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ISSUE BRIEF

The Public Safety Tier II Adjustment Act: The Wrong Way to do the Right Thing

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1. Introduction

On August 1, 2025, Public Act 104-0065, also referred to as the "Pension Sweetener," was signed into law by Governor JB Pritzker.[1] Among other things, this legislation (the "**Public Safety Tier II Adjustment Act**") increases pension benefits for City of Chicago police and firefighters hired after January 1, 2011 (the "**Tier II Public Safety Workers**").[2] The legislation enhances benefits for the Tier II Public Safety Workers to redress some of the benefit inequities that were created when the State of Illinois established the "Tier II" pension system in 2010.[3]

The Tier II system, enacted with the goal of reducing long-term pension costs for the State of Illinois, applied to employees hired on or after January 1, 2011.[4] It significantly lowered benefits—primarily by raising the retirement age and reducing cost-of-living adjustments—while requiring the same contributions from workers as Tier I pension members, whose employment began on or before December 31, 2010.[5] While the reform reduced short-term liabilities on paper, it failed to address the fundamental cause of the State's pension crisis: decades of inadequate employer contributions.[6]

Moreover, the inequitable design of Tier II created broader fiscal and workforce challenges. Benefits received by Tier I pension members are sufficiently generous to meet federal Social Security "**Safe Harbor**" standards, allowing Illinois to exempt Tier I employees from mandatory participation in Social Security; as a result, the State does not make Social Security contributions on behalf of Tier I employees.[7] Conversely, Tier II benefits fall below the federal Social Security Safe Harbor standards. Therefore, Illinois risks being required to enroll all Tier II employees in Social Security, adding more than $800 million in annual costs without reducing existing pension debt.[8] At the same time, the reduced benefits under Tier II have weakened retirement security and made it increasingly difficult for the State to recruit and retain essential workers—a challenge the Public Safety Tier II Adjustment Act only begins to remedy.

Key provisions of the Public Safety Tier II Adjustment Act that were designed to bring the retirement benefits of the Tier II Public Safety Workers more in line with their Tier I counterparts include:

1) Changes to the calculation of a pension member's final average salary ("**FAS**");
2) An increase in the annual salary cap, which is the amount of earnings used to calculate a member's pension benefit;
3) An enhancement of the annual cost-of-living adjustment ("**COLA**") to the salary cap; and
4) Clarification of and increases to survivor benefits for spouses and minor children.[9]

The two primary goals of the Public Safety Tier II Adjustment Act are certainly appropriate. Chicago's Tier II police and firefighters should receive benefits commensurate with the dollar amounts they contribute into the system, just as their Tier I counterparts do. Moreover, Tier II benefits should be set at a level that is adequate to satisfy the Social Security Safe Harbor, thereby saving the City of Chicago the cost of enrolling the Tier II Public Safety Workers in the Social Security system.

However, it was fiscally irresponsible of the State to enhance benefits for the Tier II Public Safety Workers without also covering the cost of paying for those enhanced benefits. This is especially true in the current instance, as the reason that Illinois enacted the Public Safety Tier II Adjustment Act was to remedy shortcomings in the Tier II pension system the State created in the first place. While fixing those shortcomings makes sense, shifting the obligation to pay for those fixes from the State to the City of Chicago is both irresponsible and inappropriate. Indeed, in order to shift the cost of paying for the Public Safety Tier II Adjustment Act to Chicago, State lawmakers had to include a provision that exempts the legislation from the States Mandate Act, a law requiring the State to provide reimbursement to local governments for new expenditures necessitated by State-initiated mandates.[10] Without exemption from this law, Illinois would have been required to pick up the tab for the pension benefit reforms included in the Public Safety Tier II Adjustment Act.[11]

