

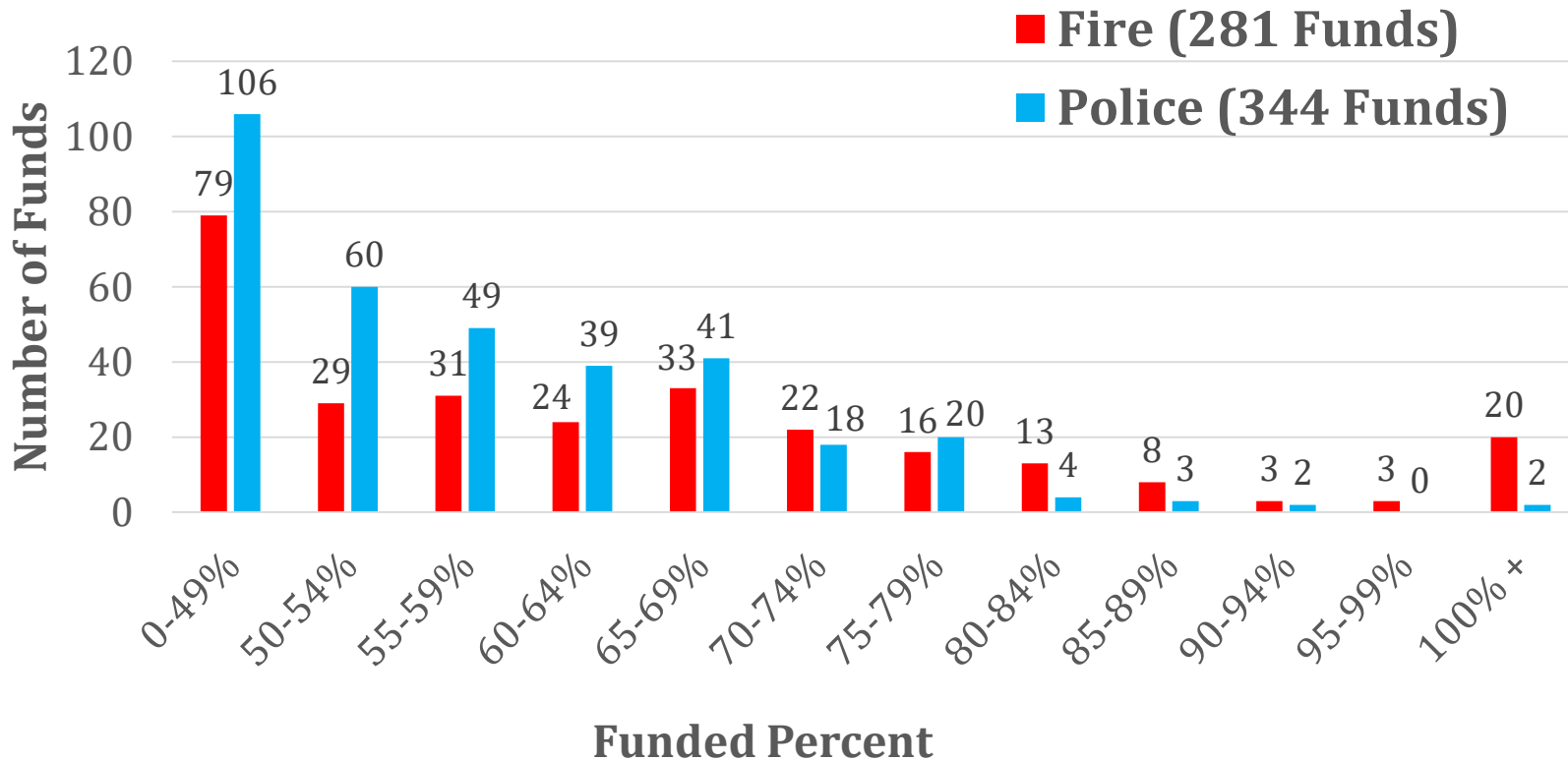


Police and Fire Pension Challenges in Illinois

Beverly Bunch, University of Illinois Springfield
Patricia Byrnes, University of Illinois Springfield
Glenn Cassidy, University of Albany



Illinois Police & Fire Pension Funds: Distribution of Funded Percent (FY2017)



Source: Compiled by the authors from Illinois Department of Insurance data.

