Rising pension costs threaten budgets; lead to cuts, layoffs and higher local taxes

With the skyrocketing costs of pensions putting an unsustainable financial burden on local governments, mayors across Illinois are urging state lawmakers to reform local pension systems heading into the fall veto session.

At a meeting of the Metropolitan Mayors Caucus on Monday, Chicago Mayor Rahm Emanuel and Wilmette President Christopher Canning both addressed the need for comprehensive pension reform and to protect future retirement benefits of municipal employees.

Just as the State of Illinois and City of Chicago face challenges when it comes to reducing pension costs, the Pension Fairness for Illinois Communities Coalition, made up of Illinois municipalities and business interests, seeks to curb increases in police and fire pension obligations that local communities must cover through property taxes.

“We support Mayor Emanuel’s efforts for meaningful and comprehensive pension that includes cities, villages, towns and counties throughout the state,” said Canning, Past President of the Northwest Municipal Conference (NWMC). “Police and fire pension costs are choking municipal budgets. Despite paying more and more each year, the unfunded liability continues to climb sharply. Time is not on our side.”

Canning noted that the PFICC is committed to working with Mayor Emanuel on lobbying state lawmakers to approve reforms in the upcoming fall veto session, especially as many municipalities are crafting their 2013 budgets, which may include property tax increases or additional service cuts to cover pension shortfalls.

Failing to address these widening unfunded liabilities will inevitably cost local residents throughout the state in the form of higher local property taxes, cuts in essential services or

layoffs of police officers and firefighters. Furthermore, the rising costs have created staggering structural deficits that will eventually put local police and fire retirement benefit systems on the verge of financial insolvency and future benefits at risk.

Hoffman Estates taxpayers paid nearly $5 million in 2011, compared to just $1.7 million in 2001 to fund its public safety pensions but the unfunded liability gap for both its public safety pension funds has widened.

“Without reforms, matters will only get worse for revenue starved municipalities that have cut to the bone in recent years during the recession,” said NWMC President and Hoffman Estates Mayor Bill McLeod. “Illinois has a looming pension crisis the impacts all levels of government from the state level down to Main Street and future generations to come.”

In Danville, Mayor Scott Eisenhauer, who also serves as First Vice President of the Illinois Municipal League, said half of his city’s property tax collections went toward paying down police and fire pensions this year.

“Our pension system is broken and we cannot force municipalities to continue to shoulder this unsustainable burden any longer,” said Eisenhauer, noting that cities and towns have delivered on passing balanced budgets through cost-saving measures, cuts and reduced services during challenging economic times. “The Legislature needs to deliver meaningful pension reform now because our taxpayers cannot continue to pay more and get less.”

Municipalities have been struggling for years with the structural deficits and unfunded liabilities created by the pension systems, resulting from years of overly generous benefit enhancements approved by the General Assembly, which provides no funding mechanism or calculates taxpayers’ ability to pay. This created a severe imbalance between employee contributions and what was required from local taxpayers.

“Taking comprehensive steps will enable local governments to narrow budget gaps, maintain essential services for their residents and preserve the solvency of retirement plans for our police officers and fighters for generations to come,” said Tinley Park Mayor and Metropolitan Mayors Caucus Chairman Ed Zabrocki. “Short-term fixes and Band-Aid solutions won’t solve this problem.”

The PFICC has put forth some common-sense solutions aimed at reforming the public safety systems and protecting future benefits. They include:

1) Requiring public safety employees to contribute more toward the cost of their pensions. Currently, employees only contribute about one-third while taxpayers and investments fund the remainder.

2) Adjusting cost-of-living-increases from the current 3 percent so they are “right sized” and not compounded annually. Currently, a police officer or firefighter who works for 28 years and retires at the age of 53 with a salary of $90,000 would begin receiving a pension exceeding that amount at the age of 67.

3) Increasing the retirement age for public safety employees, who can now retire with full benefits at the age of 50, and – in many cases – receive benefits for longer than they worked for the municipality.

4) Consolidating the 638 individual public safety pension funds into a multiple employer pension system similar to the Illinois Municipal Retirement Fund to expand investment opportunities and lower overall operational expenses.