



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: **HB 1046**

February 12, 2025

SPONSOR: Cabello

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

FISCAL IMPACT

HB 1046 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 how 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	\$ 20,972.74	\$ 22,999.50	\$ 2,026.76	9.7%
	Fire	\$ 15,161.09	\$ 16,918.45	\$ 1,757.37	11.6%
Rock Falls	Police	\$ 841.28	\$ 931.78	\$ 90.50	10.8%
	Fire	\$ 309.49	\$ 355.79	\$ 46.30	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 1046 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 1046 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: HB 1045 is part of a larger criminal justice reform omnibus bill, and HB 1046 establishes a strict vesting schedule to qualify for retiree health insurance.*

COMMENT:

Creation of the Local Government Retirement Fund

HB 1046 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 1046, 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 1046. 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 1046.

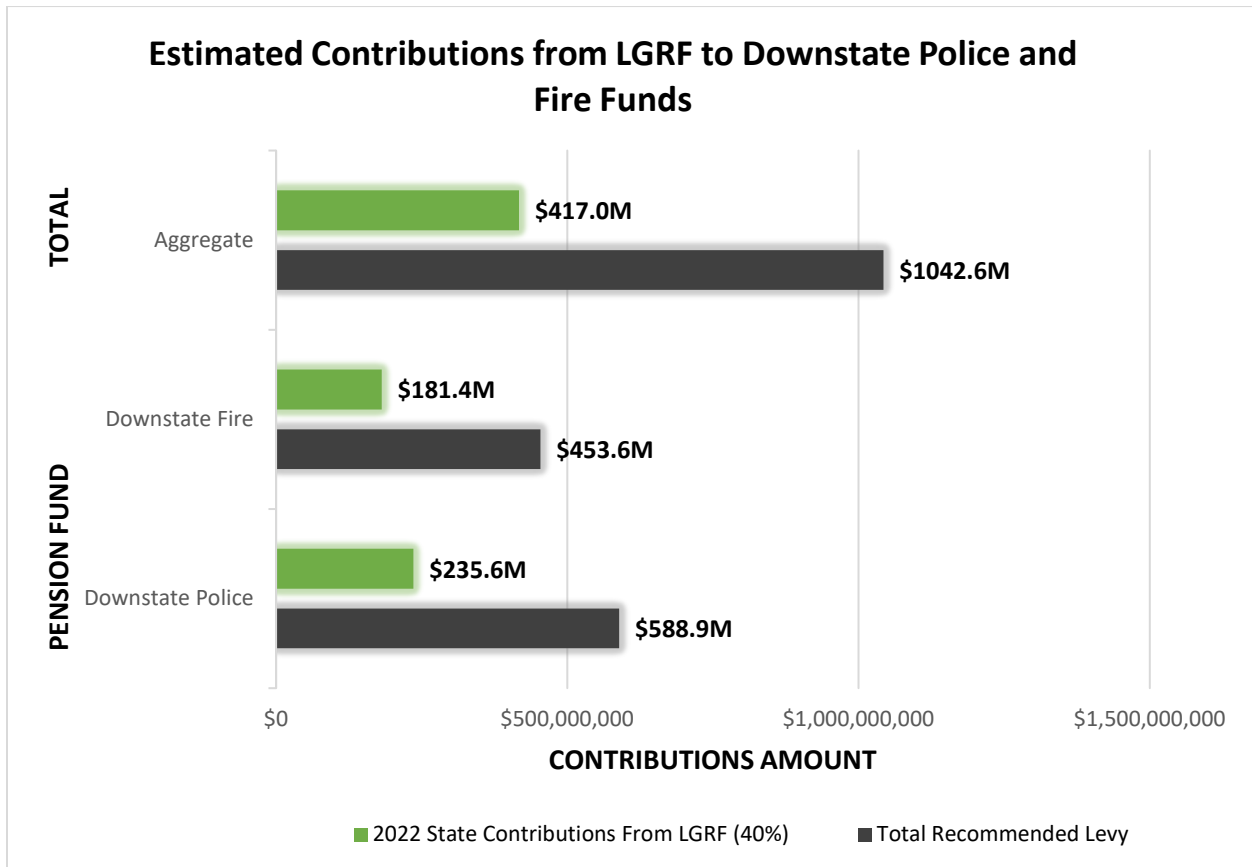
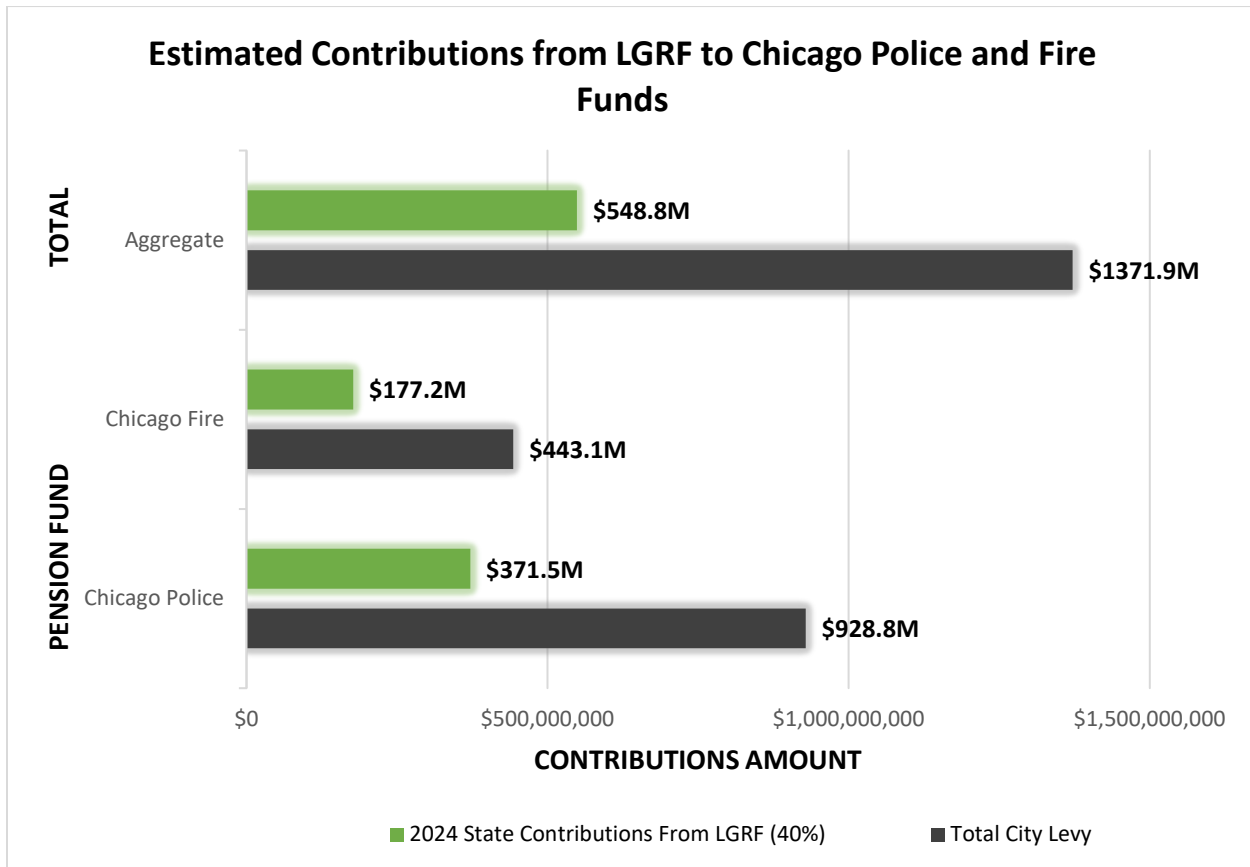


Chart II

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 1046.



HB 1046 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 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 \$127,283.01 as of CY 2025, 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 in January following the first full year of retirement or age 67, whichever is later.

