SPECIAL REPORT BUDGET AND TAX

The crisis hits home: Illinois' local pension problem

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ILLINOIS POLICY INSTITUTE

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The problem

National attention is focused on Chicago and Illinois' collapsing pension systems. Those systems are among the worst-funded in the nation and are approaching the brink of insolvency. The state's official unfunded pension liability is $100 billion, and the city of Chicago and its sister governments' shortfall totals another $30 billion. The size of these shortfalls means that without real pension reform, retirees may see their pensions cut in the near future.

But there is a broader pension crisis looming across the state. Local governments are also increasing taxes and cutting core services to keep their municipal pension funds afloat. Local leaders are well aware of this fact:

> *"Without meaningful and immediate reform, there is only one future for our communities and residents – a future of higher taxes and deep cuts in public safety and other critical programs and personnel."* - Gary Grasso, former mayor of Burr Ridge

Outside of Chicago, nearly 650 locally run pension funds cover retired police officers and firefighters. Additionally, the Illinois Municipal Retirement Fund, or IMRF, serves municipal retirees across the state. Just like Illinois' five state-run pension systems, these funds are structured as defined benefit plans. And just like Illinois' state pensions, many are falling apart.

Many municipal funds for police and firefighter districts have less than 50 cents for every dollar they should have to meet their pension obligations going forward. The city of Cicero, for example, has just 29 cents for every dollar it needs for future firefighter pensions. The city of Elgin's police pension fund has just 39 cents for every dollar it needs, while the city of Waukegan has only 40 cents for every dollar it needs to pay for pensions.

In aggregate, these local pension systems' unfunded liabilities grew to more than $12 billion in 2010 from $1 billion in 2000. That means taxpayers are on the hook not only for bailing out state pensions – they'll also be asked to bail out the shortfalls in their local pension funds.

Municipal pensions are not in poor health for lack of taxpayer support; they are in poor health in spite of ever-higher taxpayer support. Between 2001 and 2011, taxpayers' annual contributions to these funds grew by $800 million reaching a total of $1.3 billion. In fact, in 2011 taxpayers paid $2.75 for every $1 paid by the active employees themselves, and this gap is only getting wider.

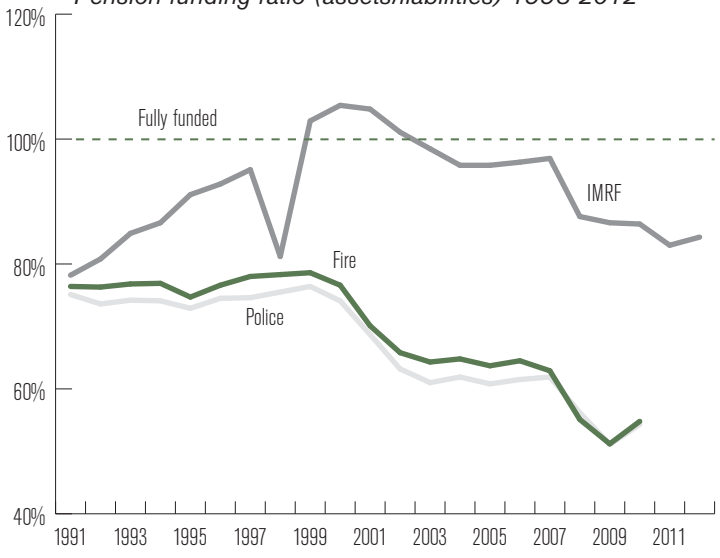
Property taxes have skyrocketed because they are the primary funding source for these municipal pension funds. Illinois now has the second-highest property taxes in the nation. Three counties in Illinois – Kendall, Lake and DeKalb – rank in the top 20 nationally for property taxes. Altogether, 17 Illinois counties, from McHenry to St. Clair County, rank in the top 100 nationwide. Local citizens have contributed more and more, and yet the health of municipal pension funds continues to worsen.

Local pensions create fiscal chaos for Illinois municipalities

Pension funding ratios collapse, liabilities increase, even as taxpayer contributions jump

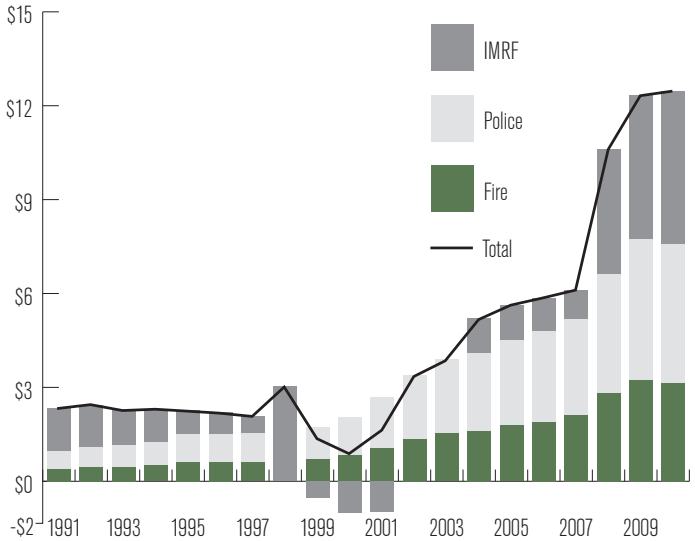
Graphic 1. Police and fire funding ratios approach insolvency

Pension funding ratio (assets/liabilities) 1998-2012



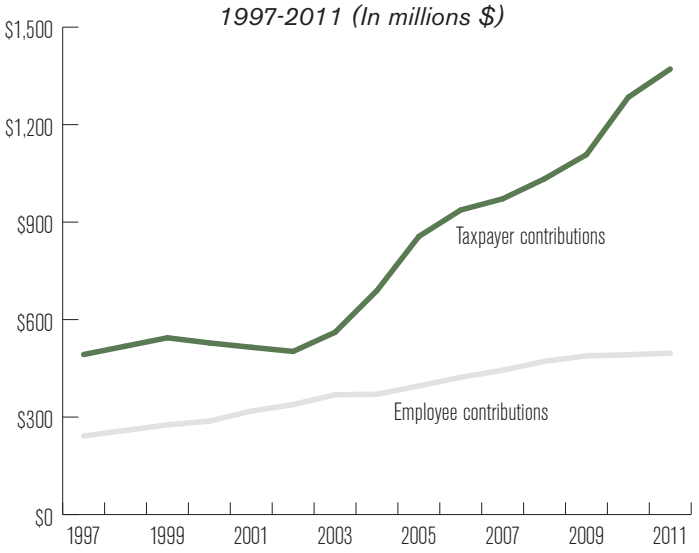
Graphic 2. Unfunded liabilities climb twelvefold since 2000

Unfunded pension liabilities 1998-2010 (In billions $)



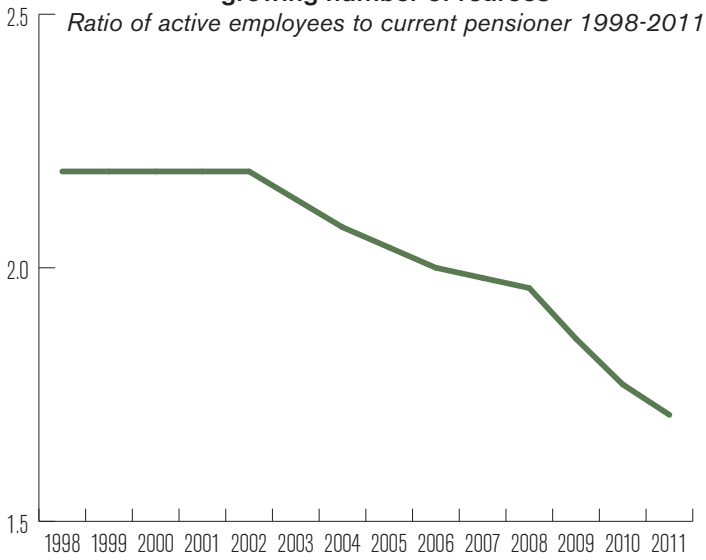
Graphic 3. Taxpayer pension contributions nearly triple that of employee contributions

1997-2011 (In millions $)



Graphic 4. Fewer active members exist to pay for growing number of retirees

Ratio of active employees to current pensioner 1998-2011



Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

The real reason these pensions are in shambles is the inherently flawed defined benefit design. Fund managers have promised investment returns that haven't materialized, state officials have legislated ever-increasing benefit levels and actuarial assumptions have been unrealistic. The disastrous consequences of this retirement scheme are being felt in cities across the state.

This report outlines an audit of 114 of the state's largest cities to better understand the impact local pensions are having on municipal finances. The audit looked at cities with a population of 15,000 or more, and run dedicated police and firefighter districts. The audit measured 10 metrics to arrive at a holistic picture of each city's fiscal health. The results are troubling:

1. Funding ratios have crumbled. Today, half of the cities analyzed have police and firefighter pension funds with less than 55 cents for every dollar they should have. Just 10 years ago, only a quarter of cities were so poorly funded.
2. Taxpayers are contributing far more than active city employees and the gap is widening. In 2003, only one of Illinois' largest 20 cities asked taxpayers to pay more than $2.50 for every $1 contributed by active employees. Today, only three of those cities ask taxpayers to pay less.
3. Unfunded liabilities have ballooned. Ten years ago, in half of the cities audited, taxpayers owed less than $1,570 per household. But in half of cities today, each household is on the hook for more than $3,600 in pension debt. In more than a quarter of cities, households owe upwards of $4,500.
4. The number of police and firefighter pension beneficiaries is outgrowing the number of active employees. Ten years ago, more than half of audited cities had 1.5 or more active employees for every beneficiary.

