



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104TH General Assembly*

BILL NO: **HB 2855**

February 20, 2025

SPONSOR (S): Kifowit

SYSTEM: Chicago Police, Chicago Fire

FISCAL IMPACT

HB 2855 would increase pension liabilities for the Chicago Police and Fire pension funds by lowering the Tier 2 COLA eligibility age, replacing the current COLA formula with a flat 3% non-compounded increase, and eliminating early retirement reductions for certain Tier 2 members. An actuarial study would be required to determine the specific cost implications. An updated impact note will be issued if an actuarial study is made available by the respective pension funds.

SUBJECT MATTER: HB 2855 amends the Chicago Police and Fire articles of the Pension Code. The bill lowers the age for Tier 2 automatic annual increases from 60 to 55. It replaces the current Tier 2 COLA formula, which is the lesser of 3% or half of CPI-U, with a flat 3% non-compounded increase, aligning Tier 2 benefits with those granted to Tier 1 firefighters. Additionally, HB 2855 removes the early retirement reduction for Tier 2 members who retire at age 50 with at least 20 years of service, eliminating the current 6% per year reduction before age 55. The changes are explained in the Comment section below.

COMMENT:

Lowering the Age for Tier 2 Annual Increases

Currently, Tier 2 retirees in the Chicago Police and Firefighter Pension Funds receive automatic annual annuity increases starting at age 60 or the first anniversary of their annuity start date, whichever is later. HB 2855 lowers this eligibility age to 55, allowing retirees to receive cost-of-living adjustments five years earlier.

Increasing the Annual Cost-of-Living Adjustment

Tier 2 retirees currently receive an annual cost-of-living increase that is the lesser of 3% or half of the Consumer Price Index for Urban Consumers (CPI-U), based on the originally granted annuity. HB 2855 replaces this formula with a 3% non-compounded increase. P.A. 101-0673, which took effect on April 5th, 2021, granted all Tier 1 Chicago Firefighters a standard 3% non-compounded COLA, regardless of birthdate. P.A. 103-0002, which took effect on December 8th, 2023, granted this same change to the Chicago Police Fund. HB 2855 would ensure that all Chicago police officers and firefighters, regardless of tier status, would receive a 3% non-compounded COLA in retirement.

Eliminating the Early Retirement Reduction

Currently, Tier 2 members in the Chicago Police and Fire Pension Funds who retire before age 55 face a 6% annual reduction in their pension for each year they retire early between ages 50 and 55 (or one-half of one percent for each month under age 55). HB 2855 removes this reduction for members who retire at age 50 with at least 20 years of service.

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