SNG-police-fire pension up in smoke?-1-12-15

Police-fire pensions to go up in smoke?

By Jim Nowlan

The more I read about state and local government pensions in Illinois, the worse it gets. Many municipal police and fire pension funds are so woefully underfunded, for example, that they are likely to go up in smoke in not too many years.

The basic problem with all underfunded government pensions is that elected officials like to do things for people, especially things that don't have any immediate political cost, that is, don't absolutely require current payment for a deferred benefit.

As many readers know, the Illinois state government pension funds are the worst financed in the nation. Bank giant J. P. Morgan projects that the state will have to devote 40 percent of all its revenues for years to come in order to bring the funds up to self-sufficiency and also cover retiree health benefits.

For many municipal police and fire pension funds the situation is even worse. And because cities are somewhat limited in how they can raise revenue, many of these funds are almost certain to go belly up at some point.

Local police and firefighters with 30 years of service can retire as early as age 50 at 75 percent of their final salary—and at a rich 3 percent cost of living adjustment compounded annually.

Many firefighters also work second jobs throughout their careers, given their work schedules of several days on followed by several days off, during which they can also build Social Security credits. And of course they can develop second careers after retirement at 50.

(Recent changes in pensions for police and firefighters increased their retirement age for new hires to 55, from 50.)

There are 650 separate Illinois municipal police and fire pension funds, each with five member boards controlled three to two by the workers, rather than by the cities that are ultimately responsible for meeting the pension costs.

I counted more than 20 pension sweeteners for police and firefighters enacted by the state legislature since 1993, which as I said likes doing things for people, especially when they are not responsible for the costs.

These include the 3 percent compounded COLAs and an increase years ago in the pension formula credits from 2 percent to 2.5 percent of salary annually for those in their 21st to 30th years of service.

As a result of the sweeteners, plus failure of some cities to contribute their fair shares into the pot annually, and the recent slowing in investment growth of fund assets, some municipalities find themselves with only 20-30 percent of the assets needed to fund future pension obligations. This is worse than even the awful State of Illinois situation.

For example, in 2010 the Kankakee police and fire pension funds were 19 percent and 28 percent funded, respectively, according to a state legislative research agency.

"You can't tax people enough to pay this bill," Kankakee mayor Nina Epstein told her local *Daily Journal* newspaper in 2013. "Structural changes need to be made. People live longer now. Rules regarding the pension system have not adjusted to that."

Across the state to the west in Moline, that city has seen its levy for police-fire pensions go from 18 percent of the city's property tax yield in 2003 to 47 percent a decade later.

Joe McCoy is the legislative director for the Illinois Municipal League, the association of cities. He says the first thing to do is to consolidate the 650 separate funds, with over 3,000 mostly amateur board members, into one statewide pension system for police and firefighters. The healthy Illinois Municipal Retirement Fund for other local government employees offers a good model.

Second, Illinois could enact legislation to allow cities in dire financial straits to declare bankruptcy, thus allowing them to break existing pension contracts and write new ones that would be affordable.

For example, replacing the 3 percent annually compounded cost of living adjustment with one based on actual inflation, increased annually with simple interest, would address much of the under-funding problem.

Third, privatization. The small suburb of North Riverside west of Chicago is trying to eliminate its fire department and contract fire services from its long-time emergency services provider.

Under a contract proposed by the suburb, the present complement of city firefighters would work for the emergency services contractor. Accrued pension benefits would be protected and they would receive 401-k pension benefits henceforth.

The attempt by North Riverside to privatize is caught up in the courts at present.

Something has to be done. Many municipalities will literally go broke trying to pay police and fire pension benefits.