ILLINOIS POLICY INSTITUTE | SPECIAL REPORT

Saving Chicago: Pension reform without tax hikes

By Ted Dabrowski, Vice President of Policy | Ben VanMetre, Senior Budget and Tax Policy Analyst | John Klingner, Policy Analyst
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Saving Chicago
Chicago politicians have exploited city-worker pensions for nearly two decades.

They’ve used the city’s pension systems as slush funds and pension benefits as bargaining chips to further their own agenda, with seemingly no regard for Chicago’s fiscal health.¹

Now those pension systems are nearly insolvent and the city is heading toward bankruptcy. Chicago is facing an onslaught of credit downgrades, billion-dollar budget deficits and grim comparisons to Detroit.²

Politicians control Chicago’s pension systems, and they’ve run them into the ground.

It’s time to take that control away and put it where it belongs – with city workers.

Just look at the mess politicians have made.

The police officers’ fund has just $0.31 for every dollar required to pay out future benefits. The firefighter fund, just $0.25.³

They are among the worst-funded pensions in the nation, and with no real plan to fix them, it’s only a matter of time before they run dry.⁴

The city’s laborers and teachers, as well as transit, park and municipal workers, all find themselves in the same predicament. Collectively, the city’s pension funds have less than half the money required to meet their future obligations.

Chicago’s official pension shortfall is now $29 billion.⁵ Detroit, by comparison, had just a $3.5 billion shortfall when it filed for bankruptcy last year.⁶

Not surprisingly, the rating agencies have caught on. Moody’s Investors Service slashed Chicago’s credit rating in March, leaving it just three notches above junk status. Of the nation’s largest cities, only Detroit has a worse rating.⁷

Chicagoans will be paying for this recklessness through higher taxes. In 2015, taxpayer contributions to city-run and sister-government pensions will double to $3 for every $1 city employees put in. And most pension reform plans on the table call for even higher property taxes.¹¹

But there’s also a social cost to this recklessness, seen prominently in the indiscriminate cuts already being made to core government services.

Chicago students have 50 fewer schools to attend and nearly 3,000 fewer teachers and staff to learn from as a result of massive budget cuts driven largely by pension costs.¹²

Residents in neighborhoods with crumbling streets and growing potholes have to wait longer for repairs. The city has 2,000 fewer municipal worker positions today than it did in 2004.¹³

And Chicago’s effort to battle crime faces even more challenges, with 1,500 fewer police officers and staff protecting neighborhoods and families compared to eight years ago.¹⁴

Chicago’s deepening crisis will soon force politicians to decide between two paths.

The first is to use tax hikes to prop up a failed system run by the same politicians who bankrupted it in the first place.

The second is to give workers control over their own retirements, and to make the tough choices necessary to bring about real retirement security for Chicago’s city workers.

The Illinois Policy Institute’s proposal follows the second path. It aims to end the city’s crisis and to preserve Chicago’s status as a world-class city.
# Chicago Pension Quick Facts

City-run and sister-government pension systems  
(See Appendix 5 for full details)

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<td>LABOR</td>
<td>roadworkers, sewer workers, plumbers, construction workers, groundskeepers, etc.</td>
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| ACTIVE EMPLOYEES   | 12,026 | 4,740 | 31,326 | 2,865 |
| REGULAR RETIREES   | 9,035  | 2,821 | 19,614 | 2,737 |
| PENSION SHORTFALL IN MILLIONS | $6,903 | $3,073 | $8,564 | $1,059 |
| TOTAL LIABILITY IN MILLIONS | $10,052 | $4,066 | $13,637 | $2,375 |
| TOTAL ASSETS IN MILLIONS | $3,149 | $993 | $5,073 | $1,316 |
| PERCENT FUNDED     | 31%    | 24%   | 37%    | 55%   |
| EMPLOYEE CONTRIBUTIONS IN THOUSANDS | $95,892 | $53,273 | $130,266 | $16,559 |
| EMPLOYER CONTRIBUTIONS IN THOUSANDS | $207,228 | $84,144 | $159,380 | $14,415 |
| BENEFIT DETAILS    | POLICE | FIRE | MUNICIPAL | LABOR |
| EMPLOYEE CONTRIBUTION | 9% OF SALARY | 9.125% OF SALARY | 8.5% OF SALARY | 8.5% OF SALARY |
| MINIMUM REGULAR RETIREMENT AGE | 50 WITH 20 YEARS SERVICE | 50 WITH 20 YEARS SERVICE | 50 WITH 30 YEARS SERVICE | 50 WITH 30 YEARS SERVICE |
| STARTING PENSION FORMULA | 2.5% | 2.5% | 2.4% | 2.4% |
| COST-OF-LIVING ADJUSTMENT (COLA) | 3% OR 1.5% SIMPLE | 3% OR 1.5% SIMPLE | 3% COMPOUNDED | 3% COMPOUNDED |
| AVERAGE SALARY      | $84,415 | $88,389 | $50,782 | $68,386 |
| BENEFIT DETAILS    | TEACHERS | CTA | PARKS |
| EMPLOYEE CONTRIBUTION | 9% OF SALARY | 10.125% OF SALARY | 10% OF SALARY |
| MINIMUM REGULAR RETIREMENT AGE | 55 WITH 20 YEARS SERVICE | 55 WITH 25 YEARS SERVICE | 55 WITH 10 YEARS SERVICE |
| STARTING PENSION FORMULA | 2.2% | 2.15% | 2.4% |
| COST-OF-LIVING ADJUSTMENT (COLA) | 3% COMPOUNDED | AD-HOC | SIMPLE, LESSER OF 3% OR 1.5% CPI |
| AVERAGE SALARY      | $69,757 | $66,142 | $36,882 |

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*RECENTLY RETIRED CAREER WORKERS ARE EMPLOYEES WHO HAVE SPENT 30 YEARS OR MORE WORKING FOR THE CITY OR ITS SISTER GOVERNMENTS AND HAVE RETIRED WITHIN THE LAST THREE YEARS.  
SOURCE: COMMISSION ON GOVERNMENT FORECASTING AND ACCOUNTABILITY INSTITUTE CALCULATIONS BASED ON FREEDOM OF INFORMATION ACT (FOIA) DATA OBTAINED FROM INDIVIDUAL PENSION FUNDS.
The solution: Executive summary

The Illinois Policy Institute’s holistic plan puts Chicago back on a path to financial security. The plan achieves this by ending the political mismanagement of pensions that has left the city with more than $29 billion in pension debt, dangerously underfunded pensions, retirement benefits that are no longer affordable and fewer resources for core government services.  

