The Pension Quagmire

Jeff Johnson

Quick Bio:

President, Municipal Employees', Officers', and Officials' Annuity and Benefit Fund of Chicago

Recording Secretary, IBEW Local 9

President, Municipal Employees Society of Chicago

City of Chicago 911 Fire & EMS Dispatcher

MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO, *et al*.

Defendants,

Jeffrey Johnson, et al.,

Plaintiffs,

v.

MUNICIPAL EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO and LABORERS' & RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO,

Defendants,

---

and

CITY OF CHICAGO,

Defendant-Intervenor,

and

STATE OF ILLINOIS,

Defendant-Intervenor.

law is followed. That is true at all times. It is especially important in times of crisis when, as this case demonstrates, even clear principles and long-standing precedent are threatened. Crisis is not an excuse to abandon the rule of law. It is a summons to defend it. How we respond is the measure of our commitment to the principles of justice we are sworn to uphold.

More than two centuries ago, as adoption of the Constitution of the United States was being considered by the citizens of our new nation, James Madison wrote:

> "If men were angels, no government would be necessary. *** In framing a government which is to be administered by men over men, the great difficulty

chicago pensions

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Chicago Tribune

Chicago's pension precipice: It's worse than you thought.

2 weeks ago

Chicago Tribune

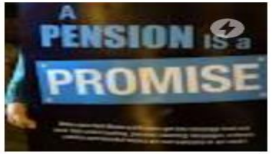
Chicago Public Schools' huge pension debt just got $1 billion deeper, new...

3 weeks ago

CHICAGO SUN-TIMES

State pension funding hits record shortfall, report finds

3 days ago



Chicago Tribune

Another time bomb for Chicago taxpayers

3 weeks ago

Cancel all my meetings.

Someone on the internet is wrong.

Harvey Firemens Association IAFF Local 471

Tuesday at 1:54 PM ·

The city has laid off 18 firefighters, half the fire department is gone! Prayers for the citizens and families of those laid off.

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“While an extreme case at the moment, Harvey is a harrowing sign of things to come for local governments across the state, where residents are increasingly seeing pension costs crowd out core services.”

HARVEY PENSION CRISIS LEADS TO MASS LAYOFFS
by Adam Schuster APRIL 11, 2018

Addressing reporters Monday night, Kellogg — who was reelected in 2016 to a fourth term as mayor — blasted Mendoza.

"You want to make Harvey the test baby," Kellogg said. "All I'm saying is, I own it, with respect to some of the issues with respect to the city of Harvey. But I can't own the fact that she made an unprecedented, illegal move to freeze our dollars."


WAIT...
WHAT?
quickmeme.com

257 For the reasons discussed above, we affirm in part and reverse in part the trial court's findings. We affirm the trial court's ruling on issues (2), (3), (4), and (5) in finding that Harvey violated the Pension Fund's statutory rights; that Harvey did violate the 1996 settlement agreement; that the trial court's calculation of damages is correct; and that Harvey's affirmative defenses were correctly rejected. However, as to issue (1), we reverse the trial court's finding and find that the Pension Fund is on the verge of default due to Harvey's blatant disregard of the Pension Fund for many years and the severe lack of any financial responsibility shown by Harvey, which has substantially impaired the Fund to the point that the firefighters' pension rights will be diminished in the near future.

258 Accordingly, we affirm the trial court's damages award, injunctive order, and denial of writ of mandamus.

include, first, the financial status of the Pension Fund primarily from 2005 through 2013, except that the data about the fund's 2011 financial status should be excluded due to conflicting data. According to Jon Willhite, the Pension Fund's financial consultant since the 1980's, the actuarial recommended contributions for 2005 to 2013 were approximately $11.6 million. Harvey, however, contributed only $1.4 million to the Pension Fund during that time period while that fund paid almost $13.6 million to beneficiaries. Accordingly, Harvey contributed only about 12% of the actuarial recommendation and the Pension Fund paid, on average, nine times more per year to its beneficiaries than Harvey had contributed to the fund.