<https://insurance.illinois.gov/Applications/Pension/PensionDataPortal.aspx>



Research Questions

- What challenges are local governments in Illinois encountering in the funding and administration of the police and fire pension funds?
- How are they responding to those challenges?
- What types of state role or action might be helpful?



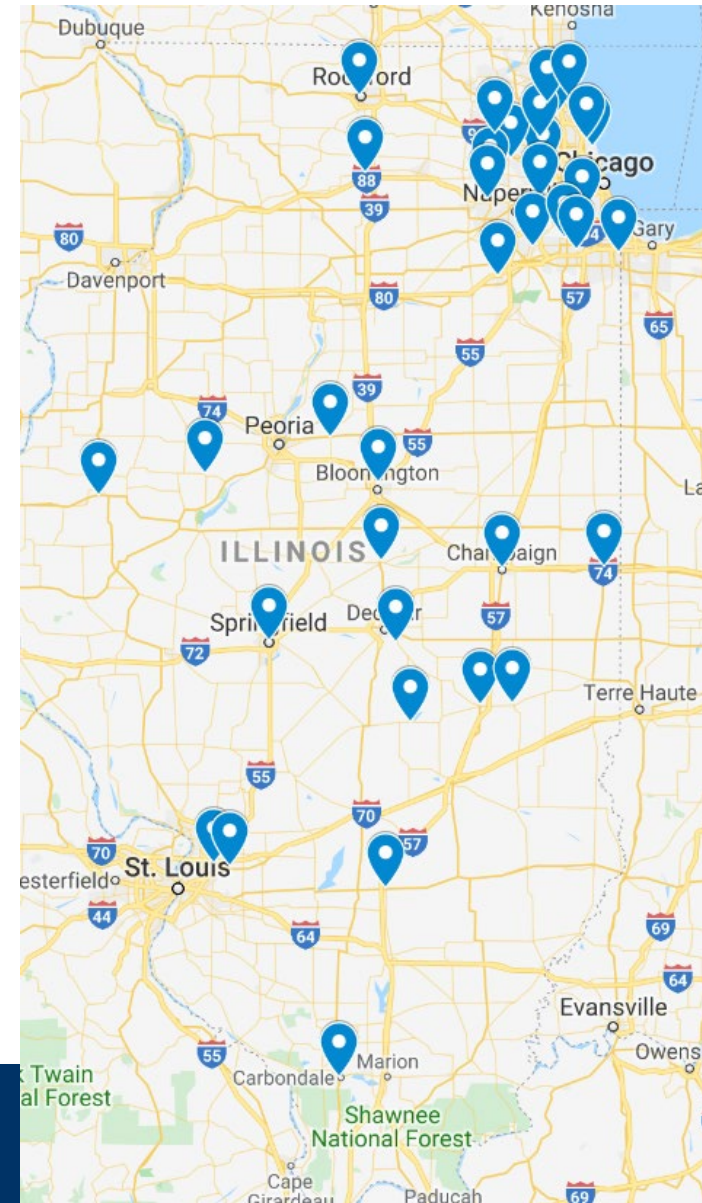
Research Approach

- Interviews with Local Government Officials
 - Mainly finance director or treasurer
- Review of state and local government documents
- News stories