HB 1046

HB 1046 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 1046

HB 1046 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 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 1046

HB 1046 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 years' earnings 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 55.

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 \$127,283.01 pensionable salary cap in CY 2025 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 1046

HB 1046 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 55.

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 or the 48 months within the last 60 months of service, whichever is highest. Tier 2 has a \$127,283.01 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, and will occur on each subsequent January 1.

HB 1046

HB 1046 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 55.

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 1046

HB 1046 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 **or** the final rate of earnings on the last day worked, 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 1046

HB 1046 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.

Local Government Retirement Fund Contributions towards the Public Safety Employee Benefits Act (PSEBA)

HB 1046 amends the Public Safety Employee Benefits Act (PSEBA) 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. The bill outlines a graduated employer contribution schedule equal to 4% for each full year of service upon which the member's retirement annuity is based, up to a maximum of 100% for an annuitant with 25 or more years of service. The State of Illinois, utilizing proceeds from the Local Government Retirement Fund, would contribute 40% of this annual cost, and the pertinent unit of local government would contribute 60%, consistent with the annual employer pension contributions mentioned earlier in this note. (See page 2-3 for a summary of the Local Government Retirement Fund).

HB 1046 sets up a process whereby the pertinent unit of local government shall annually certify to the State Comptroller the health insurance costs for retired police officers and firefighters for the ensuing fiscal year for the purposes of allowing the Comptroller to calculate the State's 40% share of this annual cost under LGRF.

RF:bs

LRB104 03166 RPS 13187 b

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		

January 9, 2025

Mr. Clayton Klenke, Executive Director
Illinois Commission on Government Forecasting and Accountability
T. 217.785.3122
E. ClaytonK@ilga.gov

Re: Cost Impact of HB 5909 on Article 3 & 4 Illinois Pension Funds

Dear Mr. Klenke,

This letter provides you with the projected cost estimates for implementing the Tier 2 changes resulting from HB 5909 on the selected Article 3 and 4 pension funds.

Cost Impact of Tier 2 Enhancements Included in HB 5909

We have estimated the impact of implementing the Tier 2 benefit enhancements as defined in HB 5909 on the following Article 3 and 4 Illinois Pension Funds:

- Aurora Police (See Exhibit 1)
- Rock Falls Police (See Exhibit 2)
- Aurora Fire (See Exhibit 3)
- Rock Falls Fire (See Exhibit 4)

Below is a summary of the provisions and assumptions included in the costing:

1. The Tier 2 pensionable salary cap will increase to match the Social Security Wage Base.
2. Tier 2 will eliminate the use of the final average earnings and instead use the “salary on the last day” as is defined for Tier 1.
3. Tier 2 Members who are at least 50 years old and have 20 or more years of creditable service could retire with an unreduced annuity.
4. The Tier 2 COLA will still be a simple COLA, but it will now be based on a flat 3.00%.
5. The age of eligibility for the annual Tier 2 COLA would be the later of the January 1st after reaching age 55 or the first anniversary of the pension’s start date.
6. For Article 4, current Tier 2 disabled firefighters would receive a 3.00% non-compounded COLA, payable at the latter of the first anniversary of the disability annuity start date or age 60.
7. For Article 4, the minimum retirement pension payable to a firefighter with 20 or more years of creditable service, the minimum disability pension payable, and the minimum surviving spouse’s pension will be increased. Beginning July 1, 2025, this amount will be set at \$1,822.50 per month. Beginning July 1, 2026, this amount will be no less than 150% of the federal poverty level.

The costs were projected through the year 2040.

Assumptions and Methods

The assumptions and methods employed for the purpose of this measurement were consistent with the assumptions that the Firefighters' Pension Investment Fund (FPIF) and Illinois Police Officers Pension Investment Fund (IPOPIF) used for the 2023 and 2024 actuarial valuation reports, without regard to phasing in the assumptions for the IPOPIF funds. When the plan changes are considered, we did revise the retirement rates for Tier 2 to match those for Tier 1 if a participant retires with 20 years of service. A summary of the assumptions can be found in Exhibits 5 (Article 3) and 6 (Article 4).