   But today, only a quarter do. In fact, today, a quarter of cities have more beneficiaries than active employees.

The audit scored all 114 cities on a 100-point scale, with 100 being the best score. Based on the construction of the index, cities scoring less than 80 are in danger of pension costs eating into the city's budget, cuts in core services and increases in taxes.

Cities' scores have deteriorated quickly over the past decade. Just 10 years ago, 31 cities received a score of 80 or higher. Today, just one city received a score higher than 80.

Without reform, municipal pension funds risk bankruptcy. Local governments across the country are already facing this reality in cities such as Detroit, Stockton, Calif., and Pritchard, Ala. In the wake of these bankruptcies, some hardworking retirees have seen their retirement money slashed by as much as 55 percent.

Workers in these cities were forced to participate in failing pension systems. They didn't have the choice to manage their own retirements.

The only way to avoid a similar outcome in Illinois is to empower government workers by transitioning benefits for all future work to a defined contribution, 401(k)-style system, while protecting already-earned benefits. This plan gives government workers control of their own retirement plans. It is also fair to taxpayers, who no longer will be responsible for bailing out unsustainable defined benefit pensions.

If real reform is implemented, the end result will be government workers with retirement security, stable local budgets and taxpayers free from the burden of funding failed pension systems.

Case study: Springfield

A snapshot of Illinois' local pension crisis

Springfield's crumbling pension systems are taking a toll on its residents' quality of life. Ever-increasing taxpayer contributions to the city's three pension funds are squeezing out funding meant for the city's core services.

Skyrocketing pension costs have already forced Illinois' capital to shrink its police department by nearly 15 percent since 2007. That's not good news for the city that experienced 855 violent crimes per 100,000 residents in 2010.

Not even large increases in the city's operating budget and higher taxes have provided relief. The city has been forced to reduce its total number of workers by 244 since 2009, nearly 14 percent, to make room for larger pension payments.

And despite these cuts in service and higher taxes, the city can't claim it has healthier pension funds, stable budgets or satisfied taxpayers. Instead, Springfield has lost badly on all three counts.

Strained taxpayers, a budget dominated by growing pension payments, and ever-sicker pension systems point to the need for real reform from legislators that gather in the very city that sets pension laws for the entire state.

Tapped out taxpayers

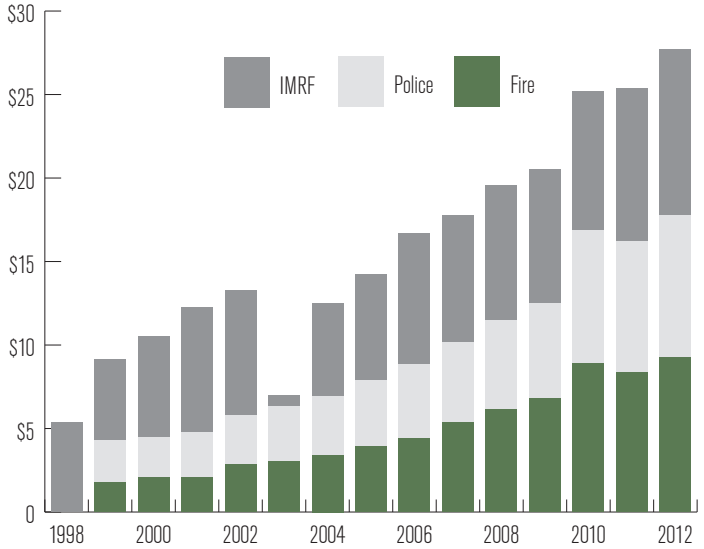
Springfield taxpayers have seen their pension contributions to city pension funds more than triple since 1999, totaling $28 million in 2012. During that period they contributed $19 million more, whereas active city employees contributed less than $3 million more.

Taxpayers bear the brunt of the increases because they, and not active employees, are required to make up any pension shortfalls that result from the failures of defined benefit plans. That's the case whether the shortfalls result from investment returns that don't materialize, ever-increasing benefits for city workers or unrealistic actuarial assumptions.

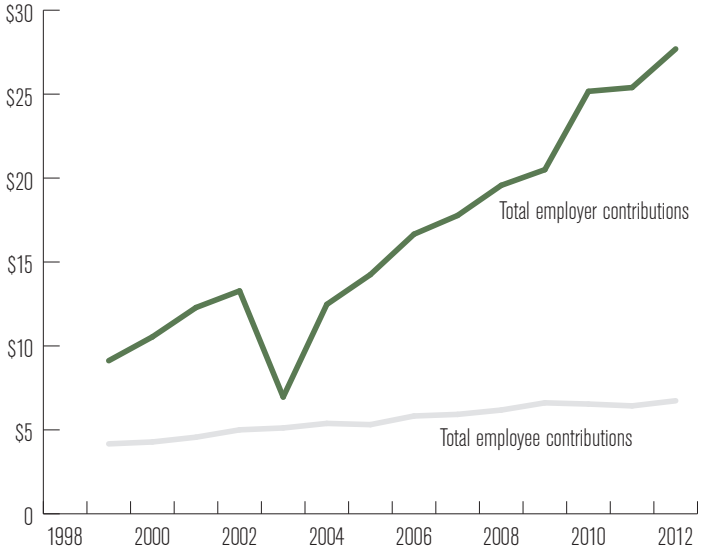
Employees, on the other hand, are only required to pay a fixed percentage of their salary into the pension systems. They are not required to put in more for any shortfalls.

Graphic 5. Springfield taxpayers squeezed by growing pension costs

Employer (taxpayer) contributions 1998-2012 (In millions $)



Total employer vs. employee contributions 1998-2012 (In millions $)



Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

As a result, in 2012 taxpayers contributed more than $4 for every $1 that employees contributed. That differential has more than doubled since 1999, placing an ever-larger burden on taxpayers.

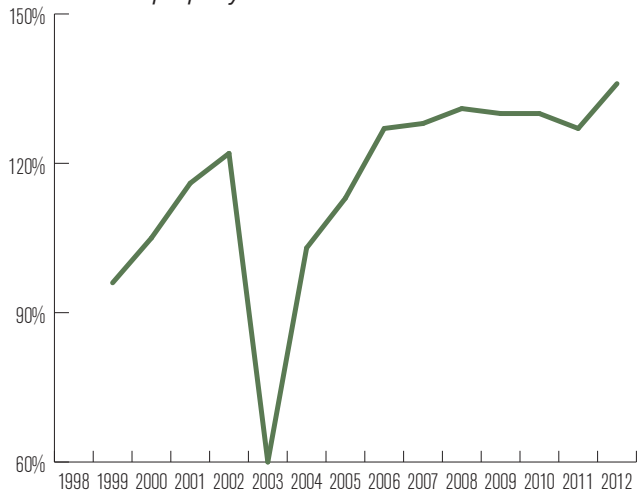
Stressed budgets

Municipal property tax revenues are meant to fund the city's pension systems and other budget items. Yet in Springfield, yearly pension contributions now consume more than 136 percent of city's general fund property tax revenues. The city is forced to tap other revenue sources to make its pension contributions.

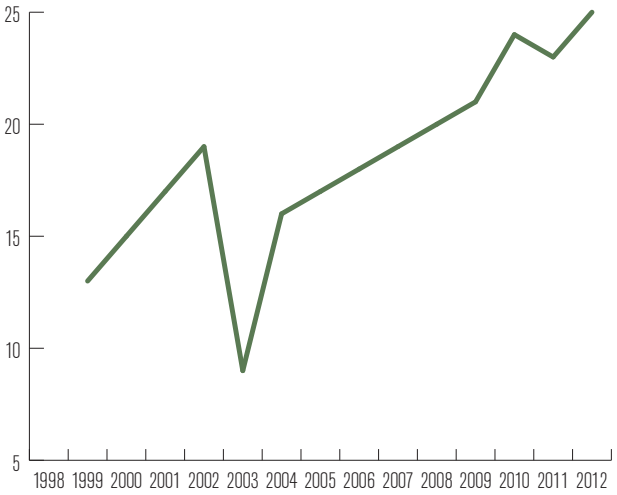
And in a further sign of crowd out, pension contributions now make up 25 percent of the entire city budget, an increase of more than 10 percentage points since 1999.

Graphic 6. Springfield pension costs crowd out core services

Taxpayer pension contributions as a percentage of general fund property taxes 1998-2012



Taxpayer contributions as a percentage of total operating revenues 1998-2012

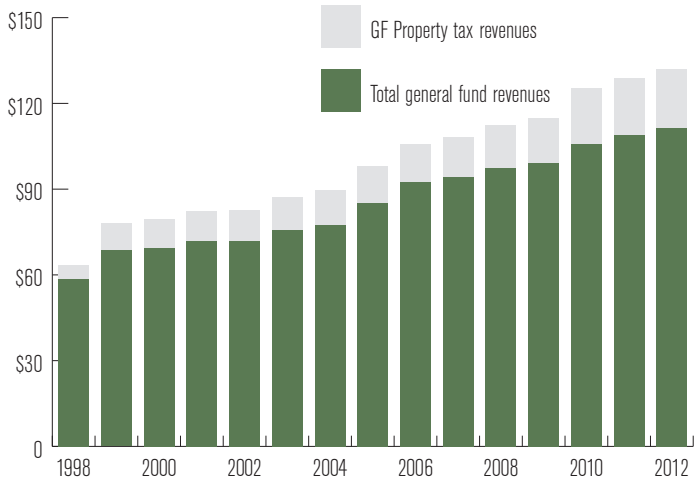


Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

This budget pressure persists despite the fact that in the past 15 years, property tax revenues have tripled and total operating revenues (from local, state and federal sources) have more than doubled. But these increases in revenues haven't been enough to keep up with the rise in pension costs.