Second, the fast rate at which the Pension Fund is being depleted supports the finding that finding that the Pension Fund is on the verge of default or imminent bankruptcy. Harvey has only 25,000 residents, and the evidence demonstrated that Harvey was not able to collect on its tax levies to support the city's general corporate obligations over the time period at issue here. Additionally, as of May 2015, Harvey had 47 active firefighters and 67 retirees or beneficiaries. In 2014, the Pension Fund paid approximately $157,000 a month to the beneficiaries while contributions from the active firefighters were approximately only $25,000 a month. The contributions of the active firefighters were being used to pay the current beneficiaries instead of being invested for the active firefighters' future pension benefits. Also the evidence established that for several years the Pension Fund had to liquidate invested assets every month in order to pay the monthly benefits, and the invested

But there are issues as squeezy demonstrates

Possible Solutions?.?.?.

Tier 2 Pension

The measure is estimated to save the state about $100 billion over the next few decades, and Quinn has proposed using $300 million of those savings in the budget for the fiscal year that begins July 1.

“This is the biggest cost-savings measure ever enacted by the General Assembly of Illinois,” Quinn said. “It’s extremely important that we save money for taxpayers.”

Raises the retirement age to 67 with 10 years of service for full retirement. Some retirement plans currently allow full retirement at age 55 or even lower.

Limits the maximum pensionable salary to the 2010 Social Security wage base of $106,800. Previously there was no limit to the salary from which a worker could draw a pension for any of the pension plans included in the reforms.

COLA will be the lesser of 3% or ½ of inflation—except for General Assembly and Judges—and for all plans will only be applied after age 67.

Ok?.?.? What Else?

Chicago Park District Pension Reform Bill

Beginning January 1, 2015, the deduction shall be 8% of salary.

Beginning January 1, 2017, the deduction shall be 9% of salary.

Beginning January 1, 2019, the deduction shall be 10% of salary. These contributions shall continue

Chicago Park District Pension WIN!

Posted by Science Meles, Chicago Public Schools - Chicago Park District Division Director on March 22, 2018

In 2015, SEIU Local 73 challenged Public Act 098-0622, the pension law that would have required Chicago Park District employees to work longer before being eligible to retire and earn less in retirement. Earlier this month, we won!

The Cook County Circuit found the entirety of the pension amendments unconstitutional. This means that employees will


