



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: **HB 1045**

February 14, 2025

SPONSOR: Cabello

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

FISCAL IMPACT

HB 1045 would abolish Tier 2 for public safety employees in the articles enumerated above, moving them to Tier 1. CGFA’s actuary had calculated the effects of moving all Downstate Police and Fire employees into Tier 1 under HB 5909, a bill proposed in the 103rd General Assembly. The full Actuarial study is shown in Appendix II, but for context, the chart below shows moving Tier 2 public safety personnel to Tier 1 would affect first-year municipal contributions for the cities of Aurora and Rock Falls. *Please note that the actuarial cost study does not take into account municipal contributions after the implementation of the 60/40, local/state split for annual pension contributions that this bill would implement via the creation of the Local Government Retirement Fund (LGRF).*

First Year Increase in Nominal Value of Municipal Contributions (\$\$\$ in Thousands)					
Fund		Baseline	HB 5909	Impact	% Increase
Aurora	Police	\$ 20,972.7	\$ 22,999.5	\$ 2,026.8	9.7%
	Fire	\$ 15,161.1	\$ 16,918.5	\$ 1,757.4	11.6%
Rock Falls	Police	\$ 841.3	\$ 931.8	\$ 90.5	10.8%
	Fire	\$ 309.5	\$ 355.8	\$ 46.3	15.0%

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 \$965.8 million in FY 2026 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 1045 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 1045 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. Please note that HB 1045 and HB 1046 are identical with regard to the pension provisions enumerated below, with two exceptions: The pension changes in HB 1045 are part of a larger criminal justice reform omnibus bill, and HB 1046 has a strict vesting schedule to qualify for health insurance coverage after retirement, and costs are compensated by the LGRF program.

COMMENT:

Creation of the Local Government Retirement Fund

HB 1045 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 2026 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 1045, 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 1 below, would total \$235.6 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 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 2022 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 1045. The gray bar shows the total recommended statewide municipal pension tax levy. The green 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 1045.

