Watchdog: Staff cuts don't translate to pension savings
By Jake Griffin Daily Herald
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[PHOTO] Arlington Heights was one of the few suburbs that didn't see an increase in IMRF contribution costs between 2009 and 2011, but it will pay an extra $857,000 this year to cover delayed payments allowed by the pension agency. Daily Herald File Photo

While many suburbs have been cutting jobs to save money, the amount many towns pay toward pensions for remaining employees has gone up.

An analysis of Illinois Municipal Retirement Fund data for 80 suburbs shows taxpayers combined to spend $7.7 million more on retirement benefits for municipal employees in 2011 and 2010 than they did in 2009.

That's despite having 708 fewer employees eligible for IMRF pensions in 2011 than two years earlier. The data does not account for most public safety employees — like police and firefighters — who generally have their own pension systems.

The chief cause of the pension cost spike was the collapse of the stock market in 2008.

"We had investment losses in 2008, which was very significant," said Louis Kosiba, executive director of IMRF. "It was a once-in-a-lifetime event."

Over the past 30 years, the fund had seen double-digit percentage gains on its investments, and there had only been losses four times before 2008. In 2008, the fund lost nearly 25 percent of its overall value. The previous worst loss was in 2002, when the fund lost 8.72 percent of value.

IMRF is funded mainly through its investments. If those investments don't reach the minimum anticipated return — 7.5 percent in IMRF's case — the employer makes up the difference. Employees also pay in to what's called a "defined benefit plan" because the pension amount is guaranteed.

"There are three prongs to funding IMRF and the employer is the prong that funds the liability, the other two prongs don't," St. Charles Finance Director Chris Minick said. "That's the main issue in how pensions are funded."

Eliminating jobs didn't solve everyone's problem.

Places like Wheaton, St. Charles and Elk Grove Village all made significant staffing cuts in 2010 or 2011, shedding 20, 11 and 10 positions respectively, but still saw significant hikes in the pension amounts owed. Wheaton's costs rose more than $450,000 over those two years, while Elk Grove Village and St. Charles each had increases of roughly $550,000 above what was paid in 2009.

Job cuts were almost immediate after municipal leaders realized the funding issues they were facing in the wake of the 2008 stock market crash.

"There were many factors that went into (those decisions) and one of them was pension costs," said Robert Lehnhardt, Wheaton's finance director.

But those decisions might have added to the rising cost of pension contributions.

Kosiba believes some of the job losses helped increase pension costs because of early retirements.

"If you're paying two more years of benefits than what was anticipated, there's going to be a magnifying," he said.

Kosiba noted that while there are fewer employees in the governments that participate in IMRF, the amount of wages being paid by these agencies has often stayed the same or increased. Without corresponding drops in head count with decreases in pay, pension contributions won't decline either, he said.

Kosiba illustrated his point by noting that IMRF employers with their fluid contribution rates paid $660 million in 2009, $770 million in 2010 and $800 million in 2011. Meanwhile, employees, with a steady 4.5 percent contribution rate, paid $324 million in 2009, $325 million in 2010 and $327 million in 2011.

"Even though the workforce has been cut, the payroll has often not been cut," he said.

Legislative attempts to change pension liabilities for future government employees have been unsuccessful.

"Every defined benefit plan is facing these issues," said state Rep. Elaine Nekritz, a Northbrook Democrat who was part of Gov. Pat Quinn's pension reform task force. "I don't know that there's a silver bullet to avoid the liabilities, but in the bill we proposed, and were very close on, it has much greater sharing of investment and actuarial risk."

Some towns saw a decrease in pension contribution obligations between 2009 and 2011.

While there are 24 fewer IMRF-eligible employees on the roster these days, Arlington Heights officials attribute paying off its early retirement incentive program costs ahead of schedule as the key reason for their pension contributions dropping nearly $800,000 during that time period.

"This was five years of liability that was paid off early," said Tom Kuehne, the village's finance director.

But the village also took advantage of an alternate contribution rate schedule offered by IMRF in the wake of the 2008 stock market collapse. That program allows municipalities to spread the liability from the investment losses over several years. The IMRF's "phase-in" program expires in 2015. Kuehne said the village plans to pay an extra $857,000 this year to cover its remaining liabilities from participating in that program.

Minick wasn't a fan of the IMRF's alternate program.

"That ends up costing the municipality more because it's akin to interest earning on a loan," he said.

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