For the projections, we assumed that new entrants came into the fund with the following profiles:

	Aurora		Rock Falls	
	Fire	Police	Fire	Police
Age at Hire	27	27	26	28
Salary ¹	95,000	98,000	48,900	53,500
% Male	95%	85%	95%	85%

¹The starting salary is adjusted annually by inflation for new hires in future years.

New entrants entered the fund throughout the projection period as Tier 2 participants and at a rate equal to the number of hires required to keep the initial active headcount stable throughout the projection period.

Data

In conducting this analysis, we have relied on personnel data supplied to us by the Illinois Department of Insurance with permission from the FPIF and IPOPIF to employ the data for purposes other than in the issuance of reports on behalf of the FPIF and IPOPIF. The effective date of the data varies by sample fund and is noted in the attached exhibits. While we cannot verify the accuracy of all this information, the supplied information was reviewed for consistency and reasonableness.

The demographics of the sample funds will influence the impact of any new legislation on the cost to the fund. For example, the following items will vary in their impact on a given fund based on the current demographics:

- Funds with a more significant Tier 2 population at the start of the projection will realize more cost early in the projection. Over time the impact of this lessens as Tier 2 actives replace decrementing Tier 1 actives.
- Funds with lower pay may not be effected very much by the increase in the Tier 2 salary cap vs. funds with pay much closer to the cap who will see a significant increase due to the increased cap.
- Funds with an older Tier 1 active population will more quickly replace their Tier 1 actives with Tier 2 actives in the projection.

Below is a summary of the data that we used for this analysis:

	Aurora		Rock Falls	
	Fire	Police	Fire	Police
Headcounts				
Active				
Tier 1	96	149	4	6
Tier 2	134	178	9	14
% Tier 2	58%	54%	69%	70%
Retiree				
Beneficiary	38	39	6	3
Disabled	9	19	4	1
Terminated Vested	<u>17</u>	<u>59</u>	<u>1</u>	<u>6</u>
Total	469	671	32	46
Average Age (Active)				
Tier 1	48.04	45.58	44.86	50.04
Tier 2	31.19	30.93	31.06	33.82
Average Pay (Active)				
Tier 1	155,941	142,347	86,031	82,260
Tier 2	117,780	112,726	60,399	68,635
Data Snapshot Date	12/31/2023	12/31/2023	4/30/2024	4/30/2024

Discussion of Risk and Third-Party Software

These calculations were determined for the purpose of estimating the cost impact of this proposed legislation. Use of the results for other purposes may not be applicable and produce significantly different results. Future actuarial measurements may differ significantly from the current measurements presented in this letter for a variety of reasons including: changes in applicable laws, changes in plan provisions, changes in assumptions, or plan experience differing from expectations.

ASOP No. 51, Assessment and Disclosure of Risk Associated with Measuring Pension Obligations and Determining Pension Plan Contributions, states that the actuary should identify risks that, in the actuary's professional judgment, may reasonably be anticipated to significantly affect the plan's future financial condition. These results are based on the premise that all future plan experience will align with the plan's actuarial assumptions; however, there is no guarantee that actual plan experience will align with the plan's assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position. Measurement of the impact of potential deviation from the actuarial assumptions is outside the scope of this assessment, however, it is important to note that the estimate provided is produced at a single point in time and subject to the demographics as they exist on the valuation date and the actuarial assumptions used to determine the cost impact.

In performing the analysis, we used third-party software to model (calculate) the underlying liabilities and costs. These results are reviewed in the aggregate and for individual sample lives. The output from the software is either used directly or input into internally developed models to generate the costs. All internally developed models are reviewed as part of the process. As a result of this review, we believe that the models have produced reasonable results. We do not believe there are any material inconsistencies among assumptions or unreasonable output produced due to the aggregation of assumptions.