APPARENTLY I ...
GUESSED WRONG
ator.net

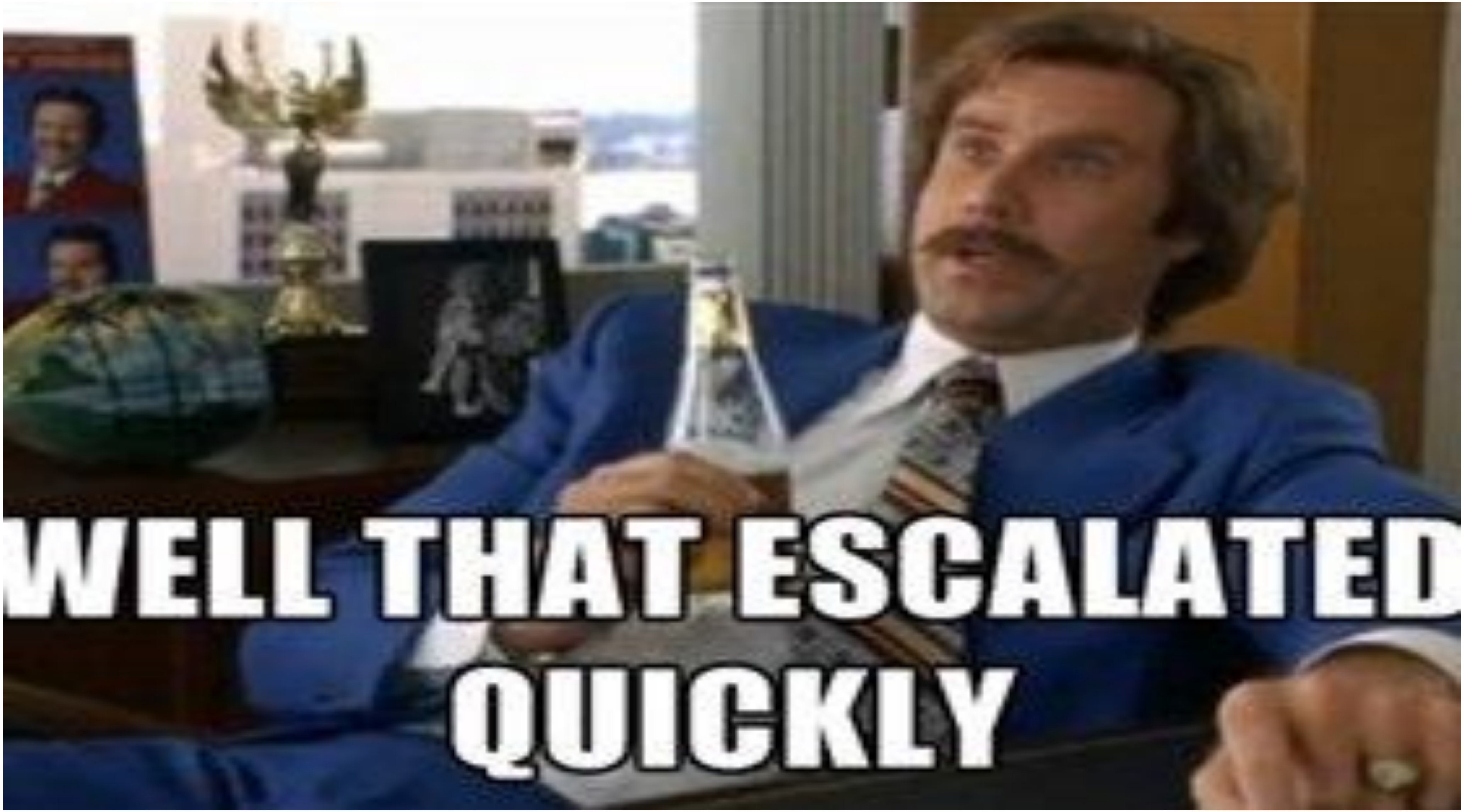
Consideration Plan

Let us take a gander...

Fred Klonsky

Pension theft. Eric Madiar, the master architect.

Fred Klonsky 1 year ago


WELL THAT ESCALATED
QUICKLY

Let’s look at the facts…

Analysis by Gino L. DiVito and John M. Fitzgerald:

“…[T]he Cullerton proposal would force upon pension system members a choice between two diminishments of their constitutionally protected pension rights. The fact that a ‘choice’ is offered does not matter. Either ‘choice’ would be a pension diminishment and a violation of the Pension Protection Clause of the Illinois Constitution.

Analysis by Gino L. DiVito and John M. Fitzgerald:

As the Illinois Supreme Court has explained, ‘once an individual begins work and becomes a member of a public retirement system, any subsequent changes to the Pension Code that would diminish the benefits conferred by membership in the retirement system cannot be applied to that individual.’ In re Pension Reform Litigation (Heaton v. Quinn), 2015 IL 118585, ¶ 46; see also Kanerva v. Weems, 2014 IL 115811, ¶ 38; Jones v. Municipal Employees’ Annuity & Benefit Fund of Chicago, 2016 IL 119618, ¶¶ 36-47.

Analysis by Gino L. DiVito and John M. Fitzgerald:

Applying this constitutional rule, our courts have repeatedly invalidated amendments to the Illinois Pension Code that would change the calculation of a pension system member’s pensionable salary so as to diminish that member’s pension benefits. In Heaton, the Illinois Supreme Court invalidated legislation which, among other things, ‘cap[ped] the maximum salary that may be considered when calculating the amount of a member’s retirement annuity.’ Heaton, 2015 IL 118585, ¶ 27 (describing P.A. 98-0599).

What About Constitutional Conventions?

"Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

On November 4th, 2008, the voters of Illinois decided, as they do every twenty years, on whether or not they wanted to hold a constitutional convention to propose amendments to the Illinois Constitution.

Election results

Question 1		
Result	**Votes**	**Percentage**
✘ **No**	**3,062,724**	**67.23%**
Yes	1,493,203	32.77%


NO
Party for NY political insiders and
special interest groups.
NO
Opportunity for Albany insiders to
take away our rights & protections.
NO
Boondoggle costing hundreds of
millions of dollars for no benefit.
NO
New York Constitutional
Convention!
On Nov. 7, 2017, Vote NO NY Constitutional Convention
NoNewYorkConvention.org

A CONstitutional CONvention in New York?

VOTE NØ

On Election Day 2017, New Yorkers will face a ballot question asking if the state should hold a convention to change the state Constitution.

It's more than a bad idea.

It's a CON.

A gigantic waste of money

- A convention would cost hundreds of millions of dollars — money better spent on public schools and health care
- A convention would be controlled by Albany insiders who will cash in at your expense
- It could go on for years!

