

PENSION UPDATE – MAY 2016

Brothers and Sisters,

I am writing to ask you to contact Governor Rauner and ask him to veto SB777 (commonly referred to as the Casino Bill), which significantly jeopardizes our pension fund. As you are aware, our pension fund is at a critical juncture in terms of funding, and its ability to continue paying benefits under its current structure. Earlier this year the FABF Board of Trustees sent a letter to Local 2 President Ryan, stating we are so concerned about our funding and ability to continue as a going concern, that Local 2 should consider a direct action against the City for adequate funding. Additionally, this past month the Legislature sent SB777 to the Governor for his signature. SB777 is a direct assault on our pensions and is a continuation of the City's unwillingness to respect our retirement security.

I addressed the Local 2 executive board in the beginning of May about these **two issues**; I asked if they were going to try to **defeat SB777** and if they were considering **a direct action against the City for adequate funding** of the pension plan as suggested by the FABF Board of Trustees. The ensuing discussion with the Local 2 executive board was not very productive or encouraging.

A vocal group on the Local 2 executive board was not thrilled with the idea of filing a direct action against the City for proper pension funding. I did elaborate that the City is not, in my opinion, following the law by holding up \$47 million owed to the Fund. Given this information, I suggested to the Local 2 executive board that they seriously consider a direct action against the City. There was not much discussion about why they did not want to pursue it or why a response to the FABF letter was not made; they felt the FABF should initiate the direct action. I indicated I would communicate that to the FABF Board of Trustees.

The stance from most of the executive board members concerning defeating SB777 was to **defer to Local 2's Political Action Director**. He took the position that Local 2 would look stupid trying to defeat a bill they supported in the Legislature. There was some confusion at this point in the discussion because certain Local 2 executive board members didn't know Local 2 supported SB777 while it was being discussed down in Springfield. He went on to say that the funding language is going to keep changing year after year and is never going to stay the same. To that I responded we should make the City honor the current law and that not fighting them would be capitulation, essentially rolling over to the City's wishes and **not in the best interests of the general membership**. My response was not well received, and needless to say, any constructive discussion on the matter ended.

I would like to speak to the Political Action Director's statement that the funding language is constantly going to change and that the funding requirements in SB777 will change again in a few years and that this is part of the negotiations. That mindset, for this Union, has to stop; this is the attitude that has gotten us into this situation. **What happens if this casino does well?** Are they going to whimsically change the law as the past practice has been? Will the Legislature divert those funds elsewhere? With a swift amendment, then a vote and topped off with a Governor's signature the casino profits can go to a distressed TIF fund that owes back interest to bondholders. This is how concentrated power and well-controlled legislation works if left unchecked. **Local 2 needs to stand up for the current law.** The funding of our pension fund should never be negotiated, that is dangerous. We currently have a law on the books that is the right solution, we should be fighting like mad to keep it intact and make the City follow it. Members should contact the Governor's office, telling him you are not supportive of a Legislature that puts laws on the books and then removes them five years later the very first year it has any teeth. This isn't the government Governor Rauner said he was going to bring to Illinois. I have not heard a compelling reason from Local 2 why members should not call the Governor and oppose SB777.

Supporting SB777 is small ball strategic thinking. I do not understand the strategic thinking of the Political Action Director. It has come to my attention that he has stated at union meetings that even if our pension fund was to run out of money, that is ok, because the courts say the City has to pay. If the pension fund runs out of money, we would be operating under pay-as-you-go (PAYGO). Under PAYGO, the City would transfer to the pension fund

the amount needed to meet the current benefits each month. There are two big concerns with this line of thinking. This argument puts **too much faith in the Illinois Constitution** and lacks an understanding of the City's finances. First, the Illinois State Constitution is not a static document; it can be changed. Opening the State Constitution is automatically put on the ballot every 20 years, the next time will be in 2028. There has been increasing concerted pressure by heavily funded and well organized groups to reduce or eliminate our pension benefits. These political forces will be ready for the next Constitutional Convention, when under the Political Action Director's strategic plan, the fund will be at a dismal 32% funded and 27 years from being properly funded rather than 51% and 12 years, under the current law. His strategic thinking creates an unnecessary crisis. **By passing SB777 you are strengthening the hand of the establishment that wants to dismantle our pensions.** We need to properly fund the pension fund as soon as possible before the next big political fight is upon us.

The second problem I have with the Political Action Director's strategic plan is it turns a blind eye to the City's blatant money grab of your wages. Under a PAYGO scheme what happened to the 9.125% we've been contributing into the pension fund rather than into social security? If money, we are putting in for our future benefits, isn't staying in the Fund to grow for us but instead is being used for older Fund participants, then we are participating in a Ponzi scheme. **As a pension fund trustee, I am uncomfortable being silent when I know the fund is collecting 9.125% of active member's salaries and I have been advised by paid investment and actuary consultants that it isn't clear we can operate as a going concern without substantial adequate funding.** Not only should that be a concern to all Local 2 members, but what happens when the City cannot make those large PAYGO pension payments? Those 'required' payments are going to be a huge drag on the City's cash flow. The court can order the City to make them, but the courts are also going to be ordering the City to make good on the interest payments on the billions of dollars in general obligation debt on the City's books. What happens if the City cannot make the payments for both? After all, the City is not the Federal government, it can't just print up more money, and it is at the point where it cannot borrow money at reasonable rates. This is at the crux of all economic questions; how to allocate limited resources. Well our position becomes, by laying down on SB777, that it is ok to pay firefighters last, or at least until after the bondholders get paid. That is because SB777 contains a new section (Sec. 6-165.2) of the pension code that makes our place in line "expressly subordinate" to bondholders. In other words, Local 2 is agreeing to hamstringing our standing when it comes to rightfully demanding our earned retirement benefits. That thinking has to change.

A 3% COLA for those born before 1965 in exchange for looking the other way on SB777 is a poor strategy. We need to right the ship with adequate funding before we take on any new benefits. As I have said before, a 3% COLA for all members is not an unreasonable ask. But anyone involved in what is going on in this State understands that getting any benefit enhancements will not be an easy task. Just last week I heard a former state representative say 'pension enhancements are like the abortion issue, it's the third rail of politics, no one wants to touch it'. So what is more likely to happen is, if we don't oppose SB777, it will pass and you still won't get any 3% COLA legislation passed. This is what happens when deals are made behind the scenes without any membership input, due notice, or transparency. It is my opinion that, if there is a trade-off from this deal with the City, the general membership is not benefitting from it.

This letter is paid for out of my pocket, the FABF did not incur any expense in its production nor is the letter endorsed by the FABF. Please share this letter with you CPD neighbor, brother, sister-in-law or spouse. CPD needs to be involved in this; SB777 effects the police pension fund as much as the fire fund. Call the Governor, tell him you do not want him to be complicit with the Mayor in sabotaging our financial future. **SB777 is not our friend. The Governor's phone number is 312-814-2121.** Fraternally,

Tim McPhillips
E47 - 2/E
FABF Active Trustee