



## Commission on Government Forecasting and Accountability

### PENSION IMPACT NOTE *103<sup>RD</sup> General Assembly*

BILL NO: HB 4065

November 7, 2023

SPONSOR (S): Slaughter - Cabello

SYSTEM: Downstate Police & Fire, SERS, Chicago Police & Fire, IMRF SLEP, and SURS

---

#### **FISCAL IMPACT**

**An actuarial study would be needed to assess the fiscal impact associated with abolishing Tier 2 for public safety employees in the affected articles of the Pension Code.**

**State contributions to Downstate Police and Fire pension funds and the Chicago Police and Fire funds under the Local Government Retirement Fund (LGRF) cost-sharing program would be approximately \$934.1 million in FY 2024 if the bill were in effect as of this writing. This data is derived from the Department of Insurance recommended tax levy for Downstate funds and the Chicago Police and Fire actuarial valuation reports showing projected City of Chicago contributions. State contributions for retiree health insurance under the LGRF program for associated funds have not been calculated. (Please see Charts I and II below for more information).**

---

**SUBJECT MATTER:** HB 4065 amends the Downstate Police and Fire, Chicago Police and Fire, SERS, IMRF, and SURS articles of the Pension Code. The bill would abolish Tier 2 from the aforementioned articles for public safety employees (police officers and firefighters). The bill would place these public safety employees in Tier 1 as of the effective date, but no recalculation of prior Tier 2 benefits earned or retirement annuities already paid would be allowed. HB 4065 also creates the Local Government Retirement Fund (LGRF), which establishes a state-local cost sharing program with municipalities, wherein the State of Illinois would assume 40% of annual employer pension and retiree health insurance contributions. Each change is summarized in the Comment Section below.

COMMENT:*Creation of the Local Government Retirement Fund*

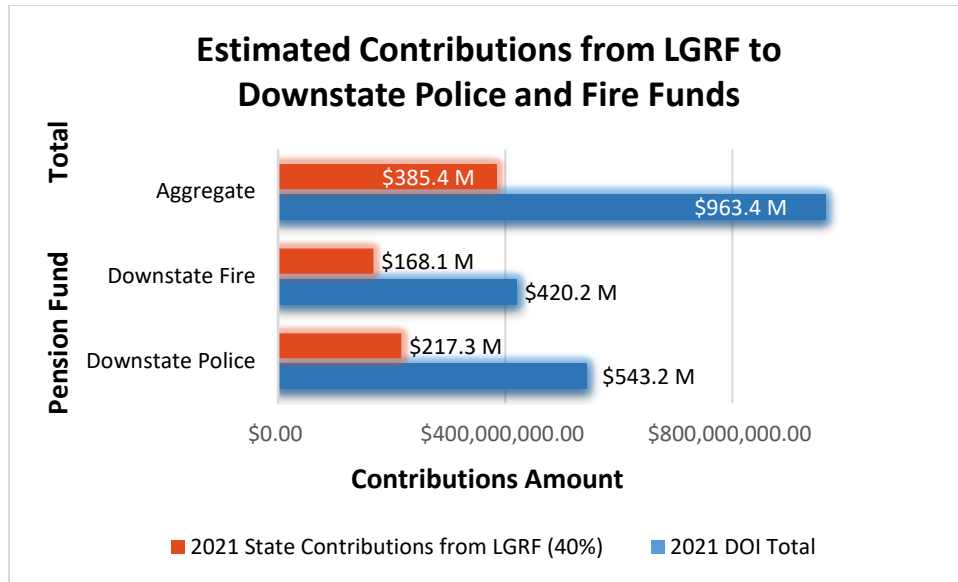
HB 4065 amends the State Finance Act to create the Local Government Retirement Fund (LGRF). The LGRF is to receive funds from a source left unspecified in the bill for the purposes of making payments towards the health insurance costs and retirement contributions of public safety employees.