It is especially irresponsible for the State to push these costs down to Chicago at the current moment in time given the difficult fiscal situation the City already faces, in addition to recent actions by State decision makers to divert revenue that should flow to Chicago's Corporate Fund to instead cover State General Fund expenses. As concerns Chicago's current fiscal challenges, the City is facing a $1.2 billion, or 22.3%, deficit in its Corporate Fund.[12] That's problematic since the Corporate Fund is the City's primary operating budget that funds the core services Chicagoans expect, like police and fire protection, streets and sanitation, and some select social services.[13] Chicago's current fiscal difficulties have been exacerbated by the State's diversion of two important revenue streams from the City—and all municipalities across the State. First, the State has increased diversion of the revenue generated by the Corporate Personal Property Replacement Tax ("**CPPRT**") away from local governments to cover State General Fund expenses. The CPPRT is a State-level tax that imposes a levy against a business's profits, also known as its "taxable income."[14] As its name implies, the tax was enacted to help local governments replace the revenue they lost when they were prohibited from imposing personal property taxes on businesses with the adoption of a new State constitution in 1970.[15] Since 2013, the percent of total CPPRT revenues diverted from local governments across the State has nearly doubled, reducing the share of funds available to the City of Chicago to fund core services and other needs.[16,17]

The second critical revenue stream for the City that has recently been increasingly diverted to the State is the Local Government Distributive Fund ("**LGDF**"), a statewide revenue-sharing mechanism where a portion of State income tax revenue is distributed to municipalities and counties because these local government entities do not have the legal authority to establish their own taxes based on income.[18,19] A 10% sharing rate in 2011 has since decreased to 6.47% of individual income tax revenue and 6.85% of corporate income tax revenue; this decrease left Chicago with $235 million less in FY 2025 than it would have received if the former 10% rate were still in effect.[20]

It is a recipe for extreme fiscal hardship, not effective reform, to enact legislation at the State level that requires significant financial input from a municipality with a strained budget all while increasingly diverting funds intended to be distributed to municipalities. State laws that allow for such diversions

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should be curtailed, and City and State lawmakers should collaborate to achieve comprehensive pension finance reform to ensure our public servants receive the benefits they deserve and the City—and State—can meet their pension commitments without exacerbating fiscal strain.

2. Illinois & Chicago Pension History

Illinois and Chicago both face severe public pension funding crises.[21,22] For Illinois, the problem stems from a long-standing structural deficit in the State's General Fund, where revenues have consistently failed to keep pace with the cost of maintaining core services like Education, Healthcare, Human Services, and Public Safety, as well as the State's ongoing debt obligations.[23] Efforts to paper over this imbalance included siphoning money away from pension contributions to fund core services while also underfunding K-12 Education (which led to skyrocketing property taxes and inequitable school funding).[24] For more information on the impact of pushing the primary obligation to fund public schools to local property taxes, please see CTBA's report "Analysis of Illinois' FY 2025 Enacted General Fund Budget."

By 1995, Illinois had so significantly underfunded its pensions that the funded ratio across all five State systems was just 53.5%,[25] which is well below established benchmarks for funded ratio which typically range from 80% to 100%.[26,27,28] In a purported attempt to redress this problem, the State enacted P.A. 88-593, which established a schedule for repaying the unfunded pension liability debt to reach a funded ratio of 90% by 2045.[29] This legislation became known as the "**Pension Ramp**," because the repayment schedule it created had increasing annual increments that ramped up over time.

However, instead of addressing the underlying pension funding problems, the Pension Ramp worsened them by:

(i) Allowing initial annual payments that were so inadequate in amount that they failed to cover either the normal cost of benefits being earned by current workers or the repayment of any principal owed on existing unfunded liabilities, which allowed the pension debt to continue to grow; and

(ii) Creating a backloaded repayment plan that relied on unaffordable annual increases in future contributions that the State's flawed tax structure is unable to cover.[30]

The result is a staggering $143.7 billion in unfunded liabilities across the State's five pension systems, which represents a dangerously low funded ratio of 46% as of the end of 2024.[31]

