

WHAT DOES THIS MEAN FOR ME?

Bridget Gainer
Cook County Commissioner – Tenth District
118 North Clark Street, Room 567
Chicago, IL 60614

The Six Most
Common
Retirement
Scenarios in
Cook County &
Proposed
Changes

PURPOSE

Without any changes the Cook County Pension Fund actuary estimates the pension fund will be insolvent by 2038. As changes are being discussed it is important to remember the impact these changes will have on an employee.

This presentation shows examples of how changes to the Cook County pension system would affect sample employees across the age and service spectrum.

For the purposes of this evaluation, an illustration of an employee's salary, age and years of service are compared against three options:

- No Changes: The existing pension system
- Option 1: Solvency is reached with changes to Pension Benefits only, no coordination with healthcare
- Option II: Solvency is reached with changes to Pension Benefits coordinated with cost savings in healthcare.

The valuations illustrate annual payout and the lifetime value of the pension.

Current Benefits System

Tier 1 Active Employees – Hired Before Jan. 1, 2011

- Retirement Age
 - Full Benefit
 - Age 60 with 10 years or Age 50 with 30 years
 - Reduced Benefit
 - Between Age 50-60 with less than 30 years annuity is reduced by a ½% for every month before age 60 or 30 years
- Benefit Formula: (Years of Service) x 2.4% x (Final Average Salary) = Initial Pension Payment
- Final Average Salary: Highest consecutive 4 years in the last 10 years of service
- Employee Contribution: 8.5% of annual salary

Tier 2 Active Employees – Hired After Jan. 1, 2011

- Retirement Age: 67 for Full benefit. Can retire after age 62 for reduced benefit, ½% per month before 67.
- Benefit Formula: (Years of Service) x 2.4% x (Final Average Salary) = Initial Pension Payment
- Final Average Salary: Highest consecutive 8 years in the last 10 years of service
- Employee Contribution: 8.5% of annual salary
- Salary for the purpose of benefits and contributions is capped at \$106,800 in 2011. The cap increases at 3% or ½ of CPI whichever is lower.

Retirees

- Tier 1 COLA: Compounding 3%
- Tier 2 COLA: Simple 3% or ½ CPI, whichever is lower

Option I: Changes to Pension Benefits Only

Tier 1 Active Employees

- Increase Retirement Age Eligibility by 5 Years
 - Full Benefit
 - Age 65 with 10 years
 - Age 55 with 30 years
 - Reduced Benefit
 - Between Age 55-65 with less than 30 years
 - With less than 30 years, annuity is reduced by a ½% for every month before age 65
- Reduce benefit multiplier from 2.4% to 2.2% (Applied only for future service. Past service is kept at 2.4% multiple)
- Increase Final Average Salary from highest consecutive 4 years in the last 10 years of service to the highest consecutive 8 years in the last 10 years of service
- Increase Employee Contributions by 1%
- Reduce Cost of Living Adjustment to 3% or ½ the Consumer Price Index, simple, whichever is lower

Retirees

- Reduce Cost of Living Adjustment to simple 3% of ½ the Consumer Price Index, whichever is lower
- Freeze COLA benefits when funded status is below 80% and grant a 3% compounding COLA every fifth consecutive year while frozen

Option II: Changes to Pension Benefit & Healthcare Spend

■ Tier I Active Employees

- Retirement Age Increased by 5 years over a 10 year period, starting in 2013
- 1% employee contribution increase
- COLA reduced to Simple 3% or half of CPI, whichever is lower
- Healthcare paid through the County

■ Retirees

- Reduce Cost of Living Adjustment to simple 3% or $\frac{1}{2}$ the Consumer Price Index, whichever is lower
- Healthcare paid through the County

**JOSEPHINE SMITH
30 YEAR OLD EMPLOYEE - TIER 1
3 YEARS OF SERVICE
SALARY: \$55,000**

	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	57	2039	10 years	\$137,616	\$6,045,588	3% Compounding	8.5% of annual salary
Option I: Benefits Only	57	2039	5 years	\$107,428	\$3,724,545	Simple 3% or ½ CPI	9.5% of Annual Salary
Option II: Benefits and Healthcare	57	2039	10 years	\$137,616	\$4,771,139	Simple 3% or ½ CPI	9.5% of Annual Salary