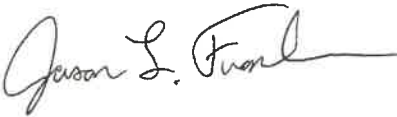
Statement of Actuarial Opinion

The undersigned are familiar with the immediate and long-term aspects of pension calculations and meet the Qualification Standards of the American Academy of Actuaries necessary to render the actuarial opinions contained herein. To the best of our knowledge, the results are complete and accurate, and in our opinion, the techniques and assumptions used are reasonable.

To our knowledge, no associate of Foster & Foster, Inc. working on valuations of the programs has any direct financial interest or indirect material interest in the Article 3 or 4 funds included in this analysis, nor does anyone at Foster & Foster, Inc. act as a member of the Board of Trustees of these funds. Thus, there is no relationship existing that might affect our capacity to prepare and certify this estimate of the cost impact of the proposed legislation.

Respectfully submitted,

Foster & Foster, Inc.

By: 
Jason L. Franken, FSA, EA, MAAA

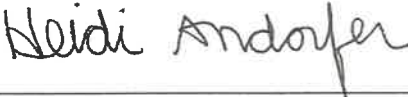
By: 
Heidi E. Andorfer, FSA, EA, MAAA

Exhibit 1

Article 3 HB 5909 Impact - Aurora Police

	Baseline	HB 5909 Changes	Impact, \$	Impact, %
Municipal Contribution				
2024	20,653,846	22,461,630	1,807,784	8.8%
2025	20,972,739	22,999,495	2,026,756	9.7%
2026	21,537,491	23,786,749	2,249,258	10.4%
2027	22,090,975	24,588,108	2,497,133	11.3%
2028	22,701,444	25,462,910	2,761,466	12.2%
2029	23,378,146	26,413,692	3,035,546	13.0%
2030	24,079,379	27,401,540	3,322,161	13.8%
2031	24,854,291	28,480,989	3,626,698	14.6%
2032	25,703,654	29,644,503	3,940,849	15.3%
2033	26,625,219	30,885,385	4,260,166	16.0%
2034	27,683,961	32,268,118	4,584,157	16.6%
2035	28,923,256	33,825,929	4,902,673	17.0%
2036	30,383,614	35,592,014	5,208,400	17.1%
2037	32,149,169	37,636,335	5,487,166	17.1%
2038	34,368,661	40,080,639	5,711,978	16.6%
2039	37,460,035	43,285,193	5,825,158	15.6%
2040	42,958,888	48,520,741	5,561,853	12.9%
Present Value Of Impact	271,875,578		37,083,067	13.6%
Normal Cost				
2024	10,010,393	11,254,184	1,243,791	12.4%
2025	10,199,664	11,642,598	1,442,934	14.1%
2026	10,311,924	11,959,487	1,647,563	16.0%
2027	10,369,929	12,248,051	1,878,122	18.1%
2028	10,432,787	12,559,886	2,127,099	20.4%
2029	10,510,699	12,899,787	2,389,088	22.7%
2030	10,559,607	13,227,136	2,667,529	25.3%
2031	10,608,635	13,577,172	2,968,537	28.0%
2032	10,658,051	13,944,146	3,286,095	30.8%
2033	10,674,927	14,293,157	3,618,230	33.9%
2034	10,702,590	14,669,219	3,966,629	37.1%
2035	10,763,831	15,090,153	4,326,322	40.2%
2036	10,851,366	15,547,635	4,696,269	43.3%
2037	10,964,272	16,039,245	5,074,973	46.3%
2038	11,095,679	16,552,737	5,457,058	49.2%
2039	11,272,802	17,109,128	5,836,326	51.8%
2040	11,515,585	17,679,241	6,163,656	53.5%
Present Value Of Impact	111,699,697		31,491,155	28.2%