Our hard-earned rights in jeopardy

A constitutional convention could:

- Endanger public employee pensions
- Drain money from public schools for vouchers
- Gut collective bargaining
- Erode environmental protections

Pushed by dark money

Outside corporate interests want to make changes that will hurt you.
The pro-convention campaign is:

- backed by Trump strategist Steve Bannon
- funded by the Koch brothers' network of donors

There is no good reason to take this high-stakes gamble.
New York's Constitution can be amended — as it was in 2013 and 2014 — without a risky convention.

UFT

For more information, go to *www.uft.org/con-con*

United Federation of Teachers • A Union of Professionals

GN14864

^ Results

Choice	Votes	%
No ✗	2,704,143	83.23
Yes ✓	544,889	16.77
Total votes	3,249,032	100
100%		

“Ok you greedy city worker, do you have anything to offer?”

Politicians are the same all over. They promise to build bridges even when there are no rivers. Nikita Khrushchev

There’s no such thing as a perfect politi...

Pension Obligation Bond Proposal

mpiled by Professor Runhuan Feng (University of Illinois) in
tion with State Universities Annuitants Association

Updated on Jan 27, 2018

Solution D: Assumptions

- Target funded ratio:
  90% for all retirement systems by 2018
- Total bond sale: 107.42 billions
- The same assumptions on serials bonds and investment fund investment return
- Optimization objective:
  minimal initial investment of the designated fund to cap annual state appropriation at 8.5 billions
- Stress tests under two scenarios:
  - Historic rate of return
    Average rate of return on 2003 POB: 7.62%
  - Adverse scenario
    SURS rates of return from 2008 to 2012: -4.5%,-19.7%,15.0%, 23.8% and 0.5%. The rest of return rates are assumed to be 7%.

From an investment point of view

- It was a good deal!
- Take the SURS allocations of bond proceeds and debt services for example.
  - The interest cost on the bonds was 5.05%.
  - If SURS allocations from 2004 and 2033 are viewed as a stand-alone bond, the effective annual rate of return is 7.51%.
  - Consider SURS actual investment returns on POB proceeds from 2004 and 2015, its realized rate of return is 9.31%.

Data compiled by Professor Runhuan Feng (University of Illinois) in conjunction with State Universities Annuitants Association

From a liability point of view

- It was a terrible deal!
- 2003 Pension Bond Act also provided that the State's required annual statutory contributions be reduced each year by the State's debt service payments allocated among the retirement systems. (Who pays debt service?)
- the State effectively evaded its liabilities for the required annual statutory contributions.
  - 2003 & 2004 contributions as well as reductions in subsequent years' contributions were supposed to be State's obligations according to the SFP.
  - 2003 & 2004 contributions as well as the 2004 reduction in UAAL were effectively paid by the retirement systems' own debts.
  - The net outcomes were that the State missed or reduced its contributions and the retirement systems only got to earn some interests.

Data compiled by Professor Runhuan Feng (University of Illinois) in conjunction with State Universities Annuitants Association

CoGFA Mar 2016 Projected Costs under the SFP versus Pension Funding Costs under Solution D

Fiscal Year	Tier 1 Normal Cost	Tier 2 Normal Cost	Total Normal Cost	CoGFA Mar-16 Projected Contribution	Annual Contribution Under Solution D
2018	3,228.1	392.4	3,620.5	8,013.8	8,500.0
2019	3,175.6	474.0	3,649.6	8,155.0	8,500.0
2020	3,119.7	557.6	3,677.3	8,326.0	8,500.0
2021	3,059.6	645.0	3,704.6	8,592.3	8,500.0
2022	2,996.6	735.8	3,732.4	8,831.8	8,500.0
2023	2,930.5	830.7	3,761.2	9,084.1	8,500.0
2024	2,857.8	929.5	3,787.3	9,329.6	8,500.0
2025	2,779.2	1,033.0	3,812.2	9,585.3	8,500.0
2026	2,694.5	1,140.0	3,834.5	9,875.3	8,500.0
2027	2,604.5	1,252.6	3,857.1	10,178.3	8,500.0
2028	2,508.7	1,368.7	3,877.4	10,471.7	8,500.0
2029	2,406.1	1,488.5	3,894.6	10,779.7	8,500.0
2030	2,298.1	1,612.8	3,910.9	11,077.1	8,500.0
2031	2,181.7	1,741.3	3,923.0	11,391.5	8,500.0
2032	2,058.1	1,874.0	3,932.1	11,744.7	8,500.0
2033	1,927.0	2,010.8	3,937.8	12,133.7	8,500.0
2034	1,786.3	2,151.1	3,937.4	13,232.1	8,500.0
2035	1,635.9	2,295.6	3,931.5	13,612.3	8,500.0
2036	1,480.2	2,442.7	3,922.9	13,993.7	8,500.0
2037	1,324.0	2,591.3	3,915.3	14,373.9	8,500.0
2038	1,165.6	2,742.3	3,907.9	14,751.6	8,500.0
2039	1,003.9	2,895.3	3,899.2	15,124.7	8,500.0
2040	843.1	3,050.5	3,893.6	15,493.9	8,500.0
2041	688.9	3,206.0	3,894.9	15,860.2	8,500.0
2042	544.8	3,360.5	3,905.3	16,226.1	8,500.0
2043	415.1	3,513.8	3,928.9	16,593.6	8,500.0
2044			*3,926.4	16,962.2	8,500.0
2045			*3,952.4	17,333.7	8,500.0
Total				341,127.9	238,000.0