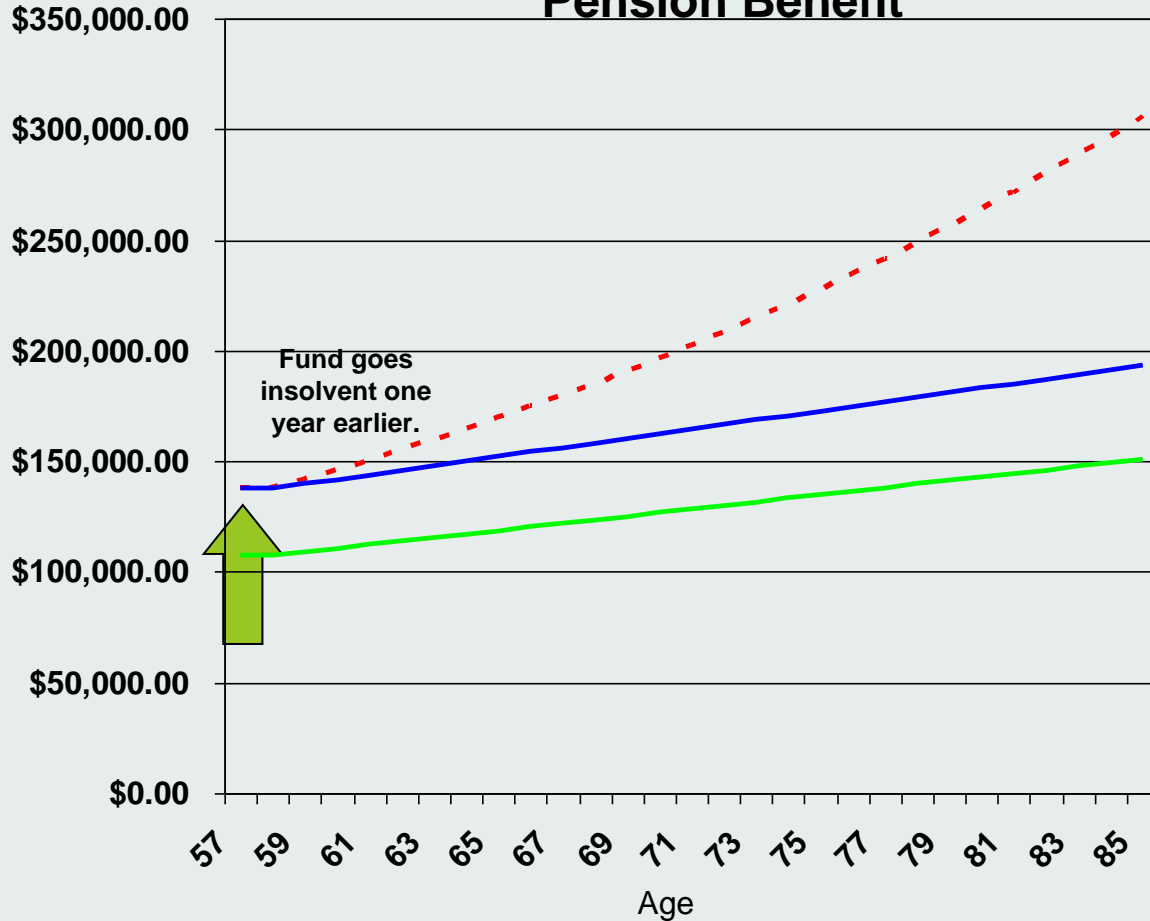
Josephine can retire at the same time under all scenarios because she will reach 30 years of service in 2039.

Option I reduces Josephine's initial pension payment because the formula used to calculate the pension benefit has been changed. Only changing the pension benefits scenario results in the lowest lifetime pension payment of all the scenarios.

Option II does not impact the pension benefit formula, but does reduce the Cost Of Living Adjustment. This reduction in COLA reduces the overall pension benefit by \$1.3 million over Josephine's lifetime.

**JOSEPHINE SMITH
30 YEAR OLD EMPLOYEE - TIER 1
3 YEARS OF SERVICE
SALARY: \$55,000**

Pension Benefit



Without reform the fund will be insolvent in 2038.
Josephine will be 56 and still working .

