



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: **HB 2870**

February 23, 2023

SPONSOR (S): Burke

SYSTEM: Cook County

FISCAL IMPACT

An actuarial cost study would be needed to assess the impact of the new funding schedule for the Cook County Pension Fund proposed by HB 2870. Appendix I on page 3 of this impact note gives a brief explanation of the mechanics of a ‘layered amortization’ approach to amortizing unfunded liabilities.

SUBJECT MATTER: HB 2870 amends the Cook County Article of the Illinois Pension Code to replace the current “multiplier methodology” funding method with a new funding schedule for payment years 2025 through 2055, as described below in the Comment Section.

COMMENT: Current practice for funding the Cook County Pension Fund system involves two sources. Employees contribute 8.5% of pensionable earnings (9% for County police) to the Fund. Contributions from the employer, as required by the Illinois Pension Code, originate from a county tax levied annually that is equal to the total amount of contributions made by employees in the calendar year 2 years prior to the year of the levy, multiplied by 1.54.

HB 2870 adds a new contribution schedule starting in levy year 2024. Beginning in levy year 2024, the county will levy a tax annually that will produce an amount equal or no less than the total required contribution for the next payment year, which will be determined by a new section detailing the schedule starting in payment year 2025. The new employer funding schedule will be as follows:

HB 2870 requires the annual contribution from the county to be no less than the sum of the following, minus the projected employee contributions for that fiscal year:

- The projected normal cost for pensions for that fiscal year;

- A projected unfunded actuarial accrued liability amortization payment for pensions for the fiscal year;
- Projected expenses for that fiscal year;
- Interest to adjust for payment pattern during the fiscal year;

HB 2870 provides that the minimum required employer contribution is based on the following and to be submitted annually on or before July 31:

- The entry age normal cost method;
- A 5-year smoothed actuarial value of assets; and
- A 30-year layered amortization of unfunded actuarial accrued liability with payments increasing at 2 % per year.

For payment years past 2055, the county is required to make an annual contribution equal to the amount, if any, necessary to bring the total actuarial assets of the Fund up to 100 % of the total actuarial liabilities of the Fund by the end of the year.

HB 2870 also adds a provision allowing the county to supplement their contribution with funds from other legally available sources in order to meet the required contribution amount in lieu of all or part of the tax levied.

ZH:bs

LRB103 06032 RPS 51062 b

Appendix I

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 speaking, a layered amortization is a preferable approach over closed amortization periods.