



## Commission on Government Forecasting and Accountability

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

BILL NO: **HB 5843**

May 16, 2024

SPONSOR (S): Faver Dias

SYSTEM: Downstate Police & Fire

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#### FISCAL IMPACT

A comprehensive actuarial study is currently being undertaken to ascertain the fiscal impact of HB 5843. Please see Appendix I for a statement provided by the Commission's actuary on actuarial best practices regarding amortizing unfunded liabilities and the general consequences of lengthening the amortization period for Downstate Police and Fire pension funds. According to the Department of Insurance's 2022 data, the Downstate Fire pension funds had cumulative unfunded liabilities of \$4.4 billion, while the Downstate Police pension funds had cumulative unfunded liabilities of \$6.0 billion. Data from FY 2023 is not yet available.

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SUBJECT MATTER: HB 5843 amends the Downstate Police and Fire articles of the Illinois Pension Code. The bill extends the statutory amortization target date by which these funds must attain a 90% funding ratio from 2040 to 2050.

COMMENT: The Downstate Police and Downstate Fire pension funds established under Articles 3 and 4 of the Illinois Pension Code, respectively, cover municipal police and fire personnel in all municipalities except for Chicago and municipalities with populations under 5,000. Currently, these pension funds adhere to a funding policy established by P.A. 96-1495, the Police and Fire Tier 2 Act of 2011. Under this policy, the Downstate Police and Fire pension funds must attain a 90% funding ratio by municipal year 2040.

The annual employer contribution amount to be made by the pertinent employer is determined by an actuary employed by the Illinois Department of Insurance. However, the law allows the

employing municipality to make the annual contribution based upon calculations made by an actuary employed either by the pension fund or the employing municipality.

HB 5843 amends the Downstate Police and Downstate Fire articles of the Illinois Pension Code to extend the amortization period by 10 years, such that employer contributions to Downstate Police and Fire pension funds must now be made in order to attain a 90% funding ratio by 2050, rather than 2040.

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APPENDIX I

Below is a statement by Segal Consulting on changing the amortization period for Downstate Police and Fire Pension Funds that initially appeared in the Impact Note for HB 1185, a bill that makes changes identical to those detailed in HB 5843:

*HB 1185 proposes to extend the statutory target date for Downstate Police and Firefighter plans achieving a 90% funded percentage from 2040 to 2050 – an additional ten years. The current 2040 target represents an 18-year period from the last fiscal year end; the proposed 2050 target extends that to a 28-year period. Model practice according to a Conference of Consulting Actuaries (CCA) white paper on public sector pension funding suggests a period of 15 to 20 years to amortize experience gains and losses and 15 to 25 years to amortize assumption or method changes. Model practice also assumes a 100% funding target.*

*The current 18-year amortization period and 90% target results in a method that is outside the parameters for model practice according to the CCA white paper. Extending the amortization period to 28 years would move even further away from model practice and would result in unfunded actuarial accrued liabilities that will increase for more than a decade. Longer amortization periods increase the volatility of contribution requirements, backload contributions and violate the concept of intergenerational equity. Longer amortization periods for plans that are significantly underfunded increase the possibility that the funded percentage will not improve over time.*