COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **HB 3474 as amended by HA 4** April 21, 2011

SPONSOR (S): May – McCarthy, et al.

SYSTEM(S): IMRF, SERS

FISCAL IMPACT: HB 3474, as amended by HA 4, will have a positive fiscal impact on affected pension systems, especially with regard to pay raises granted to IMRF members in excess of 6% during the final average salary period since IMRF employers must now pay the present value of such increases at the time the increases are granted. The bill also eliminates certain positions from qualification for SERS membership; this change will have a slight but positive impact on SERS.

SUBJECT MATTER: Amendment 4 to HB 3474 makes a number of changes to the Illinois Municipal Retirement Fund that include posting compensation benefits, suspending annuities to people who contract out to work with the municipality they have previously retired from and taking the last 24 months to compare for pension benefits (instead of last 3 months). In addition, this arranges the 6% earnings increase standard, which requires municipalities to pay pension increases in compensation adjustments that are more than 6% higher than a previous calendar year. Also, non-concurrent service is delineated for pension purposes, increases of 12% in compensation are sent to IMRF for review and signoff by individuals authorizing the increase, and directors of various metropolitan agencies and state commissions and their boards are excluded from aggregating pension benefits from service in those agencies and commissions.

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<u>COMMENT</u>: Amendment 4 to HB 3474 makes several changes to the pension systems, specifically the Illinois Municipal Retirement Fund (IMRF).

1. For employers who participate in IMRF, within 6 business days after a budget is approved, the employer must post on its website (or in lieu of having one, at their principal office) the total compensation package for all employees who make more than $75,000/year total. In addition, for these same employers, they must post the information on their website at least 6 days before approving (or in their principal office) regarding the total compensation package for an employee who will make $150,000/year or more. This compensation package includes salary, health insurance, housing/vehicle/clothing allowances, bonuses, loans, and vacation/sick days granted.

2. If a member of a retirement system/pension fund subject to the sections outlined in HB 3474, as amended by HA 4, is receiving an annuity or pension under the system and accepts a contract to provide services to the entity that they have retired from and received the aforementioned pension/annuity, that pension/annuity is suspended during the contract. A member must also notify a retirement system they are participating in as well as the contractual employer before accepting contractual employment or be guilty of a Class A misdemeanor.

3. For individuals who become participants to a pension system after this legislation becomes effective, the earnings to be considered for computing the final rate of earnings will be considered for each of the final 24 months of employment for participants.

4. If a participating employee's reported earnings for any year used to determine the "final rate of earnings" exceeds the employee's previous year's earnings by more than 6% or 1.5 times the annual increase in the Consumer Price Index-u, the participating municipality that pays earnings shall pay to the IMRF the value of the increase in pension resulting from the part of the increase in salary that is larger than 6% or 1.5 times the annual increase in the Consumer Price Index-u. When it is determined that a payment is or may be required, the fund will calculate the amount of the payment and bill the participating municipality. The municipality can dispute it within 30 days and the fund will review the application for recalculation and recalculate the amount if necessary. The municipality must pay the amount within 90 days or pay interest. Payments must be concluded within 3 years. Payment shall exclude earnings increases from overload or overtime earnings and increases due to promotion resulting in increased responsibility and workload. This does not apply to earnings paid under collective bargaining agreements made or amended before the legislation goes into effect, earnings increases paid to members more than 10 years from retirement, or earnings increases resulting from a move from part-time to full-time.

5. The municipality charges for non-concurrent service are calculated for the annuity reserve based on service and adjusted earnings with each employer (with no regard to vesting, based on subsection (a) of Section 7-142). In addition, the difference between the municipality charges for the actual annuity granted and the aggregation of the municipality charges based upon the ratio of each from the calculations to the aggregate total. The aggregate municipality charges for concurrent service are prorated based on employee earnings.

6. Before increasing the earnings of an officer/executive/manager by 12% or more, the employer authorities authorizing the increase must contact IMRF to find out the effect of the increase in salary on the participant's pension benefits. The IMRF must respond with a written "Pension Impact Statement" that states the effects of that increase, including the potential payment of the value of the increase in benefits that is over 6%. The employer authorities must sign the statement and pay the costs associated with it. This does not apply to overload/overtime increases, collective bargaining increases, increases paid to employees more than 10 years from retirement or changing from a part-time to full-time position.

7. New Civil Service Commission members, Board of Review members of the Department of Employment Security, Liquor Control Commission members, Secretary of State Merit Commission members, Human Rights Commission members, State Mining Board members, Property Tax Appeal Board members, Illinois Racing Board members, Department of State Police Merit Board members, Illinois State Toll Highway Authority members, and Illinois State Board of Elections members are not eligible for participation in the state pension systems after this legislation becomes law.

8. New CTA officers and Chicago Transit Board members do not become pension members after this legislation becomes law.

9. People who become members of the Suburban Bus Board, Commuter Rail Board or the Board of Directors of the RTA are not eligible to participate in the affected pension plans after this legislation becomes law.

10. This becomes law without reimbursement by the state.

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