The plan’s first step is to take control of retirements away from politicians and put it in the hands of city workers. Going forward, workers will own and control a hybrid retirement plan that contains two key elements: a self-managed plan and a Social Security-like benefit. The plan is careful to protect benefits that have already been earned by current workers and retirees under the existing pension plan.

By moving to a hybrid pension plan, retirement costs will become a more stable and predictable portion of city budgets, helping prevent indiscriminate cuts to core government services. And taxpayers would no longer be subject to paying higher taxes to fund ever-growing pension shortfalls.

1. Hybrid retirement benefits: Going forward, workers are given ownership and control over individualized, portable retirement accounts. The plan gives workers a hybrid retirement plan that allows them to benefit from market returns, but also provides them with the stability offered by fixed monthly, Social Security-like benefits.
   - **Self-managed plan:** Workers contribute 8 percent of their salary toward a portable retirement investment account. The employee contribution will be deposited into the employee’s retirement account each pay period. Investments will be made at the employee’s discretion.
   - **Social Security-like benefit:** Employers will contribute a matching 7 percent of salary to their employees’ retirements each pay period. The employer contribution will be used to purchase a Retirement FIRST (Fixed Income Retirement Security you Trust) contract each year from an insurance company. These contracts will provide the employee with a fixed monthly, Social Security-like benefit during retirement.

2. Current benefits: The plan ensures already-earned pension benefits are protected.
   - **Current workers:** Pension benefits already earned will be preserved and paid to workers upon retirement. All future benefits will accrue under the new hybrid retirement plan.
   - **Current retirees:** Retirees will continue to receive their pension benefits and already accrued cost-of-living adjustment, or COLA, increases.

3. Cost-of-living adjustments, or COLAs: Reforming COLAs is the single-largest lever for reducing the city’s massive pension debt, but any reform must protect career workers with limited annual pensions. Means-testing is the most effective and equitable way to reform COLAs.

   The Illinois Policy Institute’s reform plan protects COLA benefits of career workers who dedicated more than 30 years to the city and earn annual pensions of less than the maximum annual Social Security payment for a private-sector worker who has reached the full retirement age. Retirees earning pensions exceeding the maximum Social Security benefit – currently at approximately $32,000 – will not receive additional COLA increases until the pension systems are fully funded. Any already-accrued COLA increases, however, will be preserved.

4. Retirement age: This plan aligns the retirement age for city workers with the private sector. The age at which workers can begin collecting a pension is based on how close workers are to retirement under current law and how many years they’ve dedicated to the city. The plan protects the retirement ages of longtime employees who are already nearing retirement. The closer employees are to their current legal retirement age, the fewer additional years are added to that retirement age, provided the new age will be no lower than 59 (due to the nature of their work, Chicago’s police and fire employees will retire at an earlier age). Younger workers will be given more time to plan and budget for changes in the retirement age.
The results: Executive summary

The city of Chicago contributes to four city-run pension funds: police, fire, laborers and municipal workers. Chicago taxpayers are also responsible for funding the pensions of the city of Chicago’s sister governments: Chicago Public Schools, the Chicago Park District and the Chicago Transit Authority.

For simplicity, this analysis focuses exclusively on the four city-run funds. Separate results for the Chicago Teachers’ Pension Fund are included in Appendix 4.

The Illinois Policy Institute’s plan:

- Dramatically improves the funding ratio of the four city-run plans. The funding ratio immediately increases by nearly 50 percent – to 48.6 percent from 32.6 percent – quickly enhancing the overall health of the pension systems.
- Immediately reduces the unfunded liability by nearly half, to $11.2 billion, and stops future growth in the accrual of defined-benefit liabilities.
- Pays down the remaining unfunded liability in flat annual installments based on an Annual Required Contribution. The ARC contributions fully fund the systems in 30 years. These contributions make retirement costs a more stable and predictable portion of city budgets and help prevent indiscriminate cuts to core government services.

Getting Chicago’s pension shortfall under control

Reducing the city’s unfunded liability to a sustainable and affordable level is an essential component of real pension reform. The Illinois Policy Institute’s reform plan immediately reduces the unfunded liabilities by 45 percent, to $11 billion. The plan further reduces the unfunded liability by another 13 percent, to $9.76 billion over the next decade.

In contrast, despite massive increases in contributions, the city’s $20 billion in unfunded liabilities jumps by 65 percent over the next decade under current law.
Details of the plan:
The Illinois Policy Institute’s reform plan contains three key elements:
- A hybrid retirement plan
- A means-testing of cost-of-living adjustments
- An alignment of the retirement age with the private sector

1. New hybrid plan:
The Illinois Policy Institute’s reform plan is careful to protect already-earned pension benefits under the existing pension plan. Workers will receive these benefits upon retirement.

Going forward, all active workers will participate in a hybrid retirement plan that contains two key elements: a self-managed plan and a Social Security-like benefit.

This plan allows members to benefit from market returns, but also provides them with the stability offered by fixed monthly, Social Security-like benefits.

Under the hybrid plan, each pay period the worker will contribute 8 percent of his or her salary toward retirement savings, while the employer provides a matching 7 percent contribution.

The employee contribution – Self-managed plan:
The 8 percent employee contribution will be deposited into the employee’s individual self-managed retirement savings account each pay period. The employee will own and control his or her retirement account. The money in this account will be portable, allowing workers to transition careers and take their retirement savings with them.

(The self-managed plan, or SMP, portion of the hybrid is directly modeled after the SMP retirement plan created for the Illinois State Universities Retirement System in 1995. The SURS plan, under which employees contribute 8 percent and the employer contributes 7 percent to the SMP, has over 18,000 participating members.)

The employer contribution – Retirement FIRST:
The 7 percent employer contribution would be used to purchase a Retirement FIRST (Fixed Income Retirement Security you Trust) contract from an insurance company. Each year, a Retirement FIRST contract is purchased. These contracts will provide a Social Security-like benefit during retirement.