Description of the Sample

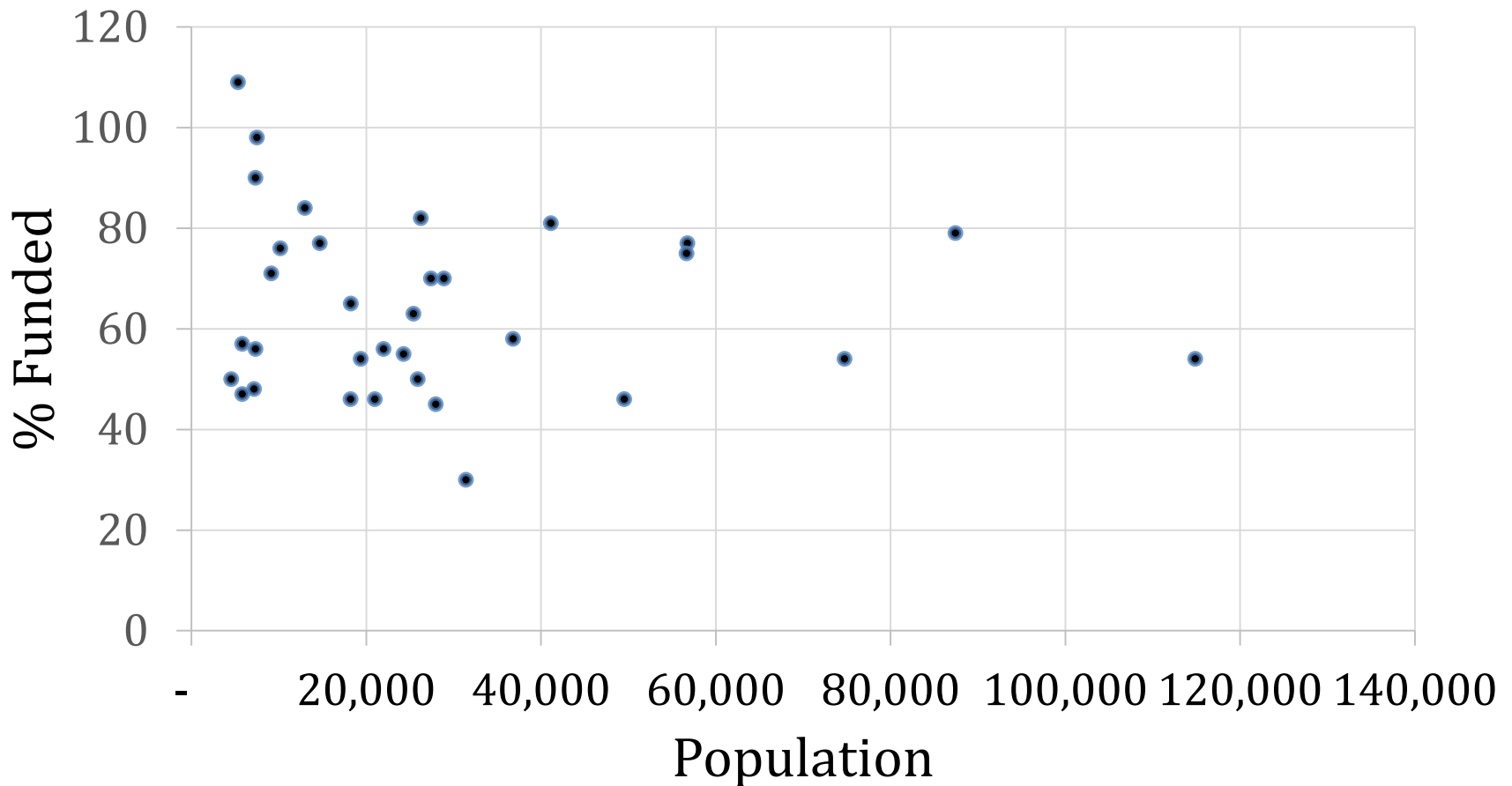
- 36 Municipalities
- All had Police Pension Plans
 - all but 8 also had Fire Pension Plan
- Geographically Dispersed
- Range in Population
 - 40% had populations under 20,000
- Variation in Funding Levels



Map created on Google Maps:
<https://www.google.com/maps/d/viewer?mid=1Hs4mBDYISQkuPRR9qsaUSqEPuTQFo8ul&ll=39.86340778599626%2C-86.46859953523182&z=7>



Interview Municipalities: Police Pension Funding Levels By Population



Source: Compiled by the authors from Illinois Department of Insurance data.

