Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE

103RD General Assembly

BILL NO:	**HB 2352, as amended by SA 003**	May 18, 2023
SPONSOR (S):	Kelly – Ammons, et al (Martwick – Peters)	
SYSTEM:	General Provisions Article & Cook County Article	

FISCAL IMPACT

The fiscal impact of the new funding approach contained in HB 2352, as amended by SA 003, is not known, as an actuarial study has not been made available as of this writing. The new employer contribution plan relies on a "layered amortization" approach for amortizing unfunded liabilities, rather than the current "multiplier" method. An explanation of the workings of a 'layered' amortization approach is provided by CGFA's actuary in Appendix I on Page 4 of this impact note.

SUBJECT MATTER: HB 2352, as amended by SA 003, amends the General Provisions and the Cook County articles of the Pension Code. The bill implements a new employer funding schedule, a new pensionable salary cap for Tier 2 members, and updates an outdated policy for the purchase of optional military service credit. These changes are explained in more detail in the Comments section below:

COMMENTS:

Pensionable Salary Cap Adjustment for Tier 2 Members

Under the General Provisions Article of the Pension Code, the annual pensionable earnings of Tier 2 employees shall not exceed $123,489, the current Tier 2 pensionable salary cap. Beginning January 1, 2024, HB 2352, as amended by SA 003, would change the annual Tier 2 pensionable salary cap to be equal to the annual contribution and benefit base established for the applicable year by the Commissioner of the Social Security Administration under the federal Social Security Act ($160,200 in 2023). Additionally, the bill states that the new maximum pensionable salary shall not be increased due to reciprocal service, nor shall the pension fund be required to pay any refund to any Tier 2 member due to earnings that exceed the new pensionable salary cap.

Pension Funding Sources

Currently, employer contributions to the Cook County Employees' Pension Fund are made via a "multiplier" methodology, under which contributions are made from property taxes in an amount equal to employer contributions in the calendar year 2 years prior to the payment year, multiplied by 1.54. Beginning in 2024, HB 2352, as amended by SA 003, provides that contributions to the pension fund can be made from any lawfully available funds, over and above the current property tax levy. In addition to the expansion of employer funding sources, a new minimum funding schedule will take effect in FY 2024, as outlined below.

New Minimum Funding Requirement Beginning in FY 2024

Under HB 2352, as amended by SA 003, the "multiplier methodology" funding as described above will be replaced with a new funding methodology. HB 2352, as amended by SA 003, provides that the new "minimum required employer contributions" shall be equal to the sum of the following components:

1. the projected normal cost for pensions for that fiscal year based on the entry age actuarial cost method, plus;
2. a projected unfunded actuarial accrued liability "layered" amortization payment for pensions for the fiscal year, plus;
3. projected expenses for that fiscal year, plus;
4. interest to adjust for payment pattern during the fiscal year, less;
5. projected employee contributions for that fiscal year.

Note – please see Appendix I on Page 4 for a basic explanation of the workings of a "layered" amortization funding plan, as provided by CGFA's actuary, Segal Consulting.

Eligibility for Optional Military Service Credit Purchases

Currently, the Cook County Article of the Pension Code contains an outdated provision concerning the purchase of optional military service credit. Current statute holds that a member must have been in active service as of January 1, 1993 and must have at least 25 years of service credit in the pension fund to purchase up to 2 years of optional military service credit. HB 2352, as amended by SA 003, deletes the requirement that the member must have been in active service on January 1, 1993 and the requirement that the member must have at least 25 years of active service credit to purchase 2 years of military service credit. The military service need not have been served in wartime, nor must it have followed first employment with Cook County.

To establish the credit, the employee must pay to the fund the employee contributions for the period of service to be established, based on the employee's salary on the last day before military service commenced, or the first day after the employee returns from military service, whichever is greater, plus interest at the statutory "effective rate" for service credit purchases (currently 3%), from the date of discharge to the date of payment. Employees are not required to pay the employer's normal cost to establish optional military service credit.

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<u>Appendix I</u>

The following is a basic explanation of the workings of a 'layered' amortization approach to amortizing unfunded liabilities, as provided by Segal Consulting.

As of December 31, 2021, a pension fund is planning to systematically pay down the unfunded actuarial liabilities (UAL) as of that date over 30 years.

During 2022 there is an investment loss that increases UAL. The fund will have a separate 30 years to pay this off, as opposed to adding to the remaining UAL from 12/31/2021 a year later and expecting to pay off this new investment loss over 29 years.

Another example: it's 2050 and there have magically been no gains, losses, assumption changes, etc. for 29 years. The 12/31/2021 UAL is about to be paid off, but then you have a large investment loss. Under "closed period" or "target date" amortization, the expectation is that this loss is funded in one year. Layered amortization gives you a full 30 years to pay it off.

Each year – for any new source of UAL that arose in the prior year – a new amortization layer is created and paid down over 30 years. A pension fund ends up with a lot of "pieces," but generally, layered amortization is a preferable approach over closed amortization periods.