



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *103RD General Assembly*

BILL NO: SB 1956, as amended by HA 001

May 17, 2023

SPONSOR (S): Fine (Moylan)

SYSTEM: Chicago Police, Chicago Fire, Downstate Fire, Retirement Systems
Reciprocal Act

FISCAL IMPACT

SB 1956, as amended by HA 001, would grant an annual 3% non-compounded cost-of-living adjustment (COLA) to all Tier 1 Chicago Police retirees who reach age 55 with 20 years of service. This change would have a significant fiscal impact upon the pension fund. An actuarial study would be required to determine the precise fiscal impact. As of December 31, 2021, the pension fund had an unfunded liability of approximately \$12 billion, and a funded ratio of 24.9%.

Regarding the expansion of reciprocal service, CGFA staff has consulted with the systems most likely to have members who would receive reciprocal annuities comprised of service with the Chicago Police, Chicago Fire, and the Downstate Fire pension funds. IMRF and SERS do not anticipate a significant actuarial cost due to bringing these funds under the ambit of the Reciprocal Act. The Cook County Pension Fund says that some increased liability is possible, but the extent of the increase cannot be known as the number of members who would receive proportional annuities between the impacted funds is not known.

SUBJECT MATTER: SB 1956, as amended by HA 001, amends the Chicago Police, Chicago Fire, and Downstate Fire articles of the Pension Code to bring these articles under the ambit of the Retirement Systems Reciprocal Act, under which members are permitted to combine years of service across various reciprocal funds for the purposes of meeting the minimum vesting

requirements of the fund in which they currently participate. The bill also removes the birthdate restriction that enables Tier 1 Chicago Police officers to receive a 3 % non-compounded cost-of-living adjustment. Accordingly, all Tier 1 members who reach age 55 with 20 years of service would receive this increase, regardless of their date of birth.

COMMENTS:

Removal of Birthdate Restriction for Tier 1 3% non-Compounded COLA for Chicago Police

Under current law, Tier 1 Chicago police officers born before January 1, 1966 with at least 20 years of service receive an annual non-compounded increase of 3 % on or after the age of 55, not subject to a 30 % increase maximum. Those Tier 1 members born after January 1, 1966 receive 1.5 % increases on or after the age of 60 with at least 20 years of service, to a maximum of 30 % (hence, after 15 years of retirement, no annual increases are payable). SB 1956, as amended by HA 001, removes the birthdate restriction and 30 % cap and sets the annual Tier 1 increase to 3 % non-compounded for all retirees who have attained at least 55 years of age with 20 years of service. The COLA will be payable on the first of the month following the first anniversary of retirement.

P.A. 101-0673, which became effective on April 5th, 2021, implemented this same COLA change for Chicago Firefighters who reached age 55 with 20 years of service.

Incorporation of the Downstate Fire, Chicago Fire, and Chicago Police Articles into the Retirement Systems Reciprocal Act

Under current law, the Downstate Fire, Chicago Fire, and the Chicago Police Articles of the Illinois Pension Code are not included under the Retirement Systems Reciprocal Act. The Retirement Systems Reciprocal Act allows for active employees to combine service credit earned from various participating systems to apply towards the minimum vesting requirements of the fund that they participate in currently or the fund that they last participated in before terminating active service.

For example, a Tier 2 member in IMRF could utilize reciprocity and combine 4 years of prior service in SERS and 6 years in IMRF to meet the 10-year Tier 2 vesting requirement in IMRF. SB 1956, as amended by HA 001, would bring the aforementioned three systems under the ambit of the Reciprocal Act. The bill, as amended, states that participation under the Reciprocal Act would only apply to members who have not yet begun receiving retirement annuities as of the effective date. In other words, retired members would not be entitled to a recalculation of their pensions based upon reciprocal service.

DH:bs

LRB103 25834 RPS 62061 a