Funding for Chicago's pension systems has followed a similar trajectory. In 2000, the City's four pension systems were 85% funded, but by 2024, that figure had dropped to just 26.1%, with $48.5 billion in liabilities and just $12.7 billion in assets.[32] A significant driver of the City's pension debt was a State-created statutory contribution system enacted in 2016 that followed similar principles as the Pension Ramp.[33] These "**Chicago Pension Ramps**" also created a repayment plan for the City's pension debt intended to get Chicago's systems 90% funded, this time through 2055-2058, which are **predicated on the exact same flaws as the statewide Pension Ramp: initial contributions were below actuarially determined levels, and the repayment schedule is unaffordably backloaded.** [34,35]

In fact, early contributions under the Chicago Pension Ramps were so inadequate that from 2007 to 2022, they accounted for nearly 60% of the $22.6 billion growth in unfunded liabilities that occurred

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during that sequence.[36] Contrary to common belief, benefit levels actually reduced liabilities over that time.[37]

As annual pension contributions continue to increase under the Chicago Pension Ramps, they consume an even larger share of the City's resources each year, forcing cuts to core services like police, fire, and sanitation. The issue is primarily attributable to the structure of the Chicago Pension Ramps, which allowed the pension systems to be underfunded for decades; by FY 2025, 85% of the City's $2.7 billion pension contribution was devoted to repaying old debt — not funding current benefits.[38]

3. Tier II Benefits

The creation of the Tier II pension structure marked a turning point in Illinois' approach to public employee retirement policy. While intended to lower long-term obligations, the system effectively transferred the costs of past underfunding onto a new generation of workers by providing less valuable benefits for the same employee contributions.[39] This imbalance has led to a growing disparity between Tier I and Tier II participants—one that undermines both retirement security and workforce stability across State and local governments.

Not only did Tier II fail to address the root cause of the pension crisis—decades of inadequate State and City contributions—but it introduced a key concern regarding compliance with the federal Social Security Safe Harbor rule, which allows public employers to exclude workers from Social Security only if their pension benefits are at least as generous as Social Security's.[40] Tier II benefit formulas fall short of that threshold, creating legal and fiscal exposure for the State.[41] Should the federal government require Tier II employees to be enrolled in Social Security, Illinois and its local governments would be forced to enroll Tier II workers in Social Security, imposing significant new costs on the State—estimated at over $800 million annually—without solving its pension debt problems or reducing existing pension liabilities.[42]

The inequities embedded in Tier II have also contributed to mounting personnel challenges. Police, firefighters, and other public employees hired under Tier II earn lower lifetime benefits than their senior counterparts, even though their payroll deductions are identical.[43] The decreased retirement security makes it increasingly difficult for the State and City of Chicago to attract and retain public sector workers. In the Chicago Police Department alone, there are roughly 825 police officer vacancies, including more than 130 detective positions.[44] The Chicago Fire Department is short 150 firefighters.[45] These shortages have critical impacts on public services—leading to understaffed ambulances, delayed response times, and a surge in overtime costs. In 2024, the Chicago Police Department spent $273.8 million on overtime, more than two-and-a-half times the $100 million budgeted for that purpose.[46]

There is no denying that the Tier II system must be reformed: falling out of compliance with the Social Security Safe Harbor, persistent personnel shortages in critical positions across the State, and less valuable benefits for workers paying the same amount into the system are critical issues stemming from the creation of Tier II. But the Public Safety Tier II Adjustment Act represents only a partial effort to remedy these issues. Because it does not include a dedicated funding source, and indeed takes place against a backdrop of increasing revenue diversions from the City of Chicago to the State, it leaves significant underlying structural issues unresolved. Without a comprehensive State-level strategy to both equalize benefit structures and secure sustainable revenue to pay for those benefit structures, Illinois risks perpetuating a fragmented and inequitable pension landscape—one that continues to strain

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budgets while failing to deliver adequate retirement security for the people who provide critical services to the State and its municipalities.

