

NAPERVILLE POLICE PENSION FUND

**931 WEST 75TH STREET
SUITE 137 – PMB 297
NAPERVILLE, ILLINOIS 60565**

**TELEPHONE 630-420-4166
FAX 630-305-5918**

Dear City Manager Douglas Krieger,

The Naperville Police Pension Board understands that the City Council has recently considered the present funding level of the city's contribution to the police pension fund. The Naperville Police Pension Board also understands that the City of Naperville has recently participated in a legislative roundtable discussion. As a result of that discussion we understand that the city's top legislative initiative involves addressing pension issues, specifically the current and long-term funding issues. To that end, we are requesting to be included in future discussions and efforts to resolve these issues as we feel that we could be a valuable contributor in the process. As these efforts involve the current and future status of our fund, we are very interested in having input in the process.

As you are aware, the necessity to properly and fully fund the Naperville Police Pension has been an ongoing issue of concern. With the recent downturn in the financial markets, this concern has now become a crisis. The recently completed actuarial study by Tim Sharpe & Associates more clearly illuminates this fact. Under the current conditions, the City of Naperville will be required to levy nearly \$58 million in the final three years of the state mandated deadline of 2033 to fully fund the Naperville Police Pension Fund. As a matter of practicality, that is probably not going to happen. According to the attached actuarial study, the percent that the police pension fund is funded has again dropped this year, from 69% to an alarming 56.5%.

In past years, the Naperville Police Pension Board has expressed their concerns to the City Council about the underfunding of the pension fund. Additionally, the issue of underfunding has been brought to the attention of the city council on an annual basis through the actuarial report. When the financial markets were performing above expectations, the Council could have increased funding levels to cover the years when expectations would most surely fall short; however, the city council has continued on a path of reducing the annual property tax rate or using investment return assumptions that were, quite frankly, unrealistic.

Throughout the 1990s and into the 2000s, the unfunded liability in the Naperville Police Pension Fund has increased dramatically. During that same time frame, the city council has chosen to allocate the minimally recommended amount into the fund through the annual tax levy instead of a more prudent amount. Much like a balance on a revolving credit card account, making only the minimum payment over the years does little to address the outstanding balance. Unfortunately, in this case, making the minimum contribution to a pension fund does even far more serious harm. Not only is the contribution amount less than what is prudent in the short run; it deprives the fund of the opportunity to invest those funds and earn interest income on those investments. The failure to properly levy for one year is compounded over all subsequent years.

As you know, funding comes from three sources: Employee contributions (currently 9.91% of base salary), interest earned on investments, and a city contribution via the tax levy. Through the years the employees have made their contributions as required and the board has worked diligently to maximize interest return on investments through the hiring of professional money managers and consultants.

The benefits earned by police officers through the state statutes have been consistent over the years. Very few increases in benefits have taken place in the last 20 years, and those that were made were coupled with increased contributions by the officers themselves. The employee contribution is the one factor that is the known quantity in this defined benefit plan and was easy to account for. The unknown quantities have been the rate of return on investments and the employer contribution to the fund through the tax levy. It seems that many municipalities, including Naperville, are now reacting as if they had no idea of the ever increasing unfunded liabilities in their pension funds. Those unfunded liabilities have been clearly enumerated and presented to the council throughout the years in annual actuarial reports.

The Illinois State Legislature created separate, defined benefit plans for police officers and fire personnel for a specific reason: Police and fire work is unlike any other job. Police work involves the daily responsibility of protecting life; and in the extreme cases, the authority to take a life. Lumping police officers into the title of “municipal employees” diminishes the responsibilities of the job. On September 11, 2001, as the public fled in terror from the burning twin towers of the World Trade Center, police officers and their brother fire fighters ran into the towers to save lives. They did so without hesitation because that is “their job” and that is what people expect from them. Many paid with their lives.

Most police officers and fire fighters work in municipal employment at a pay rate much lower than they could earn in the private sector with their given talents and level of education. They do so because their retirement plans were seen as fair compensation for the sacrifices made (missed family gatherings, working holidays, working weekends, etc...), not to mention working under some of the most trying and difficult situations, some of which are so horrific they are impossible to describe and hard to even imagine.

In response to this crisis in the pension fund, the city council recently passed a resolution calling for pension “reform.” The proposed “reform” includes providing local municipalities with the “ability to offer alternative retirement plans, increase employee contributions, and reform current pension policies.” Frankly that sounds like an attempt to change the rules and laws requiring municipalities to cover the shortfall that the municipality itself contributed to. Even if the current pension plan were “reformed” to a defined contribution plan instead of a defined benefit plan, the current unfunded liabilities will still have to be met for all of the fund’s current members. The current board does not support and, in fact, vigorously opposes such “reform.”

All of the involved parties have long been aware of the statutory requirement to fund the defined benefit plan. As everyone knows, taxes are levied on the public so that they may pay for the services that they receive. Naperville residents receive “Great Service All the Time” from their police officers as evidenced by the low crime rate, excellent traffic safety, and outstanding clearance rates on index crimes. Asking the citizens to contribute the prudent amount to pay for these public servants’ pensions is not unreasonable or unfair. We urge the City Council to reconsider their position on pension reform and increase the funding of the police pension fund through the tax levy. We are simply asking the city to fulfill its future financial obligation as provided for in the current state statutes.

Again, we would welcome the opportunity to meet with members of the city council and city staff to discuss these matters of mutual concern.

Donald M. Bisch, President
Naperville Police Pension Fund

David W. Senneke, Vice-President
Naperville Police Pension Fund