An open letter to Mayor Brandon Johnson on the forthcoming recommendations of his Pension Working Group

January 10, 2024

Dear Mayor Johnson:

We appreciate your establishment of the Pension Working Group to address the city's growing public retirement crisis.

Chicago's public pension debts continue to put a strain on the city's budget and threaten the future prosperity of its residents and its pensioners. The total official unfunded pension liability for the city and its sister agencies now exceeds $52 billion, the equivalent of $45,000 per Chicago household. By most measures, Chicago has the worst funded pensions among the nation's largest cities.

We, the members of the Taxpayer Pension Alliance, represent a number of concerned Chicagoans and have come together to advocate for sound and sustainable solutions to this critical problem.

We urge you to ensure your Working Group considers the below elements while crafting final recommendations. The elements are informed by the 2014 Blue Ribbon Panel Report written for the Society of Actuaries (SOA).

- A requirement to have any proposal scored by independent, professional actuaries.
- A requirement to reach and maintain 100% funding for all plans within 20 years.
- A requirement to reduce the burden on the next generation of taxpayers by adopting a level-dollar amortization schedule.
- A moratorium on any benefit increases until plans are 100% funded.
- A requirement to enroll participants in Social Security if Tier II plan provisions are found to be in violation of ERISA.
- A ballot initiative for a constitutional amendment that replaces the current pension clause, giving the General Assembly the power to improve the retirement security of public sector workers while reducing the pension burden on taxpayers.

Please let us know if you need further details or clarifications.

Sincerely,

Taxpayer Pension Alliance
Ted Dabrowski, President, Wirepoints
Josh Bandoch, Head of Policy, Illinois Policy Institute
Dennis LaComb, EVP and Chief of Staff, Technology & Manufacturing Association
Ed Bachrach, Founder, Center for Pension Integrity

Background on Chicago's Pension Crisis

Pension debts have made Chicago the nation's extreme outlier when it comes to strained city budgets and overburdened residents. As shown in the Appendix, Chicago ranks last across many of the financial and demographic metrics that matter most. Without proper reforms, Chicago's debts will continue to grow and overwhelm the city's future generations.

- Chicago pensions are among the worst funded in the country when measured by the ratio of assets to annual payouts. Those asset-to-payout ratios have collapsed to single digits over the last two decades, risking total depletion if a serious economic downturn occurs.

- Chicago's pension shortfall is often reported as $35 billion, the debt total of the four city-run funds. But the true burden on taxpayers must include the pension debts for Chicago's teachers, its park employees and CTA workers. That pushes the total shortfall to $52 billion, the equivalent of nearly $45,000 per Chicago household. Worse, Chicago's actuaries show those debts won't peak for another 10 years.

- The city's payment ramp, extending through 2055, also increases the intergenerational burden. That's something the Society of Actuaries' 2014 Blue Ribbon Panel, which included the Civic Federation's Laurence Msall and New York's Richard Ravitch, condemns. Future Chicagoans will pay $86 billion in contributions between 2040 and 2055. That's far more than the $65 billion Chicagoans have to pay over the next 15 years, from 2024 to 2039.* The Blue Ribbon Panel says municipal services should be paid for when received and not shifted to future generations.

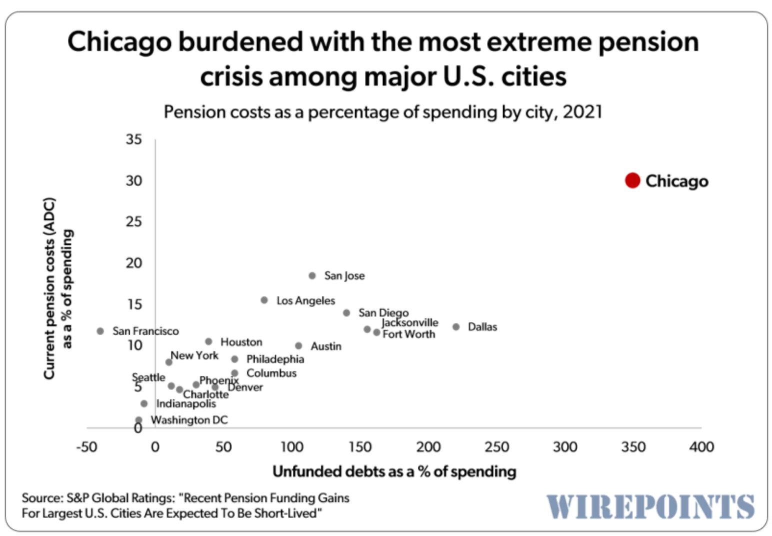
- The Society of Actuaries also recommends officials disclose all pertinent reform plan information, including risks involved and any stress-test results, before moving forward. And any changes should be considered and debated over the course of at least two years before they are passed into law. That's particularly important for any proposed Tier 2 changes that will increase the burden on Chicagoans. Lawmakers' original passage of Tier 2 in 2010 was marred by a lack of analysis and transparency.