Employees will own their Retirement FIRST contracts, allowing them to transition careers and take their benefits with them.
Example: Self-managed plan

The employee will deposit 8 percent of his or her paycheck every pay period into a self-managed retirement account. The employee owns and controls the money in this account. Self-managed retirement accounts are portable and transferable from job to job. This will allow a worker to transition careers and take their retirement savings with them.

The self-managed retirement account gives employees the opportunity to participate in long-term market returns by investing in a broad range of options at their discretion.

The money in this account will grow over time through accruing employee contributions and investment returns each pay period during the employee’s working career.

When an employee reaches retirement age, he or she can begin to draw from the self-managed account for retirement needs. The remaining assets in the account can continue to grow in the account during retirement.

Consider the following example for an employee starting today:

- Starting age: 25
- Starting salary: $35,000
- Annual raises: 4 percent
- Investment returns: 7.5 percent*17
- Retirement age: 67
- Final salary: $174,757
- Self-managed plan balance: $1,252,767
- Annual benefit: $123,077
- Replacement rate: 70 percent

*Note: Under current law, the municipal and laborers’ pension funds use a 7.5 percent rate of return, the police fund uses a 7.75 percent rate of return and the fire fund uses an 8 percent rate of return on investment. The Institute’s calculations assume the more conservative rate of the four funds: a 7.5 percent rate of return on investment.

Based on the above assumptions, this employee would retire with $1,252,767 in his or her SMP account.

If this amount were converted to annual payments during the remainder of their retirement life, the employee would draw $123,077 annually during retirement – equal to approximately 70 percent of his or her final salary.

That income will be in addition to the amount of an employee will receive from their Retirement FIRST contract, the other portion of their hybrid retirement plan.

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<td>$1,252,767</td>
</tr>
</tbody>
</table>

Note: Assumes new employee starting today

Source: Illinois Policy Institute calculations

Total annual benefit: $123,077

Percentage of final salary: 70.4%
Example: Fixed Income Retirement Security you Trust (FIRST)

In addition to the benefits accrued under the self-managed plan, workers will also benefit from a Retirement FIRST contract.

Retirement FIRST contracts provide fixed monthly benefits for workers during their retirement.

Employees will use the employer’s 7 percent contribution to purchase a Retirement FIRST contract.

Employees will purchase a new contract every year. Each additional contract adds to the total fixed monthly benefit an employee will receive during retirement.

Consider the following example:

- Starting age: 25
- Starting salary: $35,000
- Annual raises: 4 percent
- Retirement age: 67
- Final salary: $174,757
- Actuarial assumptions:*10
- Beginning Retirements FIRST contract: $70,901
- Replacement rate: 41 percent

*Note: These assumptions are for informational purposes only and subject to change according to actual market conditions.

Under this example, a 25-year-old employee who purchases Retirement FIRST contracts annually until his or her retirement at age 67 would receive benefits during retirement that total $70,901 per year – or about 41 percent of the employee’s final year of salary.
Combined SMP and Retirement FIRST benefits

Under the Illinois Policy Institute’s plan, all active workers will participate in a hybrid retirement plan that contains two key elements: a self-managed plan and a Social Security-like benefit.

Based on the assumptions used in the previous examples, the employee will receive $123,077 annually from his or her self-managed account and an additional $70,901 annually from the Retirement FIRST contracts. The total annual benefit from the Institute’s hybrid plan will equal $193,978, or 111 percent of the employee’s final salary.

<table>
<thead>
<tr>
<th>ASSUMED RATE OF RETURN</th>
<th>7.50%</th>
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<tbody>
<tr>
<td>SMP ANNUAL BENEFIT</td>
<td>$123,077</td>
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<tr>
<td>RETIREMENT FIRST ANNUAL BENEFIT</td>
<td>$70,901</td>
</tr>
<tr>
<td>TOTAL ANNUAL BENEFIT</td>
<td>$193,978</td>
</tr>
<tr>
<td>FINAL SALARY</td>
<td>$174,757</td>
</tr>
<tr>
<td>PERCENTAGE OF FINAL SALARY</td>
<td>111%</td>
</tr>
</tbody>
</table>

Source: Illinois Policy Institute Calculations

Total retirement benefits under different rates of return

The SMP portion of the Institute’s plan depends on market returns to provide benefits for an employee’s retirement. Historically, the average rate of return over the long term exceeds 8 percent.

The Institute also provides examples of the impact lower-market returns can have on an employee’s retirement benefits.

If the assumed rate of return for the SMP averaged only 6.5 percent during the investment period, the employee’s total annual retirement benefit would equal $168,719, or 97 percent of final salary.

If the assumed rate of return for the SMP averaged only 5.5 percent during the investment period, the employee’s total annual retirement benefit would equal $149,442, or 86 percent of final salary.

<table>
<thead>
<tr>
<th>ASSUMED RATE OF RETURN</th>
<th>6.50%</th>
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</thead>
<tbody>
<tr>
<td>SMP ANNUAL BENEFIT</td>
<td>$97,818</td>
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<tr>
<td>RETIREMENT FIRST ANNUAL BENEFIT</td>
<td>$70,901</td>
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<tr>
<td>TOTAL ANNUAL BENEFIT</td>
<td>$168,719</td>
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<tr>
<td>FINAL SALARY</td>
<td>$174,757</td>
</tr>
<tr>
<td>PERCENTAGE OF FINAL SALARY</td>
<td>97%</td>
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</table>

Source: Illinois Policy Institute Calculations

<table>
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<tr>
<th>ASSUMED RATE OF RETURN</th>
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<tr>
<td>SMP ANNUAL BENEFIT</td>
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<td>RETIREMENT FIRST ANNUAL BENEFIT</td>
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<tr>
<td>TOTAL ANNUAL BENEFIT</td>
<td>$149,442</td>
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<tr>
<td>FINAL SALARY</td>
<td>$174,757</td>
</tr>
<tr>
<td>PERCENTAGE OF FINAL SALARY</td>
<td>86%</td>
</tr>
</tbody>
</table>

Source: Illinois Policy Institute Calculations
2. Means-test COLAs:
Reforming cost-of-living adjustments, or COLAs, is the single-largest lever for reducing the city’s pension debt and ensuring there is sufficient funding to pay for already-earned retirement benefits.

