ILLINOIS MUNICIPAL LEAGUE

The Illinois Public Safety Pension Fund Crisis

10/10/2019

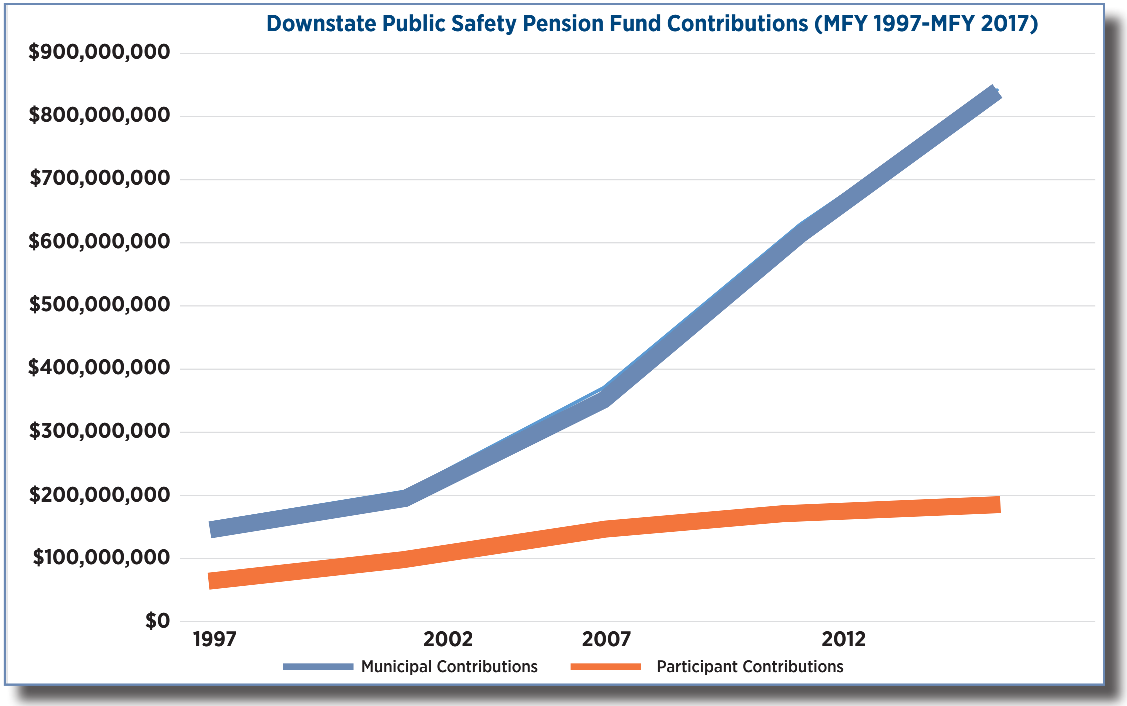
What is the Problem?

Taxpayer contributions to public safety pension funds continue to increase and divert municipal revenues away from funding other important programs and services intended to secure the health, safety and welfare of residents.

The existence of more than 650 separate municipal public safety pension funds restricts investment opportunities and creates overlapping administrative expenses.

In municipal fiscal year (MFY) 2017, municipalities contributed $842,043,845.

In MFY 1997, their contribution was $156,299,602.