Graphic 7. Springfield pension crisis grows despite doubling of revenues, tripling of general fund property taxes

Total operating revenues 1998-2012 (In millions $)



Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

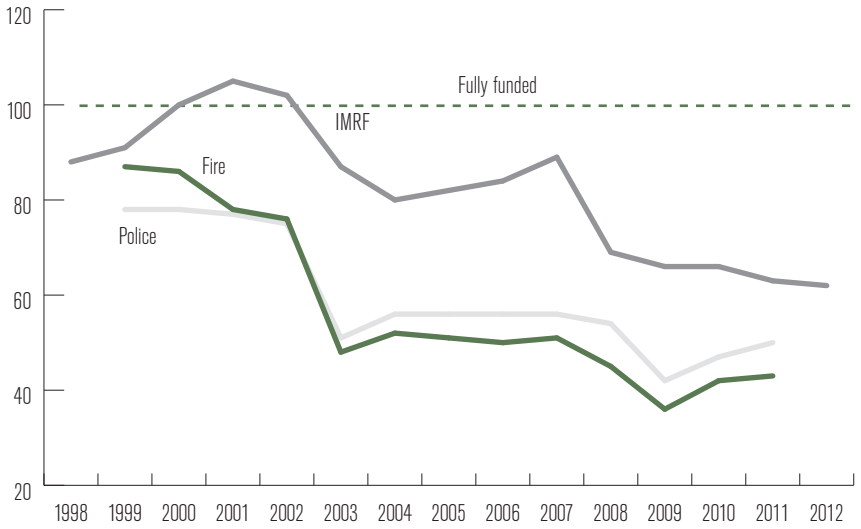
Crumbling pensions

Despite taxpayer sacrifices and cuts in local services, the health of the city's pension systems has collapsed since 2000.

The police and firefighter funds each have less than 50 cents for every dollar needed to meet their future obligations. And the IMRF fund, while better, still only has 62 cents for every dollar it should have. The numbers indicate that without fundamental reform, retirees may not receive the pensions they've been promised.

Graphic 8. Springfield's pension funding ratios in decline

Local pension funding ratio (assets/liabilities) 1998-2012



Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

And another factor threatens the solvency of the pension funds. In 2003, Springfield had 1.4 active police officers and firefighters for every pension beneficiary. Since then, the ratio of active employees to pensioners has declined. Today there are more pension beneficiaries than active-duty police and firemen.

This fact, coupled with unmet investment returns and overly generous benefit promises, have left the systems in shambles.

Springfield's pensions leave few options

Springfield's local pension crisis is forcing the city to choose between three undesirable responses: raising taxes, cutting back on services or breaking promises to retirees.

This same story is playing out in cities across the state. Pension costs are rising faster than cities can handle. In response, some cities have already cut services and raised taxes. But deteriorating services combined with higher taxes is a recipe for disaster. It creates a vicious cycle that was all too vivid in the collapse of Detroit.

The only escape from this future is fundamental reform, turning away from the failed defined benefit system.

Assessing Illinois' local pension problem

Scope

This report takes a look at the impact of local firefighter, police and IMRF pension systems on each individual city's fiscal health. Included in this analysis[2] are Illinois' largest 114 cities, excluding Chicago, with dedicated police and firefighter pension funds.[3] The smallest city included is Forest Park, with a population of 14,219 and the largest is Aurora, with a population of 199,932.

Excluding government workers served by the five state-run pension systems and those in the Chicago area, municipalities throughout the state cover the pensions of three broad groups of employees. They are police (covered by cities' individual police pension funds, commonly referred to as Downstate Police), firefighters (covered by cities' individual firefighter pension funds, commonly referred to as Downstate Fire) and municipal employees (covered by cities' individual pension funds, commonly referred to as Illinois Municipal Retirement Fund, or IMRF).

- Downstate Police, Downstate Fire and IMRF each receive money from three sources – local taxpayer contributions, local employee contributions and investment returns – and uses this to pay retirement, disability and other benefits for annuitants.
- Downstate Police and Downstate Fire are composed of 650 funds covering 22,000 active employees and 15,000 pensioners. Each fund is independently administered by the city in which it operates, but real authority rests with the Illinois General Assembly.
- IMRF covers all other local government employees, such as public utility workers, street construction crews, city clerks and librarians. More than 3,000 cities, villages, counties, school districts and other municipalities participate. Together they cover 175,000 active employees and 100,000 pensioners. In contrast to Downstate Police and Downstate Fire, IMRF is operated as a single fund.
- The General Assembly mandates standardized benefits for every city in the state and also places restrictions on other things, such as what types of investments different-sized cities can make.

This report measures each city's fiscal health in both 2003 and 2012.[4]

Measuring pensions' impact

This report used 10 metrics to accurately capture a city's fiscal health, as a single metric cannot capture the complete picture. For example, a city can keep taxpayer contributions low by ignoring its pension contributions, but this will cause the funding ratio measures to deteriorate. Or a city can keep funding ratios high, but this may cause the taxpayer contributions measure to rise to unsustainable levels.

As a result, the following 10 metrics provide a holistic picture of the impact local pensions have on the fiscal health of each city.

Table 1. Measuring local pension impact on municipal governments

10 metrics used by Illinois Policy Institute to gauge the fiscal health of cities

Metric	Why it matters	How it is calculated	Scale
1) Firefighter pension funding ratio	• Measures how well cities have been living up to their promises to firemen	• Actuarial assets divided by actuarial liabilities	1 (Minimum) - 10 (Maximum)
2) Police pension funding ratio	• Measures how well cities have been living up to their promises to police	• Actuarial assets divided by actuarial liabilities	1 (Minimum) - 10 (Maximum)
3) IMRF pension funding ratio	• Measures how well cities have been living up to their promises to municipal employees	• Actuarial assets divided by actuarial liabilities	1 (Minimum) - 10 (Maximum)
4) Taxpayer contributions per household	• Measures how much taxpayers are being asked to pay	• Total (Police, Fire and IMRF) employer contributions divided by number of households	1 (Minimum) - 10 (Maximum)
5) Ratio of taxpayer contributions to employee contributions	• Measures how the pension burden is being split between taxpayers and employees	• Total (Police, Fire and IMRF) employer contributions divided by total employee contributions	1 (Minimum) - 10 (Maximum)
6) Ratio of unfunded liabilities to operating revenues	• Measures the strain pensions are likely to place on local finances in the future	• Total (Police, Fire and IMRF) unfunded liabilities divided by total general fund[5] revenues	1 (Minimum) - 10 (Maximum)

Metric	Why it matters	How it is calculated	Scale
7) Unfunded liabilities per household	• Measures the strain pensions are likely to place on taxpayers in the future	• Total (Police, Fire and IMRF) unfunded liabilities divided by number of households	1 (Minimum) - 10 (Maximum)
8) Taxpayer contributions as a percentage of property tax revenue	• Measures city's ability to fund pension payments out of property taxes	• Total (Police, Fire and IMRF) employer contributions divided by property tax revenue dedicated to general fund	1 (Minimum) - 10 (Maximum)
9) Taxpayer contributions as a percentage of total operating revenue	• Measures strain on local budgets	• Total (Police, Fire and IMRF) employer contributions divided by total general fund revenues	1 (Minimum) - 10 (Maximum)
10) Ratio of active employees to beneficiaries (police and firefighters)	• Measures the number of active workers contributing to the funds vs. the number of retirees collecting from the funds	• Total (Police and Firefighters) active employees divided by beneficiaries (retirement, disability, etc.)	1 (Minimum) - 10 (Maximum)
			Cumulative total (10 – 100)

Scoring example

Each of the 10 metrics evaluates a different aspect of pension costs on a city's fiscal health. Cities are assigned a score based on the range they fall into.

For example, one of the 10 metrics used determines how well cities fund police pensions. Funding ratios calculate the amount of assets a city has compared with its pension liabilities. (A healthy pension fund should have 100 percent of the necessary assets to cover those pension liabilities.) Based on each city's pension funding percentage, it is given a corresponding score.

For instance, if a city funds its pensions at 56 percent, it's given a score of four for this metric. Any city with 100 percent or more in assets to liabilities would earn a perfect score of 10.

Table 2. EXAMPLE: Grading scale for police pension funding level

1 to 10 score based on asset to liability ratio

Score	1	2	3	4	5	6	7	8	9	10
Police pension funding ratio	0-45%	45-50%	50-55%	55-60%	60-65%	65-70%	70-80%	80-90%	90-100%	>100%

City ratings

A city's overall score is the sum of the 10 metrics,[6] with a best possible score of 100.

- A city scoring from 90-100 is relatively healthy and has a low risk of property tax increases, cuts to core services and/or pensions benefits being reduced.
- A city scoring between 80-89 is in moderate risk of property tax increases, cuts to core services and/or pensions benefits being reduced.
- A city with a score between 70-79 is in serious risk of property tax increases, cuts to core services and/or pensions benefits being reduced.
- A city with a score between 60-69 is in extreme risk of property tax increases, cuts to core services and/or pensions benefits being reduced.
- A city that scores less than 59 is in critical risk of property tax increases, cuts to core services and/or pensions benefits being reduced. A critical rating means a city's pensions systems are reaching levels that are not sustainable.

Table 3. City rating based on aggregate score

Level of risk based on score 1 - 100

City rating	Critical risk	Extreme risk	Serious risk	Moderate risk	Low risk
Score	< 59	60-69	70-79	80-89	90-100

Findings

Illinois' largest cities

Pension costs are stressing the fiscal health of Illinois' 20 largest cities. Based on this report's index, in 2003 nine of the top 20 cities had scores of 70 or more. Not one city scores above a 70 today.