- - - No Change at Age 57
- Benefits Only at Age 57
- Benefits and Healthcare at Age 57

DANIEL HUFFINGTON
55 YEARS OLD – TIER 1
30 YEARS OF SERVICE
SALARY: \$85,000

	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	60	2017	10 years	\$80,783	\$2,547,621	3% Compounding	8.5% of annual salary
Option I: Benefits Only	60	2017	5 years	\$71,487	\$1,828,643	Simple 3% or ½ CPI	9.5% of annual salary
Option II: Benefits and Healthcare	60	2017	10 years	\$80,783	\$2,137,909	Simple 3% or ½ CPI	9.5% of annual salary

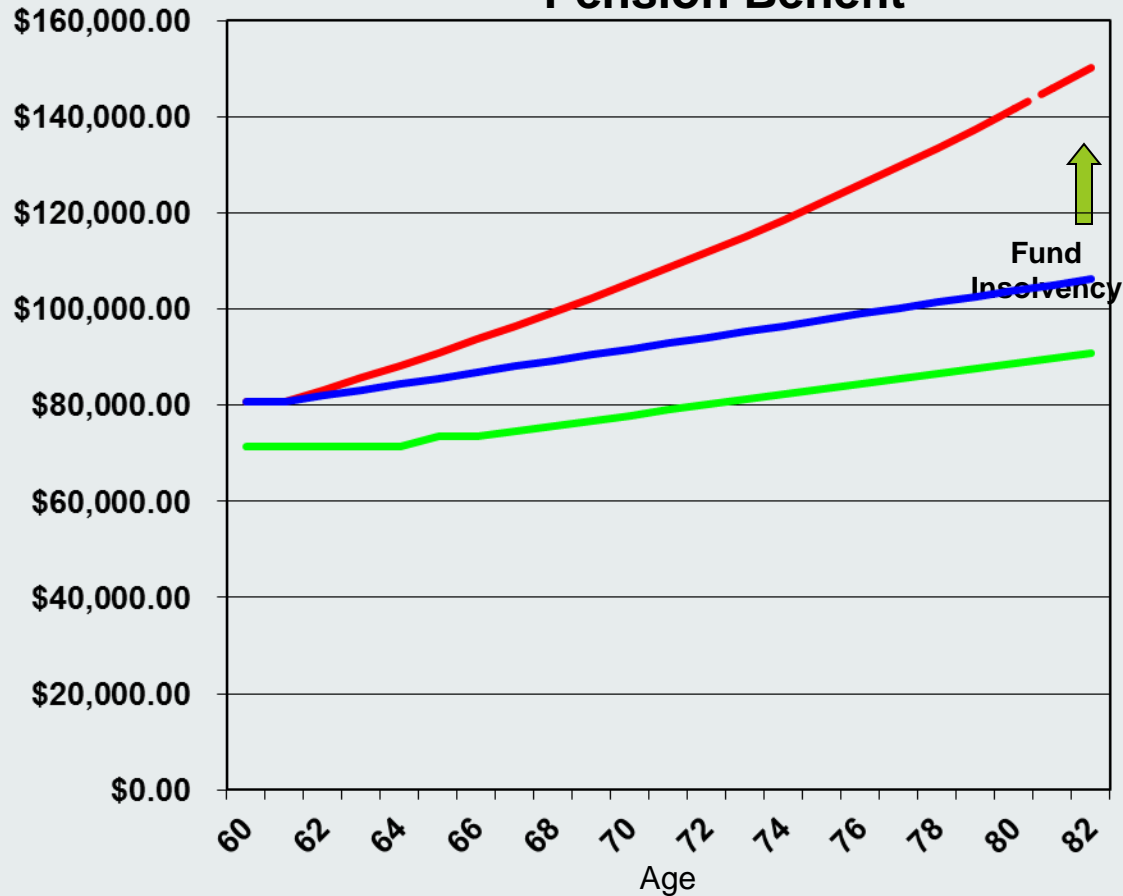
Daniel can retire now under all the scenarios, but chooses to work another 5 years until age 60.

Option I reduces Daniel's initial pension payment because the formula used to calculate the pension benefit has been changed. Only changing the pension benefits scenario results in the lowest lifetime pension payment of all the scenarios.

Option II does not impact the pension benefit formula, but does reduce the Cost Of Living Adjustment. This reduction in COLA reduces the overall pension benefit by \$410,000 over Daniel's lifetime.

DANIEL HUFFINGTON
55 YEARS OLD - TIER 1
30 YEARS OF SERVICE
SALARY: \$85,000

Pension Benefit



Without reform the fund will be insolvent in 2038.