**Complete 2018 data not yet available from Illinois Department of Insurance.*

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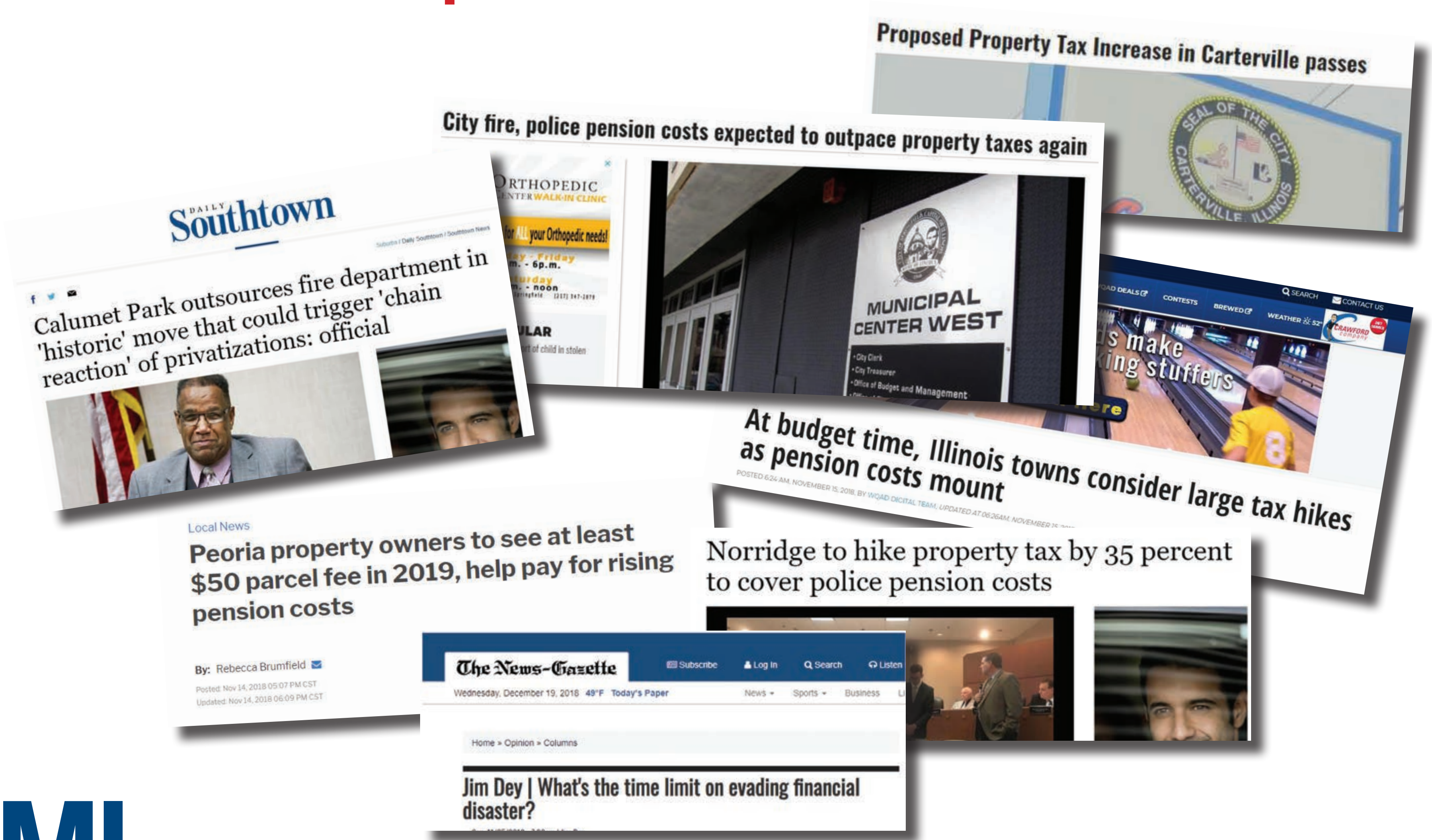
Source: Illinois Department of Insurance

How the Public Safety Pension Crisis Affects Illinois Municipalities



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Source: Illinois Department of Insurance