4. Details of P.A. 104-0065: The Public Safety Tier II Adjustment Act

The Public Safety Tier II Adjustment Act begins to address some of the more glaring issues caused by the Tier II benefit structure. First, it does exactly as its nickname states—sweetens benefits. **Figure 1** identifies the key provisions of the Public Safety Tier II Adjustment Act that help bring benefits earned by Tier II Public Safety Workers in Chicago up to par with their Tier I counterparts. Namely, it provides for the retirement benefits of Tier II Public Safety Workers to be based on a higher final average salary, have more of that salary count towards the benefit calculation, earn greater annual cost-of-living increases, and secure a financial safety net for spouses and children in the case of the death of the Tier II Public Safety Worker.[47]

The Public Safety Tier II Adjustment Act also ensures that pensions for Tier II Public Safety Workers earn benefits that are in line with Social Security payments earned by private sector employees, as required by federal law.[48]

Figure 1
Details of Key Provisions Included in P.A. 104-0065 Compared to Previous Law

Key Provision Change/ Clarification[49]	Public Act 104-0065	Previous Law
Calculation of final average salary ("FAS")	The average monthly salary over the 96 consecutive highest-paid months within the last 120 months OR the average monthly salary over the 48 consecutive highest-paid months within the last 60 months	The average monthly salary over the 96 consecutive highest-paid months within the last 120 months
Annual salary cap	Salary cap increased to $141,407.74 *(Social Security Wage Base for 2025 is $176,100)*	Salary cap limited to approximately $127,283.01
Cost-of-living adjustments	Salary cap will increase annually by the lesser of 3% or the annual unadjusted percentage increase in the Consumer Price Index — Urban ("CPI-U")	Salary cap increased annually by lesser of 3% or half the annual unadjusted percentage increase in the CPI-U
Survivor benefits — spouse	If the officer/firefighter was already receiving their pension at time of death, the spouse receives 66.6% of the	If the officer/firefighter was already receiving their pension at time of death, the spouse receives 66.6% of the earned annuity

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	earned annuity (no change from prior law) If the member died prior to retirement but had 10+ years of service, the spouse receives the greatest of: • 30% of the position's maximum annual salary, • 54% of the monthly salary at death, or • 66.6% of the hypothetical Tier 2 pension (assuming retirement at age 55 with the accrued service)	If the member died prior to retirement: • Survivor benefits were not explicitly tied to salary-based percentages • The amount was calculated based on a reduced annuity formula, assuming the member retired at age 67 (Tier 2 retirement age), even if the death occurred years earlier • There was no guarantee of a minimum survivor benefit tied to a percentage of the member's final salary
Survivor benefits — minor children	If there is a surviving spouse, the guardian receives 12% of the earned annuity per child until age 18 If there is no surviving spouse (or the spouse dies), each child's guardian receives 20% of the salary (or earned pension) until the child turns 18	If there was a surviving spouse, the law did not guarantee direct child annuity; there was no set percentage or dollar amount allocated per child, and benefits were often limited to what remained after the surviving spouse's annuity was paid

5. An Irresponsible "Fix"

A. Forcing Payments on the City of Chicago

To be clear, the provisions laid out by the Public Safety Tier II Adjustment Act are necessary to both reduce the liability exposed by falling out of the Social Security Safe Harbor and also to attract and retain new, qualified personnel to the City of Chicago's police and fire departments. But what is irresponsible here is Springfield legislators forcing the cost of this bill—which will add $11 billion to Chicago's unfunded pension liability by 2055[50] and cost the City a total of $6.5 billion more in required contributions through the same timeframe[51]—at a time when it and other municipalities across Illinois receive fewer and fewer State funds and without any comprehensive approach to addressing the City or State's pension crises. It seems logical that the City of Chicago should be required to foot the costs of this

bill when it affects only Chicago police and firefighters. But to impose these massive costs while the State makes out with an ever-increasing share of revenue meant for municipalities—as discussed below—is downright unfair.

