



Commission on Government Forecasting and Accountability

PENSION IMPACT NOTE *104th General Assembly*

BILL NO: SB 3404, as amended by SA 001

April 24, 2026

SPONSOR: Martwick

SYSTEM: Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, Chicago Municipal, Cook Employees, Cook County Forest Preserve, Chicago Laborers, Chicago Park, and Chicago Teachers

FISCAL IMPACT

SB 3404, as amended by SA 001, is nearly identical to the underlying bill, with two major exceptions; the buyout plans are optional for municipalities to establish (explicated stated in SA 1), and the Chicago Teachers Pension Fund (CTPF) is added as an eligible system. However, the anticipated fiscal impact would be the same, but now dependent on the number of eligible employers that elect to establish the two buyout programs.

SB 3404, as amended by SA 001, creates the two buyout programs—Total buyout and the COLA (or AAI) buyout—for the affected pension funds, mirroring the existing buyout programs currently available in the State’s “Big 3” retirement systems (SERS, SURS, and TRS).

According to SERS, SURS, and TRS, the buyout programs have resulted in an estimated \$2.6 billion reduction in liabilities and required approximately \$2.0 billion in buyout payments, based on the most recently provided data from each system (ranging from June 2025 to January 2026) as shown in the table below (additional data is provided in the Comment section).

System	Estimated Liability Reduction	Buyout Payments
SERS	\$1.0B	\$707.2M
SURS	\$68.8M	\$52.9M
TRS	\$1.5B	\$1.3B
Total	\$2.6B	\$2.0B

Because the existing buyout programs of the State Big 3 systems have led to reductions in pension liabilities in SERS, SURS, and TRS, it may be reasonable to anticipate similar participation patterns and outcomes for the affected pension funds under SB 3404, as amended by SA 001. However, an actuarial study would be required to assess the fiscal impact of SB 3404, as SA 1 on the affected pension funds, as estimating the precise fiscal impact is uncertain by nature. Participation in the buyout programs is voluntary, and individual member decisions play a significant role in determining overall program impact.

It should also be noted that the State’s Big 3 systems are underfunded (with funded ratios of approximately 47% for each system). By contrast, while many of the affected pension funds are also underfunded, with funded ratios ranging from approximately 24% to 67%, as shown in the table below, a number of local pension funds—particularly Downstate Police and Fire local pension funds governed under Articles 3 and 4—are fully funded or overfunded. According to 2024 data from the Illinois Department of Insurance, more than 60 local Articles 3 and 4 pension funds reported funded ratios of 100% or greater.

Pension Fund	Funded Ratio as of FY 2024
Downstate Police Pension Funds	63.7% (aggregate ratio; individual fund ratios vary)
Downstate Firefighters’ Pension Funds	67.1% (aggregate ratio; individual fund ratios vary)
Municipal Employees’ Annuity and Benefit Fund of Chicago	25.8%
Cook County Employees’ Pension Fund	65.9%
Cook County Forest Preserve Employees’ Pension Fund	54.6%
Laborers’ Annuity and Benefit Fund of Chicago	42.6%
Policemen’s Annuity and Benefit Fund of Chicago	24.6%
Firemen’s Annuity and Benefit Fund of Chicago	24.4%
Park Employees’ Annuity and Benefit Fund of Chicago	33.2%
Chicago Teachers’ Pension Fund	48.1%

In addition, the fiscal impact on the pension funds or their participating employers may depend on several factors, including the size and funded status of the affected pension funds, the demographic characteristics of participating

members, the methods used to fund the buyout payments, and other possible related factors.

SUBJECT MATTER: SB 3404, as amended by SA 1, amends the Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, Chicago Municipal, Cook Employees, Cook County Forest Preserve, Chicago Laborers, Chicago Park, and Chicago Teachers Articles of the Illinois Pension Code to allow for the establishment of buyout programs (COLA and Total) modeled after the existing buyout programs in the State Employees' Retirement System (SERS), State Universities Retirement System (SURS), and Teachers' Retirement System (TRS). This bill also amends the County Code and the Municipal Code to grant local governments, including Cook County, the option to establish and fund the buyout programs using existing revenue sources or bonds authorized under applicable law.

COMMENT:

Impact of SA 1

SB 3404, as amended by SA 1, is nearly identical to the underlying SB 3404, with the following exceptions:

- The buyout programs are optional for employers to establish (explicitly stated rather than implied through zero employer contributions in the underlying bill).
 - Employers, such as Counties with a population over 3 million (Cook County), and municipalities may elect to establish a buyout program for their applicable pension funds in FY 2026 and FY 2027
 - Once established, the employer must provide 30 days' notice to the pension fund, and ensure that funds set aside for buyouts are provided 30 days prior to the beginning of the FY in which the buyouts will be available.
 - If there are any remaining funds in the buyout program at the end of the fiscal year, the employer may either roll the remaining funds into the next fiscal year or have those funds remitted back to the employer.
- Removes language allowing employers to provide zero contributions
- Extends the optional Pension Buyout Programs to the Chicago Teachers' Pension Fund (CTPF)
 - Surviving spouse annuity increases for CTPF, like those for Cook County Employees', Cook County Forest Preserve, and Chicago Park pension funds, shall begin on January 1st on or after the first anniversary of the annuity start date.

Current Law

Public Act 100-587 (eff. June 4, 2018) created two voluntary Accelerated Pension Benefit buyout programs for the "Big 3" systems (SERS, SURS, and TRS), often referred to simply as the "COLA" (or Automatic Annual Increase (AAI)) buyout and the "Total" buyout.