The average score of the top 20 cities dropped by an average of 26 points and all but one declined by double digits. Palatine's score dropped by 32, Evanston by 30, Naperville by 22 and Peoria by 32.

This means more debt, larger taxpayer contributions and a reduction in public services for the people who need them most.

Table 4. Fiscal scores of major Illinois cities have plummeted since 2003

10-category index (maximum score = 100)

Municipality	2012 population	Total 2012 score	Total 2003 score	2003-12 change in total score
Aurora	199,932	44	69	-25
Rockford	150,843	49	71	-22
Joliet	148,268	29	48	-19
Naperville	143,684	60	82	-22
Springfield	117,126	18	55	-37
Peoria	115,687	36	68	-32
Elgin	109,927	47	75	-28
Waukegan	88,862	31	60	-29
Cicero	84,137	42	60	-18
Champaign	82,517	48	70	-22
Bloomington	77,733	35	64	-29
Arlington Heights	75,777	45	72	-27
Evanston	75,430	22	52	-30
Decatur	75,407	35	67	-32
Schaumburg	74,781	46	72	-26
Bolingbrook	74,039	64	73	-9
Palatine	69,144	50	82	-32
Skokie	65,074	43	80	-37
Des Plaines	58,840	31	64	-33
Oak Lawn	56,995	63	76	-13

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

****Note:*** *Peoria's significantly lower property tax revenues per capita suggest a difference in classification.*

Individual metrics shed light on the real effect on municipal residents. For instance, households in Skokie contribute 62 percent of their city's general fund property tax revenue toward pension costs, a 40 percentage point increase since 2003. In just 10 years, Skokie households are now on the hook for $2,700 more in pension liability debt. Skokie's overall score fell from 80 in 2003 to just 43 in 2012.

Des Plaines' overall score fell by more than 50 percent since 2003. Each household is contributing $419 in taxes a year toward pension costs; a 150 percent increase in 10 years. Taxpayers are struggling, contributing 3.6 times more annually toward local pensions than actual government workers.

Table 4 shows how each city earns its total score across the 10 different metrics. A detailed review of each metric and its effect on each city are covered in the following sections.

Table 5. Illinois' top cities earn failing grades on fiscal health in 2012[7]

10 category index (maximum score = 100)

Municipality	2012 population	(1) Fire funding ratio	(2) Police funding ratio	(3) IMRF funding ratio	(4) Taxpayer contribution per household	(5) Taxpayer vs. employee contribution	(6) Unfunded liabilities to operating revenues	(7) Unfunded liabilities per household	(8) Taxpayer contribution as percentage of property tax	(9) Taxpayer contribution as percent of operating revenue	(10) Ratio of active employees to pensioners
Aurora	199,932	3	2	6	4	4	5	5	6	2	7
Rockford	150,843	4	5	7	5	5	4	5	6	5	3
Joliet	148,268	1	3	1	1	1	6	3	2	2	9
Naperville	143,684	6	5	7	4	5	8	8	4	3	10
Springfield	117,126	1	2	5	1	2	1	1	1	1	3
Peoria	115,687	4	5	1	2	3	6	4	N/A*	4	3
Elgin	109,927	2	1	5	4	5	4	4	8	6	8
Waukegan	88,862	1	1	6	3	2	1	4	5	4	4
Cicero	84,137	1	2	7	4	3	6	5	5	4	5
Champaign	82,517	6	5	7	3	2	8	8	2	3	4
Bloomington	77,733	2	2	3	2	2	7	4	3	3	7
Arlington Heights	75,777	4	6	6	2	3	6	6	4	2	6
Evanston	75,430	1	1	7	1	1	3	1	2	3	2
Decatur	75,407	3	4	7	3	3	2	5	1	3	4
Schaumburg	74,781	4	3	7	2	3	8	3	5	5	6
Bolingbrook	74,039	4	3	8	8	7	8	8	2	7	9
Palatine	69,144	4	2	7	4	4	5	6	6	3	9
Skokie	65,074	3	5	8	4	6	4	4	3	4	2
Des Plaines	58,840	3	2	7	1	3	4	1	5	3	2
Oak Lawn	56,995	7	6	7	8	8	4	5	8	7	3

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

****Note:*** *Peoria's significantly lower property tax revenues per capita suggest a difference in classification. See Methodology (general fund revenues) for more detail.*

Measuring Illinois' local pension crisis

Cumulative scores are in rapid decline throughout cities in Illinois. But what's more troubling is what this means to both cities and residents alike. Each metric gives a glimpse into the real consequences of rising local pension costs.

Results show underfunded pensions, increasing debt, a larger burden on taxpayers and an uncertain future.

METRIC 1: Firefighter pension funding ratio

A healthy pension system is fully funded when its assets equal the value of its liabilities. Based on that measure, downstate firefighter pension plans are in severe trouble.

More than half of the firefighter pension funds analyzed in 2010 had funding ratios of 56 percent or less – meaning that those funds today have only 56 cents for every dollar they owe. That's in stark contrast to 2003, when only a quarter of cities had ratios that low.

Table 6. Majority of firefighter pensions less than 60 percent funded

Illinois' 114 largest cities, 2003 vs. 2010

Score	1	2	3	4	5	6	7	8	9	10
Firefighter pension funding ratio	0-45%	45-50%	50-55%	55-60%	60-65%	65-70%	70-80%	80-90%	90-100%	>100%
Number of cities (2003)	12	7	7	13	14	15	30	8	6	2
Number of cities (2010)	29	9	17	16	12	10	18	2	0	1

Source: *Individual city CAFRs, DOI public pension reports, U.S. Census*

Table 7. Firefighter pension funding ratios in decline

Illinois' 20 largest cities, 2003 vs. 2010

Municipality	2012 population	2010 score	2010 firefighter pension funding ratio	2003 score	2003 firefighter pension funding ratio
Aurora	199,932	3	50%	5	62%
Rockford	150,843	4	58%	6	69%
Joliet	148,268	1	42%	2	48%
Naperville	143,684	6	67%	7	75%
Springfield	117,126	1	42%	2	48%
Peoria	115,687	4	59%	6	69%
Elgin	109,927	2	46%	4	59%
Waukegan	88,862	1	44%	4	56%
Cicero	84,137	1	29%	1	35%
Champaign	82,517	6	68%	7	73%
Bloomington	77,733	2	46%	4	60%
Arlington Heights	75,777	4	58%	5	64%
Evanston	75,430	1	42%	1	43%
Decatur	75,407	3	52%	5	64%
Schaumburg	74,781	4	58%	5	64%
Bolingbrook	74,039	4	56%	6	67%
Palatine	69,144	4	56%	7	70%
Skokie	65,074	3	52%	7	74%
Des Plaines	58,840	3	50%	6	67%
Oak Lawn	56,995	7	70%	7	73%

Source: *Individual city CAFRs, DOI public pension reports, U.S. Census*

METRIC 2: Police pension funding ratio

Pension funds for police officers are woefully underfunded in municipalities across Illinois. In 2003, 22 cities had funding ratios of more than 70 percent. In 2010, just four did. Half of the cities analyzed have police funding ratios lower than 55 percent, which is a quarter more cities than in 2003.

Table 8. Majority of police pensions less than 60% funded

Illinois' 114 largest cities, 2003 vs. 2010

Score	1	2	3	4	5	6	7	8	9	10
Police pension funding ratio	0-45%	45-50%	50-55%	55-60%	60-65%	65-70%	70-80%	80-90%	90-100%	>100%
Number of cities (2003)	12	7	7	13	14	15	30	8	6	2
Number of cities (2010)	21	17	18	24	18	12	4	0	0	0

Source: *Individual city CAFRs, DOI public pension reports, U.S. Census*

Table 9. Police pension funding ratios in decline

Illinois' 20 largest cities, 2003 vs. 2010

Municipality	2012 population	2010 score	2010 police pension funding ratio	2003 score	2003 police pension funding ratio
Aurora	199,932	2	49%	4	59%
Rockford	150,843	5	64%	7	74%
Joliet	148,268	3	53%	3	54%
Naperville	143,684	5	62%	6	67%
Springfield	117,126	2	47%	3	51%
Peoria	115,687	5	63%	7	72%
Elgin	109,927	1	39%	2	50%
Waukegan	88,862	1	40%	3	50%
Cicero	84,137	2	45%	2	48%
Champaign	82,517	5	61%	5	62%
Bloomington	77,733	2	45%	3	54%
Arlington Heights	75,777	6	66%	7	77%
Evanston	75,430	1	42%	1	42%
Decatur	75,407	4	57%	5	64%
Schaumburg	74,781	3	54%	5	63%
Bolingbrook	74,039	3	53%	5	65%
Palatine	69,144	2	49%	4	58%
Skokie	65,074	5	65%	7	77%
Des Plaines	58,840	2	47%	3	50%
Oak Lawn	56,995	6	66%	6	66%

Source: *Individual city CAFRs, DOI public pension reports, U.S. Census*

METRIC 3: IMRF funding ratio

IMRF's pension system has a funding guarantee mechanism that leads to higher funding levels than those for police and fire funds. But it's worth noting there are still glaring examples, such as Joliet and Peoria where funding levels are extremely low. In fact, today not one of the 20 largest cities has funding ratios of more than 90 percent. Half of these cities have funding levels of 70 percent or lower.

While a funding guarantee may restore the health of these pensions eventually, it will weaken the fiscal health of the cities and its core services as taxpayers are forced to pay a higher and higher amount to reduce pension underfunding levels.

