



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 1648, as amended by HA 1

May 11, 2023

SPONSOR (S): Martwick – Villa (Delgado)

SYSTEM: Chicago Laborers, SERS

FISCAL IMPACT

According to the Chicago Laborers' Pension Fund, there is no discernible fiscal impact associated with codifying the practice of awarding ordinary disability "continuation annuities" to Tier 2 members, as this benefit is presumed to exist in the calculation of the fund's actuarial liabilities. The fiscal impact of awarding Tier 1 members the greater of the minimum retirement annuity (\$850 per month) and the amount of the continuation annuity is actuarially insignificant, according to the pension fund's actuary. In the past 20 years, only 1.2% of all annuities (32 people), have been occupational disease continuation annuities.

The number of SERS members who would receive an unreduced annuity after exhaustion of an ordinary disability benefit is not known. The retirement system says no Tier 2 members have, as yet, been impacted by the "gap" between the exhaustion of ordinary disability benefits and the attainment of full retirement at age 67. The system estimates the cost of awarding unreduced pensions to such individuals will be minimal.

SUBJECT MATTER: SB 1648, as amended by HA 1, amends the Chicago Laborers' Article of the Illinois Pension Code to clarify that ordinary disability "continuation annuity" benefits are payable to Tier 2 members who exhaust their regular ordinary disability benefits. The bill also awards Tier 1 members the greater of the ordinary disability continuation annuity or the minimum retirement annuity amount (\$850 per month). In addition, SB 1648, as amended, eliminates the "gap" between the exhaustion of Tier 2 ordinary disability benefits at age 65 and full retirement eligibility at age 67, as described below.

COMMENT: Under current law, the Chicago Laborers Article of the Pension Code provides for ordinary disability annuities (For Tier 1 and Tier 2), which are payable for personal, non-

duty related illnesses. Ordinary disability benefits are paid in an amount equal to 50% of the member's salary as of their last day worked prior to the commencement of the disability leave. Eligible employees are entitled to receive ordinary disability benefits for a period up to one-quarter of the length of their total service, not to exceed a period of 5 years. The Chicago Laborers Article provides for "continuation" annuities for members who exhaust their ordinary disability benefits and withdraw from service while still disabled, without any minimum age or service requirement. The amount of ordinary disability continuation annuities are explained below.

Continuation Annuities for Chicago Laborers Tier 2 recipients of Ordinary Disability Benefits

Public Act 96-889, the Tier 2 Act of 2010, provides that Tier 2 members will receive a retirement annuity at age 67 with 10 years of service. The Act provides that in the event of a conflict between the provisions of Section 1-160 of the General Provisions Article of the Pension Code (which added the Tier 2 language) and any other provision of the Pension Code, the provisions of Section 1-160 shall control.

The pension fund's legal counsel says that it is unclear if the term "retirement annuity" in the Tier 2 Act refers to the ordinary disability continuation annuities, as described above. Therefore, the fund says that it is unsure if the Legislature intended to eliminate ordinary disability continuation annuities for Tier 2 members or to incorporate them under the ambit of the Tier 2 Act.

SB 1648, as amended by HA 1, amends the Chicago Laborers Article of the Pension Code to ensure that upon exhaustion of ordinary disability benefits, Tier 2 members will receive a continuation annuity, which is an annuity calculated based upon the sum total of employee and employer contributions computed based upon the employee's age as of the date of withdrawal from service (this type of annuity is referred to in actuarial terminology as an "accumulation annuity"). This accumulation annuity benefit amount is currently enshrined in the Chicago Laborers Article; SB 1648, as amended, merely clarifies the eligibility of Tier 2 employees to receive continuation disability annuities once ordinary disability benefits are exhausted.

Application of Minimum Annuities for Chicago Laborers Tier 1 Ordinary Disability Continuation Annuity Recipients

As previously explained, when Tier 1 members of the Chicago Laborers Pension Fund exhaust their ordinary disability benefits, they are entitled to receive ordinary disability continuation annuities. This benefit is calculated based upon the sum total of employee and employer contributions based upon the employee's age as of the date of withdrawal from service ("accumulation annuity"). SB 1648, as amended by HA 1, amends the Chicago Laborers Article to stipulate that if the current statutory minimum retirement annuity of \$850 per month exceeds the amount of the ordinary disability continuation annuity, then the disabled Tier 1 member shall receive the minimum retirement annuity in lieu of the continuation annuity amount that would otherwise be payable.

Retirement Annuities for Tier 2 SERS Members Who Exhaust Ordinary Disability Benefits

Currently, SERS Tier 2 ordinary (non-occupational) disability benefits are payable for 5 years if the disability begins after age 60, or until the age of 65 if the disability begins prior to age 60. The benefit amount is equal to 50% of salary at the time of disability. With the enactment of Public Act 96-889, the Tier 2 Act of 2010, a Tier 2 member does not become eligible for an unreduced pension until age 67. The Tier 2 Act specified that Tier 2 members may receive a reduced annuity at age 62, reduced by one-half of one percent for each month under age 67.

SB 1648, as amended by HA 1, provides that if a Tier 2 SERS member's ordinary disability benefit is terminated for either of the aforementioned reasons (attainment of age 65 or the expiration of the 5-year time limit after age 60), that member shall immediately qualify for an unreduced pension, provided the member has at least 10 years of service credit. In other words, the member would not be forced to take a reduced annuity at age 65, as would be the case under current law.

Impact of HA 1

The provisions impacting the Chicago Laborers' article in HA 1 are identical to those contained in the engrossed version of SB 1648. HA 1 added the SERS language regarding eligibility for unreduced retirement annuities for ordinary disability recipients.

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