

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

96TH GENERAL ASSEMBLY

BILL NO: **HB 1176**

April 8, 2009

SPONSOR (S): Zalewski

SYSTEM(S): Chicago Teachers' Pension Fund

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**FISCAL IMPACT:** According to the Commission's actuary, the increase in unfunded liabilities as a result of HB 1176 is estimated to be \$6.3 million.

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**SUBJECT MATTER:** HB 1176 amends the Chicago Teachers' Article of the Pension Code to eliminate the required contribution for converting past service to the augmented retirement formula, beginning on the effective date of the Amendatory Act. In addition, any upgrade contributions that have already been made would be refunded to the member (with 5% interest), and the annuities of retirees who chose not to upgrade prior service would have the annuity recalculated using the 2.2% of final average salary benefit formula.

**FISCAL IMPACT:** According to the Commission's actuary, the increase in unfunded liabilities as a result of HB 1176 is estimated to be \$6.3 million.

**COMMENT:** Public Act 90-0582 increased the CTPF benefit formula to 2.2% of final average salary for each year of service earned after June 30, 1998. Members may elect to have service credit earned prior to July 1, 1998, upgraded to the new formula by contributing 1.0% of the member's average salary (for the four years immediately preceding application) for each year of service upgraded. The contribution is reduced by 1.0% of that salary rate for every 3 full years of creditable service earned by the member after June 30, 1998. The maximum contribution is set at 20% of salary. Public Act 92-0416 eliminated the contribution for members with at least 30 years at retirement.

The contributions required to upgrade past service may currently be made in one of three ways: (1) in a lump sum before the date of retirement, (2) deducted from the employee's salary in installments over a period not to exceed five years, or (3) deducted from the retirement annuity in equal monthly installments over a 24-month period.

HB 1176 eliminates the required upgrade contributions for the optional increase in retirement annuity, beginning on the effective date of the Amendatory Act. In addition, the bill provides that any upgrade contributions that have already been made would be refunded to the member (with 5% interest, compounded annually) and the annuities of retirees who

chose not to upgrade past service would have the annuity recalculated using the 2.2% of final average salary formula. These annuitants would receive a lump sum equal to the difference in the annuity that would have been provided by the 2.2% formula, and the amount of the annuity actually received.

HB 1176 amends the State Mandates Act to require implementation without reimbursement.

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