Table 10. Majority of IMRF funding ratios have fallen below 80 percent

Illinois' 114 largest cities, 2003 vs. 2012

Score	1	2	3	4	5	6	7	8	9	10
IMRF pension funding ratio	0-45%	45-50%	50-55%	55-60%	60-65%	65-70%	70-80%	80-90%	90-100%	>100%
Number of cities (2003)	2	0	0	0	0	0	2	14	42	54
Number of cities (2012)	4	0	4	6	8	15	61	10	2	4

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

Table 11. Many IMRF pensions are only 60-70% funded

Illinois' 20 largest cities, 2003 vs. 2012

Municipality	2012 population	2010 score	2012 IMRF pension funding ratio	2003 score	2003 IMRF pension funding ratio
Aurora	199,932	6	65%	8	89%
Rockford	150,843	7	71%	9	98%
Joliet	148,268	1	35%	8	85%
Naperville	143,684	7	76%	9	95%
Springfield	117,126	5	62%	8	87%
Peoria	115,687	1	26%	7	72%
Elgin	109,927	5	64%	9	97%
Waukegan	88,862	6	65%	10	103%
Cicero	84,137	7	76%	10	120%
Champaign	82,517	7	79%	10	102%
Bloomington	77,733	3	53%	9	92%
Arlington Heights	75,777	6	68%	9	95%
Evanston	75,430	7	78%	10	109%
Decatur	75,407	7	70%	10	114%
Schaumburg	74,781	7	77%	9	93%
Bolingbrook	74,039	8	81%	8	86%
Palatine	69,144	7	74%	8	87%
Skokie	65,074	8	82%	10	106%
Des Plaines	58,840	7	70%	9	94%
Oak Lawn	56,995	7	73%	10	104%

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

METRIC 4: Taxpayer contributions per household

Another measure of taxpayer burden is the amount local households are being asked to contribute toward pension funds. Today, many of these cities' average households contribute $400, $500 or even $600 a year toward police, firefighter and IMRF pensions. Households in Evanston were already contributing $640 as of 2012. And with a funding ratio of 42 percent for both their firefighter and police pension funds, these contributions aren't nearly enough. Pension obligations are increasing taxpayer obligations at a startling rate.

In 2003,[8] just two cities in this report's analysis paid more than $250 per household. Today, three-quarters do.

And just one of the largest 20 cities contributed more than $200 per household. Today, only two contribute less than $200. The median household contribution has more than doubled to $297 in 2012 from $124 in 2003, far outpacing the rate of inflation.

Table 12. Illinois taxpayer contributions per household on the rise

Illinois' 114 largest cities, 2003 vs. 2012

Score	1	2	3	4	5	6	7	8	9	10
Taxpayer contribution per household	>$400	$350-400	$300-350	$250-300	$200-250	$175-200	$150-175	$125-150	$100-125	$0-100
Number of cities (2003)	0	0	0	2	5	7	18	24	19	39
Number of cities (2012)	18	16	23	27	17	5	2	4	1	1

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 13. Taxpayer contributions per household up 130 percent since 2003*

Illinois' 20 largest cities, 2003 vs. 2012

Municipality	2012 population	2012 score	2012 taxpayer contribution per household	2003 score	2003 taxpayer contributions per household
Aurora	199,932	4	$273	6	$193
Rockford	150,843	5	$233	8	$135
Joliet	148,268	1	$488	6	$197
Naperville	143,684	4	$272	9	$122
Springfield	117,126	1	$617	7	$161
Peoria	115,687	2	$371	7	$160
Elgin	109,927	4	$277	10	$96
Waukegan	88,862	3	$340	8	$133
Cicero	84,137	4	$289	8	$129
Champaign	82,517	3	$320	7	$153
Bloomington	77,733	2	$371	6	$178
Arlington Heights	75,777	2	$395	7	$164
Evanston	75,430	1	$640	5	$201
Decatur	75,407	3	$322	9	$106
Schaumburg	74,781	2	$371	6	$175
Bolingbrook	74,039	8	$147	8	$131
Palatine	69,144	4	$272	10	$84
Skokie	65,074	4	$257	10	$85
Des Plaines	58,840	1	$419	7	$159
Oak Lawn	56,995	8	$144	9	$124

**Weighted average of 20 largest cities*

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

METRIC 5: Ratio of taxpayer contributions to employee contributions

Along with taxpayer contributions per household, another important measure is how much taxpayers contribute compared to the contributions being made by active employees.

Defined benefit pensions fix active employee contributions as a percentage of payroll (9.9 percent for Downstate Police, 9.5 percent for Downstate Fire and 3.8 percent for IMRF). But taxpayer contributions fluctuate to plug gaps any time investment returns don't meet expectations or actuarial assumptions are proved wrong.

Over time, these taxpayer contributions have greatly outpaced active employee contributions. In all cities, taxpayers now pay more than the active employees. But in some cities the gap is sizeable; taxpayers are paying five times more than employees.

Today, fully three-quarters of cities ask taxpayers to pay 2.9 times as much as active employees or more. By comparison, in 2003 all but six cities had ratios lower than 2.9.

Looking at the largest 20 cities, in 2003 no taxpayers paid more than 2.5 times that of active employees. But today, all but two cities ask taxpayers to pay more than 2.5 times that of active employees and many ask 4 times or more.

Table 14. Taxpayers contribute 3 times more than active employees in majority of cities

Illinois' 114 largest cities, 2003 vs. 2012

Score	1	2	3	4	5	6	7	8	9	10
Ratio of taxpayer to employee contributions	>4.5x	4 - 4.5x	3.5 - 4x	3-3.5x	2.5-3x	2-2.5x	1.5-2x	1-1.5x	0.5-1x	<0.5x
Number of cities (2003)	1	0	1	2	7	21	49	26	6	1
Number of cities (2012)	11	20	19	29	22	7	4	1	0	1

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 15. Ratio of taxpayer contributions to employee contributions jumped

Illinois' 20 largest cities, 2003 vs. 2012

Municipality	2012 population	2012 score	2012 ratio of taxpayer to employee contributions	2003 score	2003 ratio of taxpayer to employee contributions
Aurora	199,932	4	3.5x	6	2.3x
Rockford	150,843	5	2.8x	7	1.9x
Joliet	148,268	1	4.6x	6	2.0x
Naperville	143,684	5	2.7x	8	1.5x
Springfield	117,126	2	4.1x	8	1.4x
Peoria	115,687	3	3.9x	6	2.0x
Elgin	109,927	5	2.8x	8	1.3x
Waukegan	88,862	2	4.4x	6	2.1x
Cicero	84,137	3	3.8x	6	2.3x
Champaign	82,517	2	4.3x	6	2.4x
Bloomington	77,733	2	4.2x	6	2.4x
Arlington Heights	75,777	3	3.7x	6	2.2x
Evanston	75,430	1	4.6x	7	1.9x
Decatur	75,407	3	3.5x	7	1.8x
Schaumburg	74,781	3	3.6x	7	2.0x
Bolingbrook	74,039	7	1.9x	6	2.0x
Palatine	69,144	4	3.2x	8	1.3x
Skokie	65,074	6	2.4x	8	1.0x
Des Plaines	58,840	3	3.6x	7	1.7x
Oak Lawn	56,995	8	1.4x	7	1.5x

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

METRIC 6: Ratio of unfunded liabilities to operating revenues

Measuring unfunded liabilities compared with annual operating revenues allows for comparisons of different-sized cities and measures the strain pensions will place on local finances in the future. It is heavily considered when rating agencies evaluate credit-worthiness.

Moody's Rating Services says the country-wide average for local governments is unfunded liabilities equal to 100 percent of annual operating revenues. This means that a local city's long-term unfunded liabilities should equal, on average, 100 percent of its' annual operating revenues. Unfortunately, just eight of the 114 cities in this Illinois audit are better than the country's average today. By comparison, in 2003 half were better than today's average.

A city's credit rating can often be directly affected by this metric. Moody's downgraded Evanston's debt in the summer of 2013 and cited an unfunded liability level of 2.65 times that of their operating revenues in 2011 as one of the major reasons. So essentially, Evanston would have to contribute all of its collected revenue over two years and eight months just to pay off the unfunded liabilities. Unfortunately, Evanston is not an outlier. A quarter of cities have ratios higher than 2.3 times annual operating revenue, up from just three in 2003.

Table 16. Ratio of unfunded liabilities to operating revenues worse than national average

Illinois' 114 largest cities, 2003 vs. 2010

Score	1	2	3	4	5	6	7	8	9	10
Ratio of unfunded liabilities to operating revenues	>2.6x	2.4-2.6x	2.2-2.4x	2.0-2.2x	1.8-2.0x	1.6-1.8x	1.4-1.6x	1.2-1.4x	1.0-1.2x	<1.0x
Number of cities (2003)	2	0	3	3	6	8	7	13	16	51
Number of cities (2010)	15	7	8	12	7	17	9	18	5	11

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 17. Pension liabilities continue to crowd out core city services

Ratio of unfunded liabilities to operating revenues - Illinois' 20 largest cities, 2003 vs. 2010

Municipality	2012 population	2012 score	2010 ratio of unfunded pension liabilities to operating revenues	2003 score	2003 ratio of unfunded pension liabilities to operating revenues
Aurora	199,932	5	1.8x	9	1.0x
Rockford	150,843	4	2.0x	8	1.2x
Joliet	148,268	6	1.7x	3	2.3x
Naperville	143,684	8	1.3x	10	0.4x
Springfield	117,126	1	2.9x	5	2.0x
Peoria	115,687	6	1.7x	9	1.1x
Elgin	109,927	4	2.1x	8	1.3x
Waukegan	88,862	1	2.8x	6	1.8x
Cicero	84,137	6	1.7x	8	1.2x
Champaign	82,517	8	1.2x	10	0.8x
Bloomington	77,733	7	1.6x	10	0.9x
Arlington Heights	75,777	6	1.8x	10	1.0x
Evanston	75,430	3	2.2x	7	1.4x
Decatur	75,407	2	2.5x	8	1.3x
Schaumburg	74,781	8	1.4x	9	1.0x
Bolingbrook	74,039	8	1.4x	10	0.6x
Palatine	69,144	5	1.9x	9	1.1x
Skokie	65,074	4	2.2x	10	0.9x
Des Plaines	58,840	4	2.1x	7	1.6x
Oak Lawn	56,995	4	2.1x	8	1.3x

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

METRIC 7: Unfunded liabilities per household

Measuring the size of unfunded liabilities on a per household basis provides an idea of the strain pensions will place on taxpayers in the future.

