Remarks as Prepared for Delivery on Pension Reform

May 8, 2012 Springfield, Illinois

Representative Nekritz, Speaker Madigan and members of the Personnel and Pension Committee, thank you for the opportunity to come before you today.

The people of Chicago elected me to bring change to our City. And in the past year we have made tough choices to break from the status quo, making our schools stronger, our streets safer, and our finances more stable. But today, the progress we've made on all these fronts is at risk because of one looming challenge: the increasing pressure from our pension obligations. Our City can get every other issue right, but without fundamental reforms to our pension system, Chicago's economy and quality of life will falter. And Chicago is not alone: leaders in cities and towns across this State are facing similar challenges.

Before I go any further, it is important that I make one point: we do not face these challenges because our public employees and our taxpayers did anything wrong -- they did what was required of them with every pay stub. We are here today because those in positions of responsibility didn't hold up their end of their bargain.

The frank discussion we are having today is a sign that critical changes are underway. The courage many of you have shown to confront the risks in our pension system is too rare in politics today. I appreciate your leadership.

Governor Quinn also deserves praise for helping to bring these challenges to the forefront. He has also offered a detailed plan that outlines serious solutions to our serious challenges. I also appreciate the countless hours Speaker Madigan, President Cullerton, Leaders Cross and Rodogno have spent to put pensions at the top of our agenda and promote the partnerships that will be necessary to forge a long-term solution.

These leaders understand that we can no longer wait to act. Pensions are no longer a threat on our horizon, they are affecting our economy today with the uncertainty they create.

When I speak to executives considering relocating or expanding their businesses in Chicago, they often express concern. Their fears are driven by the uncertainty from our retirement system. And we know that what happens to the City of Chicago does not affect just those of us who live within its boundaries; what happens to Chicago's economy has a profound impact on the health of Illinois' economy.

The City of Chicago and the State of Illinois face many of the same dangers when it comes to our pensions. At the same time, we face unique problems that a one-size fits all framework will not fix. We require a similar set of solutions, but a different mix that is more in tune with our challenges.

Already, Chicago faces \$20 billion in unfunded pension liabilities. Unfortunately, this is only the beginning. Forecasts for future obligations show the burden of pensions on the City budget rising rapidly.

In less than four years, by 2016, which is just around the corner, payments to meet our pension obligations will comprise 22 percent of the City's entire corporate budget. That \$1.2 billion dollars doesn't even include pensions for our teachers and employees in our park district. And that \$1.2 billion dollars is growing larger with each passing year.

If no changes are made, the \$1.2 Billion dollars we need for pension payments present a set of challenges that no Solomon-like wisdom can resolve. Think about it this way: \$1.2 Billion dollars is close to what we spend on the salaries for every employee in our Police Department for an entire year. \$1.2 Billion dollars would pay for the resurfacing of roads on 32,000 blocks in Chicago. \$1.2 Billion dollars could build 10 new high schools and 12 new libraries. \$1.2 Billion dollars could pay for public health programs, garbage collection, tree trimming, recycling, street cleaning, snow-removal, and programs at our parks and for seniors. Our taxpayers cannot afford to choose between pensions and police officers or pensions and paved streets. At \$1.2 billion dollars and growing fast, our pension payments will eventually squeeze out every essential service that residents require and a city needs to provide. That is why we need reform.

As early as next year the burden from higher payments to our teachers' pensions will require us to make drastic changes in our schools. We have already reached tax caps. We can only raise the \$300 million we need to pay for pensions with direct cuts that will affect the classroom. By way of reference, I understand the real costs of these cuts because of the \$140 million dollars in cuts we made in operational savings last year. These cuts allowed us to add 2,500 places in our magnet schools and 6,000 more places for full-day kindergarten. So while last year we used cuts in operations to invest in our classrooms, next year we would be faced with cutting things affecting the classroom in order to make our pension payments.

Without any reforms, cuts in our classrooms would mean an average class size of up to 55 students. That is unfair to our teachers who cannot be expected to manage so many students. That is unfair to our students who cannot learn in such crowded classrooms. That is unfair to taxpayers and families in Chicago who rely on our schools to provide opportunity for their children.

This legislative body has achieved many educational reforms for Chicago's students. It was legislation from this body that provided statewide standards for Chicago's schools. Legislation from this body created more choice for parents in Chicago and a common core curriculum for our schools. Legislation from this body made possible the push for a full school day and full school year to match the full potential of Chicago's students.

Without pension reform these improvements would be stopped in their tracks. Without pension reform we will be forced to mortgage our children's future to pay for our past.

Chicago taxpayers have also suffered from one major inequity for which there is no rationale: Only taxpayers in Chicago pay for the pensions of their own teachers and those of teachers statewide. If taxpayers in Northbrook, Springfield, or Marion were faced with that kind of double duty, their Mayors would not tolerate it: As Mayor of Chicago, neither will I. These payments are a relic from the past that none of us would include in a new system today. All that Chicago taxpayers, and I, as their Mayor, want is equity with taxpayers in the rest of the State.

