

Actuarial Funding for Pension Funds

Actuarial Funding for Pension Funds: City employees participate in one of four pension plans. Currently, all four of the City's pension funds carry significant net pension liabilities, totaling over \$20 billion.

Background

A pension fund is said to be 'fully funded' when its total assets are sufficient to cover the projected future benefits paid to current members of the fund. If the fund's 'net position,' also referred to as the net assets, is not sufficient to cover the total pension liability, it is said to have a 'net pension liability,' also referred to as the unfunded liability. The net pension liability is the difference between the fund's total pension liability and the net position of those funds. Currently, all four of the City's pension funds carry significant pension liabilities. See the table below.

Funding Status of City Pension Funds as of December 31, 2014 (in millions)

	Total Pension Liability	Plan Net Position	Net Pension Liability	Net Position as a percent of Total Liability
Municipal	\$12,307	\$5,179	\$7,128	42%
Laborers	\$2,163	\$1,388	\$775	64%
Fire	\$4,513	\$1,036	\$3,477	23%
Police	\$11,773	\$3,062	\$8,711	26%
TOTAL	\$30,756	\$10,665	\$20,091	35%

The current funding status of the pension funds is the result of the statutory framework on which the pension system is based and the legislative and economic factors that have acted upon that framework. Until 2015, contributions by employees and the City were statutorily determined based on a multiplier; these contributions were not related to the actual cost of future benefits or the actuarial needs of the pension funds.

In order to address the substantial net pension liability of the Municipal and Laborers Funds, the City worked with almost 30 unions to develop balanced legislation that adjusts annual increases and increases contributions in a manner that protects both Chicago's taxpayers and the retirement security of City employees. Legislation was passed in 2014¹, requiring the City to contribute to the Municipal and Laborers funds on an increased ramp until 2020, when the contribution will be at an actuarially determined amount to bring the funds to 90 percent funded by 2055.

In 2010, legislation passed by the State² altered the City's contribution to the Police and Fire pension funds, requiring the City to contribute an actuarially determined amount to bring the funds to 90 percent funded by 2040. In May 2015, the Illinois General Assembly approved legislation³ to extend the target date for 90 percent funded to 2055 and provide for a ramp to actuarial contributions through 2020. This bill has not yet been signed by the Governor.

¹ P.A. 98-0641.

² P.A. 96-1495.

³ SB0777.

The total City pension contribution for 2015 is budgeted at \$557 million. When the 2015 budget was adopted in November 2014, pension funding changes for the Police and Fire pension funds had not been finalized. Therefore, only the increase in contribution for the Municipal and Laborers' funds was included in the 2015 budget. The \$549 million increase in pension contribution required for Police and Fire under P.A. 96-1495 was not included.

Assuming SB0777 is enacted into law by the State, the City will be required to budget an additional \$328 million for Police and Fire pension contributions for the 2015 budget year. This will bring the total required City pension contribution to \$885 million for budget year 2015. If SB0777 is not signed into law, the City contributions for the Police and Fire funds will increase by \$549 million in 2015, for a total of \$1,106 million. For 2016, assuming SB0777 is enacted, the City's total contribution will be \$978 million. If SB0777 is not enacted, the 2016 contribution would total \$1,266 million.

Additional information on historic and projected pension contributions and the factors that impact these contributions can be found on pages 87-91 of the 2015 Annual Financial Analysis.

Actuarial Funding

As discussed above, the City's currently budgeted pension contributions are based on a multiplier with a ramp towards actuarial funding. The amounts presented below are the Annual Required Contributions (ARC), as reported by each of the pension funds. The ARC is a calculated contribution most often determined based on the funding policy of the plan – in other words, it includes the payment amount necessary in the current year to pay out full benefits in a certain future year. Typically, the ARC includes the normal cost payment and an amortization payment.

2015 ARC for the City's Pension Funds (in millions)

	Municipal ⁴	Laborers ⁴	Police ⁵	Fire ⁵
Annual Required Contribution (ARC)	\$667.2	\$82.3	\$592.9	\$246.1

⁴Assumes SB1922 is fully implemented. If not implemented, the net pension liability increases by \$2 billion for the Municipal Fund and \$250 million for the Laborers' Fund, which would impact the ARC for those funds.

⁵ For Police and Fire, the ARC is calculated based on statutory requirements under P.A. 96-1495.