All monetary amounts are represented in millions.

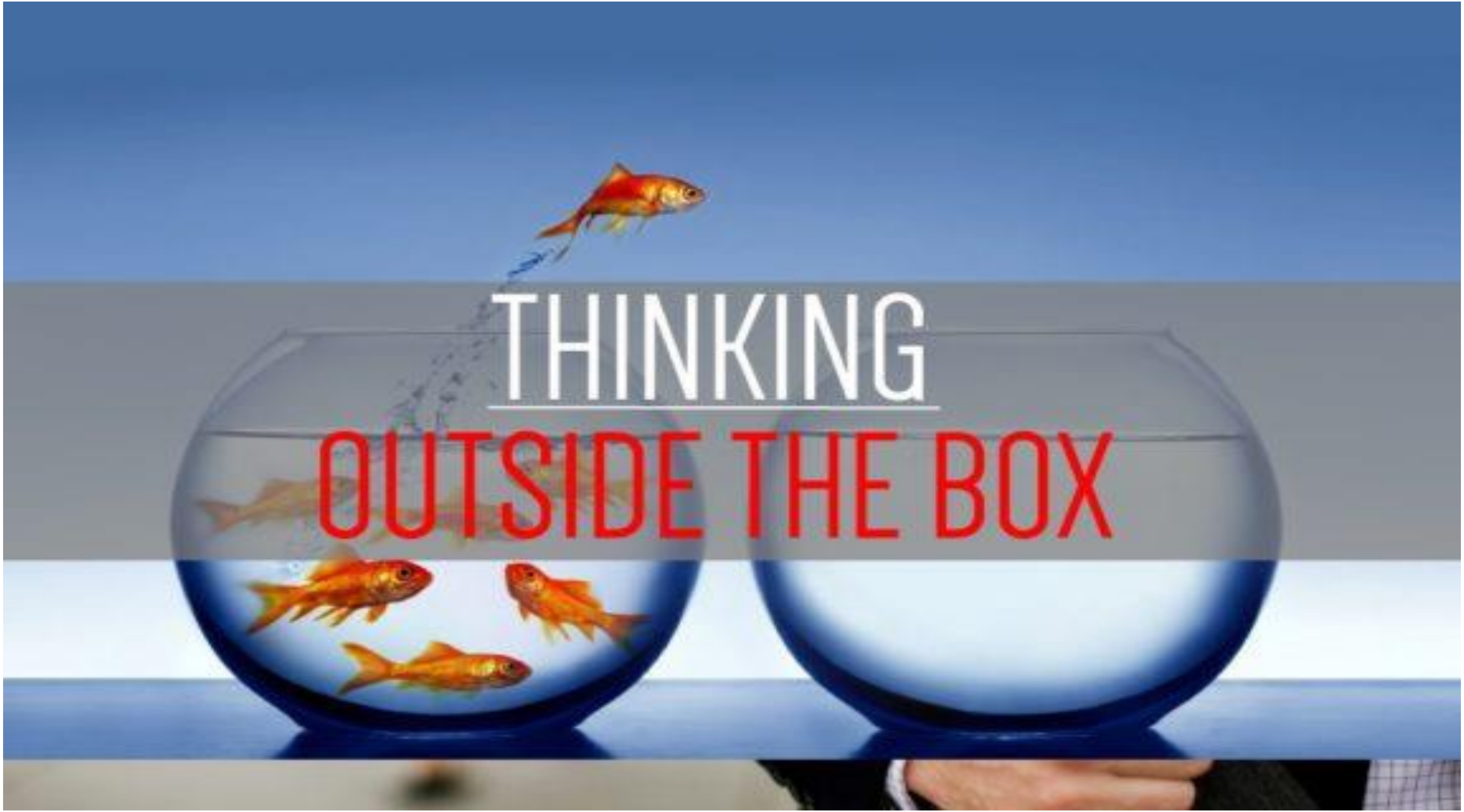
CoGFA's current projection of total state contributions up to 2045 is 341 billions under the SFP, whereas the total cost under solution D is 238 billions. The total saving for the state is 103 billions.