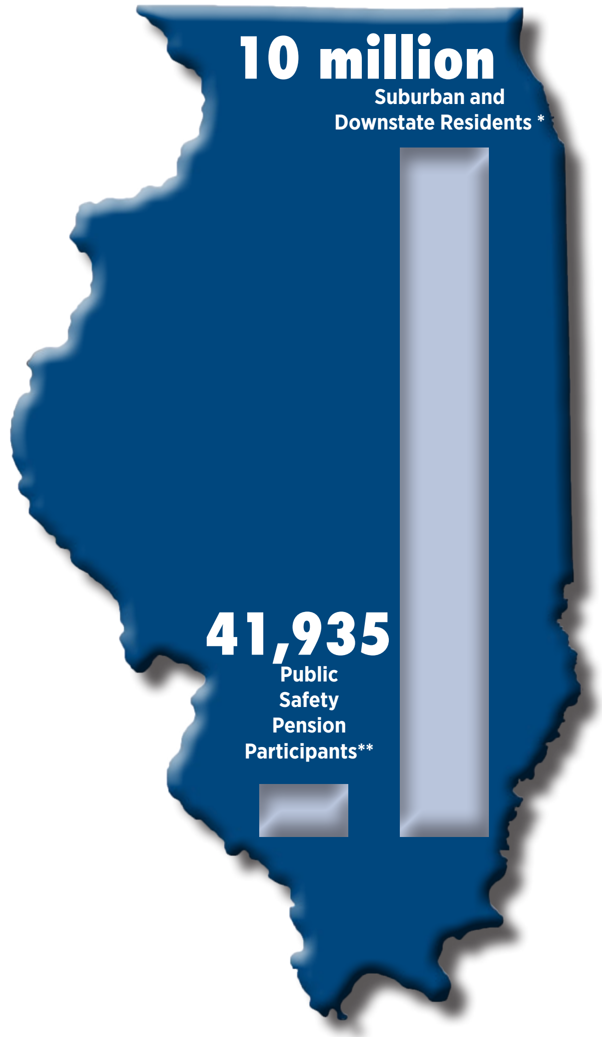
Who is Affected by the Public Safety Pension Crisis?

Suburban and downstate police and fire pension funds are regulated by Article 3 and Article 4 of the Illinois Pension Code.

The funds are locally financed in municipalities with a population greater than 5,000 employing a full-time police or firefighting workforce.

Illinois has 1,298 municipalities and more than 650 public safety pension funds.

More than 10 million Illinois residents are paying the bill for 41,935 public safety pension participants.



* Suburban and downstate population excludes the City of Chicago. *Source:* U.S. Census Bureau

** *Source:* Illinois Department of Insurance

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Source: Illinois Department of Insurance

Who Makes Public Safety Pension Fund Decisions?

Who . . . ?	State	Local Pension Board	Actuary	Taxpayers
. . . Establishes Benefit Levels	X			
. . . Determines Employee Contributions (9.91% of salary for police; 9.455% of salary for firefighters)	X			
. . . Determines Pension Board Composition (2 active employees; 1 retiree; 2 employer representatives)	X			
. . . Determines a Fund's Investment Authority	X			
. . . Determines the Pension Ramp (ammortization schedule)	X			
. . . Hires Investment Managers and Fund Attorneys		X		
. . . Determines Investment Strategy		X		
. . . Makes Disability and Other Determinations		X		
. . . Sets the Annual Employer Contribution Requirements (Actuarial Required Contribution)			X	
Who Pays the Majority of the Bill?				X

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Despite paying the majority of the bill, taxpayers and municipalities have very little control over the decisions that impact the costs of public safety pensions.

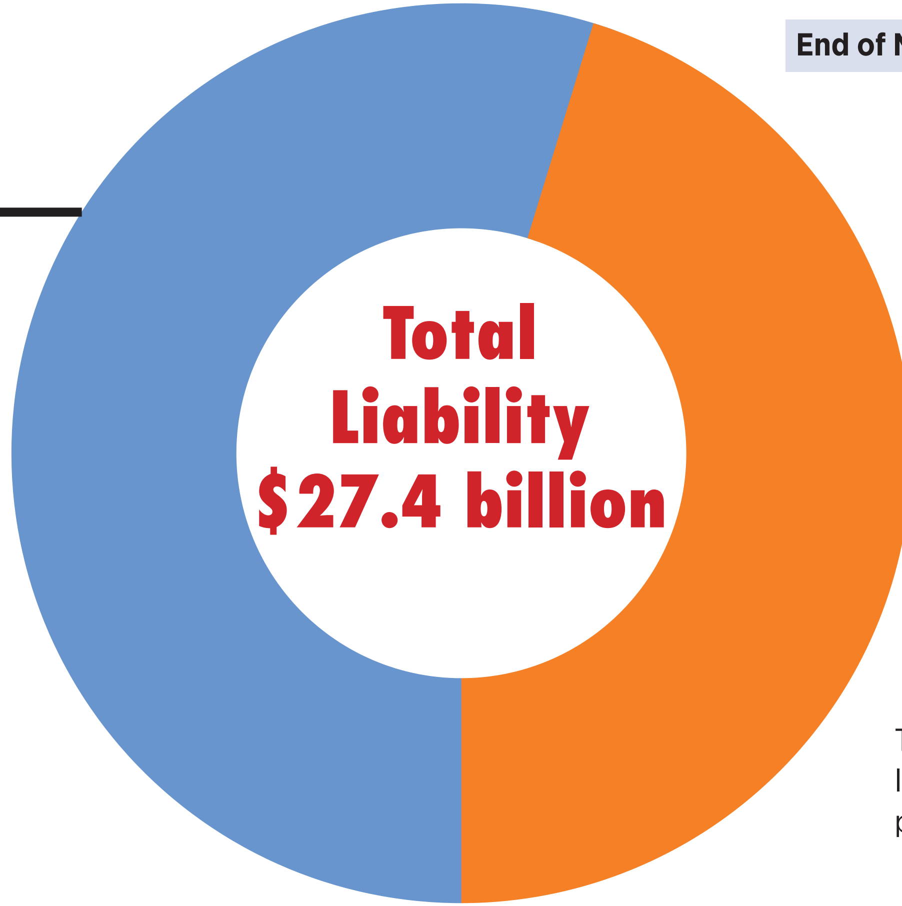
Source: Illinois Department of Insurance