Beginning in FY 2024, the State Comptroller is to pay each unit of local government that makes a certification under the Downstate Police and Fire, Chicago Police and Fire, and Illinois Municipal articles of the Pension Code an amount equal to 40% of the total amount certified by the given unit of local government to the associated pension fund. Under HB 4065, the appropriate employer shall take these LGRF contributions into account when determining the appropriate annual employer contribution. For example, annual required municipal payments to Downstate Police pension funds must subtract anticipated LGRF contributions, which, based on the estimates from Chart I below, would total to \$217.3 million on a statewide basis.

The appropriate employer would be responsible for certifying the total annual employer contribution under the pertinent funding law so that the State Comptroller is able to provide the appropriate LGRF contribution to that particular pension fund. Using the example of a Downstate Police pension fund, the employing municipality would still calculate the annual contribution that would be sufficient to attain a 90% funding ratio in 2040, consistent with current law, but that amount would be certified to the Governor for the aforementioned purpose of determining the appropriate annual LGRF contribution. The employing municipality of the Downstate Police Pension Fund in this example would then be responsible for making 60% of the annual contribution, with 40% coming from LGRF.

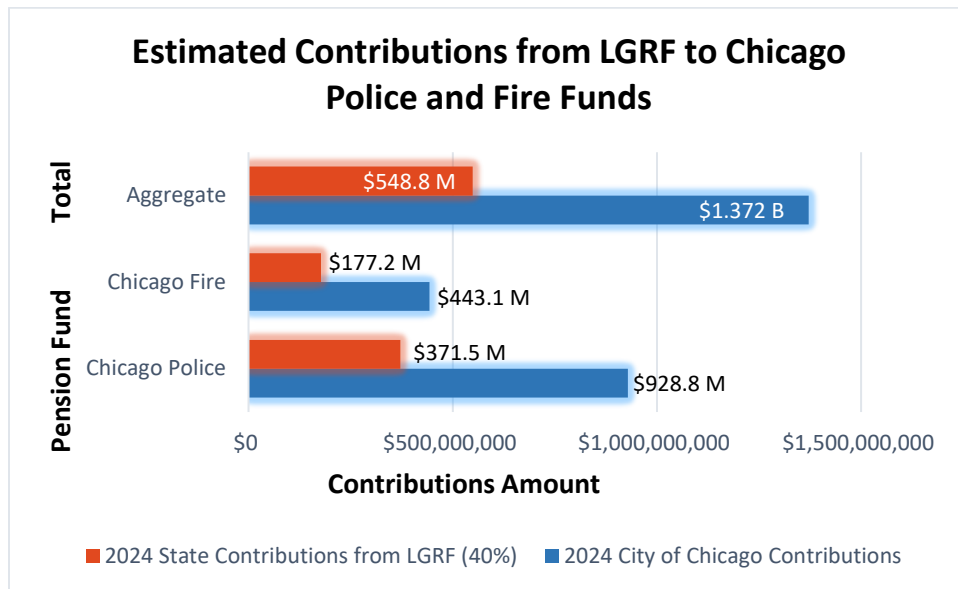
Chart I

Chart I, seen below, uses 2021 data from the Department of Insurance (DOI) for the Downstate Police and Fire pension funds to show an estimate of the annual contribution that the State would make from LGRF to Downstate Police and Fire funds according to HB 4065. The blue bar shows the total recommended statewide municipal pension tax levy. The red bar represents 40% of the recommended levy, which is the best and most recent estimate available for the amounts that would be distributed from LGRF to Article 3 and 4 funds under the provisions of HB 4065.



**Chart II**

Similarly, the exact amounts to be contributed from LGRF to Article 5 and Article 6 (Chicago Police and Fire) pension funds are not known. However, Chart II, below, shows an estimate of such contributions based on the 2024 actuarially-certified contributions required under the funding laws that govern both funds. The blue bar shows the total City of Chicago contribution for each fund for Fiscal Year 2024. The red bar represents 40% of the city contribution, which is the best estimate available for the amounts that would be distributed from LGRF to the Chicago Police and Fire Pension Funds under the provisions of HB 4065.



HB 4065 also creates a continuing appropriation in the case that State contributions from LGRF are deemed insufficient in a given fiscal year.