It is impossible to predict whether any pension plan will become so distressed that it defaults on paying benefits. That said, the forces impacting that risk include precariously low funding levels and an unwillingness of taxpayers to pay an exorbitant amount for services already rendered.

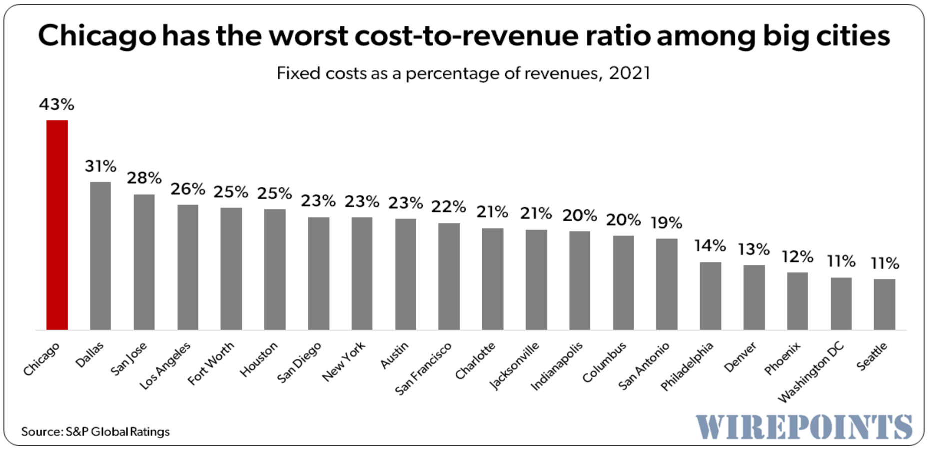
Chicago's pension crisis will not be solved via more reamortizations, pension obligation bonds or tax hikes. Such "fixes" will only prolong and further exacerbate the city's housing, migration and quality-of-life issues. Instead, a comprehensive, long-term solution, based on actuarial best practices, is essential to restoring confidence and competitiveness to Chicago.

Appendix.

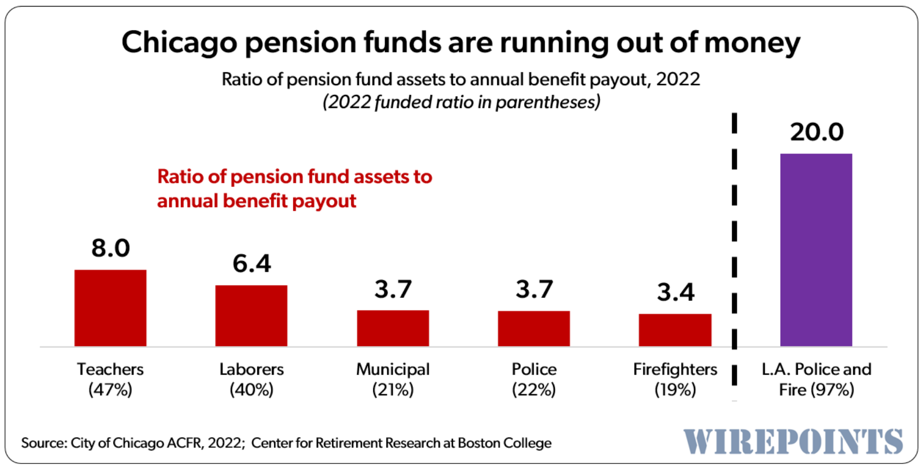
Chicago's pension costs and its unfunded liability make the city the extreme outlier nationally when it comes to the burden it creates on its residents and its budget.



