

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **HB 4078**

January 28, 2020

SPONSOR (S): Ford

SYSTEM(S): Illinois Municipal Retirement Fund

FISCAL IMPACT: HB 4078 introduces a new funding goal for IMRF employers such that they must make annual contributions in order to reach 80% of the total actuarial accrued liabilities by 2040. IMRF had a system-wide 90% funding ratio as of FY 2018, but this cumulative funding ratio is less important than any given municipality's individual funded ratio. This is because IMRF is essentially a conglomeration of over 3,000 individual local pension plans. Thus, the impact of HB 4078 would need to be assessed on a municipality-by-municipality basis, and further actuarial information from IMRF would be necessary to assess this impact.

According to fund officials, as of FY 2018, 1,505 of 3,057 regular plan employers had funding ratios above 80% of accrued liabilities. IMRF notes that they do not know how this bill would be interpreted with regard to these employers that currently have funded ratios in excess of 80%. Their best interpretation as of this writing is that those well-funded employers would likely get a contribution "holiday" until the funded ratio drops to below 80%, and funds that are currently at the 80% mark would simply pay the normal cost to maintain that 80% funded ratio.

SUBJECT MATTER: HB 4078 amends the Illinois Municipal Retirement Fund Article of the Pension Code to require municipalities to contribute to the Fund at a rate not greater than that which would bring the funding ratio of the Fund to 80% of total accrued liabilities by the end of fiscal year 2040.

COMMENT: Current law for IMRF does not specify a target funding rate or a target funding date similar to that required of the State systems with regard to total accrued liabilities. Annual employer rates under IMRF are calculated separately for each of the over 3,000 employers. According to the 2018 IMRF actuarial valuation report, IMRF's current long-term funding objective entails each employer making contributions such that 100% of the present value of each active member's future benefit is funded by the time of retirement.

HB 4078 allows participating employers to make contributions starting January 1, 2022 so that IMRF will be 80% funded by fiscal year 2040. For each fiscal year after 2040, municipalities would be required to contribute at a rate greater than what would maintain an 80% funding ratio. The provisions in HB 4078 do not apply to the payment of employee contributions.

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