Daniel will be 81.



RAPHAEL GARZA
50 YEARS OLD – TIER 1
2 YEARS OF SERVICE
SALARY: \$60,000

	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	60	2022	10 years	\$26,200	\$826,259	3% Compounding	8.5% of annual salary
Option I: Benefits Only	65	2027	5 years	\$37,798	\$757,477	Simple 3% or ½ CPI	9.5% of annual salary
Option II: Benefits and Healthcare	65	2027	10 years	\$47,371	\$949,315	Simple 3% or ½ CPI	9.5% of annual salary

Raphael can retire in 2022 under the current system, but the retirement age increase under option I and option II prevent Raphael from retiring until 2027.

Option I reduces Raphael's initial pension payment because the formula used to calculate the pension benefit has been changed. Only changing the pension benefits scenario results in the lowest lifetime pension payment of all the scenarios.

Raphael's initial pension payment and lifetime payout are larger under option II than the current system because Raphael has to work an additional five years during which he accrues more service and receives salary increases. Option II does not impact the pension benefit formula, but does reduce the Cost Of Living Adjustment.

RAPHAEL GARZA
50 YEARS OLD - TIER 1
2 YEARS OF SERVICE
SALARY: \$60,000

Pension Benefit



Without reform by 2038 the fund will be insolvent
Raphael will be 76.

- No Changes at Age 60
- - - No Changes at Age 65
- Benefits Only at Age 65
- Benefits and Healthcare at Age 65

AMY KIM
27 YEARS OLD – TIER 2
1 YEAR OF SERVICE
SALARY: \$45,000

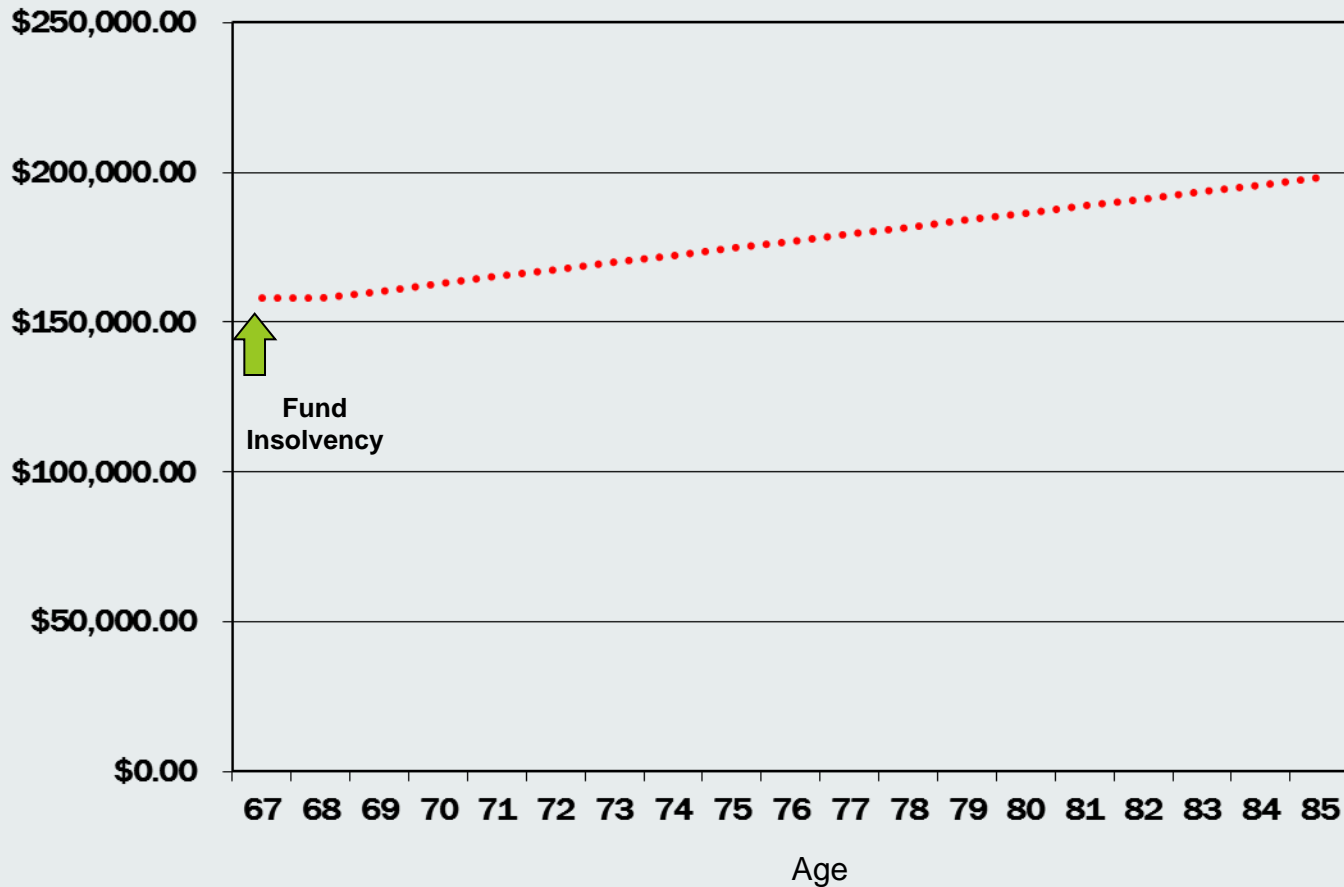
	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	67	2052	10 years	\$158,012	\$3,364,866	Simple 3% or ½ CPI	8.5% of annual salary
Option I and Option II	67	2052	5 years under Option I. 10 Years under Option II.	\$158,012	\$3,364,866	Simple 3% or ½ CPI	9.5% of annual salary