Striking Tier 2 and Applying Tier 1 to SERS Public Safety Personnel

**Current Law**

**Tier 1 Alternative Formula Eligibility**

Under the SERS Article of the Pension Code, eligibility for the Alternative (State Police) Formula is defined according to specific job titles. Most Tier 1 public safety positions are covered under the Alternative Formula; however, not all Tier 2 public safety positions qualify for the Alternative Formula. Please see Appendix I for a complete listing of Tier 1 and Tier 2 job titles under the Alternative Formula.

**Tier 1 Retirement Age**

Tier 1 members who are eligible for the Alternative Formula in SERS can retire with the following combinations of age and years of service:

- Age 55 with at least 20 years of service; or
- Age 50 with at least 25 years of service

**Tier 1 Service Accrual Rate**

For each year of service in the Alternative Formula, Tier 1 employees accrue service at the following rate:

- 3% of final average compensation for positions not covered by Social Security;
- 2.5% of final average compensation for positions covered by Social Security

**Tier 1 Final Average Salary**

For Tier 1 members in the Alternative Formula, final average compensation is derived by assessing the following:

- *For members in service BEFORE Jan. 1, 1998:* the highest 48 consecutive months of compensation over the last 120 months of service or the final rate of pay (last day), whichever is higher;
- *For members in service AFTER Jan. 1, 1998:* the average of the last 48 months of service, or the final rate of pay (last day), whichever is higher.

**Tier 1 Maximum Annuity Amount**

The Tier 1 maximum annuity amount in the Alternative Formula is set at 80% of final average compensation.

**Tier 1 Annual Cost of Living Increases (COLA's)**

Retirees under the Alternative Formula receive 3% compounded increases, with the first increase occurring on January 1 after their first full year of retirement or when they reach age 55, whichever instance occurs later.

**Tier 2 Alternative Formula Eligibility**

As stated above, fewer public safety positions are included under the Tier 2 Alternative Formula. Please see Appendix I for the full listing of Tier 1 and Tier 2 positions in the Alternative Formula.

**Tier 2 Retirement Age**

Tier 2 members who are eligible for the Alternative Formula in SERS can retire with the following combination of age and years of service:

- Age 60 with 20 years of service; or
- Age 55 with 20 years of service (for certain positions; please see Appendix I)

**Tier 2 Service Accrual Rate**

For each year of service in the Alternative Formula, Tier 2 employees accrue service at the following rate:

- 3% of final average compensation for positions not covered by Social Security;
- 2.5% of final average compensation for positions covered by Social Security

**Tier 2 Final Average Salary**

Final average compensation (or “pensionable salary”) for Tier 2 members in the Alternative Formula is derived by calculating the average of the 96 highest consecutive months of service within the last 120 months of service. Tier 2 pensionable salary is capped at \$123,489.18 as of 2023, per Department of Insurance guidelines.

**Tier 2 Maximum Annuity Amount**

The Tier 2 maximum annuity amount in the Alternative Formula is set at 80% of final average compensation.

**Tier 2 Annual Cost of Living Increases (COLA’s)**

Tier 2 retirees under the Alternative Formula receive non-compounded pension increases (COLA’s) at either 3% or one-half of unadjusted percentage increase in the CPI for the calendar year before, whichever is less. The first COLA is payable after the first full year of retirement.

**HB 4065**

HB 4065 would place all current and future Tier 2 SERS Alternative Formula members under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle an employee to retroactive benefit payments or increases

## Striking Tier 2 and Applying Tier 1 to Downstate Police

### **Current Law**

#### **Tier 1 Retirement Age**

Tier 1 members in the Downstate Police Article of the Pension Code can retire with the following combinations of age and years and service:

- Age 50 or more with at least 20 years of service; or
- Age 60 or older with at least 8 but less than 20 years of service

#### **Tier 1 Service Accrual Rate**

Tier 1 Downstate Police officers who reach age 50 with at least 20 years of service earn a pension equal to at least 50% of the salary corresponding to the rank the member held at retirement **or** average salary over the last year of service, if that amount is higher. There is an additional 2.5% of salary for each year of service over 20, to a maximum of 75% of pensionable salary.

