



## Commission on Government Forecasting and Accountability

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

BILL NO: SB 0065

January 31, 2023

SPONSOR (S): Fine

SYSTEM: Downstate Police, Downstate Fire

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#### **FISCAL IMPACT**

The number of defunct Article 3 and/or Article 4 pension funds that may be dissolved as a result of the sponsoring municipality's population falling below 5,000 is not known. The number of future police officers and firefighters who might be impacted in these municipalities is unknown as well, as any newly-hired employees would begin service in the Tier 2 Regular IMRF formula. According to IMRF, the statewide average employer's normal cost for the regular IMRF formula is 5.09% of payroll in Fiscal Year 2023. The Department of Insurance could not provide the statewide average normal cost for Downstate Police and Fire pension funds.

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**SUBJECT MATTER:** SB 0065 amends the Downstate Police, Downstate Fire, and Illinois Municipal Fund (IMRF) Articles of the Illinois Pension Code to allow municipalities with under 5,000 inhabitants to provide a proposition to voters allowing the municipality to terminate participation in a defunct Article 3 or 4 pension fund. Any police officers or firefighters hired subsequent to termination of the pertinent defunct pension fund would begin service as Tier 2 Regular IMRF members.

**COMMENT:** Under current statute, Articles 3 and 4 of the Illinois Pension Code (commonly referred to as the "Downstate" Police and Fire Articles, respectively) stipulate that municipalities with populations above 5,000 inhabitants outside of Chicago that have at least one full-time police officer or firefighter are required to establish police or fire pension funds, as the situation warrants. Under current law, municipalities with populations under 5,000 are allowed to participate in Articles 3 and 4, provided a proposition to adopt the pertinent pension fund is submitted to and approved by voters in that municipality.

SB 0065 amends the Downstate Police, Fire, and Illinois Municipal Retirement Fund (IMRF) Articles of the Illinois Pension Code. The bill would allow municipalities with populations that have fallen beneath 5,000 inhabitants as determined by both of the past 2 federal decennial censuses, or a municipality with under 5,000 inhabitants that previously approved a referendum to create a Downstate Police or Fire pension fund, to issue a referendum to terminate participation in that pension fund.

Whether a municipality is eligible for a referendum allowing termination of a Downstate Police or Fire Pension Fund is dependent upon the following criteria: an independent auditor must certify that the fund has no liabilities, no members or participants, and no beneficiaries entitled to the benefits under the fund, and the corporate municipalities approve the closing of the fund. Essentially, the fund must be defunct.

For the referendum to be adopted, a proposition must be submitted to the voters allowing them to determine whether the municipality shall terminate participation in the defunct pension fund. If a majority of voters approve the proposition, IMRF shall be notified and any police or firefighters who have joined after the adoption of the proposition to close the defunct pension fund shall be enrolled in IMRF as Regular Tier 2 members. Regular Tier 2 IMRF members contribute 4.5% of pay and are eligible to retire at age 67 with 10 years of service with an unreduced annuity, or at age 62 with 10 years of service, reduced by 6% for each year under age 67.

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