bill. With regard to incumbent elected board members who are in office before the effective date, SB 1056, as amended, would allow these members to remain in their respective positions until the end of their terms after they have lost their participating employee or annuitant status. ***There is no discernible fiscal impact associated with this change.***

Permitted Funding Sources for the Cook County Forest Preserve Pension Fund

Under current law, the Cook County Forest Preserve District’s total contribution to the pension fund is equal to the amount of contributions made by the employees to the Plan in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.30. SB 1056, as amended by HA 1, amends the Cook County Forest Preserve District Article of the Pension Code to allow the Forest Preserve District to use other lawfully available funds in lieu of all or part of the aforementioned levy. The bill does not specify the source of these funds, nor the amount by which they would exceed the contribution amounts generated by the current tax levy multiplier. The tax levy multiplier generated \$4.3 million in employer contributions in FY 2019, and \$4.1 million in FY 2018. ***This change would have a positive fiscal impact to the extent it provided employer contribution amounts in excess of those currently being made under the existing statutory multiplier.***

Proof of Disability in the Cook County Pension Fund

Under current law, the Cook County Pension Fund requires proof of duty or ordinary disability via the opinion of at least one licensed and practicing physician appointed by the Board of Trustees of the fund. SB 1056, as amended by HA 1, would change this requirement so that the physician opinion in such cases can be rendered by a physician appointed by the board, or a physician “acceptable” to the board. Additionally, duty and ordinary disability annuitants are currently required to be examined by a physician at least once a year. The bill, as amended, would change this requirement to “once a year or a longer period of time as determined by the board.” ***There is no discernible fiscal impact associated with this change.***

Indemnification of Financial Institutions by SERS

SB 1056, as amended by HA 1, amends the State Employees article of the Illinois Pension Code to allow indemnification of certain financial institutions by the State to recover overpayments made on behalf of a member. According to SERS, the system will occasionally pay benefits to a bank account belonging to a deceased member one month after the member dies. The System had been indemnifying the banks during such recovery efforts, but the Office of the Attorney General recently opined that the System needs statutory authority to indemnify banks in such a manner. ***There is no discernible fiscal impact associated with this change.***

Optional SERS Service Credit for Arson Investigators

SB 1056, as amended by HA 1, allows State Police officers, arson investigators, or Commerce Commission police officers in SERS to establish service credit in SERS based on the following types of service: service as a sheriff’s law enforcement employee in IMRF, a Cook County corrections or court services officer under the Cook County article, or a firefighter under a Downstate Fire pension fund. The legislation allows for the establishment of up to 5 years of optional service in SERS for any of the foregoing types of service in the aforementioned funds. To establish the service credit, the SERS member must pay to SERS any difference between the employee and employer contributions transferred from the aforementioned funds and the amounts that would have been required had such service been rendered under the alternative (State Police) formula under SURS, plus interest at the actuarially assumed rate for each year to be transferred, compounded annually, from the date of service to the date of payment. The SERS member must file an application to transfer the service credit within 6 months of the bill’s effective date. ***To the extent the amounts transferred from the pension funds in which the SERS member has existing service credit are equal to or greater than the increase in accrued liability for the SERS service to be established, there should be no fiscal impact to SERS. Any shortfalls in amounts transferred must be made up by the member making the transfer, as previously mentioned.***

Change in Statutory Terminology for Payments Made from CTPF

Current law makes reference to payments from CTPF as being made through “warrants.” These warrants are to be signed by the president and the secretary of the Chicago Board of Education, the president of the CTPF Board of Trustees, and countersigned by the executive director or another individual appointed by the Board of Trustees. SB 1056, as amended by HA 1, would change the statutory reference to the payment method from “warrants” to “checks or direct deposit transmittals.” These payments would be authorized

exclusively by the executive director, or by an individual designated by the CTPF Board of Trustees. The bill is removing antiquated language and seeks to reflect current practice with regard to the manner of payments commonly made from the fund. ***There is no discernible fiscal impact associated with this change.***

Participation in TRS by Certain Members of Education Service Centers

Under current law, an employee who is eligible for participation in TRS includes any educational, administrative, professional, or other staff in a position that requires certification under the School Code and is employed in public schools outside the City of Chicago. Under SB 1056, as amended by HA 1, the chief administrative officer of the education service centers, established under the School Code and serving that portion of a Class II county outside the City of Chicago will be eligible for participation in TRS. Under the School Code, Class II county school units are defined as those units that consist of 2 million or more inhabitants. ***The number of new TRS members that would result from this provision is unknown, but is believed to be small. The fiscal impact is therefore unknown, but would be minimal.***

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