

LEGISLATIVE UPDATE



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Budget, Pension Issues Likely to Dominate Session

The 104th General Assembly was inaugurated on January 8, 2025 with the usual festivities and calls for unity and collaboration. Underlying the pleasantries of that day is the knowledge that the state faces a \$3.2 billion budget deficit for fiscal year 2026 along with a big-ticket budget item being sought by labor unions.

In November, the Governor's Office of Management and Budget (GOMB), the fiscal arm of the executive branch issued the Illinois Economic and Fiscal Policy Report. In that report, GOMB concluded that state revenues for various sources including state income and corporate taxes would be relatively flat, but that state spending was estimated to increase by \$3.2 billion, effectively creating a budget deficit.

Democratic legislative leaders and Governor Pritzker responded to the projected deficit with assurances that they would successfully negotiate a balanced budget for FY 2026. But those assurances must be weighed with the acknowledgement that the Governor and General Assembly are facing multiple large budget asks in 2025. One of those requests is for the state to address the discrepancies between public employees hired before and after 2011, commonly referred to as Tier 2 employees.

Seeking to address long-term pension liabilities and address a shortfall in state pension funding, the General Assembly approved changes to the state funded pension plans in 2011 for future employees. Changes to benefits

for existing employees were ruled to be unconstitutional. This created a system where employees performing the same work hired after Tier 2 went into effect must work longer to receive their full retirement benefits and will receive less benefits than their Tier 1 colleagues.

According to We Are One Illinois, a coalition of labor organizations pushing to address the inequities, more than half of public employees, including firefighters, are covered under Tier 2 benefits. Legislation was filed in the 103rd General Assembly as Senate Bill 3988 by Senator Robert Martwick (D-Chicago) and House Bill 5909 by Representative Stephanie Kifowit (D-Aurora) to bring Tier 2 benefits more in line with Tier 1. Senator Martwick has refiled that legislation as Senate Bill 2 for the current 104th General Assembly. Legislative leaders have acknowledged the need to consider pension changes, creating the new Appropriations-Pensions and Personnel Committee in the House, and a counterpart committee has been created in the Senate.

Changes sought by the coalition advocating for Tier 2 employees include increasing the maximum salary used to calculate benefits and enacting an annual non-compounded 3 percent cost of living adjustment. The proposed legislation also calls for alignment of retirement age between the two tiers. The unions argue that the current Tier 2 benefits may not comply with federal "Safe Harbor" laws which require governments to provide benefits that are at least equal to Social Security. They also point to difficulties

with employee recruitment and retention due to the diminished benefits.

Because Tier 2 was originally enacted to save the state money, legislation to fix the issues highlighted by the unions would undoubtedly come with costs to the budget. The legislature's Commission on Government Forecasting and Accountability (COGFA) released a report this month saying that the legislative changes contained in House Bill 5909 would cost the state \$30 billion through 2045, with an annual cost estimated at \$1.3 billion. The actuarial estimate cited in the report to COGFA only included the State Employees Retirement System, the Teachers' Retirement System and the State Universities Retirement System. Any changes to Tier 2 benefits would extend beyond those systems to the Judges Retirement System, the General Assembly Retirement System and local pension funds.

The Illinois Municipal League and the non-partisan Civic Federation have spoken against the proposed Fire Retirement and Recruitment Act, pointing out that the changes sought would negatively impact local government budgets and calling on lawmakers to base any Tier 2 pensions changes on pension actuaries and with opportunities for full public input. As with any issue of this magnitude, IAFPD will be closely monitoring pension negotiations as they take place this spring for possible impact on fire protection districts and our fire service partners. ■