

COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY

PENSION IMPACT NOTE

101ST GENERAL ASSEMBLY

BILL NO: **SB 1109**

February 7, 2019

SPONSOR (S): Landek

SYSTEM(S): Downstate Police Pension Funds

FISCAL IMPACT: SB 1109 makes long term, structural changes to the administration and implementation of Downstate Police pension funds. A comprehensive, in-depth study by an independent investment consultant is necessary to assess the potential fiscal impact of this bill.

SUBJECT MATTER: SB 1109 amends the Downstate Police article of the Pension Code to consolidate all 350 police pension funds as of January 1, 2021. The bill creates an 11 member transition board to facilitate various enumerated aspects of the consolidation. The bill also creates a new Board of Trustees for the newly created Downstate Police Pension Fund. The bill contains various administrative procedures for the consolidation.

COMMENT:

Consolidation:

- At the time of consolidation, all assets and liabilities belonging to the trust of an existing Article 3 pension fund becomes part of the Downstate Police Pension Fund.
 - Consolidation does not entitle any member to a recalculation, diminishment, or impairment of benefits previously granted.
- Resources from IMRF, the Illinois State Board of Investment, and the Department of Insurance are all authorized to assist in the transition process.
- Local pension boards cede authority to the Board of Trustees (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 powers to their 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.

- Local boards continue operations until March 1st, 2021
- Beginning on the consolidation date, the Downstate Police Pension Fund would invest in accordance with the prudent person investment rule.

Transition Board:

- Effective immediately, operates as the Board of Trustees until January 1, 2021.
 - Abolished 60 days after the Board of Trustees assumes its duties.
- 11-Member Board:
 - 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 Police labor organization and selected by the Governor.
 - 2 members who are mayors or chief elected officers from municipalities with Article 3 pension funds, recommended by the Executive Director of the organization 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
 - Can hire and negotiate contracts for staff, investments, transfer assets and liabilities, acquire property, and adopts 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
 - IMRF as model to follow
 - 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 pension funds and the administration of the Downstate Police Pension Fund.

Board of Trustees:

- Begins operation January 1, 2022.
- 11-Member Board:

- One trustee, appointed by the Governor who serves as Chairman and casts votes in the case of ties
- Five Executive Trustees, each from municipal backgrounds.
 - Mayors or chief elected officers, executives, or department heads
 - Executives are elected through elections in which governing bodies of each participating municipality cast a vote. At least 5 governing bodies must sign petitions for nomination.
 - Terms last four years, but the initial Executive Trustees have staggered terms, determined by lot after elections.
- 3 Police Officer Trustees and 2 Annuitant Trustees, each with at least 8 years of creditable service, serve as Police Trustees.
 - Police Trustees are elected in two separate elections; one for three Police Officers and one for two Annuitants.
 - Police officers require at least 50 active officer signatures for nomination
 - Annuitants require at least 25 annuitant signatures for nomination.
 - Terms last four years, but the initial active Police Officer Trustees will server one, two, or three years as determined by lot, and annuitant Police Officer Trustees will service terms of three or four years, as determined by lot.
- The Five Executive Trustees select a Vice-Chairman, and the Five Police (Police Officers and Annuitants) Trustees select another Vice-Chairman.
- The Board collectively elects a President and Secretary.
- Board of Trustees shall operate the entirety of the consolidated fund
 - The Board shall follow the prudent person standard for the investment of funds.
- Board of Trustees determines contribution amounts of each participating municipality, can mandate payments from municipalities that fail to meet their obligations, and administers the Fund with all the duties and responsibilities previously assigned to local pension boards.
 - Any and all decisions made by the Board must be voted on by at least 6 members.

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