Data compiled by Professor Runhuan Feng (University of Illinois) in conjunction with State Universities Annuitants Association


The most
dangerous phrase
in the language is "we've
always done it this way."


Pick-up
Change
Here


PHOTO
ENFORCED


THINKING
OUTSIDE THE BOX


20
IN GOD


SPORTS
BETTING

Pensions are the long game

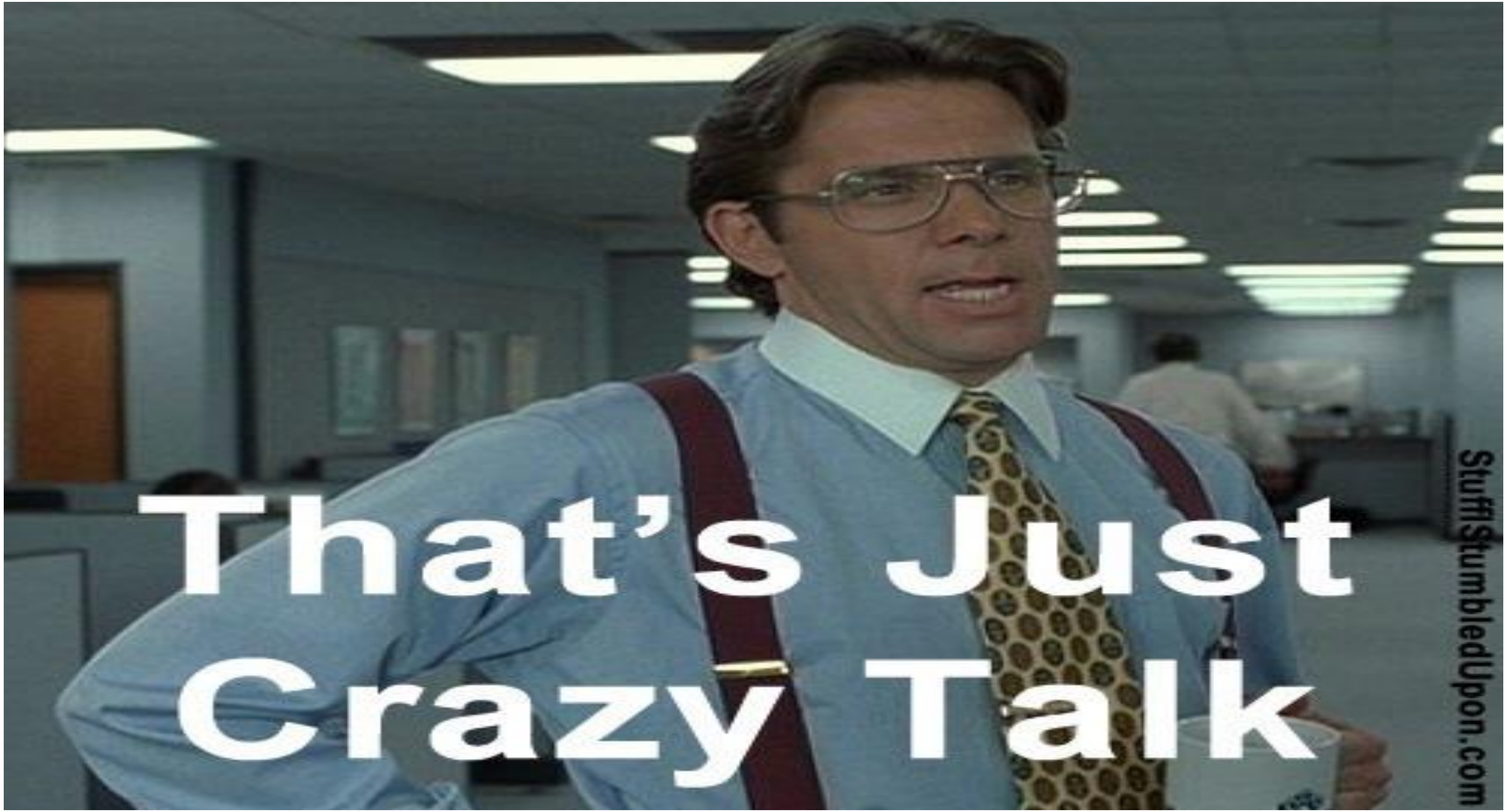
It is important to understand public pension funding – Opponents of public pensions apply rules to public-sector pensions, such as rate-of-return assumptions, that are designed for private-sector pensions. As Tom Sgouros[3] notes, full funding of pensions might be a meaningless goal in the public-sector context. Whereas private companies could and do go out of business, state governments are here to stay. Does anyone really believe the Commonwealth of Kentucky – or any other state for that matter – will go out of business and find its assets sold to a foreign nation?