Amy was hired after Jan. 1, 2011 and is currently participating in the Tier 2 defined benefit system. Amy won't be eligible to retire until age 67 in the year 2052. The Cook County pension fund is estimated to be insolvent and default on retiree payments in 2038 when Amy is 53 and still working.

Option I Benefits Only and Option II Benefits and Healthcare won't change Amy's benefit structure because she is already a Tier II participant. Either set of changes will ensure that the County Pension Fund does not become insolvent and will be financially viable when Amy retires.

AMY KIM
27 YEARS OLD - TIER 2
1 YEAR OF SERVICE
SALARY: \$45,000

Pension Benefit



Without reform by 2038
the fund will be insolvent.
Amy will be 53 and still
working .

..... Tier 2 at Age 67

**DR. ANGELA JACKSON
50 YEARS OLD – TIER 1
10 YEARS OF SERVICE
\$150,000 SALARY**

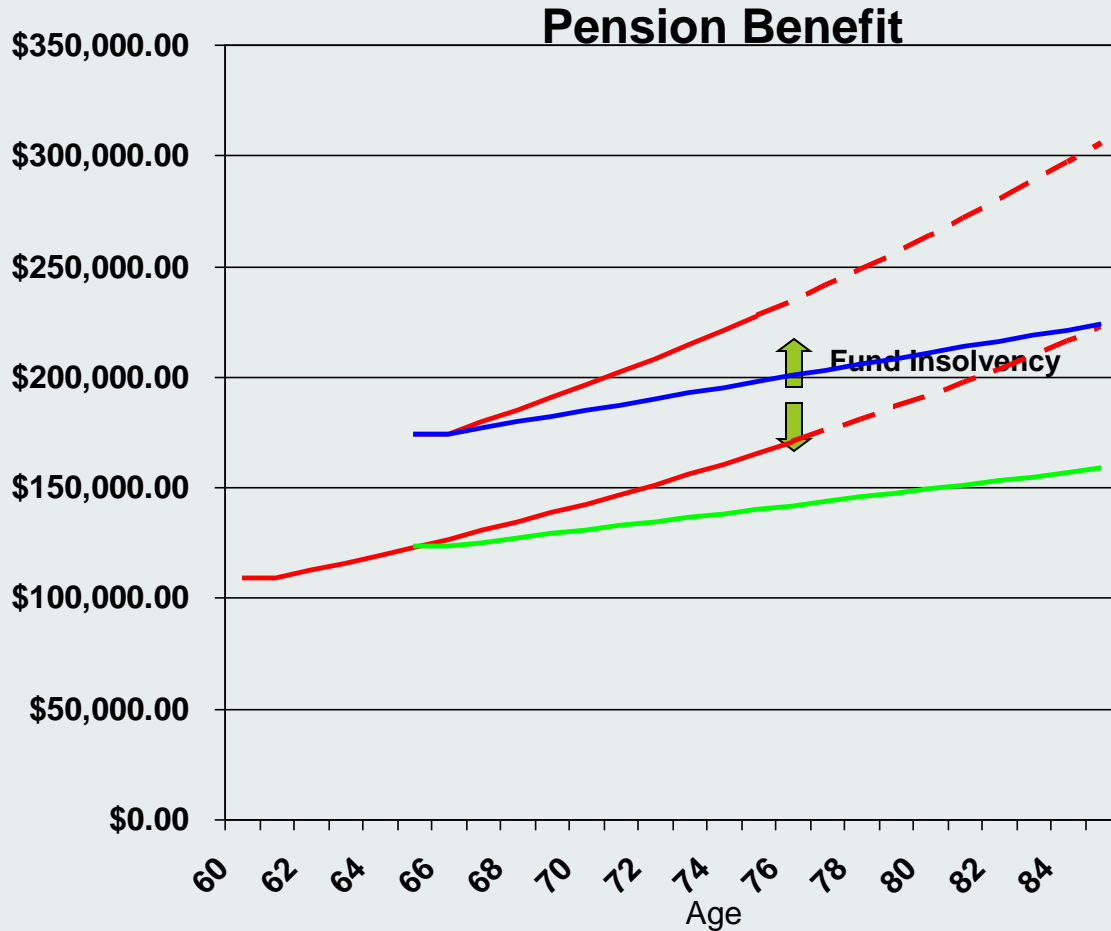
	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	60	2022	10 years	\$109,166	\$4,089,279	3% Compounding	8.5% of annual salary
Option I: Benefits Only	65	2027	5 years	\$123,296	\$2,940,601	Simple 3% or ½ CPI	9.5% of annual salary
Option II: Benefits and Healthcare	65	2027	10 years	\$174,158	\$4,153,674	Simple 3% or ½ CPI	9.5% of annual salary

