PENSION UPDATE

I've received inquiries from members asking what I know about an agreement between the Union and the City concerning the pension COLA benefit and pension funding. Apparently the view is that our Union has agreed to a diminished funding formula in exchange for upping the 3% COLA birth year cutoff from 1955 to 1966. In an attempt to prevent any misinformation from manifesting legs and running rampant I will summarize what I do know as a FABF trustee. Local 2 has introduced legislation concerning the 3% COLA eligibility. Because the Union is responsible for benefit negotiations, I can't confirm if the Union has agreed to give anything up in exchange for the new benefits contained in this legislation. I was at the evening February Union meeting and did not hear anything about 'negotiating funding for COLA increases'. There are two funding mandates 'in play' which affect our fund; the current law PA96-1495 and proposed legislation SB-777. The City favors SB-777. Of the two, and as a trustee, I favor PA96-1495. In plain language the differences are as follows:

PA96-1495 – The current law; it was passed over 5 years ago but doesn't go into effect until this year. The law requires immediate actuarially sound funding starting in 2016 that gets the fund to a 90% funding level by 2040. Essentially the City must properly fund benefits earned each year and also start contributing enough to eliminate the unfunded balance within 25 years.

SB-777 – The proposed law supported by the City, it is not currently law. SB-777 has passed both the House and Senate but has not been sent to the Governor for his signature. Apparently the Governor has signaled he will not sign it. If Senator Cullerton chooses to not send the bill to Governor Rauner for his signature, it will die at the end of the session in January 2017. SB-777 requires a substantially less amount of funding by the City than the current law (PA96-1495) over the next 5 years and then requires actuarially sound funding starting in 2021 that gets the fund to a 90% funding by 2055, rather than 2040.

Our Fund would receive approximately $325M less over the next 5 years under SB-777 than the current law and require an additional 15 years to get to the 90% funding level. How important is that $325M over the next five years? It is very important. Because of the effects of time, investment returns and compounding, that $325M difference in funding is actually closer to $400M. Giving away that funding is substantial when you consider our funding ratio is near 20% and only has approximately $750M in it right now.

The language found in the current law, PA96-1495, is clearly better for our Fund; it gets us healthier quicker. It demonstrates that the City, as plan sponsor, must give greater priority to the funding of our pensions. SB-777 also states "Any proceeds received by the city in relation to the operation of a casino or casinos within the city shall be expended by the city for payment to the FABF to satisfy the city contribution obligation in any year." The language of this legislation is murky at best; as an accountant, I can assure you, the cash coming from a casino isn't even quantifiable. As a trustee, I don't care if the money owed to the Fund comes from a casino. Funding from property taxes, excess TIF dollars, sales tax, motor fuel tax, telecommunication taxes or a bond offering all help our funding ratio just the same. I have no desire to be in the casino business; I'm leery of tying our benefits to such an endeavor.

It would surprise me to learn that our Union gave up a great funding mechanism that is already law for an incremental benefit that benefits a select few. Don't get me wrong, I am all for additional benefits. A 3% COLA isn't an unreasonable ask, that is a justifiable rate to keep retiree's buying power at parity with historical inflation. **Obtaining a 3% COLA for all retirees should be a goal of our Union.** But at what cost?

The impact statement performed by the actuaries indicates that the added liability to the fund for increasing the 3% COLA cut off from 1955 to 1965 is $140M. Our pension fund is approaching a point of no return with the current funding uncertainty. Unless some very serious changes are made to the funding, like those found in the current law which go into effect this year, our Fund may not be able to make payments on current benefits let alone new ones. A 20% funding ratio can't sustain years of continued underfunding and a major market correction. Reaching for the 3% COLA for the "next group of guys" at the risk of the Fund's solvency is not prudent or in the best interests of any member.

Some have even suggested negotiating better contract terms in exchange for reduced funding. Financial experts say when you trade in a car for a new one, negotiate the terms as two separate transactions; one for the trade in, the other for the new car purchase. That same principle applies here; don't muddle our priorities by mixing them together. I think it is poor judgement to even consider negotiating away the funding mechanism found in the current law. The City is dragging their feet abiding by the current legally required funding mandate. Our Union never should have allowed SB777 to have passed both the House and Senate of the State Legislature without more of a fight. **Local 2 needs to consolidate all its efforts to prevent anything resembling SB777 from becoming law; not only for this year, but next year and the year after.** The membership has to be vigilant about keeping this executive board focused on defeating legislation that attempts to weaken the current funding law, because the City will have their lobbyists trying again and again to pass legislation similar to SB777. This is what the membership needs to be discussing at the kitchen table, roll call and monthly union meetings.

I would like to leave you with one final thought. The woeful funding status of our pension fund is not due to the 'generous' benefits the men and women who man the rigs on the street receive when they retire. If you were a public official who could hit the reset button and start the City all over again tomorrow, you would be a fool to eliminate our pension plan and instead pay into the Social Security system. In return for paying a little more into a defined benefit plan, the City is able to attract loyal committed employees. And because they are required to live in the City limits, that employee contributes to the social fabric and stability of our neighborhoods. The benefits of that captured middle class workforce multiplies throughout the City; through our schools, churches, athletic associations, bars and restaurants, parks, and our overall sense of community. The City gets all that from a wave of committed loyal employees socializing, interacting with, and looking out for, one another, in return for providing a dignified retirement. Our pension plans, when properly funded, are not burdensome to the City budget and are good public policy. The cost of our pension plan should not be measured by the burden of the current unfunded liability to the City budget. The burden of the current unfunded liability is really a measure of past financial mismanagement and ineptness of stakeholders to stand up and defend good public policy. I hope you continue to look out for one another and are as proud as I am to be a member of this department. Feel free to reach out with any questions or concerns.

Stay safe,

Tim McPhillips

Tim McPhillips
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FABF Active Trustee