NCPERS: Economic Loss: The Hidden Cost of Prevailing Pension Reforms

We also found that states are exploring new ways to ensure adequate funding for pensions. Oklahoma, for example, has set up a pension stabilization fund to be used when any state pension fund's funding level falls below 90%. The City of Pittsburgh has dedicated a portion of revenues from parking assets to its pension fund. States like Wisconsin and Texas are recognizing the value of economies of scale by allowing small districts to join statewide pension plans. Our study also shows that in 41 states, state and local governments share the responsibility of funding pensions.

How large will the economic loss be in 2025 if dismantling of pensions continues? – Using models and parameters developed through our 2015 analysis of empirical data,[5] we estimate that if dismantling of pensions continues, the economy will suffer $3.3 trillion in damage in 2025. We measure economic growth in terms of median income rather than gross domestic product (GDP) because GDP hides improvements in the incomes of ordinary people. For example, the GDP may be growing, but all the income growth may be going only to the top 1% of the population. Similarly, we also measure the size of the economy by total personal income.

NCPERS: Economic Loss: The Hidden Cost of Prevailing Pension Reforms


That's Just
Crazy Talk
StuffIStumbledUpon.com

National Conference on Public Employee Retirement Systems

NCPERS Research Series

August 2017

Contents

Illustration by: Rob Colvin © 2017 Illustration Source

Public Pensions Are a Good Deal for Taxpayers

Public pensions are beneficial to taxpayers in a variety of ways that are both under-reported and poorly understood by many observers. In the quest for simple answers to complex questions about public pensions, facile observers routinely overlook salient facts. For example, taxpayers get public services from dedicated nurses, firefighters, teachers, and police officers and pay only 20 cents on the dollar for their retirement benefits. The rest of the money comes from investment earnings and employee contributions. Taxpayers benefit from $3.7 trillion of pension fund assets invested in our economy, providing capital for established businesses and start-ups. Additionally, taxpayers benefit because retirees typically spend their pension checks locally, creating new jobs. Above all, tax revenues created through retiree spending and pension investments may exceed what taxpayers pay into public pensions.

In the following sections, we expand on these observations using empirical data. We also focus on the resilience of public pension funds through economic ups and downs. This Research Series article is organized as follows:

- Pension funds are resilient.
- Pension funds pose little burden, if any, on taxpayers.
- Taxpayers' contributions are fully or partially offset by the tax revenues generated by public pension investments in the community and by the local spending of retirees who receive pension checks.

Dismantling pensions, which is often advocated on the grounds of ideology or misleading information, harms taxpayers economically. Our earlier analysis of empirical data for the last 30 years shows that dismantling pensions contributes to income inequality, a sluggish economy, and economic volatility. We found that if governments continue to dismantle public pensions they will inflict $3 trillion in economic damage by 2025.[1] In other words, the prevailing practice of dismantling pensions is a bad deal for taxpayers..

[1] NCPERS, Economic Loss: The Hidden Cost of Prevailing Pension Reforms. Washington DC: NCPERS, 2017. http://www.ncpers.org/files/NCPERS_2017%20Economic%20Loss.pdf

