

## Jeffrey A. Welch

Dear Editor of the Lake County News-Sun,

I have read several articles lately in this paper as well as others, regarding the issue of public safety pension funding, and invariably the stories revolve around the difficulty municipalities are having in making their contributions to the funds. These municipalities complain that recent poor investment returns along with pension law changes that are lavish and overly generous are the root cause of these funding issues. This is simply not true.

The actual cause is a change in state law from 1993 that addressed the manner in which unfunded liabilities would be accounted for. This law changed the actuarial funding method for determining municipal contributions from equal annual payments to a method called level percentage of payroll. This new method allowed municipalities to trade lower initial payments for dramatically larger payments in the future. Essentially a 30 year fixed mortgage was converted to an adjustable rate mortgage, where the rate was required to increase annually and the initial payments were allowed to be so low that they did not even cover the interest portion. The Illinois Department of Insurance, Pension Division (the regulator of public safety pension funds) performed studies of this law change and determined that if all of the actuarial assumptions used in funding came to fruition (a scenario that is virtually impossible) the unfunded liability would increase 300% in twelve years, based solely on the lower insufficient payments. This actuarial method is so dubious that other states have declared it to be illegal. Recognizing the long term negative consequences of this new funding method, law suits were filed to prevent its implementation. Despite those suits reaching the Illinois Supreme Court, they eventually failed.

It was the Illinois Municipal League that requested this change. Now, the IML and its member municipalities, having achieved their goal of changing the law and increasing the unfunded liability of every public safety pension fund in Illinois, are using the very problem they created to demonize firefighters and police officers. They find it easier to blame the men and women of Illinois' public safety community, who make countless sacrifices on behalf of these municipalities, than to accept the responsibility of their ill conceived actions 17 years ago. These municipalities have gone so far as to create another organization with the sole intent of dismantling the public safety pension system. Even the name of the organization, "Pension Fairness for Illinois Communities," is designed to inflame and incite by suggesting that the system is unfair and that firefighters and police officers are cheating the system. The system is performing exactly the way the IML and its member municipalities designed it to perform. If they are unhappy about it, they only need to look in the mirror to find the source of their unhappiness.

Another major factor in the underfunding of Illinois public safety pension funds is the failure of many Illinois municipalities to actually make the necessary contribution to the fund. These municipalities made a conscious decision not to contribute the required amount. There is no law that mandates a municipality to make the contribution to the police and fire funds. Conversely, the Illinois Municipal Retirement Fund (IMRF) has the legal authority to demand full and on time payments from

member government employers and employees. IMRF members include city administrators, and the IMRF does not have a funding problem.

To solve the funding issues, the Illinois Public Pension Fund Association, a group comprised of about 400 police and fire pension boards in Illinois, offers the following solutions, and I concur with them all. First, return to the level dollar amortization method. Second, change the amortization period to a 30-year open rolling amortization period. Third, change the statutes to require municipalities to contribute the required actuarially determined amount. Fourth, loosen the investment restrictions placed upon the funds as there is currently little opportunity for funds to diversify their assets.

Only through a thorough examination of this issue can one make a determination as to what should be done about the funding problem of Illinois' public safety pensions. We have heard extensively from the municipalities. Now let's hear from the funds.

Full disclosure: I am a lieutenant on the Waukegan Fire Department with 18 years of service. I am also the Secretary of the Waukegan Firemen's Pension Fund.