

# Illinois Public Pension Plans

Discussion Forum with  
**Fraternal Order of Police Downers Grove  
Lodge 73**

Together with Naperville Lodge 42, the  
IPPPFA and the Illinois FOP Labor Council

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**Jeremy Thayer**

Treasurer

Fraternal Order of Police

Downers Grove Lodge 73





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# Pensions for Public Employees

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What do you value?

# Retiree Park board leader in Highland Park quits

Pressure to resign mounted after pension controversy came to light



Government

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## Park district pension ploy pays off handsomely

Park executives in Highland Park collected huge salaries, bonuses — even a free SUV — during height of recession

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By Joseph Ryan, Tribune reporter

*July 31, 2010*

As the economy was taking a historic nosedive, parks officials in Highland Park were paying three of their executives far more — \$435,203 in one case — than anyone in similar posts

across the suburbs, the Tribune has found.

In another case, Park District finance director Kenneth Swan received a five-year contract that called for bonuses of about \$75,000 a year. He has not yet retired.

Dennis Gannon, the... Willis Tower as he joins around union mer... federation. Gannon's current annual city... 30 percent from the perks — a practice other states in the Midwest don't allow.

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# Local Police Pension Plans

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## Misconceptions

- No health insurance upon retirement
- No social security benefits
- No pension spiking or sweeteners



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# Local Police Pension Plans

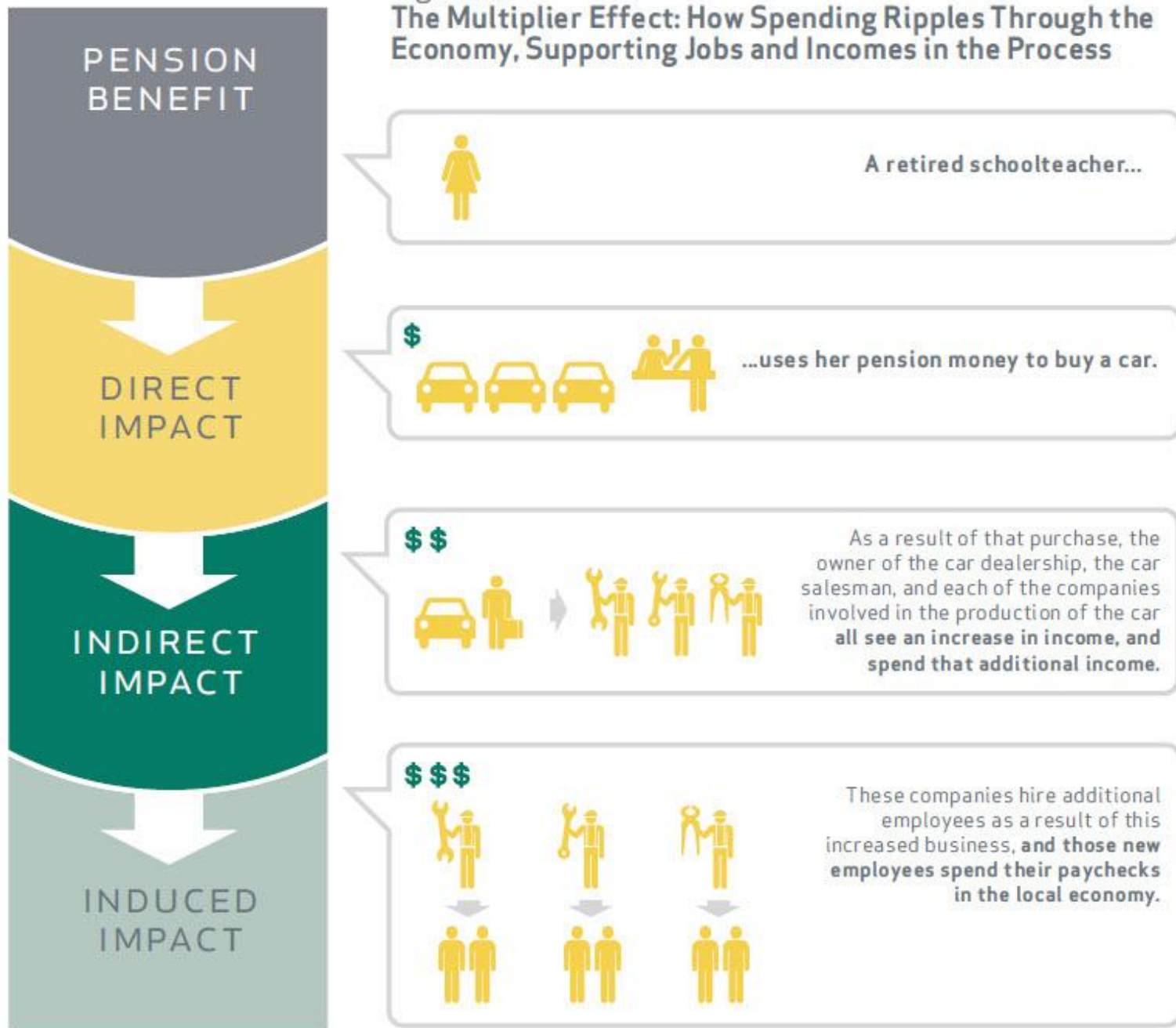
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- ◆ Our funds are healthy
- ◆ They are vital to the economic security of the workforce
- ◆ Retired public employees spend their money
- ◆ January 2010 report from National Institute on Retirement Security show pension expenditures have a broad economic impact