National Conference on Public Employee Retirement Systems

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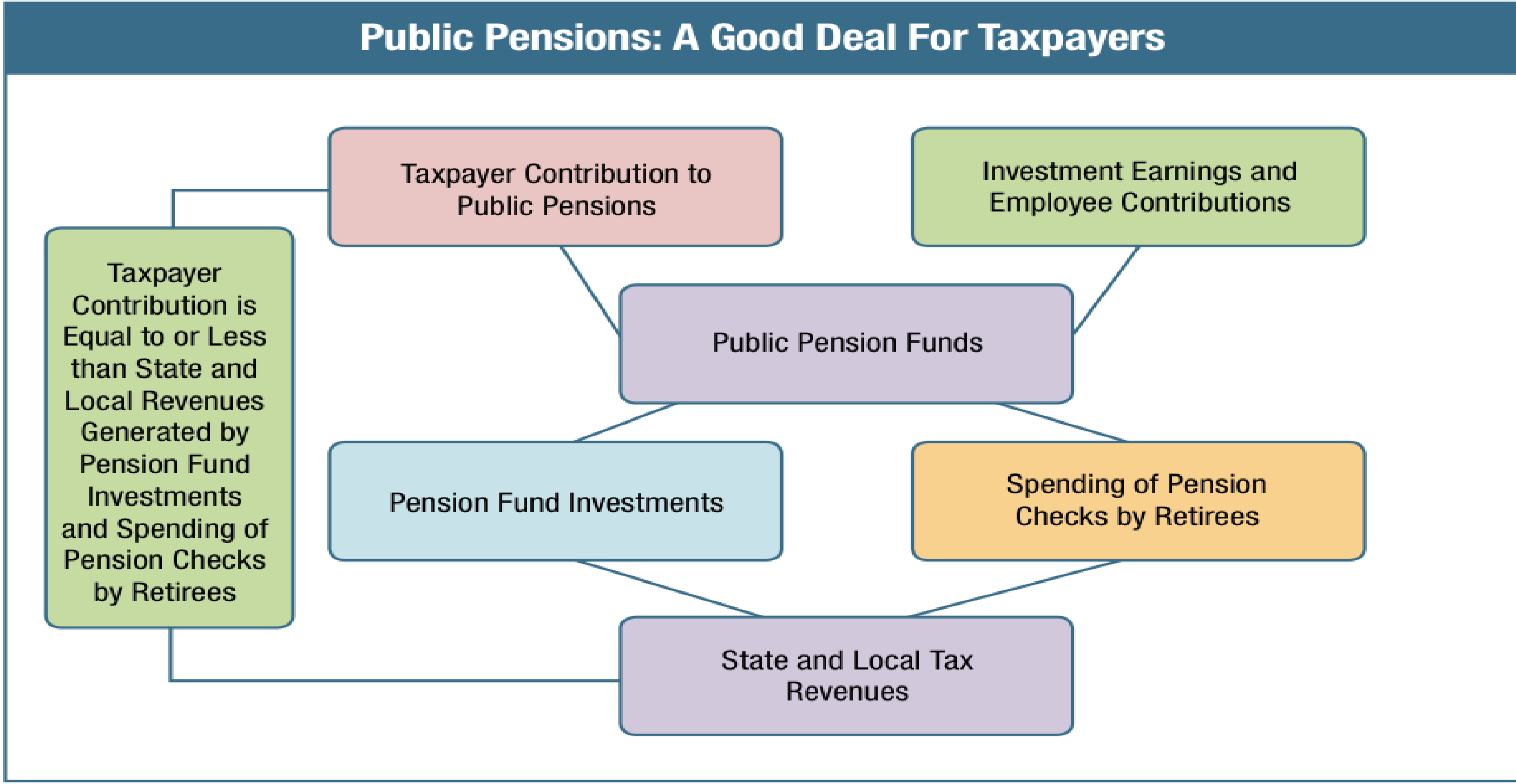
Pension funds help to fuel our economy. Spending by retirees stimulates local economies, and pension assets are an important source of capital for businesses and start-ups. A recent study by the National Institute on Retirement Security (NIRS) shows that every dollar paid in pension benefits creates $2.21 in economic output.


Public Pensions: A Good Deal For Taxpayers
Taxpayer Contribution to Public Pensions
Investment Earnings and Employee Contributions
Taxpayer Contribution is Equal to or Less than State and Local Revenues Generated by Pension Fund Investments and Spending of Pension Checks by Retirees
Public Pension Funds
Pension Fund Investments
Spending of Pension Checks by Retirees
State and Local Tax Revenues


IF YOU TAKE CARE OF YOUR CITY
YOUR CITY WILL TAKE CARE OF YOU
CHICAGO POLICE
9255
CHICAGO WATER
MANAGEMENT


CHICAGO
WATER SYSTEM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Duff
But I'm no super-genius.
Duff
Or are I?