<https://insurance.illinois.gov/Applications/Pension/PensionDataPortal.aspx>



Major Factors Contributing to Pension Fund Challenges

- #1 answer in interviews: state sets pension benefits but municipalities have to fund those benefits
- quotes from local government officials
 - “state requirements for local pension funding can be extremely costly for implementation”
 - “police and fire are everyone’s heroes – difficult for legislators to say no”
 - “unsustainable benefits”



Funding Challenges

quotes from local government officials

- “pension funding is a huge issue; we are home rule and can levy what is necessary legally but realistically we don’t want to increase property tax; this year the levy increased 4.8%, mostly for police and fire pension”
- “definitely crowds out other spending”
- “we’re not home rule – we can’t raise revenues to cover unfunded liabilities”
- “eventually all of our monies is going to wind up going only for pensions”



Sources of Pension Plan Funding

- Property taxes
- Sales Taxes
 - Home Rule
 - Non-Home Rule
- Public Safety Pension Fees
- Other Sources
 - Video taxes, food and beverage taxes, red light camera fees, possibly a marijuana tax in the future



Actuarial Study

- State provides actuarial-contribution figures for each plan
 - 90% funding target by 2040
 - Uses projected unit costs (PUC)
- Require municipalities to levy a tax to meet actuarially-required annual contribution
 - State intercept program



Option for Local Pension Board to Hire its Own Actuary

quotes from local government officials

- “in the past we used the state report, but now we use the local report to make sure we are meeting our obligations properly”
- “in the past the city tried to minimize the ARC through our funding policies and assumptions”
- “this year we avoided layoffs by using the state amount, which was significantly lower than the local amount”



How could the state help?

quotes from local government officials

- “allow non-home rule communities to increase the sales tax without going to voter referendum”
- “exempt pension property taxes from the tax cap”
- “it would be awesome if the state helped pay off unfunded liabilities – they could use a statewide internet sales tax to help pay for that”
- “if the state increase benefits, the state should pay the associated costs”



Consolidation Proposals

- Create statewide plan for police and statewide plan for fire with new boards
- Same as above except IMRF governs and administers instead of new boards
- Consolidate investments only



Potential Benefits of Consolidation

quotes from local government officials

- “costs of running funds would be greatly reduced”
- “combining assets would increase investment earnings”
- “saves training costs”
- “the IMRF model has a lot of advantages – larger pool for investments, remove countless pension boards”



Concerns Regarding Consolidation

quotes from local government officials

- “it’s going to be tough – people don’t like giving up power and authority to a more centralized department”
- “lose local jobs if centralize investments”
- “the state has a bad reputation for handling pension funds”
- “our local pension funds are well-run – not a whole lot of benefits from the consolidation”



Conclusions

- Challenges when one level of government sets benefit levels and another level has to fund those benefits
- Option for local actuarial instead of relying on state figures
 - Some governments set more stringent assumptions
 - Also provides opportunity for less stringent assumptions
- Some municipalities struggle to meet funding requirements
 - Officials provided suggestions for state assistance
- Consolidation could offer economies of scale, but would entail some loss of local control



Data Sources

- Commission on Government Forecasting and Accountability. Report on the financial condition of the downstate police and fire pension plans in Illinois (P.A. 95-0950). <http://cgfa.ilga.gov/Upload/2019FinancialConditionDownstatePoliceFire.pdf>
- Constitution of the State of Illinois (1970). <http://www.ilga.gov/commission/lrb/conmain.htm>
- Illinois Department of Insurance. 2017. Biennial Report (2015-2016). http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2017.pdf
- Illinois Department of Insurance, Pension Division. 2018. Public Pension Report Detailed Financial Data Fiscal Year 2017. <https://insurance.illinois.gov/Applications/Pension/PensionDataPortal.aspx>
- Illinois Pension Code (40 ILCS 5/). Articles 4 and 5. <http://ilga.gov/legislation/ilcs/ilcs3.asp?ActID=638&ChapterID=9>