A full suspension of COLA increases could potentially reduce the city’s $22 billion pension shortfall by approximately one-third.19

But any reform must protect retirees who dedicated their full careers to the city and receive limited annual pensions. Means-testing is the most effective and equitable way to reform COLAs.

Today, the average city-level retiree with a 30-year career has a pension of $58,430 and receives an average COLA of $1,753.20

In contrast, the average private-sector retiree in the U.S. will receive $15,300 in annual Social Security benefits. The Social Security COLA will be 1.5 percent for 2014, meaning the average Social Security COLA will be $228.21

That means the average city government retiree will receive in 2014 a COLA that’s nearly eight times what the average Social Security beneficiary receives.

The Illinois Policy Institute’s reform plan protects COLA benefits for those who dedicated 30 or more years to the city and earn annual pensions of less than the maximum annual Social Security payment ($31,704) for a private-sector worker.

Retirees earning pensions exceeding the maximum annual Social Security payment will not receive additional COLAs until the pension system is fully funded. However, retirees will continue to receive already-accrued COLA increases.

3. Align retirement age:
Unlike their private-sector counterparts, Chicago government workers are able to retire in their 50s while collecting most of their final average salary. This puts a tremendous strain on the city’s taxpayers, as well as the pension systems.

Chicago’s pension systems cover more than 34,000 retirees. Approximately 50 percent of city government pensioners began collecting a pension before the age of 60. The average pension for workers who retired before the age of 60 with at least 30 years of service credit is $59,455.22

The government workers who retired early in life did nothing wrong. They made an economic decision that’s fair game under current law. But Chicago can no longer afford to pay city workers to retire a decade earlier than their private-sector counterparts.

According to a recent Associated Press-NORC Center for Public Affairs Research poll, 82 percent of working Americans age 50 or older say it is at least somewhat likely they will work for pay in retirement. The survey also found that 47 percent of working survey respondents now expect to retire later than they previously thought and, on average, plan to retire at about age 66.23

Government workers should be free to retire when they wish, but should only begin collecting a pension when they reach the Social Security retirement age.

The Illinois Policy Institute’s reform plan follows the lead of Rhode Island’s 2011 pension reform (see retirement age table on following page) and aligns the retirement age with the Social Security retirement age while protecting workers who are nearing retirement under current law (due to the nature of their work, Chicago’s police and fire employees will retire at an earlier age).24

The new age at which workers can begin collecting a pension will be based on how close workers are to retirement under current law and how many years they’ve dedicated to working for the city.

The plan protects the retirement ages of longtime employees who are already nearing retirement. The closer employees are to their current legal retirement age, the fewer additional years are added to that retirement age, provided the new age will be no lower than 59. Younger workers will be given more time to plan and budget for changes in the retirement age.

Following Rhode Island’s reform ensures the retirement age is equitably increased to protect Illinois’ pension system from insolvency.
Retirement age examples:
The Institute used the Rhode Island Retirement Security Act of 2011 as a guideline for its retirement age reforms. The scenario below uses Rhode Island’s new retirement ages as a proxy and should be considered informational only.

Example: Consider a 44-year-old worker, born in 1970, who started working at the age of 20 and currently has 24 years of service. Under the current system, he or she can retire at age 50 after working for 30 years total.

That worker has currently completed 80 percent of the service years needed to retire at age 50 under current law. Using the Rhode Island data as a proxy, that worker’s new retirement age would be 59 under the Institute’s reform.
Summary of results

The Illinois Policy Institute’s reform plan was analyzed by Nichols Actuarial Consulting LLC. The goal of the analysis was to estimate the effect of the Illinois Policy Institute’s proposed reforms.

The analysis focused on Chicago’s four city-run pension funds – police, fire, laborers, and municipal workers. Chicago taxpayers are also responsible for unfunded pension liabilities for the Chicago Public Schools, the Chicago Park District and the Chicago Transit Authority. However, for purposes of this report, the analysis focuses exclusively on the four city funds (separate results for the Chicago Teachers’ Pension Fund in Appendix 4).

The analysis compared the Illinois Policy Institute’s reform plan to current law using five key metrics:

- Actuarial Accrued Liabilities, or AAL, under current law.
- Funding levels under current law.
- Annual contributions under current law.
- The Unfunded Actuarial Accrued Liability, or UAAL, under current law.
- The Annual Required Contribution, or ARC, necessary to fully fund the four systems under the existing benefit structure.

This section first summarizes the findings and then reviews the projected results for each of the five metrics.
Summary of results in 2014

According to the analysis (see Appendix 1), the reforms included in the Illinois Policy Institute’s plan:

- Dramatically improve the funding ratio of the four city-run plans. The funding ratio immediately increases by nearly 50 percent – to 48.6 percent from 32.6 percent – quickly enhancing the overall health of the pension systems.

- Immediately reduces the unfunded liability by nearly half, to $11.2 billion from $22 billion, and stops future growth in the accrual of defined-benefit liabilities.

- Pays down the remaining unfunded liability in flat, annual installments based on an Annual Required Contribution, or ARC. The ARC payments fully fund the systems in 30 years. These contributions make retirement costs a more stable and predictable portion of city budgets, and help prevent indiscriminate cuts to core government services.

### ILLINOIS POLICY INSTITUTE’S REFORM PLAN FOR CHICAGO’S FOUR CITY-RUN PENSION PLANS

**Fiscal year 2014**

<table>
<thead>
<tr>
<th>REFORM CATEGORY</th>
<th>CURRENT LAW</th>
<th>REFORM PLAN</th>
<th>CHANGE</th>
<th>% CHANGE</th>
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<tr>
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<td>48.6%</td>
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<td>17%</td>
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*CURRENT YEAR CONTRIBUTION FOR FISCAL YEAR 2015 DOES NOT INCLUDE CPD, CTFP OR CTA
SOURCE: SEE APPENDIX 1 FOR METHODOLOGY USED IN ALL PROJECTIONS

Summary of results in 2023

The analysis of the Illinois Policy Institute’s reform plan also included projected results through 2023. Based on the assumptions (see Appendix 1), by 2023 the Illinois Policy Institute’s plan decreases the unfunded liability by more than 70 percent compared with current law.

