★★ Alderman ★★

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Chicago's 43rd Ward

Chicago Retiree Issues
Time for Fair Reform

Background
Pensions and Retiree Healthcare

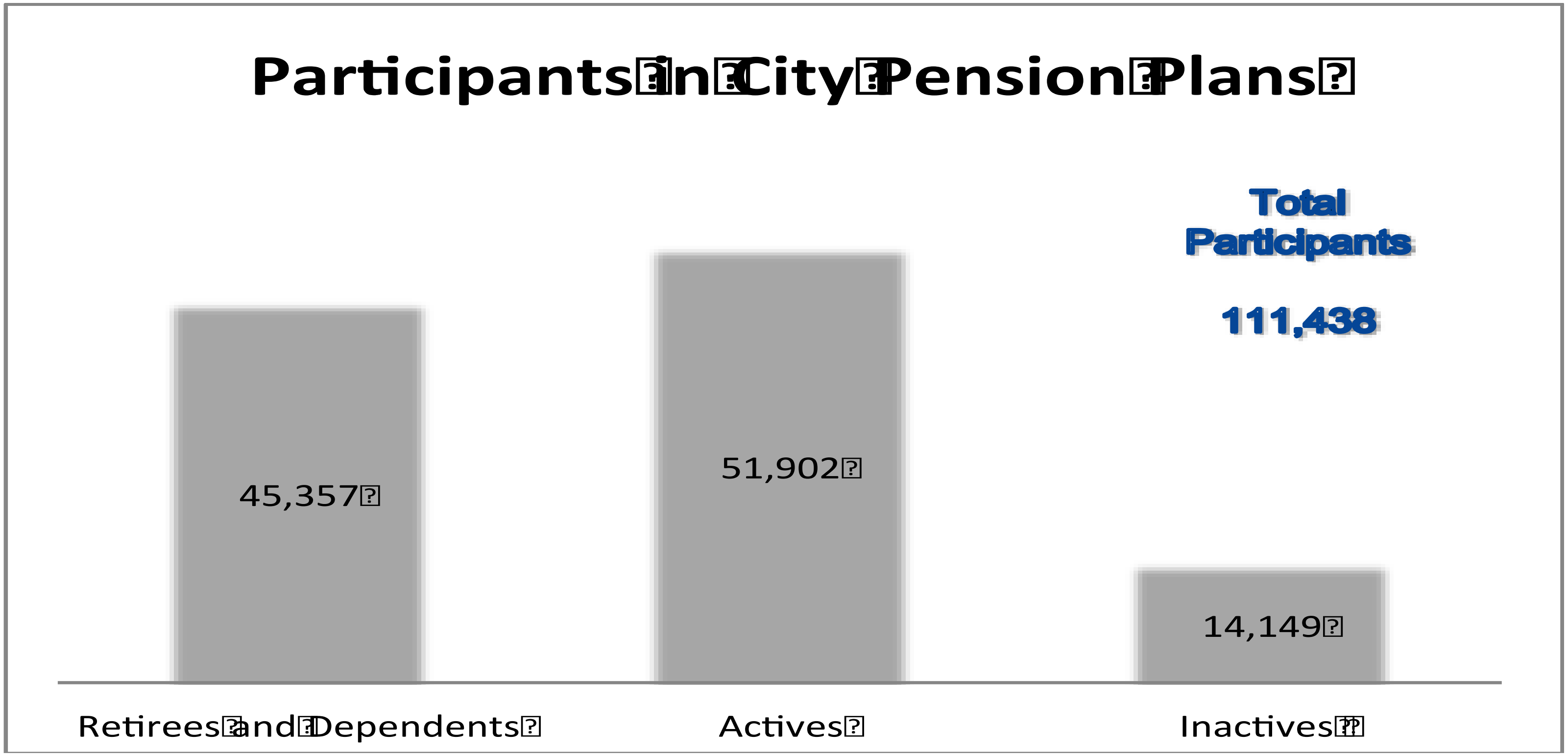
Employees of the City of Chicago and sister agencies contribute to one of six plans:

- **Municipal Employees** Annuity and Benefit Fund (MEABF)
- **Police** Annuity and Benefit Fund (PABF)
- **Fire** Annuity and Benefit Fund (FABF)
- **Laborers** Annuity and Benefit Fund (LABF)

Plus:

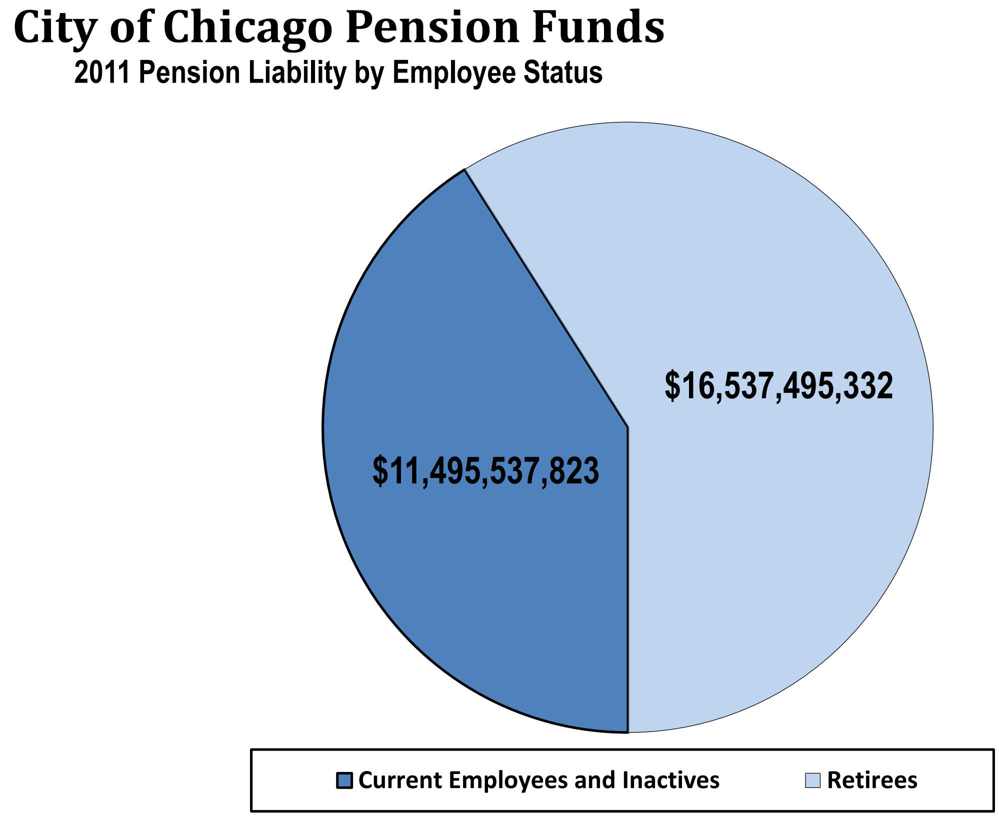
- Chicago **Teachers** Pension Fund (CTPF)
- **Park Employees** Annuity and Benefit Fund (PEABF)

Participants in 4 City Pension Plans



Average pension $24,000 (Parks) - $61,000 (Fire)

Is There Enough Money to Pay Benefits?



Total Liabilities

$28,033,033,155

Total Assets

$10,537,000.000

What is an Unfunded Liability?

