## COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

## PENSION IMPACT NOTE

## 98TH GENERAL ASSEMBLY

BILL NO: HB 1484

February 21, 2013

SPONSOR (S): Currie – Golar, et al.

SYSTEM(S): Chicago Teachers, State Pension Fund Continuing Approp. Act

FISCAL IMPACT: The Illinois Pension Code currently requires the State to make a contribution to the Chicago Teachers Pension Fund (CTPF) in the amount of 0.544% of payroll in years when the funding ratio drops below 90%. Based on the June 30, 2012 actuarial valuation, CTPF had a funding ratio of 54.1%. On February 14<sup>th</sup>, 2013, the Chicago Teachers Pension Fund certified an FY 2014 State contribution of \$11.9 million. If HB 1484 is enacted into law, the State would be required to make an FY 2014 contribution of \$173.8 million to CTPF. The ongoing costs required in future years would be dependent upon the system's normal cost plus "supplemental annual costs" as calculated based upon changes in benefits and other actuarial factors.

<u>SUBJECT MATTER</u>: HB 1484 amends the Chicago Teacher Article of the Pension Code. The bill shifts the responsibility for funding the Chicago Teacher pension fund's normal cost from the Chicago Board of Education to the State, beginning in FY 2015. The State will also be required to make a supplemental annual contribution that is attributable to "supplemental annual costs" that are defined in the bill.

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<u>COMMENT</u>: Public Act 89-0015 established a funding plan for the Chicago Teachers' Pension Fund under which the Chicago Board of Education was required to make a minimum annual contribution to the fund in an amount sufficient to achieve a 90% funding ratio by the end of Fiscal Year 2045. For fiscal years 1999 through 2010, the Board's contribution was to be increased in equal annual increments so that by Fiscal Year 2011, the Board of Education was making contributions as a level percentage of payroll each year through FY 2045.

Public Act 90-0548 revised the funding plan to stipulate that the Chicago Board of Education need not make pension contributions unless the funded ratio drops below 90%. P.A. 96-0889, which implemented a second tier of pension benefits for Chicago teachers hired after Jan. 1, 2011, repealed the funding provisions of P.A. 89-0015 and set in place a new funding requirement under which the Chicago Board of Education must make contributions to CTPF between FY 2014 and FY 2059 in order for CTPF to attain a 90% funding ratio by FY 2059. The Act set Board of Education contribution levels in statute for Fiscal Years 2011 – 2013.

HB 1494 requires the State to assume CTPF's employer's normal cost, or the total normal cost less employee contributions. In addition, the bill requires the State to make additional contributions equal to the net amount of any increases or decreases in the fund's "supplemental annual cost" for a given fiscal year. The bill defines such costs as changes in benefits, actuarial assumptions, and variations in investment earnings.

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