The Civic Federation

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FOR IMMEDIATE RELEASE: Monday, June 25, 2012

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NEED FOR REFORM ESCALATES AS CHICAGO-AREA PENSION FUNDS CONTINUE SHARP DECLINE

(CHICAGO) A Civic Federation report released today examines the sharp financial decline of Chicago-area public employee pension funds and emphasizes the urgency of pension reform efforts in Springfield. The ten funds analyzed in the report had an aggregate funding deficit of $27.4 billion in fiscal year 2010, up from a $4.6 billion deficit in FY2001.

"What was a $4.6 billion problem ten years ago is now a $27.4 billion problem for public pension funds in the Chicago region," said Civic Federation President Laurence Msall. "The need for reform will continue to escalate until Illinois and local lawmakers reach consensus on a plan that offers security to public employees and affordability to taxpayers." On average, the ten funds had an actuarial funding level of 56.2% in FY2010, down from 88.0% in FY2001. All ten funds are funded below 75%, ranging from a low of 32.4% for the Firemen's Fund to a high of 73.8% for the Laborers' Fund.

The declining health of Chicago-area pension funds is due in large part to inadequate employer contributions over a sustained period and recent investment losses. In FY2010, statutorily required employer contributions for the ten funds were approximately $1.2 billion short of the $2.1 billion level necessary to cover current costs and reduce a portion of unfunded liabilities over a 30-year timeframe. On average, employers contributed to the pension funds at a level equal to 12.6% of their payroll in FY2010. To reach an actuarially-sound level, employers would have needed to contribute at a level equal to 27.8% of payroll in FY2010. For all ten funds, the employer contribution level is dictated by state statute and, for eight of the ten funds, required contributions are not related to the funding needs of the plan.

Investment income for the funds continues to reflect the dramatic losses of FY2008 because public pension plans recognize unexpected investment gains or losses over a period of three to five years. In addition, the funds have fewer employees to support a rising number of beneficiaries. In FY2010, the ten funds had 1.23 active employees for every beneficiary, down from 1.70 actives per beneficiary in FY2001. The Laborers', MWRD, CTA, Park District and Forest Preserve District Funds all had more beneficiaries than active employees in FY2010, an indication that adequate funding levels will be even more difficult to attain in the future.

The 70-page report is intended to provide policymakers, pension trustees, pension fund members and taxpayers with the resources to make informed decisions regarding public employee retirement benefits. "The deteriorating state of Chicago-area pension funds threatens the retirement security of public employees and the financial viability of local governments," said Msall. "Illinois lawmakers owe it to citizens, employees and retirees to finish what they started and fix our broken pension systems."

The analysis is based on actuarial valuation reports and financial statements for FY2010, the most recent data available from all of the retirement funds. The full report, including a glossary of common pension terminology and an overview of relevant pension reform legislation, is available at www.civicfed.org.

The Civic Federation is an independent, non-partisan government research organization that promotes efficient delivery of public services and sustainable tax policies in the Chicago region and State of Illinois. For more information, please visit the Federation's website at www.civicfed.org.