The Civic Federation

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CHICAGO TAXPAYERS' PER CAPITA PENSION BURDEN INCREASED NEARLY 400% IN NINE YEARS

Major Reforms Necessary to Avert Insolvency

The Civic Federation's annual report on the finances of ten Chicago-area public pension funds, released today, shows their aggregate funding deficit reached $18.5 billion in fiscal year 2008. Each resident of Chicago—young and old—is therefore saddled with $5,821 in unfunded pension promises to Chicago and Cook County public employees, up from $1,189 in FY2000.

"The Civic Federation is deeply concerned about the unsustainable rate of increase in unfunded liabilities for Chicago area pension funds over the past ten years," said Laurence Msall, president of the Civic Federation. Pension pledges made to government employees in the Chicago area grew by 68.9% between FY1999 and FY2008, while the funding for those promises rose by only 26.4%. The total difference between assets and liabilities, the unfunded liability, grew by 444% as a result.

It is important to note that the economic downturn did not cause local pension underfunding. Many local pension funds have been routinely underfunded for years as benefit enhancements were granted without regard for their long-term cost to taxpayers and statutory pension contributions failed to keep up with growing liabilities.

Several pension funds reached dangerously low funding levels in FY2008 as the market plummeted. The Chicago Fire Fund's market value funded ratio was a meager 27.2%, near the low level of funding that triggered major reforms to CTA pensions to avert that fund's impending insolvency. The Police Fund's market funded ratio was only 34.7% and its unfunded liabilities alone totaled $4.5 billion or more than four times current police payroll.

Unfortunately, since neither the Fire Fund nor the Police Fund are required to publish funding projections, including the date when the funds will run out of money, the public and beneficiaries do not know how immediate the crisis is. Accordingly, the Civic Federation recommends as part of comprehensive public pension reform that the state pension code be amended to require all state and local pension funds to report projected funded ratios, unfunded liabilities, and required contributions for the next 30 years, as well as the projected date of insolvency.

"The status quo of benefit enhancements and insufficient pension contributions must not continue," said Msall. "The only responsible option for our local governments is to work with the General Assembly to take action immediately to implement reforms to pension benefits, increase employer and employee contributions, and improve governance and financial reporting."

The reforms the Civic Federation advocates will help ensure that critical public spending is not crowded out by ever-increasing pension liabilities and the cost of today's government is not shifted to tomorrow's taxpayers. The reforms include the following measures:

- Employer and employee contributions for all funds should be tied to the funding status of each pension fund, consistent with the actuarially calculated annual required contribution (ARC).
- Employers and employees should contribute a set proportion of the ARC, similar to the CTA's new contribution structure, such as a 50%/50% or 60%/40% split.
- The minimum retirement age for unreduced benefits should be increased to match Social Security (currently 67) and the minimum years of service for unreduced benefits should rise.
- The General Assembly should prohibit any and all forms of retirement benefit enhancement unless a plan is over 90% funded, meaning none of the ten funds studied here would qualify.