- Money has to be in the system to pay the pensions for life of retirees
- Last year, **$872 million more** was paid out than was paid in

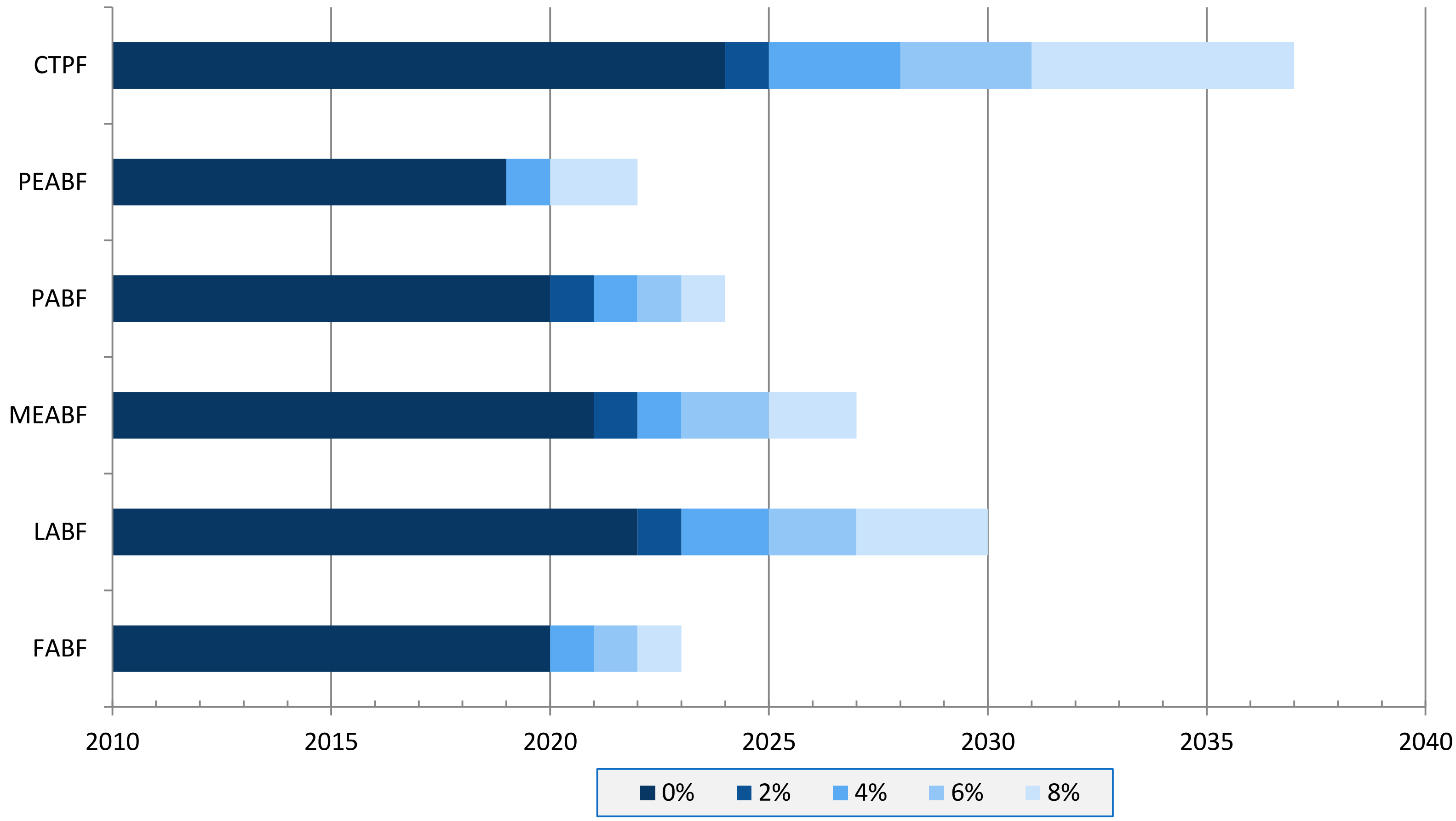
2011 Flows	FABF	PABF	MEABF	LABF
Income - all sources	$115	$316	$321	$27
Payments	$227	$580	$703	$141
Actual cash outflow	($112)	($264)	($382)	($114)
Asset Value	$994	$3,176	$5,053	$1,314
Years cash on hand	9	12	13	12

Causes of the Unfunded Liability

- Significant **Investment Losses** in 2001, 2002, 2008, and 2011
  - Investment policy is not a significant source of funding relief. "**We cannot invest ourselves out of this funding gap." – Mayor's Commission**
- **Unfunded benefit changes**
  - Early retirement programs in 1993, 1998, and 2003
  - COLA compounding began in 1998
  - Vesting was set at 10 years
  - Minimum annuities were increased
- **Increased life expectancy**
- **Contributions persistently less** than needed
  - City has ALWAYS paid what is legally required

When Do We Run Out of Money?