Dr. Jackson can retire in 2022 under the current system, but the retirement age increase under option I and option II prevent her from retiring until 2027.

Option I reduces Dr. Jackson's initial pension payment because the formula used to calculate the pension benefit has been changed. Only changing the pension benefits scenario results in the lowest lifetime pension payment of all the scenarios.

Dr. Jackson's initial pension payment is larger under option II than the current system because she has to work an additional five years. Option II does not impact the pension benefit formula, but does reduce the Cost Of Living Adjustment.

**DR. ANGELA JACKSON
50 YEARS OLD - TIER 1
10 YEARS OF SERVICE
\$150,000 SALARY**



Without reform by 2038 the fund will be insolvent.

Angela will be 76.

- No Changes at Age 60**
- No Changes at Age 65**
- Benefits Only at Age 65**
- Benefits and Healthcare at Age 65**

SAM CLEMENS
47 YEARS OLD – TIER 1
13 YEARS OF SERVICE
\$67,000 SALARY

	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	60	2025	10 years	\$73,381	\$2,314,193	3% Compounding	8.5% of annual salary
Option I: Benefits Only	64	2029	5 years	\$69,625	\$1,482,655	Simple 3% or ½ CPI	9.5% of annual salary
Option II: Benefits and Healthcare	64	2029	10 years	\$102,917	\$2,191,619	Simple 3% or ½ CPI	9.5% of annual salary

