

OFFICE OF THE MAYOR CITY OF CHICAGO

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#### MAYOR EMANUEL ANNOUNCES ROADMAP TO RETIREMENT SECURITY

Mayor Testifies in Springfield on Behalf of Chicago Taxpayers, City Employees; Proposes Reforms to Reduce City's Unfunded Pension Liability by 40 Percent

SPRINGFIELD - Mayor Rahm Emanuel traveled to Springfield today to testify before the House Personnel and Pension Committee and discuss a roadmap to retirement security for Chicago's pension funds that will reduce the City's unfunded pension liability by a projected 40 percent while protecting Chicago taxpayers and the retirement benefits of City employees.

"We do not face these challenges because our public employees or our taxpayers did anything wrong. They did what was required of them with every pay stub," said Mayor Emanuel. "If we do nothing, we will force taxpayers to make impossible choices between either using that money to pay for pensions or using it to pay for essential services like public safety and schools. Doing nothing will force me to choose between either letting our pension funds go bankrupt, or raising the City's property taxes by 150 percent. As long as I am Mayor of Chicago that is a burden I refuse to put on the backs of our taxpayers. That's why we are finally doing something to resolve this crisis and ensure retirement security that is fair to both employees and taxpayers."

Mayor Emanuel has worked since the first day of his administration to make Chicago's schools stronger, streets safer, and put its finances on track for a stable and prosperous future. Continued progress on these fronts, in conjunction with Cook County and the State of Illinois, is put at risk by a daunting challenge: the increasing pressure from pension obligations in each of these three governments. Without fundamental reforms to the pension system, the strength of the economy and the quality of life in Chicago and Illinois will continue to be undermined.

The City of Chicago and the State of Illinois face many of the same challenges when it comes to pension obligations and require similar solutions. However, Chicago faces unique challenges that a "one-size fits all" framework will not fix. The City's unique situation demands different levels of



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reform.

The roadmap proposes reforms that address the major cost drivers for the pension funds including: retirement age, COLA (annual automatic increase for retirees), employee contribution levels and the level of choice our employees have in planning for their retirement. It also addresses the longstanding inequity for Chicago taxpayers who currently have to double-pay for teacher pensions – once for Chicago teachers, and again for teachers statewide.

## THE ROADMAP TO RETIREMENT SECURITY

Mayor Emanuel is proposing a <u>Roadmap to Retirement Security</u> for Chicago's pension funds that will reduce our unfunded liability by approximately 40 percent of the total unfunded liability.

## 1. Hit the Pause Button on COLA

Mayor Emanuel is proposing changes to COLA, the annual, automatic pay increases for retirees. This is the biggest potential burden on Chicago taxpayers and the single greatest threat to the retirement security of City employees.

The **<u>Roadmap to Retirement Security</u>** proposes pausing COLA to stop the bleeding. The pause will allow the City to stop digging a deeper hole, providing us the time needed to strengthen pension security.

Under the current COLA rates, a City employee who retired in 1995 with a \$60,000 pension now collects \$100,000 a year in payments. Pension funds that benefit from compounded COLA have grown 30 percent faster than inflation in the past 10 years. That reality forces the City and Chicago taxpayers to face a difficult but simple truth: the way COLA is structured is no longer sustainable.

Many cities and states around the country are also considering a pause to the automatic pay raises in their pension funds. The State of Rhode Island has already passed reforms that include a temporary pause that will provide them the time and space they need to implement long-term reforms to their pension system.

### 2. Phased-In Five Percent Employee Contribution Increase

Just as Governor Quinn proposed in his framework, the City of Chicago will ask employees to contribute more to their pension funds, an increase that will be phased in over time.



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The **<u>Roadmap to Retirement Security</u>** proposes that employees who contribute more to their pension. This increase will be phased in for five years to provide time for employees to adjust and plan around the reform.

## 3. Increase Retirement Age By Five Years to Better Align with Modern Life Expectancy Rates

There is also a fortunate reality today: retirees are living longer. In the time since Social Security and most City and State retirement programs began, life expectancy has extended by more than 20 years. The longer and more active lives of our retirees have enriched our society in every way, but pension funds have not kept up with these changes.

The **Roadmap to Retirement Security** proposes increasing the retirement age by five years in order to bring Chicago's retirement security system in line with the Governor's framework and private sector programs that account for longer life expectancy.

## 4. Offer Choice for New Employees in a Smart Way that Benefits Everyone

Offering retirement security choices is an important way to attract the best talent, keep our plans in line with what the private sector offers, and provide more options to those with their entire career ahead of them. Not everyone will work at the same job for their entire career. Our retirement system should reflect how the job market really works.

The **<u>Roadmap to Retirement Security</u>** proposes offering more choice to only new City employees that will put the City in a better place financially over the long-term. The Mayor is proposing that this be done\_incrementally and intelligently. These options will make retirement plans more competitive and consistent with those offered in the private sector.

# 5. Increased City Contributions Not on the Table Until System is Fixed

The **<u>Roadmap to Retirement Security</u>** aims to protect taxpayers and retirement security, not further obligate hard-earned tax dollars of the people of Chicago to a broken system. Any discussion of additional contributions from the City of Chicago's budget must be a part of receiving assurances that employees and taxpayers are paying into a system they can count on and is responsible to retirees. No amount of money is a substitute for real pension reform.

### **IF NOTHING IS DONE**

Without reform, in just three short years later, City taxpayers will have to pay \$1.2 billion a year toward the four pensions for City workers alone. That amount grows by more than \$50 million per year thereafter. That means that by 2016, 22 cents out of every dollar of the City's local funds will



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be spent on pension payments. That is 30 percent more than the pension burden on the State's budget.

If reforms are not made, by 2013, the burden from higher payments to the Chicago teachers' pension fund will require city taxpayers to pay \$517 million for Chicago teacher pensions – a jump of \$300 million by next year. It's either that or make drastic changes in how we educate kids. Since the Chicago Board of Education is subject to tax caps, the only choice is to raise the \$300 million through direct cuts in our classrooms. Those cuts mean the average class size will jump to approximately 55 students.

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