#### **Tier 1 Annual Cost of Living Increases (COLA's)**

Tier 1 Downstate Police officers who retire before age 55 earn a 3% increase to their pension the month after they reach age 55. On January 1<sup>st</sup> thereafter, the retiree will receive a 3% increase on the pension then payable, meaning this increase is compounded.

#### **Tier 2 Retirement Age**

Tier 2 Downstate Police officers can retire with the following combination of years and service:

- Age 55 with at least 10 years of service; or
- Age 50 with at least 10 years of service, with a 6% annual reduction for each year under age 55

#### **Tier 2 Service Accrual Rate**

Tier 2 pensions for Downstate Police officers are equal to 2.5% of their final average salary.

#### **Tier 2 Final Average Salary**

Tier 2 final average salary is derived by assessing the greater of either the average monthly salary of the police officer during the 48 consecutive months of service in the last 60 months of service or the average monthly salary of the police officer during the 96 consecutive months of service in the last 120 months of service. Tier 2 pensionable salaries are capped at \$134,071.36 as of 2023, per Department of Insurance guidelines.

#### **Tier 2 Annual Cost of Living Increases (COLA's)**

When a retired Tier 2 Downstate Police officer reaches the age of 60, in either the latter of the January following attainment of age 60 **or** the January after the officer has been retired for a full year, they will receive an increase in their pension equal to one-half of the annual increase in the CPI. Said increase cannot be more than 3% of the original retirement annuity. On each January 1

following the initial COLA increase, the retired officer will receive an additional increase calculated from the original amount of their pension, meaning this increase is not compounded.

### **HB 4065**

HB 4065 would place all current and future Tier 2 Downstate Police Officers under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle a police officer to retroactive benefit payments or increases.

### ***Striking Tier 2 and Applying Tier 1 to Downstate Firefighters***

#### **Current Law**

##### **Tier 1 Retirement Age**

Tier 1 Downstate Fire firefighters can retire with the following combinations of years and service:

- Age 50 with 20 years of service; or
- Age 60 with between 8 to 20 years of service

##### **Tier 1 Service Accrual Rate**

Tier 1 Downstate firefighters age 50 with 20 years of service earn a pension equal to at least 50% of the salary corresponding to the rank the member held at retirement. There is an additional 2.5% of salary for each year of service over 20, to a maximum of 75% of pensionable salary.

##### **Tier 1 Annual Cost of Living Increases (COLA's)**

Tier 1 firefighters who retire before age 55 earn a compounded pension increase of 3% for each year they received the pension. On each January 1 following the year the retiree attains age 55, the pension then being received will increase by 3%.

##### **Tier 2 Retirement Age**

Tier 2 Downstate Fire firefighters can retire with the following combination of years and service:

- Age 55 with 10 years of service; or
- Age 50 with at least 10 years of service, with a 6% annual reduction for each year under age 55

##### **Tier 2 Service Accrual Rate**

Tier 2 Downstate Fire firefighters earn a pension equal to 2.5% of their final average salary.

##### **Tier 2 Final Average Salary**

Final average salary is derived by assessing the greater of either the average monthly salary of the firefighter during the 48 consecutive months of service in the last 60 months of service in

or the average monthly salary of the firefighter during the 96 consecutive months of service in the last 120 months of service. Tier 2 has a \$134,071.36 salary cap as of 2023, per Department of Insurance guidelines.

### **Tier 2 Annual Cost of Living Increases (COLA's)**

When a Tier 2 retired Downstate firefighter reaches the age of 60, in either the latter of the January following attainment of age 60 or the January after the officer has been retired for a full year, they will receive an increase in their pension equal to one-half of the annual increase in the CPI. This increase cannot be more than 3%. On each January 1 following the initial COLA increase, the retired officer will receive an additional increase calculated from the original amount of their pension, meaning this increase is not compounded.

### **HB 4065**

HB 4065 would place all current and future Tier 2 Downstate Fire firefighters under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle a firefighter to retroactive benefit payments or increases.