# Local Police Pension Plans

- ◆ For example, in 2006 pension expenditures supported 2.5 million American jobs
- ◆ Also supported over \$358 billion in total economic output
- ◆ Over \$57 billion in federal, state, and local tax revenue

Figure 2:  
The Multiplier Effect: How Spending Ripples Through the Economy, Supporting Jobs and Incomes in the Process





### Pension Expenditure Multiplier



**\$1.00**

pension benefits paid to  
state and local retirees



**\$2.36**

total output

Each \$1 in state and local pension benefits paid to retirees ultimately supported \$2.36 in total output throughout the country. This “multiplier” incorporates the direct, indirect, and induced impacts of retiree spending, as it ripples through the U.S. economy.

### Taxpayer Investment Factor\*



**\$1.00**

Contributed by taxpayers to  
state and local pensions over 30 years



**\$11.45**

total output

Each \$1 in taxpayer contributions to U.S. state and local pension plans supported \$11.45 in total output in the country. This reflects the fact that taxpayer contributions are a minor source of financing for retirement benefits – investment earnings and employee contributions finance the lion’s share.

# Local Police Pension Plans

## Downers Grove as an example

- ❖ DG pension board and Village have history of managing their fund correctly
- ❖ 21% investment earnings over last 2 years
- ❖ Pension levy only 3.6% of total budget



# Local Police Pension Plans



Naperville as an example

❖ Pension levy only 4.36% of total budget

# Pensions for Public Employees

What do you value?

➤ Professional and competent workforce

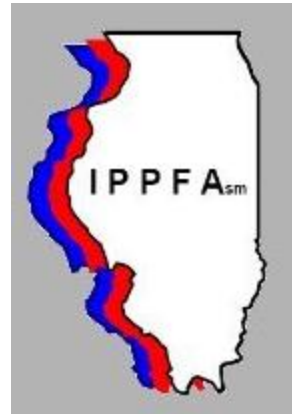


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**James McNamee**

President

Illinois Public Pension Fund Association



# History Behind Pensions for Public Employees

- 1935 establishment of Social Security system left out state and local workers
- As a result, many states developed their own retirement systems
- Between 1931 and 1950, nearly half of all the large public employee pension plans still in use today had been created
- 45 states had pension plans by 1961

# History Behind Pensions for Public Employees

- Public sector defined benefit plans are prefunded systems
- Not “pay-as-you-go” systems like Social Security
- Prefunded systems work because contributions grow and compound over time
- Provide broad-based coverage, secure money for retirement, special protections for spouses

# History Behind Pensions for Public Employees

- Today, total assets held under all state and local pension plans is near \$3 trillion
- Serve over 26 million Americans
- Average benefit only \$20,867 per year
- Modest retirement income





# Underfunding our Plans

- The problem has been debated for years
- Illinois has endemic and systemic problem of underfunding pension obligations
- We have to learn from our past

Dear Henry:

## 1970 letter from State Universities Retirement System pleading for proper funding legislation

I am enclosing three copies of a memorandum setting forth reasons why I believe that the Constitutional Convention should adopt a provision regarding vesting and funding of public employee pension rights.

The General Assembly has done an excellent job in funding its own retirement system obligations but has failed to meet its commitment to other public employees. This failure has created such a staggering liability for future taxpayers that the extra load during an adverse economic period may require the public to renege on its obligations to its public servants.

Other states are funding their current pension obligations and amortizing the past service liabilities over a period of years. The least that Illinois should do is fund the current obligations and pay interest on the past service obligation in order to stabilize the deficit at the current level.

We appreciate your efforts in trying to get this matter re-considered by the Constitutional Convention.

Sincerely yours,



Edward S. Gibala  
Executive Director

ESG:rw  
Encls.

