COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

97TH GENERAL ASSEMBLY

BILL NO: **SB 1831, as amended by HA 1** May 26, 2011

SPONSOR (S): Raoul (May)

SYSTEM(S): IMRF, Downstate Police, Downstate Fire

FISCAL IMPACT: The Commission on Government Forecasting and Accountability has retained Marquette Associates to conduct a study on the feasibility of consolidating the investment functions of police and fire pension funds (this study is being conducted pursuant to P.A. 96-1495). The Marquette study will be completed by December 2011. It is unknown how many police and fire pension funds will voluntarily transfer their investment authority to IMRF under this bill.

SB 1831, as amended by HA 1, will have a positive impact upon IMRF as employers must now contribute to IMRF the present value of any increases in accrued liabilities associated with end-of-career pay increases in excess of six percent. This change will allow any additional employer contributions for excessive end-of-career salary increases to be invested sooner, which may lead to decreased employer contributions in the future.

SUBJECT MATTER: Amendment 1 to HB 1831 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. In addition to these changes, certain theatre/entertainment/convention center employees are removed from pension availability and rules are simplified and standardized for municipal employees working under 1000 hrs./year.

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COMMENT: Amendment 1 to SB 1831 makes several changes to the Open Meetings Act and pension systems, specifically the Illinois Municipal Retirement Fund (IMRF).

1. For employers who participate in the 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 SB 1831 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. their investments to the IMRF for management, after which the board would no longer have authority to make investments. Future investments of the reserves of the fund would be made by IMRF. The transfer of investments will be made as soon as possible after the resolution is effective, but after an audit of the investments by a CPA selected by the board and approved by the Auditor General. IMRF must be invested with and subject to the same rules as the reserves of the original fund.
4. Removes people who are contributors to or eligible to contribute to a Taft-Hartley pension plan established on or before June 1, 2011 and are theatre/arena/convention center employees in Cook County - in a municipality that is required to contribute earnings. This does not affect service credit or creditable service prior to the effective date of this act.
5. For individuals who become participants in IMRF after January 1, 2012, 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.

6. The governing body of a participating municipality/instrumentality may delegate various powers to an authorized agent that does not have to be a member of the fund.
7. The requirement for a municipality/instrumentality to adopt a resolution before it becomes subject to the Pension Code to allow it to exclude employees working less than 1000 hrs./year from benefit eligibility is removed.
8. The requirements for an eligible employee for an annuity are modified to eliminate the need to work at a municipality/instrumentality which had not elected to exclude certain persons employed for less than 1000/600 hrs./year.
9. A person appointed as an auxiliary police officer pursuant to Section 3.1-30-5 of the Illinois Municipal Code is not excluded from age enhancement/creditable service if they enter into employment with an employer under 40 ILCS 5/7-141.1
10. A sheriff's law enforcement employee can convert up to 10 years of that service into service as a sheriff's law enforcement employee if they began service in that capacity before the effective date of this Act.
11. People who receive an annuity who again become employed in a position that requires or entitles them to become a participating employee have their annuity suspended until they are found to be qualified under 40 ILCS 5/7-144.
12. Alternative annuities for county officers are available only if a resolution consenting to these benefits is passed before the effective date of this legislation.
13. An elected county officer can establish alternative credits for an alternative annuity by electing in writing to make additional contributions only before this act becomes effective.
14. 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.
15. 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.

16. 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.
17. 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.
18. New CTA officers and Chicago Transit Board members do not become pension members after this legislation becomes law.
19. 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.
20. This becomes law without reimbursement by the state.

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