

Summary of SB 1300 House Amendments 5, 6 & 7 &

Illinois Pension Consolidation Feasibility Task Force Recommendations

Background

- Illinois maintains the second-highest number of pension plans of any state in the country, at more than 660, of which 649 are independent suburban and downstate police and fire pension plans.
- Suburban and downstate police and fire plans are currently 55% funded on average.
- From FY 2004 to 2013, annual suburban and downstate police and fire investment returns performed 1.12% lower (net of fees) than the Illinois State Board of Investments (ISBI) and 2.01% lower (net of fees) than the Illinois Municipal Retirement Fund (IMRF).
 - The larger systems (ISBI & IMRF) have greater scale, allowing them to negotiate lower fees and access a greater number of investment choices, therefore achieving higher net investment returns.
 - The smaller size of the police and fire plans resulted in \$160 million to \$288 million in lower returns, and \$820 million to \$1.5 billion less over a *5-year period*.
- From FY 2011 to 2016, annual suburban and downstate police and fire investment returns performed 1.12% lower (net of fees) than the Illinois statewide retirement systems and 3.22% lower (net of fees) than the Illinois Municipal Retirement Fund (IMRF).
 - This resulted in \$160 million to \$461 million in lower returns, \$820 million to \$2.5 billion less over a *5-year period*, and \$3.6 billion to \$12.7 billion less over a *20-year period compared to the smaller Police and Fire plans*.
- Suburban and downstate police and fire plans' lower returns are unique from other State, Cook County, and City of Chicago plans, which have sufficient economies of scale to produce greater returns.

Step 1 Task Force Recommendation and SB 1300 language: Consolidate Article 3 & 4 assets into two separate investment funds

- Consolidate the assets of suburban and downstate police and fire plans.
 - SB 1300 creates two new statewide consolidated investment funds for suburban and downstate police and fire assets, with a nine-member board of trustees
 - Three trustees elected from local units of government representing employers
 - One trustee representing an organization representing municipalities (IML)
 - Three trustees elected from active Article 4 participants
 - One trustee elected from retired Article 4 participants
 - One trustee representing an organization representing professional firefighters (AFFI)
 - The legislation assures assets and liabilities remain within the individual and separate local pension plan accounts, such that no assets or liabilities will be shifted from one local pension plan to another.

- The legislation will provide a dramatic improvement in the health of the funds over time and reduce pressure on property taxes while producing \$160 million to \$461 million in additional annual investment returns.
- The bill assures local pension boards, comprised of the current makeup, continue to administer all other functions including benefit administration and adjudication of disability.
- The bill will close the current loophole of allowing a local unit of government to choose its own actuary to calculate the annual employer contribution. Subsequent to the transition period, the Firefighter Pension Investment Fund will determine the annual contribution using responsible actuarial assumptions and the local pension board will retain the ability to enforce the employer contribution in current statute.
- **Tier 2 Improvements:** The task force recommendations and SB 1300 also includes significant Tier 2 benefit fixes for suburban and downstate police and fire participants.
 - Increase growth in pensionable salary cap from the lesser of ½ CPI or 3% to CPI capped at 3% retroactive to January 1, 2011.
 - Change final average salary calculation from highest 8 of the last 10 years to highest 4 of the last 5 years.
 - Reinstitute the Tier 1 death benefit upon employment, retroactive to January 1, 2011.
- SB 1300 also reduces the number of Article 4 pension board trustee training hours.
 - All elected or appointed Article 4 pension fund trustees must participate in a mandatory trustee certification that consists of at least 16 hours (previously 32) of initial trustee certification training at training facility that is accredited and affiliated with a state of Illinois certified college or university.
 - All elected and appointed Article 4 pension fund trustees who were elected or appointed on or before the effective date of this Act shall participate in 4 hours of training that may be conducted by the Firefighters Pension Investment Fund, the Department of Insurance or both. This is only required to be completed once by each trustee required to participate.
 - All elected and appointed Article 4 pension fund trustees shall participate in a minimum of 8 (previously 16) hours of continuing education each year after the first year the trustee is elected or appointed.

Recommendation Step 2: Review consolidation of suburban & downstate police & fire pension plan benefit administration & of other state & local pension plan assets & benefit administration

- The Task Force recognizes there may also be advantages to the consolidation of the benefit administration of suburban and downstate police and fire plans, but such action will require further discussion with those affected by such a change, not least of which are with the members of the plans themselves. As such, it is the recommendation of the Task Force that it continue to review the benefits and challenges of pension benefit administration consolidation for suburban and downstate police and fire plans.
- Additionally, the 15 other pension systems in Illinois, outside of suburban and downstate police and fire, clearly bear significant financial burdens. These systems are differentiated from the suburban and downstate police and fire plans in that for some of the larger funds there is likely no immediate discernable and material investment return advantages of further consolidation.
- Make recommendations on unfunded liability amortization requirements for Article 3 & 4 pension funds
- Address the inequities that exist in the Chicago Firefighters Article 6 Tier 2 benefit structure