### ILLINOIS POLICY INSTITUTE’S REFORM PLAN FOR CHICAGO’S FOUR CITY-RUN PENSION PLANS

**Fiscal year 2023**

<table>
<thead>
<tr>
<th>REFORM CATEGORY</th>
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<th>REFORM PLAN</th>
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<th>% CHANGE</th>
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<tr>
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<td>$17.20</td>
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<tr>
<td>PAYMENTS OVER PAST 10 YEARS</td>
<td>$10.40</td>
<td>$13.50</td>
<td>$3.10</td>
<td>30%</td>
</tr>
</tbody>
</table>

*CURRENT YEAR CONTRIBUTION FOR FISCAL YEAR 2015 DOES NOT INCLUDE CPD, CTFP OR CTA
SOURCE: SEE APPENDIX 1 FOR METHODOLOGY USED IN ALL PROJECTIONS
1. Stops future growth in uncontrollable liabilities

The only way to end Chicago’s pension crisis and preserve the benefits workers have already earned is to stop accruing additional liabilities under the current system.

The Illinois Policy Institute’s reform plan ends the pension crisis and stops future defined benefit liabilities from accruing. According to the analysis, the Illinois Policy Institute’s plan decreases the actuarial accrued liability by 21 percent, to $17.2 billion in 2023 from $21.8 billion in 2013.

In contrast, without reform the four city pension funds will see their total actuarial accrued liabilities increase by approximately 31 percent during the next decade, to $41.2 billion in 2023 from $31.5 billion in 2013. This massive increase in liabilities happens despite the large spike in funding in 2015 under current law.

2. Improves the security of retirees by improving funding levels

City-worker retirements will never be secure without a real and sustainable plan to fully fund Chicago’s pension systems.

The four city pension funds will be nearly bankrupt in 10 years under current law – with an aggregate funding ratio of just 17.8 percent in 2023. That drop in the funding ratio occurs despite dumping billions more into the pension system starting in 2015. And without real reforms to the current system, the city will continue to experience unpredictable growth in its unfunded liabilities.

In contrast, the Illinois Policy Institute’s reform plan brings the aggregate funding ratios to more than 43 percent funded – a significant increase compared with current law. Going forward, by eliminating the accrual of additional defined-benefit liabilities, the pension funds can reliably reach 100 percent funding in 30 years.
### 3. Pays down the existing debt in disciplined, level-dollar payments

A key element in eliminating Chicago’s massive pension debt is paying it down in responsible and stable installments.

The Illinois Policy Institute’s reform plan levels out future retirement payments. These level-dollar payments of approximately $935 million become a smaller percentage of the budget going forward. The level-dollar amounts also introduce stability and predictability into the city’s budgeting process.

In addition to the $935 million pension payment, the Institute’s plan includes a Retirements FIRST contribution equal to 7 percent of payroll. This payment totals $234 million in 2013, and rises with payroll to $348 million in 2023.

![Projected aggregate contributions](chart)

### 4. Dramatically reduces unfunded liability

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 65 percent over the next decade despite significant increases in city pension contributions.

In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 45 percent immediately, and a further 13 percent over the next decade.

![Projected unfunded actuarial accrued liability](chart)
5. Making the Annual Required Contribution

A common narrative surrounding the city of Chicago’s pension crisis is that politicians simply need to put more money into the system. But what’s not understood is how much would be necessary to fully fund the pension systems under the existing benefit structure.

If Chicago were to pay what’s called the Annual Required Contribution – what the actuaries require – the payments would overwhelm the city’s budget. The pension payment would increase to approximately $2.3 billion for the four city-run pension funds, more than two-thirds of the city’s entire operating budget.

However, paying the ARC alone does nothing to fundamentally change the problems with the existing defined-benefit structure.

The Illinois Policy Institute’s comprehensive reform combines real pension reform with an ARC, reducing pension payments to a predictable level. The defined benefit pension payments, in addition to the self-managed employer contribution, would total approximately $1.2 billion. That’s $1 billion less than what the ARC payment would be without pension reform.

Under the Illinois Policy Institute’s reform plan, the ARC allows the city of Chicago to fully fund the four city-run pension systems during the next 30 years.
Why it works

The Illinois Policy Institute’s holistic plan puts Chicago back on a path to financial security. The plan achieves this by ending the political mismanagement of pensions that has left the city with more than $29 billion in pension debt, dangerously underfunded pensions, retirement benefits that are no longer affordable and fewer resources for core government services.25

Here’s how the Illinois Policy Institute’s plan outperforms current pension law:

1. Chicago’s financial future

Current law: There’s no dispute that Chicago is on an unsustainable path toward insolvency. Increasing taxes and slashing core services to make room in the budget for the current politically controlled pension funds will only worsen the trend of out-migration and credit downgrades.

Illinois Policy Institute’s plan: Chicago will be back on a path toward economic growth and sustainability. The reform would set the stage for an economic turnaround and end the cycle of credit downgrades and out-migration.

2. City budgets

Current law: Politicians have used the pension systems as slush funds and workers as bargaining chips to further their own agendas, with seemingly no regard for Chicago’s fiscal health. The current structure makes it difficult for Chicago to accurately budget for pension costs as they continue to consume a greater portion of city funds.

Illinois Policy Institute’s plan: Budgets will be more stable and predictable for four main reasons:

- Additional defined-benefit liabilities will stop accruing.
- The unfunded liability is significantly reduced.
- Employer pension contributions will total a level 7 percent of payroll.
- The remaining liability is paid down in responsible and level installments.

3. Taxpayers

Current law: Taxpayers will be forced to pay millions more in contributions and new taxes to prop up the same politically controlled pension system.

Illinois Policy Institute’s plan: Taxpayers would no longer be subject to paying higher taxes and fees to fund ever-growing pension shortfalls. The new hybrid retirement plan would allow the city to control retirement costs and focus resources on core government services.

4. Workers

Current law: Workers are trapped in pension systems under which they have no voice and no control. Their retirements are threatened by pension systems approaching insolvency due to decades of mismanagement by politicians.

Illinois Policy Institute’s plan: Going forward, workers will own and control a hybrid retirement plan that contains two key elements: a self-managed plan and a Social Security-like benefit. The plan protects benefits that have already been earned by both current workers and retirees under the existing pension plan.

5. City services

Current law: Pensions are consuming funding for core government services. Residents are being hurt by Chicago’s indiscriminate cuts to services – schools, police and public works – to pay for pensions.