### **Striking Tier 2 and Applying Tier 1 to Chicago Police**

#### **Current Law**

#### **Tier 1 Retirement Age**

Tier 1 Chicago Police officers can retire with the following combinations of years and service:

- Age 50 with at least 20 years of service; or
- Age 63 (mandatory retirement age) with at least 10 but less than 20 years of service

#### **Tier 1 Service Accrual Rate**

Tier 1 Chicago Police officers with at least 20 years of service earn a pension equal to 50% of their final average salary. There is an additional accrual of 2.5% of their pensionable salary for each year of service over 20, to a 75% maximum of pensionable salary.

#### **Tier 1 Final Average Salary**

For Tier 1 officers, final average salary is derived by assessing the highest 4 consecutive years of the last 10 years of police service.

#### **Tier 1 Annual Cost of Living Increases (COLA's)**

Tier 1 officers are entitled to an annual non-compounded cost of living adjustment (COLA) as per the criteria below:

- *Officers born BEFORE Jan. 1, 1966:* retirees with at least 20 years of service will receive a pension increase of 3% based on the original amount of annuity granted on **either** the first of the month the officer reaches age 55 **or** the first of the month that marks one year



of retirement, whichever is later. The 3% increase occurs on January 1, based on the original amount.

- *Officers born ON or AFTER Jan. 1, 1966:* retirees will receive a pension increase of 1.5% based on the original amount of annuity granted on the first of the month after **either** the retiree reaches age 60 **or** the first full year of retirement, whichever is later. These increases are capped at 30%, meaning that after 15 years of retirement, no COLA is payable.

### **Tier 2 Retirement Age**

Tier 2 Chicago Police officers can retire with the following combination of age and years of service:

- Age 55 with at least 10 years of service; or
- Age 50 or older with 10 or more years of service reduced by 6% annually for each year under age 50

### **Tier 2 Service Accrual Rate**

Tier 2 officers receive a retirement annuity equal to 2.5% of their final average salary for each year of service, reduced by one-half of 1% for each month that the officer's age at retirement is below age 55. This amount cannot exceed 75% of pensionable salary.

### **Tier 2 Final Average Salary**

For Tier 2 Chicago Police officers, final average salary is derived by assessing the highest 8 consecutive years of the last 10 years of police service. Tier 2 has a \$123,489.18 pensionable salary cap in CY 2023 per Department of Insurance guidelines.

### **Tier 2 Annual Cost of Living Increases (COLA's)**

Tier 2 officers receive an annual increase in annuity of **either** 3% **or** one-half the annual unadjusted percentage increase in the CPI, whichever is less. Officers become eligible for this increase on **either** the January 1 on or after the officer reaches age 60, **or** a full year since the annuity start date, whichever is later.

## **HB 4065**

HB 4065 would place all current and future Tier 2 Chicago Police Officers under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle a Chicago police officer to retroactive benefit payments or increases.

Striking Tier 2 and Applying Tier 1 Benefits for Chicago Firefighters

**Current Law**

**Tier 1 Retirement Age for Minimum Formula**

Tier 1 Chicago firefighters are eligible to retire with the following combination of age and years of service:

- Age 50 with at least 20 years of service

**Tier 1 Service Accrual Rate**

Tier 1 Chicago Firefighters accrue pension service credit equal to 50% of final average salary. There is an additional service accrual of 2.5% of pensionable salary for each year of service over 20, to the maximum of 75% of pensionable salary.

**Tier 1 Final Average Salary for Minimum Formula**

For Tier 1 firefighters, final average salary is derived by assessing the highest 48 consecutive months of the last 10 years of service.

**Tier 1 Annual Cost of Living Increases (COLA's)**

Tier 1 firefighters with at least 20 years of service will receive a 3% non-compounded annual increase in their pensions if both of the following criteria are met:

- Upon the attainment of age 55; and
- After being retired for at least 1 year and 1 month.

**Tier 2 Retirement Age**

Tier 2 Chicago Fire firefighters can retire with the following combination of age and years of service:

- Age 55 or older with at least 10 or more years of service; or
- Age 50 or older with 10 or more years of service reduced by 6% annually for each year under age 50

**Tier 2 Service Accrual Rate**

Tier 2 firefighters age 55 or older with at least 10 or more years of service earn a pension equal to 2.5% of their final average salary. The retirement annuity is subject to one-half of 1% reduction for each month that the firefighter retires before age 55. Tier 2 retirement annuities cannot exceed 75% of pensionable salary.