# History of Unfunded Liabilities

DATE	ACCRUED LIABILITIES	NET ASSETS	UNFUNDED LIABILITIES
1968	\$4.47 billion	\$2.02 billion	\$2.45 billion
1966	\$3.59 billion	\$1.65 billion	\$1.95 billion
1964	\$3.07 billion	\$1.35 billion	\$1.72 billion
1962	\$2.61 billion	\$1.10 billion	\$1.51 billion
1960	\$2.22 billion	\$864 million	\$1.36 billion
1958	\$1.86 billion	\$676 million	\$1.19 billion
1956	\$1.56 billion	\$545 million	\$1.01 billion
1954	\$1.18 billion	\$419 million	\$764 million
1952	\$965 million	\$323 million	\$642 million
1950	\$731 million	\$250 million	\$481 million
1948	\$610 million	\$189 million	\$422 million
1946	\$513 million	\$154 million	\$359 million



# How Do We Fund?

Corporate taxes significantly lower than  
personal income taxes

# Illinois General Funds Receipts: (year to date FY 2011)

<b>Revenue Sources</b>	<b>FY 2011</b>
<i>State Taxes</i>	
Personal Income Tax	\$1.328 billion
Corporate Income Tax	\$75 million
Sales Taxes	\$1.079 billion
Other Sources	\$410 million
<i>Subtotal</i>	<i>\$2.892 billion</i>
Transfers (lottery, riverboat, other)	\$368 million
Federal Sources	\$952 million
<b>TOTAL STATE SOURCES</b>	<b>\$4.212 billion</b>
<i>Non General Funds Distribution:</i>	
	<b>Refunds</b>
Personal Income Tax	\$116 million
Corporate Income Tax	\$13 million

Source: Commission on Government Forecasting and Accountability

# Tax Rebates = Lost Income

## Downers Grove

- ◆ Fry's Electronics
- ◆ Bill Kay Nissan
- ◆ Pugi Mazda
- ◆ Devry University
- ◆ Zeigler Auto Group
- ◆ Packey Webb Ford
- ◆ Tax rebates totaled \$3.267 million dollars between 2007 and 2011
- ◆ \$750,000 proposed for FY2012



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# Funds Managed by Local Boards

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- ◆ Need to leave control with the local pension boards
- ◆ Local boards understand the needs of the local community
- ◆ People in Elk Grove should not decide the needs of the people in Downers Grove

# Lack of Perspective

- ◆ State and local pension funds are very different
- ◆ Stop treating pension funds like “pay-as-you-go” systems
- ◆ Need for pre-funding very important to health of the pension funds
- ◆ Run funds like corporations, with reserves





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# Consequences of Raising Retirement Age

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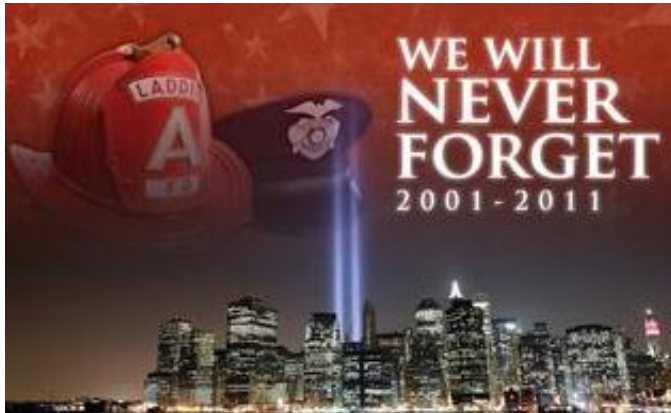


- ◆ Health insurance costs will rise
- ◆ Older workforce needs to access the healthcare system more regularly
- ◆ Workers compensation costs will rise

# Consequences of Raising Retirement Age

- ◆ Longer time sitting in the confined space of a squad with duty belt
- ◆ Sudden stops and starts – respond to an emergency and then go take a simple report
- ◆ Shift work
- ◆ All this takes a toll on the officer's body

# Diminished Benefits



Do we want to diminish the retirement benefits of our first responders in this day and age?



# Diminished Benefits

- ◆ The job is more difficult than ever before
- ◆ Laws are more restrictive
- ◆ Officers are more professional and better educated than at any time in the past



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# Retirement Security

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Society demands more from our officers

At least we can provide them with retirement  
security



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# Pension Funds are not the Problem

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- ◆ Pension funds create and support the local economy
- ◆ Retired public employees live modestly and contribute to their community
- ◆ Need for tax reform
- ◆ End corporate entitlements

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