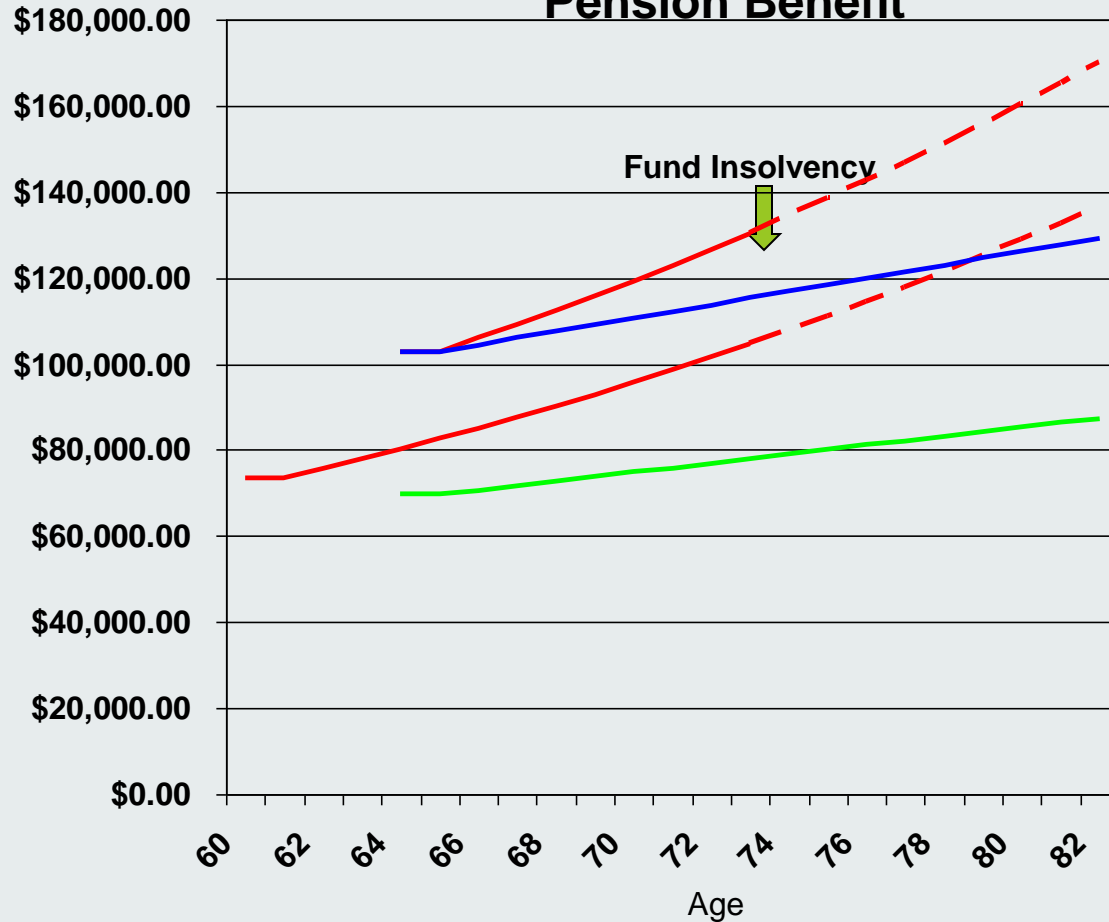
Sam can retire in 2025 under the current system, but the retirement age increase under option I and option II prevent him from retiring until 2029 when he will have 30 years of service.

Option I reduces Sam’s initial pension payment because the formula used to calculate the pension benefit has been changed. Only changing the pension benefits scenario results in the lowest lifetime pension payment of all the scenarios.

Sam’s initial pension payment is larger under option II than the current system because he has to work an additional five years. Option II does not impact the pension benefit formula, but does reduce the Cost Of Living Adjustment.

**SAM CLEMENS
47 YEARS OLD - TIER 1
13 YEARS OF SERVICE
\$67,000 SALARY**

Pension Benefit



Without reform by 2038 the fund will be insolvent.

Sam will be 73.

- No Changes at Age 60
- No Changes at Age 64
- Benefits Only at Age 64
- Benefits and Healthcare at Age 64