Illinois Policy Institute’s plan: Residents will be protected from cuts to core government services due to increasing pension payments. The reform plan would allow local officials to better preserve funding for the classroom and public safety.

6. Chicago’s obligation

Current law: Despite dumping billions more into the pension system through increased payments starting in 2015, Chicago’s unfunded liabilities will grow uncontrollably. Unfunded liabilities will increase by 65 percent over the next decade.

Illinois Policy Institute’s plan: These reforms reduce unfunded liabilities by 45 percent immediately, and a further 13 percent over the next decade. The city of Chicago will pay down its pension debt in fixed annual payments and city workers will be given control and ownership over their own retirement accounts going forward.
Appendix 1: Methodology

The purpose of this report is to demonstrate that drastic measures must be implemented by the city of Chicago to keep its pension funds sustainable, without significant increases to taxes. To illustrate these points, a simple projection of liabilities and assets was prepared to show trends, not to predict future asset and liability levels. The analysis relied upon the actuarial accrued liability information provided in the Gabriel Roeder and Smith and Segal actuarial valuations, and asset and cash flow information from each system’s Comprehensive Annual Financial Report, or CAFR. Additional information was also taken from the city of Chicago’s CAFR.

Benefit payments were assumed to increase 6 percent per year over the 10-year period from 2013-2023 under current law. Contributions were assumed to remain at the 2012 level, except for the Police, Fire and Teachers funds. Contributions for Police and Fire increase under current law starting in 2015, and Teachers in 2014. The assumptions used to project assets and liabilities are the same as those used in the most recent actuarial valuations.

Without actual participant data, specific savings were not calculated for each proposed change. However, we estimate that with a combination of freezing accruals, increasing the normal retirement age, and means-testing the cost-of-living allowance, a 40 percent reduction in actuarial accrued liability can be achieved for active participants and a 20 percent reduction can be achieved for those participants in pay status. We also estimate that the proposed changes would decrease payouts by 30 percent over the next 10 years (payouts in 2023 would be 70 percent of what they would have been with the changes) on a pro-rated basis. The ultimate reductions in liabilities and payouts will depend on the level of changes implemented, and will be determined by the systems’ actuaries.

Nichols Actuarial Consulting LLC has provided actuarial services to large state retirement systems and social security systems for small countries. Their actuary, Joe Nichols, has been an actuary in the public pension area for over 20 years.

Methodology sources
The actuarial analysis used membership and actuarial assumptions data provided by each pension system’s Comprehensive Annual Financial Report and Actuarial Valuation Report for 2012.
Appendix 2: How the plan impacts current workers – retirement example

For current employees, pension benefits already earned in the defined-benefit plan will be preserved and paid upon retirement. All future benefits will accrue under the new hybrid retirement plan.

Current employees will have three streams of revenue during retirement: Their benefits earned under the defined-benefit plan, the benefits earned from their self-managed plan and the benefits earned from their Retirement FIRST contracts.

Already-earned benefits

Consider a municipal employee who started working in 1994 at age 25 with a $25,000 annual salary. Today, that employee would be 40 years old and earning a salary of $45,024 (assuming a 4 percent annual salary growth).

The employee’s defined-benefit plan stops accruing when the Illinois Policy Institute’s reform plan is enacted, but all benefits earned up to that point would be preserved and paid out upon retirement.

Under the current defined benefit retirement formula, the employee would receive 36 percent of his current salary of $45,024 (2.4 percent of annual salary multiplied by the 15 years he or she has worked so far).

The annual defined benefit the employee would receive during retirement would equal $16,209 – or about 13 percent of the employee’s final year of salary: $124,827 at age 66. (The retirement age of 67 is used to make the results comparable to the example from Section 3: Details of the plan.)

Total benefits

In total, the employee would receive the following annual benefits upon reaching the standard retirement age:

- $16,209 annually from their already-earned defined benefits (13 percent of final salary)
- $45,518 annually from their self-managed account (36 percent of final salary)
- $30,073 annually from their Retirement FIRST contract (24 percent of final salary)

The current employee’s benefits would equal $91,800 – or about 74 percent of the employee’s final year of salary.
Appendix 3.1: Projected results by fund – Chicago Fireman’s Annuity and Benefit Fund

Total actuarial accrued liabilities

Under current law, total actuarial accrued liabilities increase by 46 percent over the next decade. Under the Illinois Policy Institute’s reform plan, accrued liabilities are reduced going forward by ending the accrual of any new defined-benefit liabilities and by introducing a hybrid retirement plan.

Contributions

Pension contributions will increase by 160 percent in 2015 to more than $220 million annually under current law.

However, higher payments alone do nothing to fundamentally change the problems with the existing defined-benefit structure.

The Institute’s hybrid plan levels out future retirement contributions by ending the accrual of new defined-benefit liabilities and by significantly reducing the unfunded liability.
Funded percentages

Despite significant contribution increases under current law, funding ratios remain at unsustainable levels going forward. And without real reforms to the current system, the city will continue to experience unpredictable growth in its unfunded liabilities.

In contrast, the Illinois Policy Institute’s plan ends the accrual of new defined-benefit liabilities and significantly reduces the unfunded liability. This improves funding ratios, reaching 100 percent in 30 years – with stable and predictable pension contributions.

Unfunded actuarial accrued liabilities

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 48 percent over the next decade despite significant increases in city pension contributions. In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 39 percent immediately, and a further 13 percent over the next decade.
Appendix 3.2: Projected results by fund – Chicago Policemen’s Annuity and Benefit Fund

Total actuarial accrued liabilities

Under current law, total actuarial accrued liabilities increase by 30 percent over the next decade. Under the Illinois Policy Institute’s reform plan, accrued liabilities are reduced going forward by ending the accrual of any new defined-benefit liabilities and by introducing a hybrid retirement plan.

Contributions

Pension contributions will increase by 200 percent in 2015 under current law. However, higher payments alone do nothing to fundamentally change the problems with the existing defined-benefit structure.

The Illinois Policy Institute’s hybrid plan levels out future retirement contributions by ending the accrual of new defined-benefit liabilities and by significantly reducing the unfunded liability.
Funded percentages

Despite significant contribution increases under current law, funding ratios remain at unsustainable levels going forward. And without real reforms to the current system, the city will continue to experience unpredictable growth in its unfunded liabilities.