Unfunded liabilities should be $0 in a fully funded pension scheme. But unfortunately, every one of the cities audited has millions of dollars in unfunded liabilities that must be paid off eventually. The burden won't fall on active employees as their contributions are fixed by law. And it's unlikely to be paid off by excessive investment returns, especially when the funds already have fewer assets to invest than they should.

This leaves taxpayers on the hook. Back in 2003, in half of the cities audited, taxpayers owed less than $1,570 per household. But in half of cities today, taxpayers are on the hook for more than $3,600.

Even worse, in more than a quarter of the cities, taxpayers owe about $4,500.

Table 18. Unfunded liabilities per household doubled in a majority of cities

Illinois' 114 largest cities, 2003 vs. 2010

Score	1	2	3	4	5	6	7	8	9	10
Unfunded pension liabilities per household	>$5500	$5000-5500	4500-5000	$4000-4500	$3500-4000	$3000-3500	$2500-3000	$2000-2500	$1500-2000	<$1500
Number of cities (2003)	1	0	0	2	5	6	10	11	27	52
Number of cities (2010)	19	5	6	14	17	11	12	16	9	5

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 19. Households owe 100% more in pension liabilities compared to 2003*

Unfunded liabilities per household - Illinois' 20 largest cities, 2003 vs. 2010

Municipality	2012 population	2010 score	2010 unfunded pension liability per household	2003 score	2003 unfunded pension liability per household
Aurora	199,932	5	$3,512	9	$1,960
Rockford	150,843	5	$3,858	9	$1,748
Joliet	148,268	3	$4,680	6	$3,152
Naperville	143,684	8	$2,225	10	$797
Springfield	117,126	1	$6,904	6	$3,450
Peoria	115,687	4	$4,094	8	$2,269
Elgin	109,927	4	$4,175	9	$1,941
Waukegan	88,862	4	$4,288	9	$1,915
Cicero	84,137	5	$3,614	9	$1,813
Champaign	82,517	8	$2,252	10	$1,365
Bloomington	77,733	4	$4,303	9	$1,877
Arlington Heights	75,777	6	$3,442	10	$1,391
Evanston	75,430	1	$6,109	5	$3,627
Decatur	75,407	5	$3,906	9	$1,508
Schaumburg	74,781	3	$4,565	8	$2,068
Bolingbrook	74,039	8	$2,460	10	$1,224
Palatine	69,144	6	$3,321	10	$1,364
Skokie	65,074	4	$4,147	9	$1,503
Des Plaines	58,840	1	$5,608	7	$2,915
Oak Lawn	56,995	5	$3,592	9	$1,982

**Weighted average of 20 largest cities*

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

METRIC 8: Taxpayer contributions as a percentage of property tax revenue

Skyrocketing pension contributions have eaten up a larger share of city revenues, in particular property taxes. This matters because pension contributions were originally intended to be paid entirely out of a property tax levy, as stated in the Illinois Pension Code.[9] So as pension costs have grown, property taxes have been forced higher. These unstable pension systems are often directly responsible for Illinoisans' increasing property taxes.

And yet pensions continue to consume an ever-increasing share of property taxes. In 2011, the median city from the audit devoted more than half of its property taxes straight to pensions. Less than 10 years ago, in 2003, that median amount was only 36 percent.

More than 10 percent of the cities audited in this report actually devote more than 100 percent of property taxes to pension costs. Come property tax time, homeowners in these cities are writing their entire check over to pay for local pensions. Every penny goes to pensions, and still local sales taxes and other state and federal revenue sources have to plug the gap.

Table 20. Pension costs overwhelm municipal property taxes

Taxpayer contributions as a percentage of general fund property tax revenues - Illinois' 114 largest cities, 2003 vs. 2011

Score	1	2	3	4	5	6	7	8	9	10
Taxpayer contribution as % of property tax rev.	>100%	70-100%	60-70%	50-60%	40-50%	30-40%	25-30%	20-25%	15-20%	<15%
Number of cities (2003)	7	8	9	5	7	24	12	8	11	7
Number of cities (2011)	10	14	10	14	20	18	7	5	0	1

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 21. Taxpayer contributions as a % of property tax revenue continues to rise

Illinois' 20 largest cities, 2003 vs. 2011

Municipality	2012 population	2011 score	2011 taxpayer contribution as % of property tax	2003 score	2003 taxpayer contribution as % of property tax
Aurora	199,932	6	37%	7	26%
Rockford	150,843	6	32%	6	30%
Joliet	148,268	2	82%	1	253%
Naperville	143,684	4	58%	6	39%
Springfield	117,126	1	127%	3	60%
Peoria	115,687	N/A*		N/A*	
Elgin	109,927	8	24%	9	16%
Waukegan	88,862	5	49%	1	127%
Cicero	84,137	5	42%	6	35%
Champaign	82,517	2	85%	3	65%
Bloomington	77,733	3	68%	2	77%
Arlington Heights	75,777	4	56%	4	57%
Evanston	75,430	2	73%	6	39%
Decatur	75,407	1	123%	1	303%
Schaumburg	74,781	5	46%	N/A*	
Bolingbrook	74,039	2	91%	3	60%
Palatine	69,144	6	40%	9	16%
Skokie	65,074	3	62%	8	22%
Des Plaines	58,840	5	43%	7	27%
Oak Lawn	56,995	8	24%	7	27%

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*
****Note:*** *Peoria's significantly lower property tax revenues per capita suggest a difference in classification. See Methodology (general fund revenues) for more detail. Schaumburg did not report property taxes until 2011-2012.*

METRIC 9: Taxpayer contributions as a percentage of total operating revenue

Another way of considering pensions' drain on local finances is to measure the share of total city revenues going toward pensions. As the portion of money spent on pension funds increases, the portion spent on everything else must decrease. This means a smaller share for public safety, judiciary, transportation and public works, housing and other services.

In 2011, the median city tracked in this audit devoted 13 percent of operating revenues to pensions. Less than 10 years ago, in 2003, that median amount was only 8 percent. This is a worrying pace of growth for the state as a whole, and some cities are already in crisis. Many devote one-fifth or more of their entire operating revenue toward pension costs.

From 2003-11, all but two of the largest 20 cities saw pension costs eat up a larger share of the operating budget. Some, such as Aurora and Springfield, saw the portion of their budgets devoted to pensions rise sharply.

Table 22. Pension costs crowd out spending on core services

Taxpayer contributions as a percentage of total operating revenue - Illinois' 114 largest cities, 2003 vs. 2011

Score	1	2	3	4	5	6	7	8	9	10
Taxpayer contribution as % of total operating rev.	>18%	16-18%	14-16%	12-14%	10-12%	8-10%	6-8%	4-6%	2-4%	<2%
Number of cities (2003)	0	0	5	9	6	34	32	14	9	0
Number of cities (2011)	14	15	21	20	21	11	6	1	0	0

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

Table 23. Taxpayer contributions consume increasing share of city operating revenues

Taxpayer contributions as a percentage of total operating revenue - Illinois' 20 largest cities, 2003 vs. 2011

Municipality	2012 population	2011 score	2011 taxpayer contributions as % of operating revenue	2003 score	2003 taxpayer contributions as % of operating revenue
Aurora	199,932	2	17%	5	10%
Rockford	150,843	5	12%	6	10%
Joliet	148,268	2	17%	3	14%
Naperville	143,684	3	15%	7	7%
Springfield	117,126	1	23%	6	9%
Peoria	115,687	4	13%	7	8%
Elgin	109,927	6	9%	7	7%
Waukegan	88,862	4	12%	4	12%
Cicero	84,137	4	12%	6	9%
Champaign	82,517	3	15%	6	9%
Bloomington	77,733	3	15%	6	8%
Arlington Heights	75,777	2	16%	5	12%
Evanston	75,430	3	16%	6	8%
Decatur	75,407	3	15%	6	9%
Schaumburg	74,781	5	12%	6	9%
Bolingbrook	74,039	7	7%	7	6%
Palatine	69,144	3	15%	7	7%
Skokie	65,074	4	13%	8	5%
Des Plaines	58,840	3	16%	6	9%
Oak Lawn	56,995	7	7%	6	8%

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census, Illinois Comptroller Local Government Division, annual financial reports*

METRIC 10: Ratio of active employees to beneficiaries (police and firefighters)

One of the most obvious indications that Illinois' local pension systems are broken is the reduction in number of active police officers and firefighters when compared with pension beneficiaries.

Just 10 years ago, more than half of cities in this audit had at least 1.5 active employees for every pension beneficiary. But today, only a quarter do.

In fact, more than a quarter of cities now have more beneficiaries than active employees. That means more people are drawing benefits from the pension fund than there are workers contributing to the fund, putting the defined benefit plans on a path toward insolvency.