JAMES CONNOR
58 YEARS OLD – TIER 1
20 YEARS OF SERVICE
\$60,000 SALARY

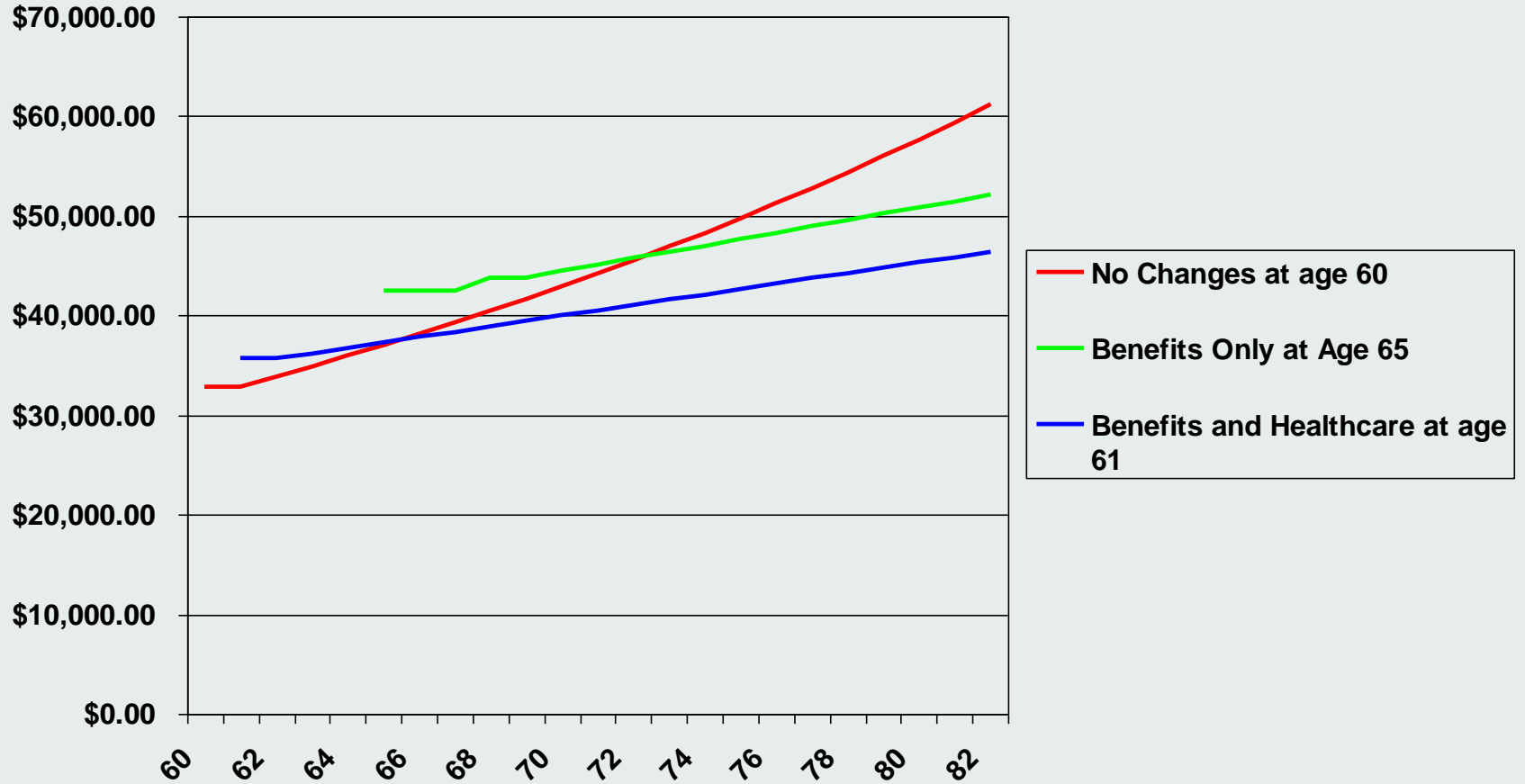
	Retirement Age	Retirement Year	Vesting	Initial Pension Payment	Lifetime Pension Payment	COLA	Employee Contribution
Current	60	2014	10 years	\$32,888	\$1,037,175	3% Compounding	8.5% of annual salary
Option I Benefits Only	65	2019	5 years	\$42,541	\$842,955	Simple 3% or half of CPI	9.5% of annual salary
Option II Benefits and Healthcare	61	2015	10 years	\$35,688	\$897,549	Simple 3% or ½ CPI	9.5% of annual salary

James can retire in 2014 under the current system. Option I prevents James from retiring until year 2019 and option II prevents him from retiring until 2015.

Under Option I the initial pension payment is the larger than the other scenarios because James has to work the longest accruing more years of service and receiving more salary increases. Even though the Option I initial payment is the largest, the lifetime pension payout is the smallest of all scenarios. James' pension is frozen until year 2024, receiving a 3% compound increase in 2017, because the pension funded status is below 80%.

Under Option II James' initial pension payment is larger than the current system because he has to work an additional year. Option II has a lower lifetime pension payout than the current system because the COLA has been reduced.

**JAMES CONNOR
58 YEARS OLD - TIER 1
20 YEARS OF SERVICE
\$60,000 SALARY**



Calculation Information

- **Salary:** The salary listed at the top of the page is the current salary of the employee. Salaries increase at the actuarially assumed rate of 5% compounding annually.
- The proposed changes are effective Jan. 1, 2013 for the purposes of scenario valuations and actuary analysis.
- Life expectancy is 82 for males and 85 for females in accordance with actuarial experience studies.
- For calculation information requests and questions please contact our office at 312-603-4210.