Exhibit 2

Article 3 HB 5909 Impact - Rock Falls Police

	Baseline	HB 5909 Changes	Impact, \$	Impact, %
Municipal Contribution				
2024	819,396	903,866	84,470	10.3%
2025	841,277	931,779	90,502	10.8%
2026	871,616	968,458	96,842	11.1%
2027	893,113	996,967	103,854	11.6%
2028	911,716	1,024,075	112,359	12.3%
2029	935,464	1,056,834	121,370	13.0%
2030	965,600	1,096,011	130,411	13.5%
2031	999,456	1,138,233	138,777	13.9%
2032	1,039,517	1,186,521	147,004	14.1%
2033	1,085,915	1,241,438	155,523	14.3%
2034	1,139,648	1,303,828	164,180	14.4%
2035	1,201,535	1,374,261	172,726	14.4%
2036	1,273,722	1,454,586	180,864	14.2%
2037	1,358,270	1,539,153	180,883	13.3%
2038	1,466,571	1,644,722	178,151	12.1%
2039	1,635,065	1,802,064	166,999	10.2%
2040	388,779	549,168	160,389	41.3%
Present Value Of Impact	10,632,481		1,378,392	13.0%
Normal Cost				
2024	338,420	390,160	51,740	15.3%
2025	350,609	407,576	56,967	16.2%
2026	360,177	422,717	62,540	17.4%
2027	359,962	428,772	68,810	19.1%
2028	353,980	430,535	76,555	21.6%
2029	350,204	435,106	84,902	24.2%
2030	350,993	444,448	93,455	26.6%
2031	353,398	454,995	101,597	28.7%
2032	358,748	468,526	109,778	30.6%
2033	367,258	485,828	118,570	32.3%
2034	378,825	506,773	127,948	33.8%
2035	393,286	531,163	137,877	35.1%
2036	410,746	559,190	148,444	36.1%
2037	429,681	582,874	153,193	35.7%
2038	450,449	607,049	156,600	34.8%
2039	472,487	631,236	158,749	33.6%
2040	495,261	651,105	155,844	31.5%
Present Value Of Impact	3,961,150		1,035,457	26.1%

Exhibit 3

Article 4 HB 5909 Impact - Aurora Fire

	Baseline	HB 5909 Changes	Impact, \$	Impact, %
Municipal Contribution				
2024	15,095,242	16,688,777	1,593,535	10.6%
2025	15,161,085	16,918,454	1,757,369	11.6%
2026	15,460,957	17,396,435	1,935,478	12.5%
2027	15,799,768	17,923,029	2,123,261	13.4%
2028	16,180,125	18,498,986	2,318,861	14.3%
2029	16,624,649	19,148,013	2,523,364	15.2%
2030	17,124,468	19,856,802	2,732,334	16.0%
2031	17,699,039	20,647,497	2,948,458	16.7%
2032	18,359,066	21,526,637	3,167,571	17.3%
2033	19,109,544	22,491,967	3,382,423	17.7%
2034	19,963,616	23,552,573	3,588,957	18.0%
2035	20,931,394	24,710,789	3,779,395	18.1%
2036	22,059,835	26,005,522	3,945,687	17.9%
2037	23,410,056	27,479,148	4,069,092	17.4%
2038	25,104,125	29,254,377	4,150,252	16.5%
2039	27,452,236	31,579,101	4,126,865	15.0%
2040	31,635,596	35,535,849	3,900,253	12.3%
Present Value Of Impact	191,725,831		28,789,883	15.0%
Normal Cost				
2024	7,089,597	8,133,918	1,044,321	14.7%
2025	7,075,699	8,267,836	1,192,137	16.8%
2026	7,031,501	8,386,268	1,354,767	19.3%
2027	6,984,734	8,513,134	1,528,400	21.9%
2028	6,934,506	8,646,288	1,711,782	24.7%
2029	6,900,455	8,806,884	1,906,429	27.6%
2030	6,879,647	8,988,611	2,108,964	30.7%
2031	6,877,428	9,200,100	2,322,672	33.8%
2032	6,900,866	9,445,730	2,544,864	36.9%
2033	6,938,520	9,708,903	2,770,383	39.9%
2034	6,991,807	9,988,331	2,996,524	42.9%
2035	7,047,159	10,266,046	3,218,887	45.7%
2036	7,108,917	10,542,524	3,433,607	48.3%
2037	7,182,073	10,811,753	3,629,680	50.5%
2038	7,265,874	11,083,275	3,817,401	52.5%
2039	7,370,292	11,339,475	3,969,183	53.9%
2040	7,494,282	11,588,142	4,093,860	54.6%
Present Value Of Impact	72,929,491		23,254,186	31.9%

