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Taxpayers' pension fund contributions up 172% in 10 years

By **Jake Griffin**

While local government workers paid 40 percent more toward their pensions in 2011 than they did just 10 years earlier, taxpayer contributions rose 172 percent over the same time frame.

That increase amounted to $500 million more paid by taxpayers in 3,000-plus municipalities, counties, libraries, park districts, township and other local governments, according to an analysis of Illinois Municipal Retirement Fund annual financial reports.

“I knew it had grown, but I didn't realize it was that high,” said Mark Baloga, executive director of the DuPage Mayors and Managers Conference, a lobbying and advocacy group for local municipalities.

The biggest reason for that increase is that in IMRF, employers — the local government bodies that are funded by taxpayers — have to make up the difference when investment returns are lower than projected. And that's been the case plenty of times in the last decade. That puts pressure on local government budgets, potentially crowding out programs and services, or in many cases raising taxes.

Yet, the requirement that taxpayers cover investment gaps helps IMRF avoid huge unfunded liabilities that plague other public pension programs in the state. This provides more security for workers, while taxpayer costs are always at the whim of the world's financial markets.

But there may be light at the end of the tunnel.

“Because of good investment returns, the normal cost to employers is coming down,” said IMRF Executive Director Louis Kosiba.

Employee contributions rose on a 35 percent increase in wages over that time period and the addition of roughly 8,000 more workers. Employee costs rose from $233,935,559 in 2002 to $327,680,889 in 2011.

Meanwhile, taxpayers of those government agencies in 2011 spent $800,804,253 on pension contributions for 175,844 workers compared to 2002's figure of $294,935,422 for 167,952 employees.

Here's why:

The retirement system pays pensions from funds generated by employee contributions, employer contributions and investment income. Each year, revenues have to meet set funding goals. Unlike the employees, whose contribution rates are generally locked in at 4.5 percent of their salaries, employers are on the hook for any shortfalls. And there have been a lot of shortfalls in the past decade.

Estimates of investment income are locked in at 7.5 percent over the long term to take into account good times and bad. The problem is the bad times were worse than anyone imagined. In 2008, the fund lost almost 25 percent of its value, or more than $6 billion.

Kosiba said the financial meltdown did not affect the way the fund invests.

“We're an institutional investor,” he said, and changing investment strategies “would be the exact wrong thing to do. We can ride this out and have sufficient reserves.”

IMRF covers employees from a variety of local government agencies except most municipal police officers and firefighters, who have their own pension systems. However, it does cover sheriff's office employees, and sworn personnel in those offices participate in a different program that charges them at a rate of 7.5 percent and allows them to retire fully vested earlier than other IMRF-eligible employees. Another IMRF program for elected county officials also charges at a steeper rate and requires less time to be fully vested.

Many government finance officials believe the burden to taxpayers will level off as the economy rebounds.

“In the short-term view, when you're looking at one of the longest economic losses in decades, you're going to show a sharp increase in contributions to reflect those losses,” said Arlington Heights Finance Director Tom Kuehne. “As investment rates return to more normal increases, you'll see (employer) contribution rates bend down and stabilize.”

Pension costs grew so much for Arlington Heights that last year the village took advantage of an IMRF program that let them pay off their 2012 obligations in installments. Kuehne said the village chose the installment plan rather than raise taxes to cover an increase in IMRF costs of more than $1 million from 2011 to 2012. He added that the village has since paid its delayed IMRF obligations.

A lot of stock in reducing taxpayer obligations is being placed on changes to pensions for future employees. However, there is concern that these measures to alleviate some of that pressure on taxpayers don't go far enough.

New IMRF employees hired after January 2011 now have to be 67 to retire instead of 60. It takes new employees 10 years to be vested in the retirement system instead of eight. The annual cost-of-living increase is no longer an automatic, not compounded 3 percent. Instead it's half the rate of inflation or 3 percent, whichever is lowest. And there's now a cap on pensionable earnings. These employees are part of IMRF's “Tier 2” beneficiaries.

“As people begin to be enrolled in Tier 2 we'll see costs going down,” Kosiba said.

Kosiba and others tout the pension cap as a significant way to keep costs down.

However, this year, that cap is on employees earning more than $109,971, which amounts to a small percentage of IMRF-eligible employees.

“It will put a big dent in some of the costs and it does it to those who can afford it the most,” Baloga said.

But the cap also grows each year based on inflation, which leads to higher contribution costs. And the new rules for Tier 2 employees also don't relieve any of the pressure on employers to make up investment shortfalls, which was the single largest contributor to the increase in taxpayer-funded pension costs for IMRF over the past decade. Additionally, it will be years before Tier 2 employees make up the majority of the workforce for many of the agencies.

That has some government officials suggesting employees pay more.

“I do think Tier 2 is beneficial for the long-term,” said Bloomingdale Village Administrator Martin Bourke. “But there is some need for an increased contribution from employees for the future to take some of the burden off employers and taxpayers.”

Got a tip?

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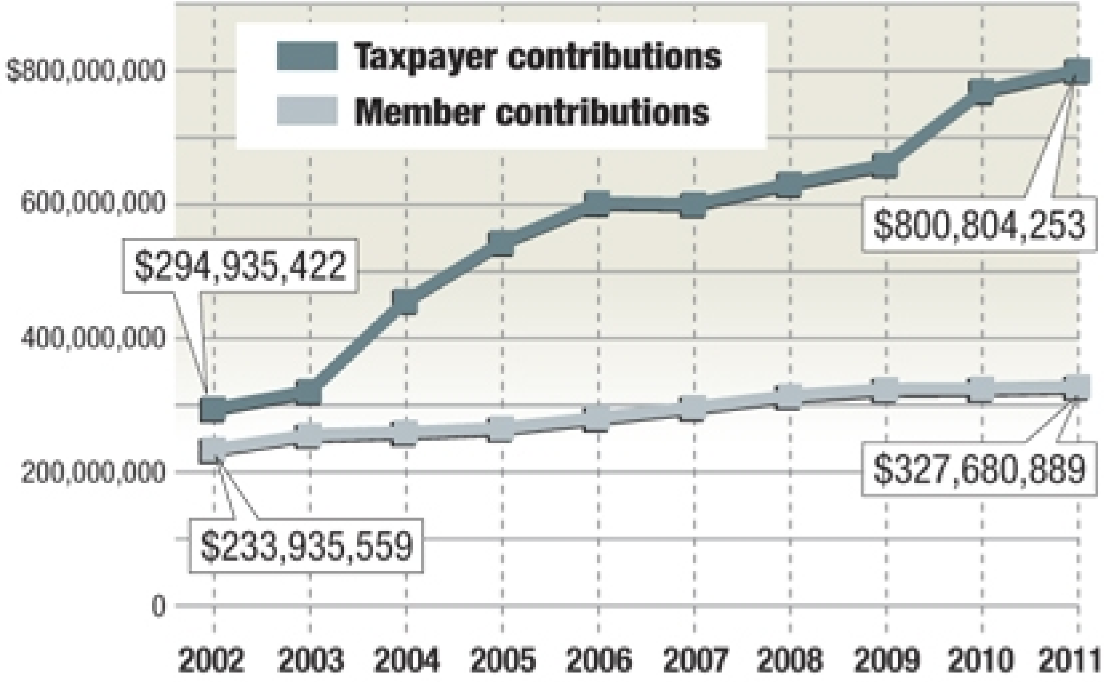
Contribution growth

Over the span of 10 years, taxpayer-funded contributions to the Illinois Municipal Retirement Fund grew 172 percent while employee contributions grew 40 percent.



Source: Illinois Municipal Retirement Fund

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