What is the Scope of the Public Safety Pension Crisis?

End of Municipal Fiscal Year 2018

Downstate Illinois Public Safety Pension Funds have:

$15 billion funded liability



Funded Liability

Unfunded Liability

Downstate Illinois Public Safety Pension Funds need:

$12.4 billion unfunded liability

The $12.4 billion unfunded liability equates to $294,462 per pension participant.

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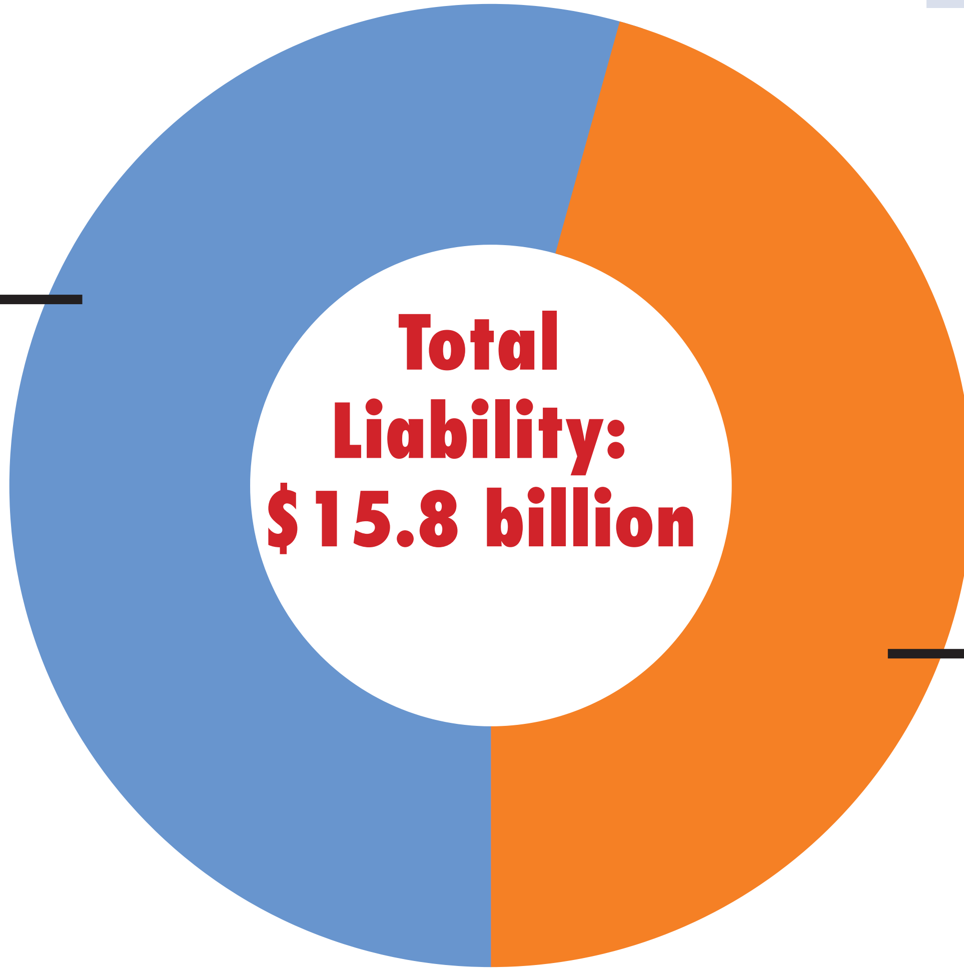
Source: Illinois Department of Insurance

What is the Scope of the Problem for Police Pension Funds?