- **COLA Buyout**: A Tier 1 participant may elect to receive a lump sum equal to 70% of the difference in the present value between the 3% compounded COLA and a reduced COLA of

1.5% simple, as calculated by the applicable retirement fund. Upon such election the participant's COLA is permanently reduced to a 1.5% simple for the duration of their retirement. The reduced COLA shall begin on January 1 occurring on or after age 67 or the first anniversary of their annuity start date, whichever is later.

- **Total Buyout:** An eligible member (generally an inactive, vested member) may elect to waive all future pension benefits in exchange for a lump sum equal to 60% of the present value of their entire pension benefit.

The buyout programs were originally set to expire on June 30, 2021. P.A. 101-10 (eff. June 5, 2019) extended the programs to June 30, 2024, and P.A. 102-718 (eff. May 5, 2022) further extended them to June 30, 2026. Elections under both programs are irrevocable.

SB 3404, SA 1

SB 3404, as amended by SA 1, would allow for eligible employers to establish of buyout programs for the following pension funds from as soon as practical from June 30th 2026, through June 30th 2028:

- Downstate Police & Downstate Fire;
- Chicago Police & Chicago Fire;
- Chicago Municipal;
- Cook Employees & Cook Forest;
- Chicago Laborers;
- Chicago Park; and
- CTPF

Voluntary Pension Buyout for Vested, Inactive Members

Until June 30, 2028, an eligible member in those affected pension funds may irrevocably elect to receive an accelerated pension benefit payment equal to 60% of the present value of a member's pension benefit in lieu of receiving any pension benefit, including survivor's or disability benefits. An eligible member means a person who:

- 1) Has terminated service in the applicable DB plan;
- 2) Has accrued sufficient service credits to receive a retirement annuity (i.e., has vested in the pertinent system);
- 3) Has not received any retirement annuity; and
- 4) Has not elected the COLA buyout option.

Voluntary COLA Buyout for Tier 1 Members

An eligible member in those affected pension funds may irrevocably elect to receive an accelerated pension benefit payment equal to 70% of the difference between the present value of the current Tier 1 COLA (either 3% compounded or 3% simple, depending on the pension fund) and the present value of a reduced COLA (1.5% simple) in exchange for receiving a 1.5% simple COLA. An eligible member means a person who:

- 1) Is a Tier 1 member;
- 2) Has submitted an application for retirement;
- 3) Meets age and service requirements to receive a retirement annuity;

- 4) Has not received any retirement annuity; and
- 5) Has not elected the inactive vested pension buyout option.

The reduced 1.5% simple COLA would occur on January 1 occurring either on or after age 67 or the first anniversary of the pension start date, whichever is later. (SB 3404, as amended by SA 1, specifically states that for surviving spouses in the Cook County Employees’ and the Cook County Forest Preserve, Chicago Teachers, and the Chicago Park pension funds the reduced 1.5% COLA for widow’s annuities would occur on January 1 on or after the first anniversary of the annuity start date.)

The Table below shows the current Tier 1 COLA for the affected pension funds. The Policemen’s Annuity and Benefit Fund of Chicago, the Firemen’s Annuity and Benefit Fund of Chicago, and the Park Employee’s Annuity and Benefit Fund of Chicago provide a simple 3% COLA, while the rest of the affected pension funds provide a 3% compounded COLA for their Tier 1 members.

Table 1

Pension Fund	Current Tier 1 COLA
Downstate Police Pension Funds	3% compounded
Downstate Firefighters’ Pension Funds	
Municipal Employees’ Annuity and Benefit Fund of Chicago	
Cook County Employees’ Pension Fund	
Cook County Forest Preserve Employees’ Pension Fund	
Laborers’ Annuity and Benefit Fund of Chicago	
Chicago Teachers’ Pension Fund	
Policemen’s Annuity and Benefit Fund of Chicago	Simple 3%
Firemen’s Annuity and Benefit Fund of Chicago	
Park Employees’ Annuity and Benefit Fund of Chicago	

SB 3404, as amended by SA 1, requires that the employer provides enough funds to the pension fund before the fund accepts a member’s irrevocable election. If there are no sufficient funds available, the election cannot be accepted and the member may reapply in a next fiscal year. In other words, these buyout programs are subject to the availability of employer funding each year.

This bill also amends the County Code and the Municipal Code to authorize local governments to establish the aforementioned buyout programs in FY 2026 or FY 2027, if they elect to do so. SA 1 explicitly clarifies that the establishment of the programs is optional, whereas this was less explicit in the underlying bill.

If a local government elects to establish a program, it must provide its pension funds with 30 days’ notice and transfer funds that shall be used for buyout payments at least 30 days before the fiscal year in which the buyout program is established. Local governments may finance the buyout payments using any lawful funding mechanisms, including (but not limited to) the issuance of bonds already authorized under current law, appropriate existing revenue, transfers from available funds, or any combination thereof. Should any unused funds remain that were allotted for buyout payments, the local government can either roll those funds over into the next fiscal year, or have them remitted back to the local government itself.

The following table depicts a breakdown on the fiscal impact, and the number of recipients of the buyout programs already in place for the Big 3 State-funded systems:

Table 2

Accelerated Pension Buyout Program Participation Data (All 3 Systems) 2019 - 2025*			
	COLA Buyout	Total Buyout	Total
Buyout Recipients	11,872	3,161	15,033
All numbers below are in millions of dollars			
Estimated Reduction in Liability	\$2,581		
Buyout Payments	\$1,612	\$432	\$2,044

*Note that the data from all three funds comes from different dates: SERS is as of end of Dec. 2025, TRS is as of end of January, 2026, and SURS is as of the end of June, 2025.

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