



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: HB 1052

January 19, 2023

SPONSOR (S): Hoffman

SYSTEM: Downstate Fire

FISCAL IMPACT

HB 1052 would have a significant fiscal impact upon Downstate Fire Pension Funds as a result of the retirement age reduction for Tier 2 members, as well as the cost-of-living adjustment (COLA) increase for Tier 2 members. The Department of Insurance was unable to provide an actuarial estimate of the increased municipal contributions associated with these changes. An actuarial workup would be required to determine the precise cost associated with each of these changes. According to data provided by the DOI from 2021 filings, there were 3,962 active Tier 2 Downstate Firefighters and 4 retired Tier 2 Downstate Firefighters. Tier 2 Downstate Firefighters comprise approximately 40.1% of all active Article 4 members. The Downstate Fire Pension Funds had total unfunded accrued liabilities of \$5.3 million, with a cumulative funding ratio of 59.7%.

SUBJECT MATTER: HB 1052 amends the Downstate Firefighters Article of the Illinois Pension Code. The bill would allow Article 4 (Downstate Fire) pension fund members that are at least 50 years old and have 20 or more years of creditable service to retire with an unreduced annuity (currently age 55 with 10 years of service). The bill also increases the COLA for Tier 2 Downstate Fire members to a flat 3% annual increase of the originally granted annuity. HB 1052 also reduces the age of eligibility for the annual Tier 2 COLA to the later of the January 1st after reaching age 55 (currently age 60) or the first anniversary of the pension's start date.

COMMENT:

Reduction in retirement age / unreduced annuity for Tier II Firefighters

Under current law, a member of an Article 4 (Downstate Fire) pension fund who begins service on or after January 1, 2011 is considered a Tier 2 member. Tier 2 firefighters become eligible for an unreduced pension at age 55 with 10 or more years of service. Tier 2 members can choose a reduced annuity at age 50 with 10 or more years of service, with the annuity reduced by 0.5% for each month that the firefighter's age is under age 55.

HB 1052 would allow Tier 2 Downstate firefighters that have reached age 50 with 20 or more years of creditable service to retire without receiving the 0.5% deduction for each month that firefighter's age is below 55. Firefighters that reach age 50 with between 10 to 20 years of creditable service would still be subject to the reduction stated above.

Change in COLA for Tier II Firefighters

Current statute provides that Tier 2 retirees covered under the Downstate Fire Article of the Pension Code receive a non-compounded COLA (Cost of Living Adjustment) equal to the lesser of 3% or ½ of the annual unadjusted percentage increase in the Consumer Price Index-U. This COLA is payable annually, beginning on the January 1st after reaching age 60 or upon the anniversary of the pension start date, whichever is later.

HB 1052 would set the non-compounded COLA for Downstate Tier 2 firefighters at a flat 3% of the originally granted annuity. Additionally, the COLA increase would begin on the January 1st after reaching age 55 or the anniversary of the pension start date, whichever is later.

All of the foregoing provisions - retirement age reduction, change in COLA benefit, and COLA start date reduction apply to both active Downstate firefighters as well as retired members currently receiving Tier 2 pensions.

The following chart provides historical context for the Tier 2 COLA benefit that has been awarded in each calendar year since its creation in 2011 via the enactment of the Tier 2 law for Downstate Police and Fire (P.A. 96-1495):

| Year Ending | CPI-U | 1/2 CPI-U | COLA | Maximum Annual Pensionable Earnings |
|-------------|--------|-----------|--------|-------------------------------------|
| 2011 | | | 3.00 % | \$106,800.00 |
| 2012 | 3.90 % | 1.95 % | 1.95 % | \$108,882.60 |
| 2013 | 2.00 % | 1.00 % | 1.00 % | \$109,971.43 |
| 2014 | 1.20 % | 0.60 % | 0.60 % | \$110,631.26 |
| 2015 | 1.70 % | 0.85 % | 0.85 % | \$111,571.63 |
| 2016 | 0.00 % | 0.00 % | 0.00 % | \$111,571.63 |
| 2017 | 1.50 % | 0.75 % | 0.75 % | \$112,408.42 |
| 2018 | 2.20 % | 1.10 % | 1.10 % | \$113,644.91 |
| 2019 | 2.30 % | 1.15 % | 1.15 % | \$114,951.83 |
| 2020 | 1.70 % | 0.85 % | 0.85 % | \$115,928.92 |
| 2021 | 1.40 % | 0.70 % | 0.70 % | \$116,740.42 |
| 2022 | 5.40 % | 2.70 % | 2.70 % | \$119,892.41 |

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