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LOCAL PUBLIC PENSIONS IN TROUBLE BEFORE RECESSION AND STOCK MARKET CRASH: CIVIC FEDERATION

While the ten major local government employee pension funds in Cook County experienced a slight decrease in their total deficit before the onset of recession in late 2007, the Civic Federation has found that **local pension funds were in trouble well before the decline in the stock market**. The Federation's annual status of local pensions report, released today, concluded that the funds' total deficit more than tripled between FY1998 and FY2007. "Amid the panic the 2008 audited pension reports will undoubtedly generate when they become available, it is important to remember that steep market losses will only have exacerbated an existing trend," said Laurence Msall, president of the Civic Federation.

Due to underfunding, pension plans have become overly dependent on high investment returns in an attempt bridge funding shortfalls. High levels of equity exposure make local funds exceedingly vulnerable to market declines such as the current worldwide bear market. The major Chicago area local governments' statutory pension contributions are set by state statute and are unrelated to how much money the funds need to cover their annual expenses. Thus, even good stock market returns such as those experienced in 2003-2006 have not been able to compensate for insufficient employer contributions. The funds' combined unfunded liability grew during each of those years and now stands at $17.1 billion.

The per capita accumulated liability of the ten funds is $5,402. "Every woman, man, and child in Chicago is on the hook for an astonishing five thousand dollars in local pension debt. Add in the fact that the per capita liability has more than quadrupled in the past eight years and it is clear local pension benefits are unaffordable to taxpayers," said Msall. The Civic Federation's report contains an extensive set of recommendations to reform the pension funds, including changes to benefits, contributions, pension fund governance, and increased transparency. Proposed reforms include the following:

- Change the retirement age, minimum years of service, and annuity cost of living increases to reduce the cost of benefits for new employees;
- Prohibit benefit enhancements, a major source of increased pension liabilities, unless they are fully funded, will expire in five years, and the plan is over 90% funded;
- Require employer contributions to relate to the funding needs of the pensions; and
- Require reporting of the projected date when a pension fund will run out of money.

"The Chicago Transit Authority's landmark pension reforms negotiated by management and unions and approved by the General Assembly last year prove that pension reform is possible. The Civic Federation hopes it will not require a similar brush with bankruptcy to push other local governments to implement similar reforms," concluded Msall. Additionally, the Civic Federation urges the Illinois General Assembly to consider implementing pension benefit reforms for local governments similar to those recently proposed by Governor Quinn for state pensions.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

Status of Local Pension Funding
Fiscal Year 2007

An Evaluation of Ten Local Government Employee
Pension Funds in Cook County

Prepared by
The Civic Federation
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