



TO: Members of the Legislative Commission on Pensions and Retirement

FROM: Rachel Barth, Deputy Director

RE: S.F. 1945 (Lourey); H.F. 2092 (Rarick): PERA-SVFRP; Permitting the city of Brook Park to lower the service pension level under the statewide plan.

DATE: March 10, 2017

Summary of S.F. 1945 (Lourey); H.F. 2092 (Rarick):

S.F. 1945 (Lourey); H.F. 2092 (Rarick) requires the Public Employees Retirement Association (“PERA”) to lower the annual service pension level for the Brook Park lump-sum account from \$1200 to \$600, retroactively to January 1, 2016, in the PERA Voluntary Statewide Volunteer Firefighter Retirement Plan (“PERA-SVFRP”). Section 1, Paragraph (b), which the city requested be added to the bill, requires the city to annually review the service pension level.

The retroactivity makes it as if the city of Brook Park had authorized \$600, not \$1200, at the time the Brook Park volunteer firefighters joined the PERA-SVFRP plan. Therefore, any firefighter who retires before the five-year vesting period will still receive a service pension calculated using the prior Brook Park relief association service pension level of \$400. After the five-year vesting period, any firefighter who retires will receive a service pension calculated at a \$600 service pension level.

Background Information

Before a local volunteer firefighter relief association joins the PERA-SVFRP, PERA provides the relief association and municipality with cost estimates of various service pension levels that can be provided. The governing body of the municipality then must approve the proposal and service pension level to join the PERA-SVFRP. The selected service pension level can be different than what the relief association provided and once it is approved, the service pension level can only increase, not decrease.

When the relief association joins the PERA-SVFRP, the selected service pension level does not become effective until firefighters have been covered by PERA-SVFRP for five years, which is the vesting period. So, if a firefighter retires before the five years, the service pension is calculated using the former relief association service pension level for all years of service. If a firefighter retires after the five years, the service pension is calculated using the selected PERA-SVFRP service pension level for all years of service.

The service pension level that is in place at the time a firefighter retires applies retroactively to all years of service. Therefore, if a volunteer firefighter retires when the plan offers a \$400 a year benefit, every year of service will be at \$400. But if the service pension level is then increased to \$1200 a year, the volunteer firefighter only needs to serve one year at that level and all years of service will be valued at \$1200. This is the problem that the city of Brook Park is currently facing.

When the Brook Park relief association joined the PERA-SVFRP with a selected \$1200 a year service pension level, the city was not aware that the \$1200 was retroactive and prospective, not just prospective. The city is concerned that once the firefighters become vested in the PERA-SVFRP after five years and the \$1200 service pension level becomes effective, a large number will retire and leave the city in financial trouble. Under current law the city is unable to lower the service pension level, so it is requesting a special bill that allows it to lower the service pension level that goes into effect five years from January 1, 2016, from \$1200 to \$600.

Policy Considerations

1. Precedent. Currently, local relief associations governed by Chapter 424A have the ability to both increase and decrease service pension levels. The relief association board of trustees votes on the change and the municipality approves it. Under the PERA-SVFRP, only the municipality can change the level and it can only be an increase. The proposed legislation sets a new precedent. There is no prior legislation that has allowed a city with volunteer firefighters covered under the PERA-SVFRP plan to lower the service pension level. It is very likely that other cities who were not aware of the retroactive effect of service pension levels will want to lower the level due to financial concerns.

There may also be some concern with the impact on volunteer firefighters who are members of the PERA-SVFRP. Volunteer firefighters have more control over service pension levels under a local relief association because there is a board of trustees who must initiate any change. Under the PERA-SVFRP, volunteer firefighters have no ability to control service pension levels, only the municipality can make a change. The inability to lower the service pension level could be viewed as a way to protect volunteer firefighters in the absence of a relief association board of trustees. Although the city and Brook Park volunteer firefighters all agree that lowering the level is appropriate and necessary, the proposed legislation sets a precedent that allows a service pension level decrease without also requiring any volunteer firefighter input.

2. General vs. Special Legislation. The Pension Commission and the Legislature favor general legislation over special legislation. General legislation is preferable when the issue the proposed legislation addresses affects more than one entity. It is likely that other cities have faced the same issue as Brook Park where they were unaware of the retroactivity of an increased service pension level and were left with possible financial troubles. The ability to lower the service pension level could be general legislation.

However, if general legislation is pursued, it would be prudent to get feedback from PERA and stakeholders to determine if there is a way to involve volunteer firefighters who are members in the PERA-SVFRP plan in determining if the level should be lowered. As stated before, volunteer firefighters who are members of local relief associations have some control over service pension levels through the relief association's board of trustees. Under the PERA-SVFRP, there is no such entity and only the municipality has any control. To ensure that volunteer firefighter service pensions are protected, general legislation that allows lowering service pension levels in the PERA-SVFRP should give some consideration to including volunteer firefighter members in the decision-making process.