Table 24. Ratio of active employees to pensioners drops sharply*

Illinois' 114 largest cities, 2003 vs. 2012

Score	1	2	3	4	5	6	7	8	9	10
Ratio of active employees to pensioners	<0.8x	0.8-0.9x	0.9-1.0x	1.0-1.1x	1.1-1.2x	1.2-1.3x	1.3-1.4x	1.4-1.5x	1.5-2.0x	>2.0x
Number of cities (2003)	0	0	5	9	6	34	32	14	9	0
Number of cities (2011)	14	15	21	20	21	11	6	1	0	0

** Includes police and firefighter pension funds (See Other notes for further details)*

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

Table 25. Fewer active employees pay for greater number of pensioners*

Ratio of active employees to pensioners - Illinois' 20 largest cities, 2003 vs. 2012

Municipality	2012 population	2012 score	2012 ratio of active employees to pensioners	2003 score	2003 ratio of active employees to pensioners
Aurora	199,932	7	1.4x	10	2.0x
Rockford	150,843	3	0.9x	5	1.2x
Joliet	148,268	9	1.6x	10	2.1x
Naperville	143,684	10	2.9x	10	7.6x
Springfield	117,126	3	1.0x	7	1.4x
Peoria	115,687	3	0.9x	4	1.1x
Elgin	109,927	8	1.4x	9	1.5x
Waukegan	88,862	4	1.0x	9	1.5x
Cicero	84,137	5	1.1x	4	1.1x
Champaign	82,517	4	1.1x	6	1.2x
Bloomington	77,733	7	1.3x	9	1.5x
Arlington Heights	75,777	6	1.2x	9	1.8x
Evanston	75,430	2	0.9x	4	1.1x
Decatur	75,407	4	1.0x	7	1.3x
Schaumburg	74,781	6	1.2x	10	2.9x
Bolingbrook	74,039	9	1.9x	10	3.7x
Palatine	69,144	9	1.9x	10	3.4x
Skokie	65,074	2	0.9x	3	1.0x
Des Plaines	58,840	2	0.8x	5	1.2x
Oak Lawn	56,995	3	1.0x	7	1.3x

** Includes police and firefighter pension funds (See Other notes on page 29 for more details)*

Source: *Individual city CAFRs, DOI public pension reports, IMFR FOIA request, U.S. Census*

Our solution

Illinois municipalities can take many actions to relieve the skyrocketing costs of pensions. They can rein in spending by opening up union contracts to renegotiate affordable levels of benefits and wages. Cities also can reform how services are delivered to create more efficiency. Labor costs – which are the base for total compensation costs – must be brought in line with what taxpayers can afford.

But real reforms will come only when local governments can transition away from the failed defined benefit system and gain full control over the retirement systems of their local employees.

These two reforms must be provided directly by the Illinois General Assembly, as most of the parameters that govern municipal pensions are decided by the Legislature.

The starting point is for the General Assembly to end the accrual of defined benefit liabilities for municipalities going forward. Defined benefit plans are unpredictable and unaffordable, exposing municipal budgets to increasingly uncontrollable pension costs.

Already-earned defined benefits must be protected and paid out to workers during their retirement. But in the future, any new benefits earned by local workers should be based on 401(k)-style plans that give workers control over their own retirements and end the cycle of taxpayer bailouts of the pension systems.

A reform plan must also reduce the current unfunded obligations that already threaten the solvency of many municipalities. The General Assembly's largest opportunities to reduce unfunded liabilities come by reforming automatic cost-of-living adjustments and retirement ages.

Eventually, individual municipalities should be granted the ability to govern their own retirement systems. They are already responsible for setting many of the terms of worker compensation, including salaries. They should be responsible and fully accountable for the total costs of their own employees.

Why it works

A conversion to self-managed plans going forward is the only proposal that ultimately solves Illinois' local pension crisis. The end result is retirement security for government workers, a stable budget that protects core services for those in need and taxpayers free from the burden of funding a failed system.

This type of plan has already been in place in Illinois since 1995. The state offers self-managed retirement plans based on 401(k)-style benefits to workers in the State Universities Retirement System. More than 18,000 workers and retirees participate in this plan.

Ultimately, each municipality must eliminate the growth in its unfunded liabilities. This plan paves the way for their economies to flourish, fostering an environment in which businesses can thrive and create the jobs Illinoisans need.

Government workers and taxpayers deserve a sustainable plan that provides security and protection.

Methodology

Definitions and sources

Data	Definition	Source
Population[10]	• Population data from census	• U.S. census[11]
Taxpayer and employee contributions (Downstate Police & Downstate Fire)	• Employer (taxpayer) and employee contributions toward Firefighter and Police pension funds[12]	• 1998-2002: individual city CAFRs[13] • 2003-2012: DOI Public Pension Reports, Book II Detailed Financial Data[14]
Taxpayer and employee contributions (IMRF)	• Employer (taxpayer) and employee contributions toward IMRF pension funds[15]	• Spreadsheets from IMRF FOIA request
Funding ratios (Downstate Police & Downstate Fire)	• 1998-2002 (from CAFRs): Actuarial value of net assets / actuarial accrued liability; • 2003-2011 (from DOI): Actuarial funding value / (accrued liability for actives + reserves annuities and benefits in force)	• 1998-2002: individual city CAFRs[16] • 2003-2011: DOI Public Pension Reports, Book II Detailed Financial Data
Funding ratios (IMRF)	• Actuarial assets / actuarial liabilities[17]	• Spreadsheets from IMRF FOIA request
Operating fund revenues	• Actual total general fund[18] revenues[19]	• Illinois Comptroller,[20] Local Government Division, annual financial reports[21]
Property tax revenues	• Actual general fund property tax revenues[22]	• Illinois Comptroller, Local Government Division, annual financial reports[23]
Unfunded liabilities (Downstate Police & Downstate Fire)	• Unfunded accrued liability	• DOI Public Pension Reports, Book II Detailed Financial Data
Unfunded liabilities (IMRF)	• Actuarial liability - actuarial assets[24]	• Spreadsheets from IMRF FOIA request
Headcounts (police and firefighters)	• Total beneficiaries head count is sum of pensions (service pension), disabilities (duty, nonduty, occupational), and survivors (spouse, children, parents, handicapped, deferred)	• DOI Public Pension Reports, Book II Detailed Financial Data

General fund revenues

Cities classify their revenues into a number of different funds (special revenue, enterprise, etc.), but the largest section is typically classified into the general fund. The total operating revenues and property tax revenues used in this analysis refers exclusively to this general fund.

This provides the most accurate picture because other revenue funds are often dedicated to a specific purpose and cannot be used to pay pensions (for example, a city may generate significant revenue from a city-operated electric utility, but this would be classified into the enterprise fund and used only to pay the expenses of operating the utility).

However, there are instances in which a few classify their revenues differently and this could create misleading comparisons in metrics that use operating revenues and property taxes (metrics 6, 8 and 9).

To eliminate these misleading comparisons this report removed the following cities from metrics 6, 8 and 9)[25].

Metric	Problems and cities removed
6) Ratio of unfunded liabilities to operating revenues	• Significantly lower operating revenues per capita than other cities suggest a difference in classification (East Moline, Quincy)
8) Taxpayer contributions as a percentage of property tax revenue	• Significantly lower property tax revenues per capita than other cities suggest a difference in classification (East Moline, Quincy, Belleville, East St. Louis, East Peoria, Carbondale, Gurnee, Danville, Alton, Peoria, Mount Vernon, Zion)
9) Taxpayer contributions as a percentage of total operating revenue	• Significantly lower operating revenues per capita than other cities suggest a difference in classification (East Moline, Quincy)

Years used in city-by-city rankings

In determining cities' relative rankings, this report used the most recent year for which data are available for almost all cities. For example, a large number of cities have not published police and fire funding ratios past 2010. So while 2012 data are available for some cities, we have used 2010 for the city rankings to have more accurate comparisons.

For metrics that use multiple pieces of data, this report used the same year. For example, while operating revenues data are available through 2011, this report used 2010 data in metric 6 because that is the latest year available for unfunded liabilities.

The year used for each piece of data is shown below and exceptions have been noted.

Metric and years used	Exceptions
1) Average funding ratio • 1 & 2) Police and fire ratios (2010) • 3) IMRF funding ratios (2012)	• Funding ratios - 2010 unavailable: Wheeling fire, Morton Grove police (2009)
4) Taxpayer contributions per household • Taxpayer contributions (2012) • Population (2012)	• Taxpayer contributions - 2012 unavailable: Rockford, East St. Louis, Brookfield (2011)
5) Ratio of taxpayer contributions to employee contributions • Taxpayer contributions (2012) • Employee contributions (2012)	• Taxpayer contributions - 2012 unavailable: Rockford, East St. Louis, Brookfield (2011) • Employee contributions - 2012 unavailable: Aurora, Rockford, East St. Louis, Batavia, Brookfield (2011)
6) Ratio of unfunded liabilities to operating revenues • Unfunded liabilities (2010) • Operating revenues (2010)	• Unfunded liabilities - 2010 unavailable: Romeoville, Wheeling, Morton Grove (2009) • Operating revenues - year matched to unfunded liabilities: Romeoville, Wheeling, Morton Grove (2009) • Operating revenues - year changed for better comparison: Joliet[26], Schaumburg[27] (2011) • Operating revenues - not included because no data within two years: Harvey, Dolton (latest 2007); Maywood (2008)
7) Unfunded liabilities per household • Unfunded liabilities (2010) • Population (2012)	• Unfunded liabilities - 2010 unavailable: Romeoville, Wheeling, Morton Grove (2009)
8) Taxpayer contributions as a percentage of property tax revenue • Taxpayer contributions (2011) • Property tax revenues (2011)	• Taxpayer contributions - year matched to property tax: Calumet City, East St. Louis, Country Club Hills (2010) • Property tax - 2011 unavailable: Calumet City, East St. Louis, Country Club Hills (2010) • Property tax - year changed for better comparison: Evanston[28] (2010) • Property tax - not included because no data within two years: Harvey, Dolton (latest 2007); Maywood (2008)
9) Taxpayer contributions as a percentage of total operating revenue • Taxpayer contributions (2011) • Operating revenues (2011)	• Taxpayer contributions - year matched to property tax: Calumet City, East St. Louis, Country Club Hills (2010) • Operating revenues - 2011 unavailable: Calumet City, East St. Louis, Country Club Hills, Springfield (2010) • Operating revenues - year changed for better comparison: Evanston[29] (2010) • Operating revenues - not included because no data within two years: Harvey, Dolton (latest 2007); Maywood (2008)
10) Ratio of active employees to beneficiaries (police and fire) • Active and employee count (2012) • Beneficiary count (2012)	• 2012 unavailable: Aurora, Rockford, Joliet, Hoffman Estates, Oak Park, Downers Grove, Buffalo Grove, Highland Park, Wilmette, East St. Louis, Batavia, Roselle, Jacksonville, Brookfield (2011), Oak Lawn (2010)