**Tier 2 Final Average Salary**

For Tier 2 firefighters, final average salary is the highest 96 consecutive months of salary from the last 10 years of fire service. Tier 2 has a \$123,489.18 pensionable salary cap in CY 2023 per Department of Insurance guidelines.

**Tier 2 Annual Cost of Living Increases (COLA's)**

Tier 2 firefighters are eligible for an increase in their pensions on January 1 **either** on or after reaching age 60, **or** the anniversary of the annuity start date, whichever occurs later. The increase of 3% or one-half of the annual unadjusted percentage increase in the CPI, whichever is less, and will occur on each subsequent January 1.

**HB 4065**

HB 4065 would place all current and future Tier 2 Chicago Fire firefighters under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle a firefighter to retroactive benefit payments or increases.

**Striking Tier 2 and Applying Tier 1 for IMRF Sheriff's Law Enforcement Personnel (SLEP)****Current Law****Tier 1 Retirement Age**

Tier 1 SLEP employees can retire with the following combination of age and years of service:

- Age 50 with at least 20 years of service

**Tier 1 Service Accrual Rate**

Tier 1 SLEP pension is 2.5% of an employee's final average salary. The total SLEP pension cannot exceed 80% of final average salary.

**Tier 1 Final Rate of Earnings**

Pensionable salary is derived by assessing the highest total earnings during any set of 48 consecutive months within the member's last 10 years of service, then divided by 48.

**Tier 1 Annual Cost of Living Increases (COLA's)**

Tier 1 SLEP pensions are subject to an annual non-compounded increase of 3% on each January 1 after retirement. The first increase occurs proportionally based on the number of months an employee is retired in their first year; meaning the first increase, if not payable on January 1, will be less than 3%. Each subsequent COLA increase will be payable on the following January 1<sup>st</sup>.

**Tier 2 Retirement Age**

Tier 2 SLEP employees can retire with the following combination of age and years of service:

- Age 55 with at least 10 years of service; or
- Age 50 or older with 10 or more years of service reduced by 6% annually for each year under age 50

**Tier 2 Service Accrual Rate**

Tier 2 SLEP employees earn a pension of 2.5% of their pensionable salary. The total pension cannot exceed 75% of their pensionable salary.

**Tier 2 Final Rate of Earnings (FRE)**

Tier 2 pensionable salary is derived by assessing the highest total of earnings during any set of 96 consecutive months within their last 10 years of service, then divided by 96. Tier 2 has a \$123,489.18 pensionable salary cap in CY 2023 per Department of Insurance guidelines.

**Tier 2 Annual Cost of Living Increases (COLA's)**

Tier 2 SLEP pensions are subject to an annual increase of the original amount by 3% **or** one-half of the annual increase in the CPI, whichever is less. The increase occurs on each January 1 **either** on or after the retiree reaches age 60, **or** upon the one-year anniversary of receiving the pension, whichever is later. The first increase is paid proportionally based on the number of months an employee is retired in their first year; meaning the first increase, if not payable on January 1, will be less than 3%. Each subsequent COLA will be payable on the following January 1<sup>st</sup>.

**HB 4065**

HB 4065 would place all current and future Tier 2 SLEP employees under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle an employee to retroactive benefit payments or increases.

**Striking Tier 2 and Applying Tier 1 for SURS Police Officers and Firefighters****Current Law****Tier 1 Retirement Age**

Tier 1 SURS police officers and firefighters can retire at the following combination of age and years of service:

- Age 55 with 20 years of service; or
- Age 50 with 25 years of service

**Tier 1 Accrual Rate**

Tier 1 SURS police officers and firefighters accrue service credit based on the following graduated rate:

- 2.25% of pensionable salary for each year of the first ten years of service;
- 2.50% of pensionable salary for each year *AFTER* the first ten years of service; and
- 2.75% of pensionable salary for each year over 20 years of service.

Benefits may not exceed 80% of pensionable salary.

