ILLINOIS FIRE CHIEFS ASSOCIATION

Dedicated to excellence in the Fire Service

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October 17, 2019

Article 4 Pension Consolidation

Over the past week, since the Governor's Pension Consolidation Feasibility Task Force issued its report, there has been much discussion about the recommendations, including at our Executive Board level, the Legislative Committee meeting and with individual members, both in person and on the phone. In fact, this was clearly the number one topic of discussion at our conference this week. We wanted to clarify some of the common questions we heard. While this report addresses the Article 3 (Police) funds as well, we will focus on the Fire (Article 4) funds.

Currently, Illinois Department of Insurance lists 295 Article 4 Pension funds. The report proposes to move all of these funds into a single fund for the purposes of investment. The key point is that this will be for investment only – local pension boards would retain the ability to manage their fund except for the investment. The Board would continue to admit members, hold hearings for retirements (including disabilities), obtain actuarial reports and set the required contributions from the municipality or District.

One way of looking at this part of the proposal is to look at how many Article 4 funds currently invest their assets. Typically, the fund hires a manager who invests the funds based on guidance from the local pension board, using limits provided in State Statutes. Revenue is sent to the manager and the manager ensures funds are available to pay expenses. Following this proposal, the investment manager would be replaced by investment managers contracted by the newly formed consolidated Article 4 Board. The local Board would no longer be responsible to set investment policy.

A second part proposed makes significant changes to Tier 2 plans. These changes reestablish the widow/widower protection afforded to Tier 1, changes the calculation of maximum salary to the lower of CPI-U or 3% and changes the salary calculation to four out of five years instead of eight of ten. These changes are important to assure that the Tier 2 plans remain qualified under IRS/Social Security rules. These changes are items we have supported in the past.

What we like about the proposal:

- Smaller funds will presumably see greater investment returns by relieving investment limits currently in place
- This proposed step addresses important issues with Tier 2
- This MAY decrease costs to administer funds
- This proposal does not decrease the hard earned benefits of our members

Our concerns with the proposal:

- We have not seen the legislation
- Any consolidated fund must follow the recommendations in the report and be kept entirely separate from State access, designed similar to the IMRF
- Makeup of the new consolidated board and the ability of the Governor to appoint the board for an unknown period of time removes representation by our membership
- Transition costs are unclear and could significantly negatively impact the funding ratio of local funds
- The implication that step two will eliminate local pension boards, removing any local control or oversite

We have heard from many members, both in favor and opposed to the proposed changes. Currently, we have not taken a position on the proposals and will wait for the draft legislation to make any decisions. It should be noted that the IFCA was unsuccessful in obtaining representation on this task force. For years, the IFCA has pushed for any pension legislation to be both thoughtful and comprehensive. We have strongly opposed legislation that was not carefully considered and did not address a real problem. Reports have indicated that this is just one step in a phased process. We will continue to work to assure that proposed changes are thoughtfully considered and address real issues with our goal to assure benefits remain intact and that dollars are available to pay for these benefits.