Chicago could learn from St. John

By Editor Test *Thu, Aug 8, 2013*

The Second City's municipal pensions are underfunded by billions of dollars. The mayor wants Chicago's public employees' unions to make the kinds of concessions that unions in St. John, New Brunswick, recently made, in return for neutral management of plan assets.

Chicago is experiencing a prolonged Dickensian moment: It is the best and worst of times. Perhaps the Second City could take a lesson from tiny St. John, New Brunswick. (See today's *RIJ* cover story.)

Downtown Chicago offers one of the most architecturally impressive urban panoramas in the world. At the same time, the city's teen homicide rate and underfunded pension plans make it sound like bedlam.

For instance, the pension fund for retired Chicago teachers stands at "risk of collapse," the *New York Times* reported this week. Four funds for other retired city workers are underfunded by a reported $19.5 billion. (The actuarial ssumptions behind that staggering number weren't reported.) One of the funds could be insolvent within as few as 10 years. The state of Illinois will soon require the city to contribute more money than it can afford—unless it more than doubles property taxes.

Mayor Rahm Emanuel has said he won't do that. He has called for higher retirement ages for city workers, higher employee contributions, and a temporary freeze on inflation adjustments for retirees—the types of concessions that municipal workers in New Brunswick accepted in exchange for amortization of their pension deficit over 15 years and the adoption of neutral, third-party management of their pension fund.

In 2015, state law will require Chicago to pay $1 billion a year into the city's pension funds to make up for years of underpayments. The Chicago Public Schools needs $338 million for its pension fund in 2015, and more every year after that, according to the *Times*.

Last month, Moody's Investors Service downgraded Chicago's credit rating by three notches, putting it in the bottom 10% of Moody's public finance ratings. Of the nation's top-five cities, Chicago has put aside the least of its pension obligations, according to the Pew Charitable Trusts. Its plans had a funded ratio of just 36% at year-end 2012, city documents say. Federal regulators have no authority over public pensions.

Illinois, whose state pension system is the most underfunded in the nation, controls Chicago's benefit and funding levels. Last week, Democratic state legislators sued the governor, Democrat Pat Quinn, for threatening to withhold their pay until they create a plan to fix the state pension crisis.

More than 70,000 people who worked as Chicago police officers, teachers, firefighters and others currently receive average annual benefits ranging from about $34,000 for a general-services retiree to $78,000 for a former teacher with 30 years of service.

Reports say that the city's finances have improved since the start of the Great Recession. Its general budget fund faces a $339 million deficit in 2014, but city officials call it "lower than initially expected and manageable.”