Exhibit 4

Article 4 HB 5909 Impact - Rock Falls Fire

	Baseline	HB 5909 Changes	Impact, \$	Impact, %
Municipal Contribution				
2024	301,933	344,945	43,012	14.2%
2025	309,485	355,788	46,303	15.0%
2026	324,871	374,555	49,684	15.3%
2027	340,978	394,200	53,222	15.6%
2028	358,591	415,480	56,889	15.9%
2029	376,120	436,832	60,712	16.1%
2030	392,107	456,889	64,782	16.5%
2031	409,142	476,714	67,572	16.5%
2032	428,331	497,819	69,488	16.2%
2033	449,868	521,583	71,715	15.9%
2034	474,856	548,646	73,790	15.5%
2035	497,920	577,840	79,920	16.1%
2036	528,061	613,607	85,546	16.2%
2037	568,856	659,314	90,458	15.9%
2038	628,430	720,817	92,387	14.7%
2039	738,565	828,986	90,421	12.2%
2040	227,892	315,813	87,921	38.6%
Present Value Of Impact	4,205,888		667,997	15.9%
Normal Cost				
2024	189,302	215,058	25,756	13.6%
2025	196,260	224,893	28,633	14.6%
2026	203,613	235,243	31,630	15.5%
2027	211,086	245,900	34,814	16.5%
2028	219,065	257,234	38,169	17.4%
2029	226,328	268,063	41,735	18.4%
2030	231,004	276,614	45,610	19.7%
2031	234,987	283,402	48,415	20.6%
2032	239,622	289,786	50,164	20.9%
2033	244,604	296,816	52,212	21.3%
2034	250,408	304,686	54,278	21.7%
2035	251,193	311,285	60,092	23.9%
2036	251,150	317,962	66,812	26.6%
2037	253,505	326,543	73,038	28.8%
2038	257,295	335,125	77,830	30.2%
2039	262,279	344,423	82,144	31.3%
2040	268,586	355,146	86,560	32.2%
Present Value Of Impact	2,354,322		486,335	20.7%

Disability Rate

Sample rates included in table below. 60% of the disabilities are assumed to be in the line of duty.

% Becoming Disabled During Year	
Age	Rate
20	0.000%
25	0.029%
30	0.133%
35	0.247%
40	0.399%
45	0.561%
50	0.675%
55	0.855%
60	1.093%

Termination Rate

See table below.

% Terminating During Year			
Service	Rate	Service	Rate
0	13.00%	8	3.00%
1	8.00%	9	2.50%
2	7.00%	10	2.25%
3	6.00%	11	2.00%
4	5.00%	12	1.75%
5	4.50%	13	1.50%
6	4.00%	14+	1.25%
7	3.50%		

Salary Increases

See table below.

Salary Scale	
Service	Rate
0	11.00%
1	9.50%
2	8.00%
3	7.50%
4	7.00%
5	6.00%
6	5.00%
7-11	4.00%
12-29	3.75%
30+	3.50%

Inflation 2.50%.

Cost-of-Living Adjustment Tier 1: 3.00% per year after age 55. Those that retire prior to age 55 receive an increase of 1/12 of 3.00% for each full month since benefit commencement upon reaching age 55.
Tier 2: 1.25% per year after the later of attainment of age 60 or first anniversary of retirement.

Marital Status 80% of Members are assumed to be married.

Spouse's Age Males are assumed to be three years older than females.

Funding Method Projected Unit Credit Cost Method.

