

Looming Pension Costs-An Explanation

The Illinois Public Pension Fund Association takes issue with Gerald Terry's letter on behalf of the Northwest Municipal Conference regarding the escalating costs of the Public Safety pension system. Apparently Mr. Terry is entirely unaware of the recent studies performed by the Illinois Municipal League which provide a complete explanation as to why the municipal contributions to ensure adequate funding of these retirement funds have continued to grow.

Funding of public retirement programs is required by statute for all systems in the State and all of the State systems use an independent actuary to determine the funding requirements based upon statutory guidelines. The Illinois Department of Insurance (DOI) annually calculates the required contribution to fund the public safety plans. These calculations are often not used to determine the tax levies by the municipalities who choose to retain independent actuaries for these calculations.

But the problem is more systemic. Despite the ability to select an independent actuary, many municipalities choose not to follow the recommendations of the actuaries that they select and do not contribute the mandated contributions.

In 1993, the funding statute was modified to change the method of amortization of unfunded actuarial liabilities. Studies by DOI staff at that time calculated that this change in methodology would result in the following outcome: If every actuarial assumption used in funding were exactly realized (a virtually impossible scenario), then the unfunded actuarial liability would increase 300% in 12-years (simply because of the lower payments) and then would begin its decline to 0% by 2033.

We are not unsympathetic to the burden passed on to taxpayers for properly funding the municipal pension programs. Strong management requires a recognition that pension funding should occur while the pensions are being earned and not passed off to future generations of taxpayers

It is now unseemly for these same municipalities to raise issues which were anticipated and to attempt to blame the system for performing exactly as anticipated; and, rather hypocritical to be presenting results when the municipalities themselves appear to be primarily responsible for these results.