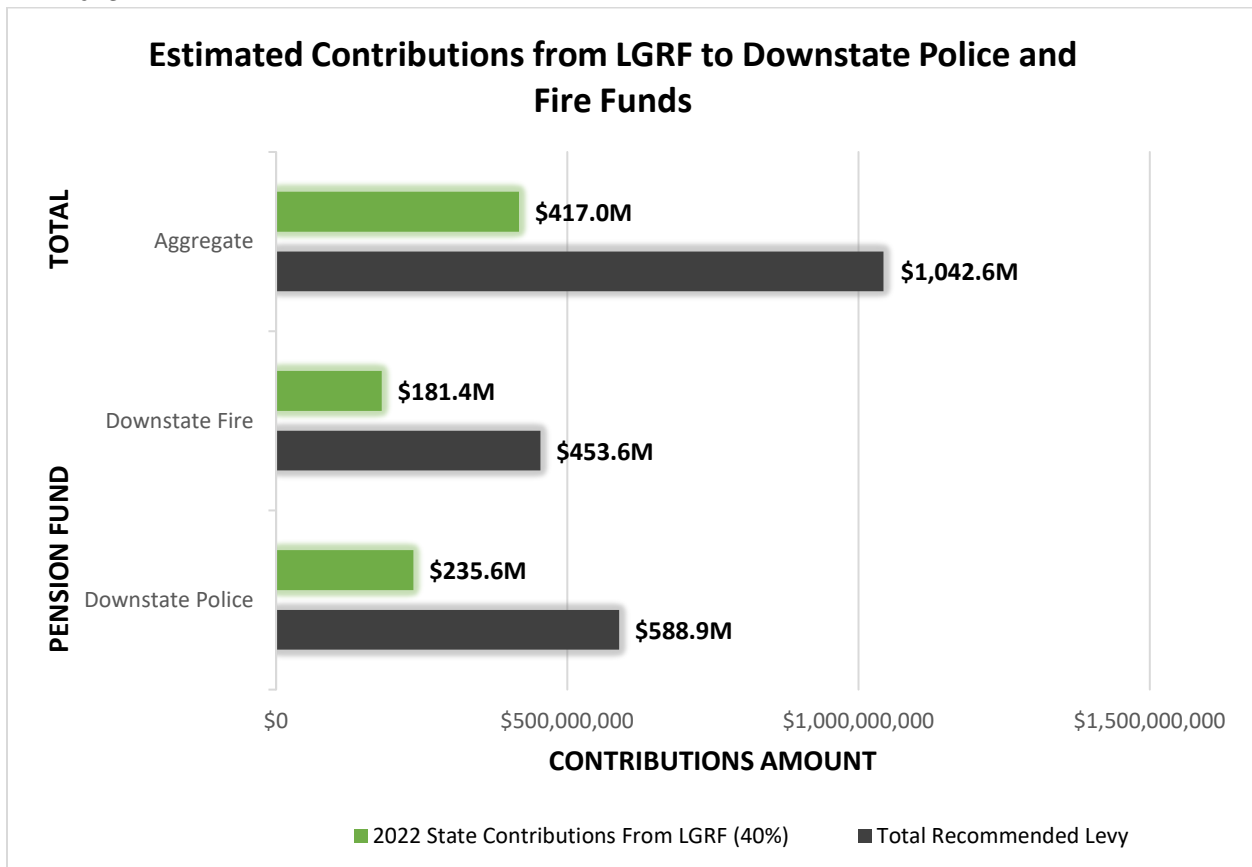
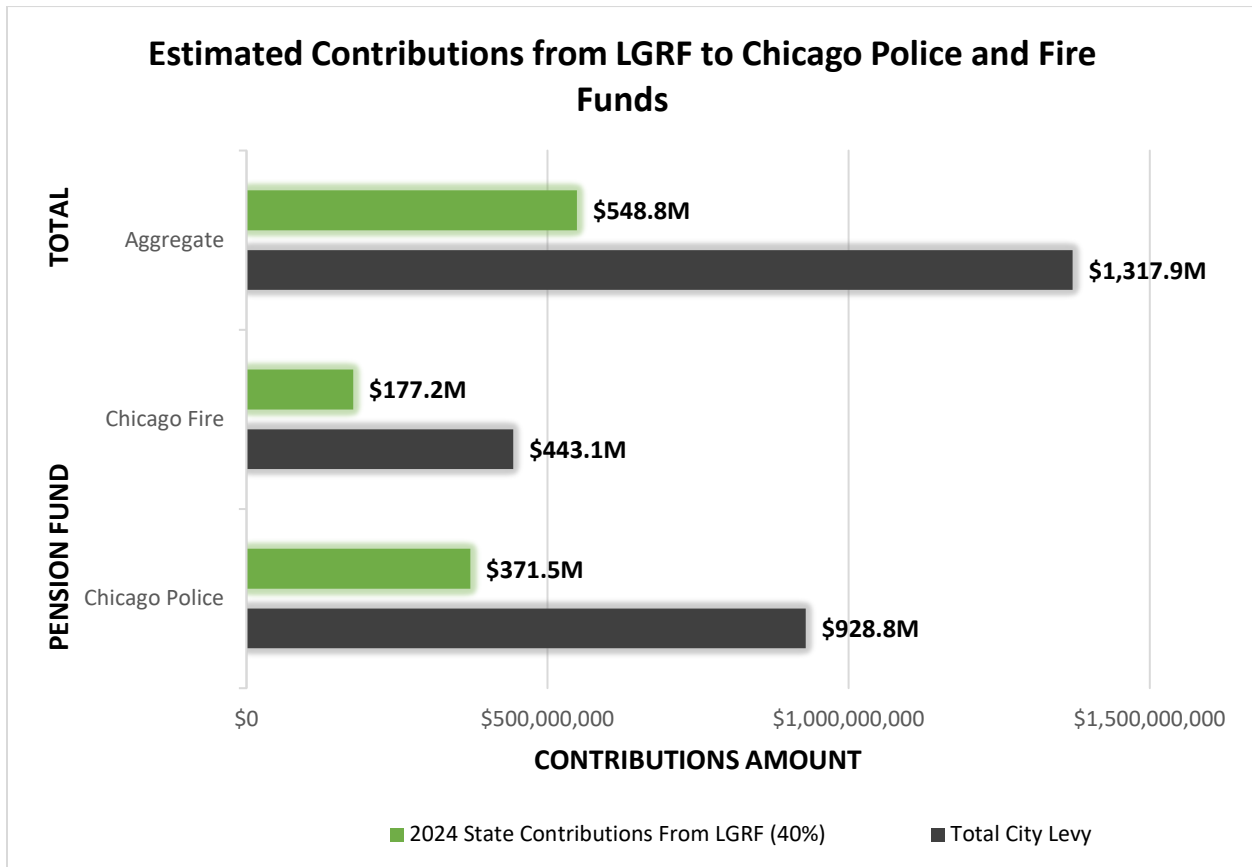


Chart II

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 gray bar shows the total City of Chicago contribution for each fund for Fiscal Year 2024. The green 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 1045.



HB 1045 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 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 1 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 1 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 1)

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 the 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 1045

HB 1045 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 of service:

- Age 50 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 1st 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 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 1st 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 1045

HB 1045 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 or the average monthly salary of the firefighter during the 96 consecutive months of service in the last 120 months of service.

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 1045

HB 1045 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 year of the last 10 years of police service.

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

Tier 1 police officers receive a 3% non-compounded COLA on the January 1st after the attainment of age 55 or upon completion of one full year of retirement, whichever is later.

Tier 2 Retirement Age

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

- Age 55 with 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 officers reaches age 60, **or** a full year since the annuity start date, whichever is later.

HB 1045

HB 1045 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 to Chicago Firefighters**Current Law****Tier 1 Retirement Age**

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 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 combinations of age and years of service:

- Age 55 with 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, will occur on each subsequent January 1.

HB 1045

HB 1045 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 at age 50 with 20 or more 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 (FRE)

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 1st.

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 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 1st.

HB 1045

HB 1045 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 at least 20 years of service; or
- Age 50 with at least 25 years of service

Tier 1 Service 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 members has been retired if that member has not been retired for a full year.

Tier 2 Retirement Age

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

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

Tier 2 Service 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 consecutive 8-year average of 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 1045

HB 1045 would place all current and future Tier 2 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.

The Illinois Municipal Code and Retiree Health Insurance

HB 1045 amends the Illinois Municipal Code to mandate that the units of local government that provide health insurance to police officers and firefighters shall maintain the health insurance plans of these employees after retirement. A police officer or firefighter must have completed 20 years of service to qualify for retiree health insurance benefits.

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APPENDIX I

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

Tier 1 Alternative Formula	Tier 2 Alternative Formula	Social Security Coverage?
State Police Officers	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		