Actuarial Asset Method Investment gains and losses are smoothed over a 5-year period. In the first year, 20% of the gain or loss is recognized. In the second year 40%, in the third year 60%, in the fourth year 80%, and in the fifth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return.

Funding Policy Amortization Method The UAAL is amortized according to a Level Percentage of Payroll method over a period ending in 2040. The initial amortization amount is 90% of the Accrued Liability less the Actuarial Value of Assets.

Payroll Growth 3.00% per year.

Administrative Expenses Administrative expenses will be estimated as 2% of the fund's total normal cost.

EXHIBIT 6

ARTICLE 4 ASSUMPTIONS

The assumptions shown below were adopted by the Board December 1, 2021 following a 2021 review of plan experience.

Interest Rate 7.125% per year compounded annually, net of investment related expenses.

Mortality Rate

Active Lives:
PubS-2010 Employee mortality, unadjusted, with generational improvements with most recent projection scale (currently Scale MP-2021). 20% of active deaths are assumed to be in the line of duty.

Inactive Lives:
PubS-2010 Healthy Retiree mortality, adjusted by a factor of 1.081 for male retirees and unadjusted for female retirees, with generational improvements with most recent projection scale (currently Scale MP-2021).

Beneficiaries:
PubS-2010 Survivor mortality, unadjusted for male beneficiaries and adjusted by a factor of 1.098 for female beneficiaries, with generational improvements with most recent projection scale (currently Scale MP-2021).

Disabled Lives:
PubS-2010 Disabled mortality, adjusted by a factor of 1.178 for male disabled members and unadjusted for female disabled members, with generational improvements with most recent projection scale (currently Scale MP-2021).

The mortality assumptions sufficiently accommodate anticipated future mortality improvements.

Retirement Age

% Retiring During Year (Tier 1)		% Retiring During Year (Tier 2)	
Age	Rate	Age	Rate
50-51	12%	50-54	3%
52-53	15%	55	30%
54-55	20%	56-59	20%
56-59	20%	60-62	25%
60-62	25%	63-64	33%
63-64	33%	65-69	50%
65-69	50%	70+	100%
70+	100%		

Disability Rate

Sample rates included in table below. 80% of the disabilities are assumed to be in the line of duty.

% Becoming Disabled During Year	
Age	Rate
20	0.010%
25	0.016%
30	0.068%
35	0.220%
40	0.420%
45	0.650%
50	0.900%
55	1.240%
60	1.580%

Termination Rate

Sample rates included in table below.

% Terminating During Year	
Age	Rate
20	10.00%
25	8.00%
30	4.00%
35	2.50%
40	1.20%
45+	1.00%

Salary Increases

See table below.

Salary Scale	
Service	Rate
0	12.50%
1	10.50%
2	9.50%
3	8.50%
4	7.50%
5	6.50%
6	5.00%
7	4.50%
8+	4.00%

Inflation

2.25%.

Cost-of-Living Adjustment	<p><u>Tier 1:</u> 3.00% per year after age 55. Those that retire prior to age 55 receive an increase of 1/12 of 3.00% for each full month since benefit commencement upon reaching age 55.</p> <p><u>Tier 2:</u> 1.125% per year after the later of attainment of age 60 or first anniversary of retirement.</p>
Marital Status	80% of Members are assumed to be married.
Spouse's Age	Males are assumed to be three years older than females.
Funding Method	Projected Unit Credit Cost Method.
Actuarial Asset Method	Investment gains and losses are smoothed over a 5-year period. In the first year, 20% of the gain or loss is recognized. In the second year 40%, in the third year 60%, in the fourth year 80%, and in the fifth year 100% of the gain or loss is recognized. The actuarial investment gain or loss is defined as the actual return on investments minus the actuarial assumed investment return.
Funding Policy Amortization Method	The UAAL is amortized according to a Level Percentage of Payroll method over a period ending in 2040. The initial amortization amount is 90% of the Accrued Liability less the Actuarial Value of Assets.
Payroll Growth	2.75% per year.
Administrative Expenses	Administrative expenses will be estimated as 2% of the fund's total normal cost.