COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

95TH GENERAL ASSEMBLY

Revised – April 2007

BILL NO: **HB 1974, as amended by HA #1** April 20, 2007

SPONSOR (S): Burke - Joyce

SYSTEM(S): Chicago Firefighters' Pension Fund

FISCAL IMPACT: According to the actuary for the Chicago Firefighters' Pension Fund, HB 1974, as amended by HA #1, will increase the accrued liabilities of the fund by $262.1 million. In order to amortize this increase in accrued liabilities over a 30-year period, annual payments of $24.2 million would be needed. The actuary notes that the two factors contributing to this significant cost are: 1) the inclusion of annuity payments that would have been received during the DROP period in the lump-sum payment, and 2) the lack of a phase-in period during which the retiring firefighter could choose the number of months that he or she would forfeit in order to receive a lump sum payment. In 2006, the Fund's actuary performed a cost study of a "back DROP" proposal that did not include annuity payments in the lump sum and did provide for a three-year phase-in. That cost study showed an increase in accrued liabilities of $6.6 million.

SUBJECT MATTER: HB 1974, as amended by HA #1, amends the Chicago Firefighters' Article of the Pension Code to allow an active fireman who is not in receipt of a disability pension and has at least 23 years of creditable service and has attained age 50 to make an election to receive a lump sum payment of employee contributions credited to his or her account that correspond to a period not to exceed 3 years immediately preceding withdrawal from service, plus an amount equal to 2.26 times the corresponding employer contributions made to the fund, plus the amount of any annuity payments that the fireman would have been entitled to receive during the time of the forfeited service.

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COMMENTS: Currently, members of the Chicago Firefighters' Pension Fund who have attained 50 years of age and have at least 20 years of service credit are entitled to receive a minimum annuity of 50% of final average salary, plus an amount equal to 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. (For purposes of determining the retirement annuity, "final average salary" means the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement). The retirement annuity cannot exceed 75% of final average salary. Chicago Firefighters contribute 9.125% of salary towards their pensions and are not eligible to receive Social Security benefits.

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HB 1974, as amended by HA #1, stipulates that service credit forfeited by acceptance of a lump sum shall not be included in the calculation of the fireman's retirement annuity. The monthly retirement annuity, as reduced by the amount of the lump sum payment, will constitute the originally granted retirement annuity.

HB 1974, as amended by HA #1, amends the State Mandates Act to require implementation without reimbursement.

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