End of Municipal Fiscal Year 2018

Downstate Illinois Police Pension Funds have:

$8.7 billion funded liability



Number of Downstate Police Pension Funds: 353

Statewide funding ratio for Police Pension Funds: 55.13%

Downstate Illinois Police Pension Funds need:

$7.1 billion unfunded liability

Funded Liability

Unfunded Liability

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Source: Illinois Department of Insurance

What is the Scope of the Problem for **Firefighter Pension Funds?**

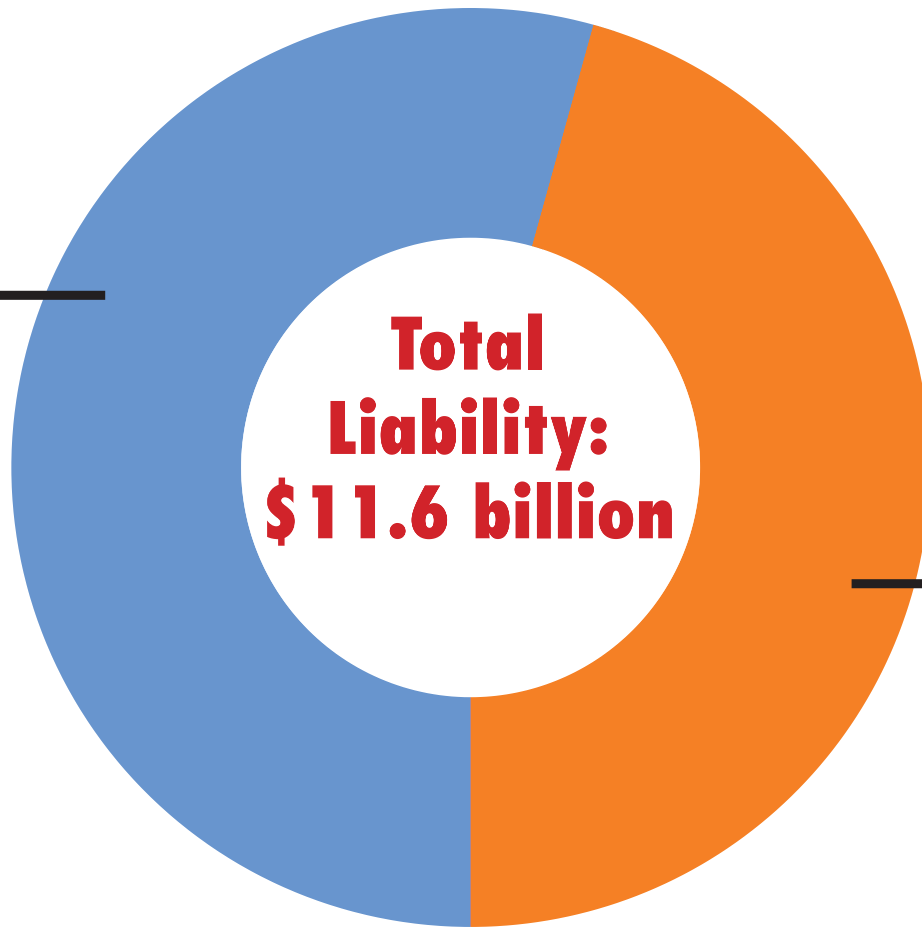
End of Municipal Fiscal Year 2018

Number of Downstate Firefighter Pension Funds: 294

Statewide funding ratio for Firefighter Pension Funds: 54.44%

Downstate Illinois Firefighter Pension Funds have:

$6.3 billion funded liability



Downstate Illinois Firefighter Pension Funds need:

$5.3 billion unfunded liability

Funded Liability

Unfunded Liability

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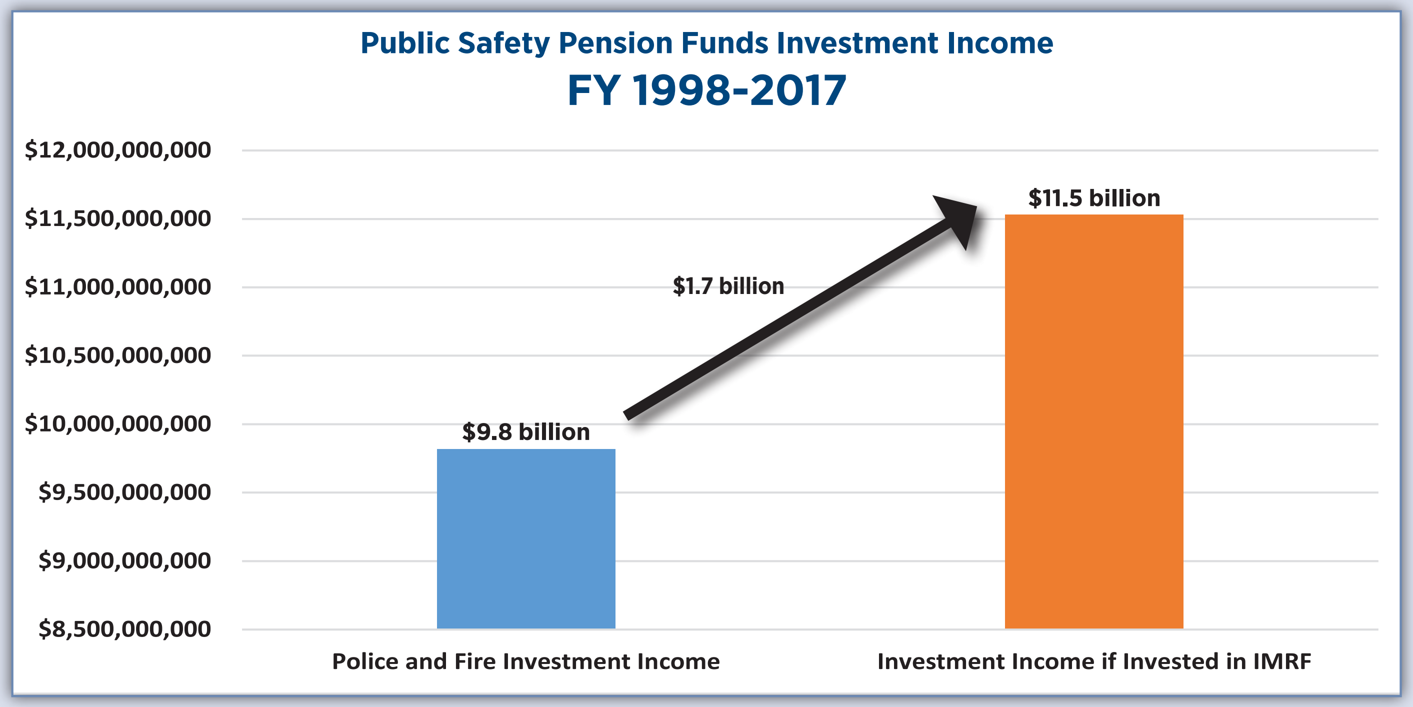
Source: Illinois Department of Insurance

What Could Have Been?



Illinois' Public Safety Pension Funds have realized lower investment returns due to restrictions placed on smaller funds. At the same time, the Illinois Municipal Retirement Fund (IMRF) has seen more consistent and larger returns due to their larger pool of possible investments. If the downstate public safety pension funds had been consolidated in FY 1998, at the IMRF rate of return, public safety pension funds would have seen $1.7 billion more in investment income by 2017.