### **Tier 1 Final Average Salary**

For Tier 1 SURS police officers and firefighters, final average compensation is derived by assessing **either** the highest four consecutive year average compensation **or** the average of the last 48 consecutive months of employment, whichever is greater.

### **Tier 1 Annual Cost of Living Increases (COLA's)**

For Tier 1 SURS police officers and firefighters the 3% compounded increases to their annuity are payable each January 1 following their date of retirement. The first COLA will be paid proportionally based upon the number of months the member has been retired if that member has not been retired for a full year.

### **Tier 2 Retirement Age for SURS Police Officers and Firefighters**

Tier 2 SURS police officers and firefighters can retire at the following combination of age and years or service:

- Age 60 with 20 years of service; or
- Age 67 with 10 years of service

### **Tier 2 Accrual Rate**

Tier 2 SURS police officers and firefighters accrue pensionable service credit as follows:

- 2.25% of final average salary for each year of the first ten years of service; plus
- 2.50% of final average salary for each year *AFTER* the first ten years of service; plus
- 2.75% for each year over 20 years of service

Benefits may not exceed 80% of pensionable salary.

### **Tier 2 Final Average Salary**

For Tier 2 members, final average salary is derived by assessing **either** the highest final eight consecutive year average compensation in the last 10 years **or** the average of the last 96 consecutive months in the last 120 months, whichever is greater. Tier 2 has a \$123,489.18 pensionable salary cap in CY 2023 per Department of Insurance guidelines.

### **Tier 2 Annual Cost of Living Increases (COLA's)**

Tier 2 members are eligible for COLA's equal to the greater of 50% of the Consumer Price Index-Urban (CPI-U), but no more than 3% of the original benefit amount. The first of said

increases will occur on the later of the attainment of age 67 or the first anniversary of when the annuity was granted, whichever is later.

### **HB 4065**

HB 4065 would place all current and future SURS police officers and firefighters under Tier 1 as of the effective date of the bill. The bill states that the benefit increases are intended to apply prospectively and do not entitle a police officer or firefighter to retroactive benefit payments or increases.

#### *Local Government Retirement Fund Contributions towards the Public Safety Employee Benefits Act (PSEBA)*

HB 4065 amends the Public Safety Employee Benefits Act (PSEBA) to mandate that units of local government that provide health insurance to police officers and firefighters shall maintain the health insurance plans of these employees after retirement. The bill outlines a graduated employer contribution schedule equal to 4% for each full year of service upon which the member's retirement annuity is based, up to a maximum of 100% for an annuitant with 25 or more years of service. The State of Illinois, utilizing proceeds from the Local Government Retirement Fund, would contribute 40% of this annual cost, and the pertinent unit of local government would contribute 60%, consistent with the annual employer pension contributions mentioned earlier in this note (see pages 2-3 for a summary of the Local Government Retirement Fund).

HB 4065 sets up a process whereby the pertinent unit of local government shall annually certify to the State Comptroller the health insurance costs for retired police officers and firefighters for the ensuing fiscal year for purposes of allowing the Comptroller to calculate the State's 40% share of this annual cost under LGRF.

ND:bs

LRB103 31966 RPS 60743 b

**APPENDIX I**

**I. Tier 1 and Tier 2 Positions under the Alternative Formula**

<b>Tier 1 Alternative Formula</b>	<b>Tier 2 Alternative Formula</b>	<b>Social Security Coverage?</b>
State Police Officer	State Police Officer	Not coordinated with Social Security
Firefighter	Firefighter	
Commerce Commission Police Officer	Commerce Commission Police Officer	
Conservation Police Officer	Conservation Police Officer	
Gaming Board Investigator	Gaming Board Investigator	
Secretary of State Investigator	Secretary of State Investigator	
Arson Investigator	Arson Investigator	
Attorney General Investigator	Attorney General Investigator	
Dept. of Revenue Investigator	Dept. of Revenue Investigator	
Investigator for the State's Attorneys Appellate Prosecutor		
DOIT Security Employee	DOIT Security Employee	Coordinated with Social Security
IDOC Security Employee	IDOC Security Employee	
DJJ Security Employee	DJJ Security Employee	
Air Pilot		
DHS Security Employee		
State Highway Maintenance Worker		