The fixed costs of Chicago's pension and general debts makes the city uncompetitive vis-a-vis the nation's other big cities. Those costs will continue to negatively impact taxes and services, further pressuring the city's out-migration, home values and quality-of-life issues.

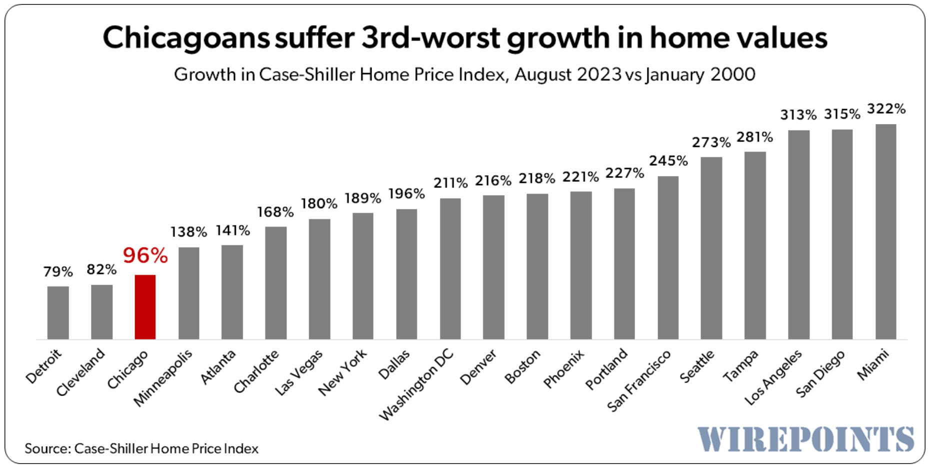


Chicago's pension funds are running out of money and are among the worst funded in the country when measured by the ratio of assets a plan has relative to its yearly payout. Those asset-to-payout ratios have collapsed to single digits over the last two decades, reflecting the funds' fall towards insolvency. Healthy funds have a ratio of 20 or more.

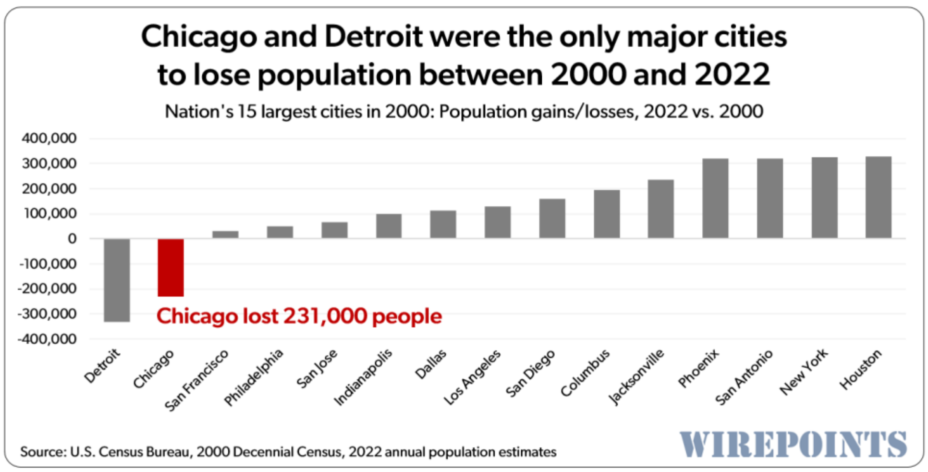


Chicago can't increase taxes without inflicting even more damage to its economic competitiveness. Chicago commercial property taxes are already the nation's highest among big cities.

The city's lack of competitiveness across fiscal and quality-of-life issues, including crime and education, has had a dramatic impact on Chicagoans' home values. The expectation of higher taxes and cuts in services will continue to put pressure on Chicago home values.



The catch-all impact of the burdens and quality-of-life issues Chicagoans face is reflected by the city's long-term population decline. When compared to the turn of the millennium, Chicago and Detroit are the only major cities to suffer a loss of people.



Chicago has the worst credit rating in the country among big cities with the exception of Detroit. Chicago was able to shed its junk rating only because of the billions in federal public and private aid during covid. The city's pension crisis will reemerge as those federal funds dry up.