On a cash basis, the plans have less than 10 years of funds on hand to meet actual cash benefits.



The City and Labor Agree:

"Absent substantial changes to the funding policy and/or benefit structure, under current actuarial assumptions and conditions at the end of 2009, the **Funds will deplete all assets** in approximately these years: Fire 2022; Police 2024; Municipal 2027; Laborers 2030."

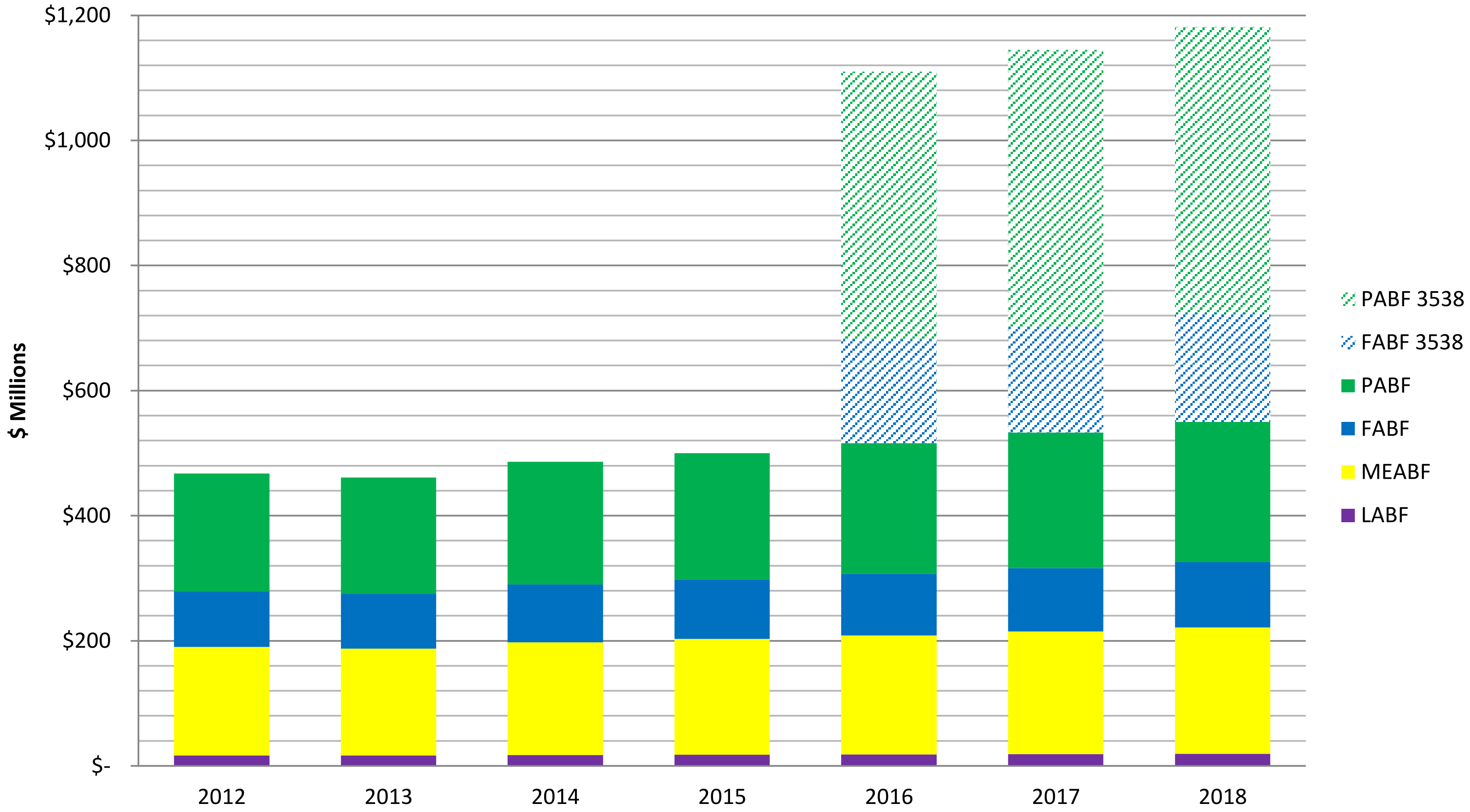
Source: Mayor Daley's Commission to Strengthen Chicago's Pension Funds Final Report (April 31, 2010)