In contrast, the Illinois Policy Institute’s plan ends the accrual of new defined-benefit liabilities and significantly reduces the unfunded liability. This improves funding ratios, reaching 100 percent in 30 years – with stable and predictable pension contributions.

Unfunded actuarial accrued liabilities

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 24 percent over the next decade despite significant increases in city pension contributions. In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 42 percent immediately, and a further 13 percent over the next decade.
Appendix 3.3: Projected results by fund – Chicago Municipal Employees’ Annuity and Benefit Fund

Total actuarial accrued liabilities

Under current law, total actuarial accrued liabilities increase by 30 percent over the next decade. Under the Illinois Policy Institute’s reform plan, accrued liabilities are reduced going forward by ending the accrual of any new defined-benefit liabilities and by introducing a hybrid retirement plan.

Contributions

Contributions under current law are not nearly enough to fund municipal pensions. At the current contribution rate, the fund will be entirely bankrupt by 2023. The Institute’s reform plan levels out future retirement payments, reduces accrued liabilities and fully funds municipal pensions by 2045.
**Funded percentages**

Chicago’s municipal pension fund will run out of assets in 10 years. In contrast, the Illinois Policy Institute ends the accrual of new defined-benefit liabilities and significantly reduces the unfunded liability. This improves funding ratios, reaching 100 percent in 30 years – with stable and predictable pension contributions.

**Unfunded actuarial accrued liabilities**

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 100 percent over the next decade despite significant increases in city pension contributions.

In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 48 percent immediately and a further 14 percent over the next decade.
Appendix 3.4: Projected results by fund – Chicago Laborers’ and Retirement Board Employees’ Annuity and Benefit Fund

Total actuarial accrued liabilities

Under current law, total actuarial accrued liabilities increase by 25 percent over the next decade. Under the Illinois Policy Institute’s reform plan, accrued liabilities are reduced going forward by ending the accrual of any new defined-benefit liabilities and by introducing a hybrid retirement plan.

Contributions

Contributions under current law are not nearly enough to fund laborer pensions. At the current contribution rate, the fund will be nearly bankrupt by 2023. The Institute’s reform plan levels out future retirement payments, reduces accrued liabilities and fully funds laborers’ pensions by 2045.
Funded percentages

Chicago’s laborers’ pension fund will drop to nearly bankrupt levels during the coming years. In contrast, the Illinois Policy Institute plan ends the accrual of new defined-benefit liabilities and significantly reduces the unfunded liability. This improves funding ratios, reaching 100 percent in 30 years – with stable and predictable pension contributions.

Unfunded actuarial accrued liabilities

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 113 percent over the next decade despite significant increases in city pension contributions. In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 39 percent immediately, and a further 14 percent over the next decade.
Appendix 4: Projected results by fund – Chicago Teachers’ Pension Fund

Total Actuarial accrued liabilities

Under current law, total actuarial accrued liabilities will increase by 9 percent over the next decade. Under the Illinois Policy Institute’s reform plan, accrued liabilities are reduced going forward by ending the accrual of any new defined-benefit liabilities and by introducing a hybrid retirement plan.

Contributions

Pension contributions will increase by 200 percent in 2015. However, higher payments alone do nothing to fundamentally change the problems with the existing defined-benefit structure.

The Institute’s hybrid plan levels out future retirement contributions by ending the accrual of new defined-benefit liabilities and by significantly reducing the unfunded liability.
Funded percentages

Despite significant contribution increases under current law, funding ratios remain at unsustainable levels going forward. And without real reforms to the current system, the city will continue to experience unpredictable growth in its unfunded liabilities.

In contrast, the Illinois Policy Institute’s plan ends the accrual of new defined-benefit liabilities and significantly reduces the unfunded liability. This improves funding ratios, reaching 100 percent in 30 years – with stable and predictable pension contributions.

Unfunded actuarial accrued liabilities

Chicago cannot return to good fiscal standing unless it dramatically reduces its unfunded liability.

Under current law, unfunded liabilities increase by 25 percent over the next decade despite significant increases in city pension contributions. In contrast, the Illinois Policy Institute’s reform reduces the unfunded liabilities by 60 percent immediately, and a further 13 percent over the next decade.
## CHICAGO PENSION FACTS

**SOURCE**: COGFA & INDIVIDUAL ACTUARIAL REPORTS, FY 2012

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>RETIREMENT AGE</th>
<th>RETIREMENT FORMULA</th>
<th>MAXIMUM ANNUITY</th>
<th>FINAL SALARY</th>
<th>EMPLOYEE CONTRIBUTION</th>
<th>EMPLOYER CONTRIBUTION</th>
<th>COST OF LIVING ADJUSTMENT (COLA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLICE</td>
<td>50 WITH 20 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 60% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>75% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>9% OF SALARY</td>
<td>Actuarially determined contributions with a funding goal of 90% by the end of FY 2040</td>
<td>3% simple with no limit if born before 1/1/1955, 1.5% simple if born after 1/1/1955, 30% maximum</td>
</tr>
<tr>
<td>FIRE</td>
<td>50 WITH 20 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>75% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>9.125% OF SALARY</td>
<td>Actuarially determined contributions with a funding goal of 90% by the end of FY 2040</td>
<td>3% simple with no limit if born after age 60, or age 55 if born before 1/1/55, 1.5% simple if born after 1/1/55, 30% maximum</td>
</tr>
<tr>
<td>LABORERS</td>
<td>60 WITH 10 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>80% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>8.5% OF SALARY</td>
<td>Required to contribute an amount equal to the employee contributions to the fund two years prior to the year in which the tax is levied, multiplied by 1.00</td>
<td>3% compounded starting three years after age 55 or at age 60</td>
</tr>
<tr>
<td>MUNICIPAL</td>
<td>60 WITH 10 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>80% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>8.5% OF SALARY</td>
<td>Required to contribute an amount equal to the employee contributions to the fund two years prior to the year in which the tax is levied, multiplied by 1.25</td>
<td>3% compounded starting three years after age 53 or at age 60</td>
</tr>
<tr>
<td>TEACHERS</td>
<td>62 WITH 5 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>75% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>9% OF SALARY</td>
<td>Required to make contributions calculated as a level percentage of payroll sufficient to bring the fund’s total assets up to 90% by 2059</td>
<td>3% compounded starts at age 61</td>
</tr>
<tr>
<td>PARKS</td>
<td>50 WITH 10 YEARS SERVICE</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>80% OF FINAL AVERAGE SALARY</td>
<td>Avg of 4 highest consecutive years within final 10 years of service</td>
<td>10.125% OF SALARY</td>
<td>1.5% simple if born before 1/1/55, 30% maximum</td>
<td>Starts at age 60: Simple COLA; lesser of 3% or 1% CPI; SUSPENDED IN 2015, 2017, 2019</td>
</tr>
<tr>
<td>CTA</td>
<td>Normal retirement age of 65</td>
<td>For employees with 20 or more years of service: 50% of final avg salary, plus 2.5% of final avg salary for each year in excess of 20</td>
<td>70% OF FINAL AVERAGE SALARY</td>
<td>Highest avg compensation over any four calendar years out of the final 10 years of service prior to normal retirement</td>
<td>10.125% OF SALARY</td>
<td>14.25% OF SALARY</td>
<td>Mada on an ad-hoc basis; most recent increase of $40 per month for members who retired after 1991 but before 2000</td>
</tr>
</tbody>
</table>

