

# COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

### 97TH GENERAL ASSEMBLY

**BILL NO:** HB 3813, as amended by HA #4 October 26, 2011  
**SPONSOR(S):** Cross – D. Harris (et al.)  
**SYSTEM(S):** Chicago Municipal, Chicago Laborers, Chicago Teachers,  
Downstate Police, Downstate Fire, Chicago Police, Chicago Fire,  
State Universities, and Teachers' Retirement System

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**FISCAL IMPACT:** HB 3813, as amended, will have a positive fiscal impact on the affected pension funds to the extent that members who take a leave of absence to work for a labor organization will now have their service credit and pensionable salary calculated upon their municipal, public safety, or teaching salary prior to the commencement of the leave of absence or other employment. In addition, the bill specifies that such employees must pay the employer's normal cost for the period of the leave of absence, and that any additional unfunded liabilities due to such leaves of absences shall be remitted to the pension fund by the employee within one year of the identification of additional liabilities. These measures should ensure that no additional cost will accrue as a result of a leave of absence.

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**SUBJECT MATTER:** HB 3813, as amended, will have a positive fiscal impact on the affected pension funds to the extent that members who take a leave of absence to work for a labor organization will now have their service credit and pensionable salary calculated upon their municipal, public safety, or teaching salary prior to the commencement of the leave of absence or other employment. In addition, the bill specifies that such employees must pay the employer's normal cost for the period of the leave of absence, and that any additional unfunded liabilities due to such leaves of absences shall be remitted to the pension fund by the employee within one year of the identification of additional liabilities.

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COMMENT:

*Anti-Fraud Provisions*

HB 3813, as amended, provides that any reasonable suspicion of a false statement by any appointed or elected commissioners, trustees, directors, board members, or employees of a retirement system or pension fund governed by the Pension Code or the State Board of Investment shall be immediately referred to the board of trustees of the pension fund or the State Board of Investment. The bill also states that the board shall immediately notify the State's Attorney of the jurisdiction where any alleged fraudulent activity occurred.

*Chicago Municipal and Chicago Laborers*

Currently, members of the Chicago Municipal Pension Fund are allowed to earn service credit in the fund while working for a local labor organization that represents municipal employees. Prior to the enactment of P.A. 86-1488, which became effective on Jan. 14, 1991, such employees were required to make contributions based on the municipal salary rate received by the member immediately prior to the leave of absence during which service with the labor organization commenced. After Jan. 14, 1991, P.A. 86-1488 allowed members employed by a local labor organization to base their contributions on their current union salary rather than the municipal salary earned prior to the leave of absence from municipal service. HB 3813, as amended, provides that current and future members who are employed by a local labor organization can only have service after the effective date of this bill calculated on the salary rate received by the member immediately prior to the leave of absence during which the member began service with a labor organization, including, but not limited to, pension plans established by the local labor organization, the national labor organization, or the international labor organization. In addition, HB 3813, as amended, states that the participant's highest average annual salary must be based upon the regular salary rate received by the participant for his or her municipal employment immediately prior to that leave of absence.

*Chicago Teachers*

Currently, the Chicago Teachers Article of the Pension Code allows members of the fund to accrue service credit for employment with a labor organization while on leave of absence from a teaching position. When a member takes such a leave of absence, the labor organization pays no employer contribution to the pension fund unless the member's union salary exceeds the member's teaching salary. In cases where the union salary exceeds the teaching salary, the union is required to pay the employer's normal cost rate on the difference between the teaching salary and the union salary. The Pension Code defines the teaching salary as the teacher's salary on Sept. 1, 1983 or the effective date of the leave of absence from teaching, whichever is later. HB 3813, as amended, requires that employee contributions and highest average annual salary for a

teacher on leave of absence for the purpose of working in a union position will be based on the teacher's salary on the effective date of the leave of absence.

*Leaves of Absence or Credit Earned for Other Service for Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, SURS, and TRS*

HB 3813, as amended, states that for any leave of absence or credit earned for other service that is granted after the effective date of this amendatory Act of the 97th General Assembly, any pension credit earned must be based on the participant's salary immediately before the leave of absence. The participant must contribute an amount equal to the actuarially determined normal cost of the benefit, calculated by the fund. In addition, HB 3813, as amended, specifies that the employer of the participant may elect to contribute all or a portion of the participant's required contribution.

*Recalculation of Benefits for Leaves of Absence or Other Service Credit for Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, SURS, and TRS*

HB 3813, as amended, states that beginning on the effective date of this amendatory Act of the 97th General Assembly, every three years, each fund must determine if any benefit earned by a participant who first earns credit on or after the effective date of this amendatory Act has created any additional unfunded liability to the fund. If it is determined by the fund that additional unfunded liability has been created, then the participant must pay the total cost to the fund within one year.

*Computation of Salary for Leave of Absence or Credit Earned for Other Service for Downstate Police, Downstate Fire, Chicago Police, Chicago Fire, SURS, and TRS*

Under HB 3813, as amended, for any participant who takes a leave of absence on or after the effective date of this amendatory Act, his or her average salary must be based on the regular salary rate received by the participant for his or her municipal employment immediately prior to that leave of absence or credit earned for other service.

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