I have worked with my finance team to develop a set of reforms that reduces our unfunded liabilities by 40%. This mix of reforms is tailored to the different characteristics and challenges of our funds. And by enacting these reforms together, we can protect our taxpayers and preserve retirement security for public employees.

If we make no reforms at all across our pension funds, we would have to raise City property taxes by 150%. As long as I am Mayor of Chicago, that is a burden

I refuse to put on the backs of our taxpayers. We did not make the tough choices to balance our budget, while holding the line on taxes and investing in our future, only to face a 150% property tax hike. Businesses and families would flee, not just from our city but from our state -- and that's not the way to win the future.

Just think about it: no family or company will come to Chicago if taxes climb so quickly. No parent would want their daughter or son putting down roots in a city that has made that kind of choice. Raising City property taxes by 150% would ruin family budgets, corporate budgets, municipal budgets, and ultimately, the State's budget.

The path to pension reform begins with changes to the pay increases that COLA provides retirees. These increases present the biggest potential burden on our taxpayers and the single greatest threat to the retirement security of our present employees. I repeat: this is the single greatest burden. We need to hit the pause button so the entire system can catch its breath and we can wrap our arms around our challenges. We will stop digging a deeper hole and introduce the reforms we need.

Think about it this way: A city employee who retired in 1995 with a \$60,000 pension now collects \$100,000 a year in payments. When we can't afford automatic pay raises for current employees, we can't afford them for all retirees. Pension funds that benefit from a compounded COLA have grown nearly 30% faster than inflation in the past ten years alone. So while the public employees who pay for those pensions had to take furlough days and accept a pay freeze, retires received an automatic increase, or the equivalent of a pay raise. It is unfair to current employees to keep a guaranteed increase when it endangers the very system they depend upon and pay into for their own retirement. I want to say it again: retirees did nothing wrong here - this is a product of people agreeing to things, knowing full well they couldn't be paid for.

After we have created room for our reforms to be enacted and our funds to strengthen, we would return to a simplified COLA at the end of ten years.

Cities and states around the country are considering the same kind of reforms for these automatic increases. The State of Rhode Island has already passed reforms that include a temporary pause for COLA, to provide them with the time to gain traction.

The burdens of a compounded COLA on our pension funds demand that we face a difficult but simple truth: the way COLA is currently structured is no longer sustainable.

COLA reform will provide us space to make other essential changes. Just as the Governor proposed in his framework, the City of Chicago will also ask employees to contribute more to secure their pension funds.

I don't want to underestimate the difficulty of higher annual payments, but by phasing in a one percent increase each year over the next five years, we will provide time for employees to adjust and plan for the future.

For those who say this change is too severe, let me be clear: we are making this reform so we can be honest with our employees. Only by making this change can we honor their work and contributions with a dignified retirement. Only by telling hard-truths and making tough changes can we repair a broken system.

We also have a fortunate reality to consider: retirees are living longer. Since Social Security and most city and state retirement programs began, life expectancy has grown by nearly 20 years. The longer and more active lives of our retirees have enriched our society in every way, but our pension funds have not kept pace with these changes. By raising the retirement age by five years, we can bring our retirement security system into line with both the Governor's framework and many programs for private employers.

Lastly, we need to introduce choice into our retirement system. While this reform is not meant for everybody, choice is an important way to attract the best talent and line our plans up with what the private sector offers new employees. Offering more choice allows us to reduce pressure on our budget and taxpayers, while providing options for those who have decades to plan for their retirement.

Make no mistake, we need to do this incrementally and in a way that is smart. But we know we will never have a better chance to make our retirement plans more competitive and consistent with those offered in the private sector.

We know there are times when we give people good reason to deride politics and politicians – and I say this as someone who has made a long career in politics. But the size of the challenges we have to confront provide us a chance to show the public we can put principles and practical solutions ahead of short-term political gain.

All of us know there is still no way to take politics out of this process completely. But in our discussions here and in conversations throughout the Capitol and State, I think we can sense that the politics are changing. I saw it last year when I ran for Mayor. I vowed to bring pension reform to Chicago and I heard from plenty of people who didn't agree with what I proposed. But the more I speak with taxpayers in Chicago, the more I believe the public wants leaders to level with them. And when it comes to pension reform, I believe that being honest with people makes for both good policy and good politics.

It's also important to remember why we have reached this point today: we are here today because we didn't level with the public. We postponed making choices and promises were not kept.

I am sure there are many people who don't like what I have said today -- but I believe there are enough people who know the moment of truth has arrived. If we are honest and forthright with each other, with the public, and the challenges we face, we will deliver a solution for taxpayers, retirees, and future generations.

I look forward to being a partner with all of you here today. I want you to know that whatever political capital I have earned, I am willing to invest in finding a comprehensive pension solution. I am confident that if we work together, we can make the changes and compromises to see our challenges through.

I thank you for this chance to speak with you on behalf of my great city. I pledge that I will do all I can to bring substantive and real reform to our pension systems.

Thank You.