Source: Commission on Government Forecasting and Accountability, 2012 Actuarial reports from individual funds, Institute calculations based on Freedom of Information Act (FOIA) data obtained from individual pension funds
## CHICAGO PENSION FACTS

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>ACTIVE MEMBERS</th>
<th>REGULAR RETIREES</th>
<th>SURVIVORS</th>
<th>DISABLED</th>
<th>TOTAL BENEFICIARIES</th>
<th>PAYROLL</th>
<th>NET ASSETS</th>
<th>ACCRUED LIABILITIES</th>
<th>UNFUNDED LIABILITIES</th>
<th>FUNDED RATIO</th>
<th>EXPECTED RoR</th>
<th>EMPLOYEE CONTRIB.</th>
<th>EMPLOYER CONTRIB.</th>
<th>AVG. SALARY</th>
<th>AVG. CURRENT PENSION FOR A CAREER WORKER</th>
</tr>
</thead>
<tbody>
<tr>
<td>POLICE</td>
<td>12,026</td>
<td>9,035</td>
<td>3,405</td>
<td>526</td>
<td>12,666</td>
<td>$1,012</td>
<td>$3,149</td>
<td>$10,052</td>
<td>$6,903</td>
<td>31.30%</td>
<td>7.75%</td>
<td>$95.80</td>
<td>$207.20</td>
<td>$84,415</td>
<td>$72,880</td>
</tr>
<tr>
<td>FIRE</td>
<td>4,740</td>
<td>2,821</td>
<td>1,442</td>
<td>350</td>
<td>60</td>
<td>$419</td>
<td>$993</td>
<td>$4,066</td>
<td>$3,073</td>
<td>24.40%</td>
<td>8.00%</td>
<td>$53.20</td>
<td>$84.10</td>
<td>$88,389</td>
<td>$80,696</td>
</tr>
<tr>
<td>LABORERS</td>
<td>2,865</td>
<td>2,737</td>
<td>1,239</td>
<td>255</td>
<td>1,408</td>
<td>$199</td>
<td>$1,316</td>
<td>$2,375</td>
<td>$1,059</td>
<td>56.40%</td>
<td>7.50%</td>
<td>$16.60</td>
<td>$14.40</td>
<td>$69,386</td>
<td>$59,974</td>
</tr>
<tr>
<td>MUNICIPAL</td>
<td>31,326</td>
<td>19,614</td>
<td>4,506</td>
<td>530</td>
<td>13,465</td>
<td>$1,591</td>
<td>$5,073</td>
<td>$13,638</td>
<td>$8,564</td>
<td>37.20%</td>
<td>7.50%</td>
<td>$130.20</td>
<td>$158.4</td>
<td>$50,782</td>
<td>$50,194</td>
</tr>
<tr>
<td>TEACHERS</td>
<td>30,366</td>
<td>22,636</td>
<td>2,822</td>
<td>468</td>
<td>25,826</td>
<td>$2,225</td>
<td>$9,364</td>
<td>$17,376</td>
<td>$8,012</td>
<td>53.90%</td>
<td>8.00%</td>
<td>$187.10</td>
<td>$138.80</td>
<td>$69,797</td>
<td>$65,281</td>
</tr>
<tr>
<td>PARKS</td>
<td>2,977</td>
<td>2,104</td>
<td>817</td>
<td>0</td>
<td>153</td>
<td>$114</td>
<td>$441</td>
<td>$866</td>
<td>$426</td>
<td>50.90%</td>
<td>8.00%</td>
<td>$10.40</td>
<td>$10.90</td>
<td>$36,892</td>
<td>$36,673</td>
</tr>
<tr>
<td>CTA</td>
<td>8,751</td>
<td>8,638</td>
<td>780</td>
<td>944</td>
<td>10,092</td>
<td>$549</td>
<td>$1,703</td>
<td>$2,867</td>
<td>$1,165</td>
<td>59.40%</td>
<td>8.50%</td>
<td>$48.40</td>
<td>$62.8</td>
<td>$66,142</td>
<td>$47,783</td>
</tr>
</tbody>
</table>

*Recently retired career workers are employees who have spent 30 years or more working for the city or its sister governments and have retired within the last three years.

Source: Commission on Government Forecasting and Accountability, 2012 Actuarial reports from individual funds, Institute calculations based on Freedom of Information Act (FOIA) data obtained from individual pension funds.
APPENDIX

Sources


8 Institute calculations based on Freedom of Information Act data obtained from individual pension funds.


15 Under current law, the municipal and laborers’ pension funds use a 7.5 percent rate of return, the police fund uses a 7.75 percent rate of return and fire uses an 8 percent rate of return on investment. The Institute’s calculations assume the more conservative rate of the four funds: a 7.5 percent rate of return on investment.

16 Retirement FIRST benefits based on actuarial assumptions of: 4 percent wage inflation, 6 percent earned rate and 0.5 percent mortality improvement. These assumptions are for informational purposes only and subject to change according to actual market conditions.

17 Nichols Actuarial Consulting LLC

18 Institute calculations based on Freedom of Information Act data obtained from individual pension funds.


20 Institute calculations based on Freedom of Information Act (FOIA) data obtained from individual pension funds.