B. Diminishing State Funds: The Personal Property Replacement Tax

Two core State-to-municipality revenue streams have recently seen significant reductions. The first is the CPPRT, the State-level tax that was designed to replace revenue that local governments lost when they were prohibited from imposing personal property taxes on businesses under the new State constitution adopted in 1970.[52] Prior to 2009, the Illinois Department of Revenue ("**IDOR**") could only keep for itself the CPPRT revenues needed to cover the State's costs associated with administering and distributing the tax revenues.[53] Since then, the Illinois General Assemblies and Governors have increasingly diverted CPPRT revenues to pay other State costs, and an increasingly smaller share has been distributed to municipalities as was the intent of the law.[54] From 2013 to 2025, the percentage of total CPPRT revenues diverted from local governments grew from 5.8% to 11.5%; in 2025 alone, the 11.5% diversion rate cost the City of Chicago $35.9 million in revenue.[55] These diversions should be limited so that revenue Chicago should have received can be put towards addressing pension challenges. Additional provisions, such as lowering the Net Loss Deduction cap, which was raised from $100,000 to $500,000 for 2025-2027, and leveling tax rates for all corporations rather than allowing lower rates for S-Corporations, are common sense reforms that will increase CPPRT revenue for Chicago, other municipalities, and the State. For more information on the CPPRT, please see CTBA's report "Corporate Personal Property Replacement Tax Revenue and K-12 Education Funding in Illinois: The Intersection of Taxes and Education Policy: Volume II."

C. Diminishing State Funds: The Local Government Distributive Fund

Another central cash flow to Chicago is the LGDF, the revenue-sharing mechanism in Illinois where a portion of State income tax revenues are allocated to municipalities and counties, which are not allowed to establish their own income tax without State authorization.[56] Until 2011, counties and municipalities in Illinois received 10% of total State income tax revenues through the LGDF. Now, local governments receive 6.47% of individual income tax revenue and 6.85% of corporate income tax revenue.[57] At current sharing rates, Chicago is estimated to receive $442 million in LGDF revenue in FY 2025.[58] If the 10% rate was reinstated, Chicago would realize an additional $235 million in revenue in fiscal year 2025, for a total of $677 million.[59] Though the cost of implementing the Public Safety Tier II Adjustment Act will increase annually, this additional revenue would more than cover the anticipated initial increase in required contribution to Chicago's pension system, which is estimated to be $60 million in FY 2026.[60] Mandating legislation that will cost the City over $6 billion between now and 2055 while simultaneously withholding revenue that belongs to municipalities is irresponsible and a flawed policy initiative.

D. Lack of State & City Pension Reform

Any proposal to address the issues that arise from Tier II will carry a significant price tag. But there are responsible ways to address the pension challenges that will both reduce the fiscal strain that Chicago and Illinois face under the current Pension Ramp and Chicago Pension Ramps and reduce long-term costs of paying into the pension system—money that could instead be used to fund such a Tier II fix.

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The Center for Tax and Budget Accountability ("**CTBA**") proposes a comprehensive refinancing of the State and City's pension debt utilizing four core strategies:

1) Issuing pension obligation bonds ("**POBs**"), the proceeds of which are used to frontload payments to the pension systems and retire existing unfunded liabilities by paying down the principal;
2) Moving all pension contributions to the first day of the fiscal year, allowing for additional time to generate investment returns on those contributions, which has a positive, compounding effect over time;
3) Re-amortizing the remaining pension debt on a level-dollar basis starting in 2033 to eliminate the fiscal strain created by the current backloading of payments under the existing Pension Ramp and Chicago Pension Ramps; and
4) Including an additional minor frontloading of payments above what is currently prescribed by the Pension Ramp and Chicago Pension Ramps to pay down the principal owed on existing unfunded liabilities.[61]

Together, these strategies achieve two important results. First, issuing POBs (in the case of Chicago, $1.7 billion dollars worth) to retire existing unfunded liabilities and the subsequent re-amortization eliminates the fiscal strain resulting from the backloaded payments prescribed by the Chicago Pension Ramps. Rather than required contributions topping $4 billion per year by 2055 as they will under the current legislation, payments will instead hold steady at around $2.8 billion starting in 2033 through the end of the ramp period. Not only does this reduce the overall costs of funding the pension system for the next 30 years, but it also allows for stability in the budgeting process; while $2.8 billion is still a significant amount of money, legislators will no longer need to find increasing revenues for the payment year-over-year.

