

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **SB 1106**

February 7, 2019

SPONSOR (S): Landek

SYSTEM(S): Downstate Police and Firefighter Pension Funds

FISCAL IMPACT: SB 1106 incorporates Downstate Police and Firefighter pension funds into the Illinois Municipal Retirement Fund (IMRF) and moves all new hires to IMRF's benefit plan. A comprehensive in-depth study by an independent investment consultant is necessary to assess the potential fiscal impact of this bill.

SUBJECT MATTER: SB 1106 amends the Downstate Police and Firefighter articles of the Pension Code to consolidate all 641 Police and Firefighter pension funds as of January 1, 2021. The bill would create an 11-member transition board to facilitate various enumerated aspects of the consolidation. The Transition Board will determine the rules regarding the administration of the Fund, until 2021 when the IMRF would assume authority over the funds. Firefighters and police officers hired after January 1, 2021 will accrue benefits under the Regular IMRF formula, not the current benefit levels available under Article 3 & Article 4 of the Pension Code.

COMMENT:

Consolidation:

- At the time of consolidation, all assets and liabilities belonging to the trust of an existing pension fund become part of the Illinois Municipal Retirement Fund.
 - Consolidation does not entitle any member to a recalculation, diminishment, or impairment of benefits previously granted.
- Local pension boards cede authority to the Board of Trustees of the Illinois Municipal Retirement Fund (the powers of which are enumerated below), and each municipality may choose to assign an authorized agent to fulfill administrative duties.
 - Municipalities can also assign the following powers to an authorized agent:
 - File petition nominations for Executive Trustees;
 - Cast the ballot for election of Executive trustees to the Fund.

- The governing body may fulfill these powers themselves, if they so choose, or delegate them to another officer or employee.
- Beginning on the consolidation date of January 1, 2021, the IMRF would invest Downstate Police and Fire assets in accordance with the prudent person investment rule.
- Once the IMRF Board of Trustees takes over on the consolidation date, any rules established by the Transition Board would be the initial rules governing the Fund.
 - IMRF's Board of Trustees may make changes or new rules as they see fit.

Benefit Accruals for Newly-Hired Police Officers/Firefighters

- Starting on or after January 1, 2021, newly hired firefighters and police officers shall begin to accrue benefits under the IMRF regular formula, not Article 3 or Article 4.
 - Firefighters and police officers hired prior to the consolidation date shall not experience an impairment or diminishment of their pensions.

Transition Boards:

- Effective immediately, the Transition Boards operate as the Board of Trustees of the Illinois Municipal Retirement Fund until January 1, 2021.
 - Abolished 60 days after the Board of Trustees of the IMRF assumes its duties.
- Two 11-Member Boards: One Transition Board for each pension system, composed of the following:
 - The Director of the Department of Insurance (or their designee).
 - 3 Governor-appointed members:
 - 2 with experience in Illinois' public employee pension funds;
 - 1 with experience in actuarial services for an Illinois public pension fund.
 - 1 active participant and 1 retired participant recommended by the President of the largest Firefighter/Police labor organizations and selected by the Governor.
 - 2 members who are mayors or chief elected officers from municipalities with Article 3 or Article 4 pension funds, recommended by the Executive Directors of the organizations representing the largest number of municipalities in the state, selected by the Governor.
 - 1 member familiar with IMRF's administration, appointed by IMRF's Executive Director.
 - 1 member familiar with the Illinois State Board of Investment authority and practices, appointed by the Executive Director of ISBI.
 - 1 member with experience auditing Illinois' public pension funds, appointed by the Auditor General.
- The Transition Board operates with all the same powers as the Board of Trustees.

- Board members are empowered to hire and negotiate contracts for staff, investments, transfer assets and liabilities, acquire property, and adopt the rules and procedures by which the Fund will operate.
- Transition Board establishes appropriate systems for the Fund to follow:
 - Establishes long-term investments of assets not necessary for short-term benefit payouts.
 - Establishes system of accounting for assets and liabilities. As enumerated, IMRF's Board of Trustees would work closely with the Transition Board.
 - Establishes system for determining, administering, receiving, and enforcing required contributions to the Fund.
 - Ensures the uninterrupted payment and administration of benefits, as well as adopting any rules or procedures necessary for the efficient consolidation of the existing Article 3 and Article 4 pension funds and the administration of the Illinois Municipal Retirement Fund's pension system.
- Each Transition Board establishes rules for their respective Articles.

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