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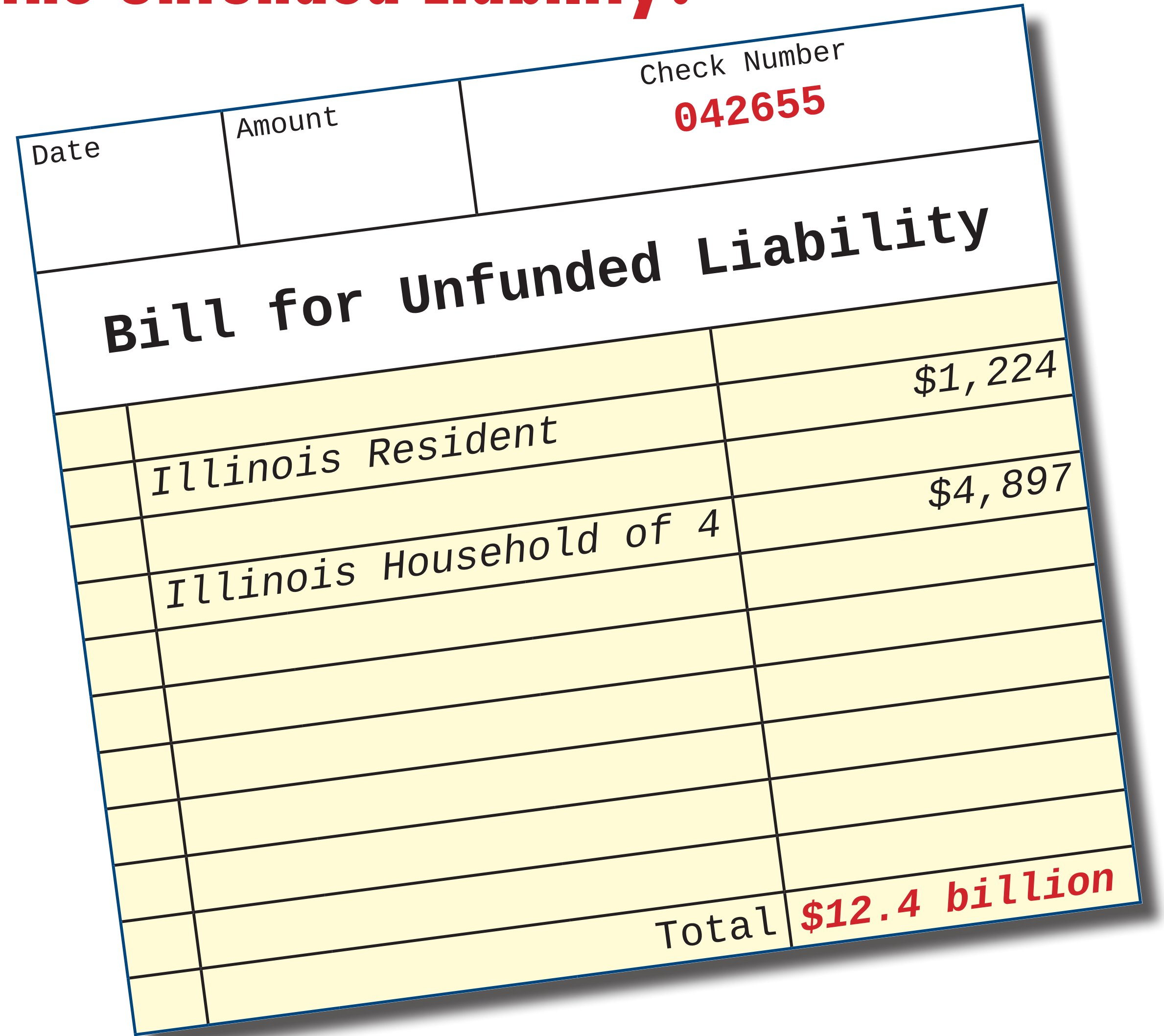
Source: Illinois Department of Insurance

Who is Responsible for the Unfunded Liability?

Everyone is.

The responsibility to pay the $12.4 billion unfunded liability falls on Illinois taxpayers through municipalities.

If the bill were due today, the breakdown would be $1,224 per Illinois resident.



Source: Illinois Department of Insurance

What Did Illinois Taxpayers Owe in 2018?