Fix?

- SB 3538 mandates a property tax levy sufficient to fund **police and fire** to 90% funded by 2040 or the State Comptroller is directed to withhold State funds to the City.
- Similar fix in the works for teachers
- Only "helps" three plans, and pits beneficiaries of plans against one another
- Widely viewed as a **lever** to try to force a solution

Annual Contributions required in future

Four City Funds only, with SB 3538



60% property tax increase in 2014 to pay for two plans only

. . . But that’s not enough!

Total Potential Tax Burden due to Pensions

- City - $26 Billion
- Chicago Teachers and Parks - $3 Billion
- County - $6 Billion
- State - $85 Billion

Plus . . .

- Retiree Health Care

Retiree Health Care

- City is under no obligation to provide retiree health care for City employees (teachers excepted), except under a lawsuit settlement that **expires June 30, 2013**

- Value of health care is $10,000/ person
  - City is paying between 40% - 55% of the cost currently, and includes prescription drug coverage - $100 million in 2011
  - Pension plans are also subsidizing retiree health care
  - Retirees pay only about 30% of the cost today - $68 million in 2011

- Potential liability is **Not Disclosed**
  - Teachers estimate a $3 Billion liability alone, and it is unfunded

Our Common Plight

- City Employees and Retirees
  - Insecure Pensions
  - No Reliable Healthcare

- City Taxpayers
  - Unaffordable Property Taxes
  - No end in sight

Scenarios

- Do Nothing
- Unilateral
- Cooperative

Scenarios

- Do Nothing
  - Starting in ten years, retired city workers lose all their pensions because the funds run out.
  - In 2016, property taxes increase 60% in one year for police and fire only. More increases for teachers.
  - June 2013, retiree health care payments by the city cease.
  - Lawsuits galore

Scenarios (cont.)

- Unilateral Scenario
  - In anticipation of looming insolvency, pension funds file for bankruptcy
    - Current Retirees lose benefits
    - Current Employees lose benefits
    - Retiree healthcare eliminated
    - Employees and retirees pitted against one another in court
  - City refuses to raise property taxes to pay fire and police
    - State withholds money from City
  - Lawsuits galore

Scenarios (cont.)

- Cooperative
  - Unions, city and legislature create a fair comprehensive solution

Criteria for Reform

- Recognize the service of our employees
- Honor the reliance on pensions by our retirees
- Fairness to all employees
- Recognize the total compensation package of employees and retirees
  - Pension
  - Retiree Health Care
- Affordability for taxpayers
- Stability and Totality – a long-term, complete solution

Elements of the Solution

Three classes of "levers" can and should be deployed to close the funding gap: **Employee Contributions, Benefits,** and **Employer Contributions**

- COLA – cost of living increases reduced to half of CPI
- Retirement age increased by 5 years over 10 years, starting in 2013
- 1% employee contribution increase
- Retiree health care tradeoff – a valuable new benefit
- Potential upside and downside protection
    - Employer and employee contributions change dependent on financial conditions
    - Safeguards on investment returns

What can I do?

- Call for fair reform
  - Letters to Elected Officials and Union Leadership
- Vote for Referendum Question on Nov. ballot

THANK YOU!