This report also examined data in order to understand trends. Except where noted below, 2003 data were used throughout.[30]

Metric	Exceptions
6) Ratio of unfunded liabilities to operating revenues	• Unfunded liabilities – 2003 unavailable: Dolton, Bellwood (2004) • Operating revenues – 2003 unavailable: Berwyn, Burbank, Melrose Park, Harvey, Dolton, Bellwood (2002); East St. Louis (2004)
8) Taxpayer contributions as a percentage of property tax revenue	• Property tax – 2003 unavailable: Berwyn, Burbank, Melrose Park, Harvey, Dolton, Bellwood (2002); East St. Louis (2004)
9) Taxpayer contributions as a percentage of total operating revenue	• Operating revenues – 2003 unavailable: Berwyn, Burbank, Melrose Park, Harvey, Dolton, Bellwood (2002); East St. Louis (2004)

Other notes

- **IMRF funds:** Only data directly associated with city/village/town governments are included in the IMRF data. School districts, park districts, libraries and others also make IMRF contributions but are not included here as this is a look at the municipal governments themselves.
- **IMRF member counts:** Only police and fire head counts are included in the "ratio of active employees to beneficiaries" metric because the IMRF head-count data was reported to be unreliable (workers could be shared among different "employers" and show up multiple times, part-time workers aren't captured well, etc.).
- **Differences in city-reported and DOI-reported contributions:** In some cases, DOI-reported contributions differ slightly from city CAFRs. This appears to be due to different fiscal year end dates.
- **Differences in city-reported and DOI-reported funding ratios:** In some cases, DOI-reported funding ratios differ slightly from city CAFRs. This appears to be due to differences in estimation methods. The DOI uses a single, statutorily required estimation method across all cities. Individual cities, on the other hand, have had more flexibility in which assumptions to use and therefore have slightly different estimates.
- **Investment returns assumed in funding ratios:** IMRF funding ratios are based on assumed returns of 7.5 percent per annum, compounded annually, net of expenses (per 2012 IMRF Comprehensive Report). DOI police and fire funding ratios are based on assumed returns of 7 percent per annum (per 2012 Actuarial Experience Study).

Appendix A: Further detail on funds

Illinois has 17 pension systems in total.

Five are at the state level; the remaining 12 are local. Most of these local pensions are Chicago-based, but three cover employees outside of Chicago. These three systems (Downstate Police, Downstate Fire and IMRF) are the focus of this report.

- **Municipalities affected:** All but the smallest cities are part of these pension systems. For cities larger than 5,000 people the systems are mandatory. For smaller cities the systems are optional but can be created via referendum.
- **Employees covered:** Downstate Police and Downstate Fire cover all police and firefighters outside of Chicago. IMRF covers all other local government employees, such as public utility workers, street construction crews, city clerks and librarians. IMRF's two exceptions are teachers and employees of the city of Chicago or Cook County (which are all covered under separate funds).
- **Operation:** All three pension systems receive money from three sources – taxpayer contributions, employee contributions and investment returns – and use this to pay retirement, disability and other benefits. Importantly, all three are defined benefit schemes (as opposed to defined contribution). This means the inherent uncertainty in a multi-decade pension scheme is borne entirely by the taxpayers.
- **Governance:** For Downstate Police and Downstate Fire, each city has their own individual fund. This means each city decides how much to contribute each year and how to invest its funds. Some funds are tiny ($6,000) while others are quite large ($130 million). IMRF, on the other hand, is invested as a single, consolidated fund. Each year IMRF trustees decide how much each city must contribute, and cities are required by law to contribute the full amount.
- **Relative sizes:** Downstate Police and Downstate Fire consist of 350 and 292 separate funds, respectively. Together, they cover 22,000 active employees and 15,000 pensioners. On a head-count basis IMRF is much larger. More than 3,000 cities, villages, counties, school districts and other municipalities participate. Together they cover 175,000 active employees and 100,000 pensioners.

Endnotes

[1] The methodology at the end of this report explains the sources, definitions, dates and other details of this analysis.

[2] The analysis started with the largest 164 cities in Illinois, but 50 shared fire departments through fire protection districts. It was difficult to divide the costs and properly assign them to each city, so these 50 cities were removed from the analysis.

[3] The Illinois Policy Institute used the most current data available, which ranges from 2010 to 2012.

[4] Please see the methodology for an explanation of a city's general fund and why this measure was chosen.

[5] A small number of cities are not scored on certain metrics due to missing or problematic data (which is explained further in the methodology section). For these cities, their average (instead of total) score is multiplied by 10 so they are not punished by this report's scoring method, and can be measured by measured comparably to other cities.

[6] The Illinois Policy Institute used the most current data available which ranges from 2010 to 2012.

[7] Note that the analysis was adjusted for population differences between 2003 and today. The 2012 calculation uses 2012 census population data and the 2003 data uses 2000 population census data (so the 2003 numbers are slightly overstated due to population growth between 2000 and 2003 and there is an even larger difference between the two scores).

[8] Both Article 3 and Article 4 of the Illinois Pension Code contain the following provision: "The [corporate authorities] of the municipality shall annually levy a tax upon all the taxable property of the municipality at the rate on the dollar which will produce an amount which, when added to the deductions from the salaries or wages of [police officers or firefighters], and the revenues available from other sources, will equal a sum sufficient to meet the annual requirements of the [police or firefighter] pension funds." (40 ILCS 5/3-125 and 40 ILCS 5/4-118).

[9] Per household calculations assume 2.61 persons/household, which was the 2006-10 Illinois average as determined by U.S. Census Bureau.

[10] *http://www.citypopulation.de/USA-Illinois.html*

[11] Employer and employee contributions are two of three sources of funds; the other is investment returns.

[12] Information pulled from "Pension Trust Funds: Combining Schedule of Changes in Net Plan Assets" section. For some cities, the Illinois Policy Institute gathered manually; for others, cities filled out a FOIA request to provide.

[13] In select cases, 2003-12 contributions data were not available in DOI data and individual city CAFRs were used if available.

[14] This includes all three types of IMRF pensions (Regular, SLEP and ECO).

[15] Information pulled from "Pension Funds: Required Supplementary Information – Schedule of Funding Progress" section. For some cities, the Illinois Policy Institute gathered manually; for others, cities filled out a FOIA request to provide.

[16] This analysis shows the funding ratio of regular funds (as opposed to SLEP or ECO) because it is the largest for cities.

[17] Please see next section for a discussion of why exclusively general fund revenues have been chosen.

[18] Property tax, local sales tax, utilities tax, state income tax, state sales tax, state motor fuel tax, state replacement tax, federal sources, licenses and permits, fines, charges for service, interest and miscellaneous.

[19] Consolidated data have been pulled from yearly Financial Databases in the Comptroller's Download Center, but individual cities can be viewed through "View Submitted Annual Financial Reports" page.

[20] Operating fund revenues information pulled from line 240t within general fund column.

[21] A significant subset of a city's total general fund revenues that the city has a high degree of control over and which is intended to be sufficient to pay for a city's pension funds.

[22] Property tax revenues information pulled from line 201t within general fund column.

[23] This analysis shows the unfunded liabilities of regular funds (as opposed to SLEP or ECO) because it is the largest for cities.

[24] For these cities, their average score is multiplied by 10 (as opposed to all other cities simply adding all 10 metrics together) so that they are not punished for missing by this report's scoring method and could still reach the 100-point maximum.

[25] Joliet appears to have changed reporting methods in 2011 (reclassifying a large amount from special revenue to general revenue). The 2011 method appears more consistent with the other cities so we have used 2011 instead of 2010.

[26] Schaumburg appears to have changed reporting methods in 2011. The 2011-12 method appears more consistent with the other cities so we have used 2011 instead of 2010.

[27] Evanston has a spike in 2011 property tax and operating revenue (up 80 percent from 2010 and then immediately back down in 2011) that may be due to a change in reporting methods. This report used 2010 numbers for a better comparison.

[28] Evanston has a spike in 2011 property tax and operating revenue (up 80 percent from 2010 and then immediately back down in 2011) that may be due to a change in reporting methods. This report used 2010 numbers for a better comparison.

[29] Any metrics deleted for the current data (for example, East Moline's ratio of unfunded liabilities to operating revenue) were also deleted in the 2003 data set to keep the statistical summaries consistent.

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