

## PENSION UPDATE – DECEMBER 2016

At the end of November, the General Assembly, with the help of the Local 2 Executive Board, severely undermined the financial stability of our Pension Fund by helping pass SB440. That legislation grants a 3% cost of living adjustment (COLA) for those born between 1955 and 1966. The Fund has approximately \$780 million in assets, but owes \$4.5 billion in benefits. That works out to about \$17 for every \$100 the Fund owes. The cost of the 3% COLA in SB440 is approximately \$145 million with no additional funding being provided. **Because of certain Executive Board members' reckless behavior and negligence, it won't be long before retirees stop getting their promised monthly annuity checks.** That is a serious statement and it most definitely is not irresponsible exaggeration. I do not share the City's rosy assumptions that if we can just, AGAIN, postpone acceptable funding methods for the next 5 years, everything will be ok. It isn't just retirees that will not get their checks, but also the widows and orphans of firefighters, members on duty disability and members battling cancer off on occupational disability. Imagine a widow of a Korean War veteran, whose husband proudly served 30 years in the CFD, who has become accustomed to a meager monthly pension check to live on and suddenly the check stops arriving. How does she survive, especially given the fact the City may have just cut her off of health care coverage? Is this current Executive Board so inept as to not see this coming? This isn't a scare tactic on my part; this is a conclusion any person, with some experience, common sense and a willingness to take the time to pay attention, would draw. The day of reckoning for this continuous negligence is closer than it has ever been. If it wasn't for this Executive Board's ineptness in managing our Fund, the City wouldn't be so cash strapped and could afford to continue providing health care benefits for retirees. But because we don't demand proper funding, the liability continues to mushroom until even the retirees feel the pinch.

Technically, on an accounting basis, the Fund is insolvent, as its liabilities far exceed its assets. Due to its cash flow deficit, the Fund is quickly running out of money. By law, a majority of the 9½ % of your salary you contribute to fund your retirement, is refundable to you after it has been improved with interest. **Your contributions belong to you.** The Pension Fund, in its records, segregates by individual member, the amount each member contributes. Why is this important? Well for me it is important because as a fiduciary to the Fund and its members, I want to make sure we always have enough assets to cover the amount we are statutorily required to refund to any member who requests such a refund. Additionally, **as a Trustee, I don't want to take the contributions of an active firefighter to directly pay for pension benefits of a retiree.** That would be, in my opinion, an ethically challenged decision. It's not prudent financially, and doing so, would not instill the sense that the Fund is being run with integrity. So in the not too distant future, I can see the Retirement Board Trustees needing to make a decision. Should they stop making payments to current retirees, because in order to make such annuity payments, the Fund would be required to dip into money that it, in my opinion, is required to maintain at the Fund as active members' contributions. If the Retirement Board decides it can't use current member's contributions to pay retiree benefits, then the Pension Fund will not be issuing monthly checks. I would think the City, as plan sponsor, would be expected to provide the \$25 million needed to make monthly benefit payments the Fund will not make. The Fund and the City need to have sober concrete discussions, that are absent of hope and rosy unreasonable financial assumptions, to address the issue. Given this foreseeable situation, only a very reckless person would have pursued benefit enhancements from the pension fund.

I personally appealed to the Local 2 Executive Board at their May meeting to oppose SB777 (commonly referred to as the Casino Bill) because the Fund could not handle that type of financial strain. As I have said before, if the City isn't going to adequately fund our pension fund in an acceptable manner, then the pension fund becomes nothing but a pyramid scheme. Instead of being **responsible to all of its members**, certain Executive Board members helped pass the SB440 legislation for a bump in their COLA. All Local 2 members, with a remote sense of fiscal responsibility, should be appalled at the financial standing we are placed in by the City. By supporting SB777, Local 2 allowed the City to insert language into the law which affords the City an opportunity to backdoor a bankruptcy of our pension fund but potentially continue their control of the operation of the City. This new language allows

the City to legally continue underfunding the pension fund if they can convince the court there is either an event or crisis that “significantly imperils the public health, safety, or welfare.” Well, isn’t that convenient non-committal subjective language the City can have a field day, determining its meaning, to its own benefit. However, that same crisis will not prevent bondholders or banks from getting their scheduled payments prior to the pension fund getting its required funding. The payments to the pension fund are ‘expressly subordinate’ to the payments to bondholders and banks. Thanks to Local 2’s capitulation, that new language is now a part of the pension code, see 40 ILCS 5/6-165.2.

Senate Bill 440 (SB440) contained many great fixes to the pension code that the Pension Board approves of, with the exception of the unfunded 3% COLA. Governor Rauner, in his amendatory veto, stated he is in agreement with all of the proposed fixes with the exception of the 3% COLA benefit. He specifically stated that while the benefit is deserved, his opposition is due to the fact it is not funded. This is the same position your Pension Board has adopted. Say what you want about the Governor, but his stance on this particular legislation is fiscally responsible and prudent. If Local 2 would have stood strong and helped prevent SB777 from becoming law, instead of supporting it, the Retirement Board, in my opinion, could have afforded a 3% COLA for all members. The make-up of this current Executive Board does not represent all Local 2 members equally.

We belong to a Union, a bargaining unit that collectively represents the interests of us all, both financially and professionally. Certain members of this Executive Board are content to grab everything they can for themselves, with **no consideration for the implications their decisions have on the remaining members of our Union.** Their actions are shameful. I would not have to take on the difficult position of telling my Union brothers and sisters of the dire condition of our pension fund if certain former Firefighter Trustees didn’t sit on their hands during their tenure on the Retirement Board. Less than two years ago these trustees were saying “don’t worry about the funding ratio, the City has the money they will pay.” Now, a mere two years later, these same Trustees say, “we have to give the City a break they don’t have the money, but we’re going to get a casino.” Their ‘strategy’ did not put one additional dollar into our Fund, nevertheless, Local 2 introduces legislation to draw more benefits from the Fund. Certain Local 2 Executive Board members that are set to retire soon, are essentially taking a credit card out of your pocket and putting personal charges on it and leaving you with the bill.

Brothers and Sisters, for a majority of you, this pension is your greatest asset, providing real financial security for you and your family. Please do not neglect it by crossing your fingers and hoping everything will be ok. I was hopeful the media, rating agencies and civic organizations could shame these Legislators into having some sense of fiscal integrity. You have an obligation as a Union member to keep this Executive Board in line. Pursuing additional benefits for yourself without securing funding is like the drunk that can’t walk away from the bar; he has no perception of the implications of his decisions. **The absolute lack of self-control or ability to comprehend the damage they have caused, not only to the membership, but to the very fabric of the City’s middle class is deplorable.** This crisis was preventable. This crisis was obvious. This crisis is shameful. This crisis will pit us against the taxpayer. The pride you feel being a firefighter for this City will start to diminish. You are now a cancer. Our Union has set the stage to demonize us in the public eye, no matter how many chili cook offs or toy drives we have. To that Korean War vet, who gave his everything to this job and City, I am truly sorry. Please reach out to Executive Board members and ask them to explain their actions. Fraternally,

Tim McPhillips

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Firemen’s Annuity and Benefit Fund - Active Trustee