The second important result, as mentioned above, is the reduction in costs that occurs over the lifetime of the Chicago Pension Ramps. Refinancing will save the City approximately $10.5 billion over the next 30 years — an amount that will more than pay for the Public Safety Tier II Adjustment Act — while achieving a higher funded ratio by 2055 than will be reached under current legislation. These results are evident in **Figure 2**, which shows the refinancing model for the City of Chicago, and **Figure 3**, which outlines the estimated cost savings. The City would require authorization from the Illinois General Assembly to institute this refinancing model, as the Illinois Pension Code governs the City's legal obligation to fund its four public pension systems and the method for calculating the City's required contributions.[62]

By implementing a similar model for the State pension systems using $5.2 billion of POBs, Illinois can save $43.1 billion by 2045 while achieving the same 90% funded ratio set by the current Pension Ramp legislation; to achieve a 100% funded ratio by 2048, the State could issue $9.7 billion of POBs still save $23.8 billion over the current Pension Ramp costs.

For more information on statewide pension reform, please see CTBA's report "Understanding — and Resolving — Illinois' Pension Funding Challenges: Volume II." For more information on City of Chicago pension reform, please see CTBA's report "Understanding and Addressing Chicago's Pension Funding Crisis."

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Figure 2
City of Chicago Pension System Refinancing Model, Including Re-Amortization

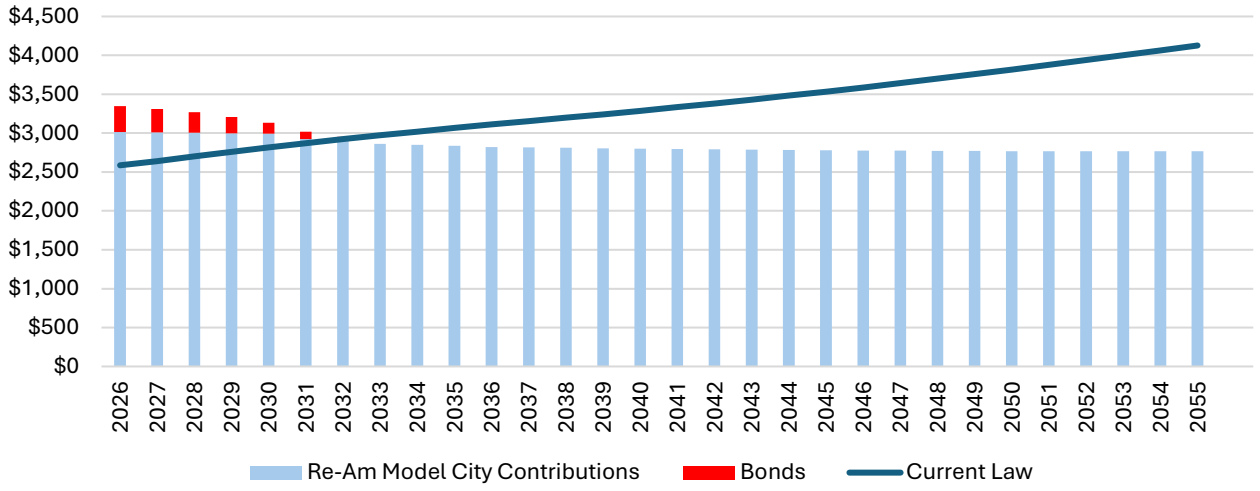

Figure 3
Estimated Savings from the City of Chicago Pension System Refinancing Model

Current Law Cost	Bond Amount	Re-Am Cost	Cost Savings Over Current Law
$102.8B	$1.7B	$92.3B	**$10.5B**

The Public Safety Tier II Adjustment Act is a step forward in ensuring that: i) Chicago's most critical public servants don't receive lesser benefits simply because of their employment start date; and ii) that Chicago is not liable for the significant costs of paying into Social Security for these same employees. Nevertheless, it is not a viable or strategic approach to solving pension-related issues to force Chicago to make payments while Illinois continues gatekeep for itself revenue that is meant to be shared. Reinstating historic revenue sharing practices in addition to implementing comprehensive pension reform is the only way through the challenge ahead.

For More Information
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