The actuarial required contribution (ARC) is the normal cost of the pension fund plus an annual amount sufficient to bring the total assets of a pension fund up to 90% of total actuarial liabilities of the fund by the end of MFY 2040. (40 ILCS 5/3-125 and 40 ILCS 5/4-118)

The statewide actuarial required contribution is the sum of all public safety pension funds' actuarial required contributions for MFY 2018.

The statewide actuarial required contribution for MFY 2018 was $959,811,522 = **nearly $1 billion.**

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Source: Illinois Department of Insurance

What Could $1 Billion Do? (The amount Illinois taxpayers owed in 2018.)

Source: School Planning and Management's 20th Annual Construction Report

Source: Illinois Department of Transportation 2016 Annual Report

Source: Illinois Department of Insurance

What is the Solution to Illinois' Public Safety Pension Crisis?

The General Assembly should reduce long-term pension costs by reforming and consolidating the administrative and investment functions of the more than 650 municipal public safety pension funds to achieve greater administrative efficiency and investment return opportunities.

The ultimate reality is taxpayers shoulder the burden of public safety pension costs, but the General Assembly can ease that burden.

IML has developed seven proposals to achieve various forms of reform and consolidation. **Those proposals are available online at iml.org/pensions.**


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IML Board of Directors
September 21, 2017

PUBLIC SAFETY PENSION PROPOSALS

500 East Capitol Avenue | P.O. Box 5180 | Springfield, IL 62705-5180 | phone: 217.525.1220 | fax: 217.525.7438 | www.iml.org

Source: Illinois Department of Insurance

Fact Check:

Dispelling Misconceptions About Public Safety Pension Fund Reform and Consolidation

Would consolidating Illinois' public safety pension funds force well-funded municipal pension funds to subsidize underfunded funds?

No, individual funds of each municipality would maintain their autonomy, so well-funded plans would not offset the shortcomings of other funds.

Would consolidated funds be intermingled?

No, consolidated funds would be pooled for investment purposes only, but separate accounts would not be intermingled, just as separate accounts are managed in a bank.

Could funds managed by the Illinois Municipal Retirement Fund (IMRF) be swept when the state needs additional revenue?

No, IMRF funds are not state funds and cannot be swept by the state, nor are they affected by the state's financial situation. IMRF is governed by an independently elected and autonomous board of trustees.

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Source: Illinois Department of Insurance

Fact Check:

Dispelling Misconceptions About Public Safety Pension Fund Reform and Consolidation

Would re-amortizing funds just delay the same problems to a later date?

No, just as refinancing a mortgage helps a homeowner manage monthly payments, re-amortization would allow the time necessary for funds to stabilize. Lower payments over a longer period of time would also be less disruptive to local government services.

Would consolidation lead to a reduction in benefits for police officers and firefighters?

No, consolidation does not change the benefits promised to public safety personnel. In fact, consolidating pension funds would help stabilize the funds for retirees without changing benefits.

Are consolidation proposals really an effort to roll back promises made to pension recipients?

No, consolidating pensions could enact efficiencies and streamline services to ensure financial contributions from both employers and employees go towards pensions, and not unnecessary overhead or administrative expenses.

Source: Illinois Department of Insurance

What have others said about Public Safety Pension Fund Reform and Consolidation?

IMPROVE THE INVESTMENT ENGINE

To generate higher returns and with the added benefit of enhanced efficiency, Illinois could work with local constituencies to consolidate pension funds for similar systems within verticals (e.g., fire, public safety). This move would help smaller funds not only achieve higher returns but also reduce the cost of fund administration and give managers greater visibility into investment decisions and trade-offs.

While consolidation could take time, there are shorter term opportunities. For one, the state could negotiate a standard “one-price” investment management fee for all Illinois pension funds to eliminate the variance in fund management costs. In addition, the state could revisit pension investment management; asset allocations could be reassessed to ensure that investments are providing the highest possible risk-adjusted returns.

RE-SHAPE THE PENSION PAYMENT CURVE

The state could create a sustainable amortization schedule combined with other changes to improve the system, which could meet short-term budget needs while improving the funded ratio in the long term. The goal here is to find a rational payment plan that increases the funded ratio each year while still meeting the cost of paying benefits to current and future retirees.

Governor JB Pritzker’s Budget & Innovation Transition Committee Report
February 8, 2019

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Source: Illinois Department of Insurance

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