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LOCAL PENSIONS CONTINUE DOWNWARD SLIDE, UNDERFUNDED BY $16.5 BILLION
Local Governments Must Work with Unions, General Assembly to Halt Funding Decline

(CHICAGO) – The Civic Federation released today its annual review of the ten largest local government employee pension funds in northeastern Illinois, finding that the funds face a collective deficit of over $16 billion.

Continuing a decade-long trend, the growth in liabilities of the ten funds significantly outpaced the growth in assets, a trend that shows no sign of stopping or even slowing. An additional $1.1 billion in unfunded liabilities were added in FY2005 alone, the most recent year for which uniform data are available.

"Every Cook County taxpayer should be alarmed not only by the sheer size of the pension shortfall, but by its rate of increase," said Laurence Msall, President of the Civic Federation. "Without immediate action, even the region's few healthy pension plans will soon become underfunded and yet another drain on future tax revenues."

The Federation found that funded ratios also continued to fall in 2005, ranging from 93.9% for the Chicago Laborers fund to a dismal 34.4% for the CTA fund. A funded ratio of 90% assets to liabilities is generally considered to be a healthy funding level. The report found that the funded ratios of half of the ten funds analyzed declined from relative fiscal good health into trouble in the past five years.

"The size of the problem should not be considered a deterrent to action by policy makers, but an impetus for immediate action," said Msall. "There are key reforms local governments can and must pursue in conjunction with the General Assembly and unions to contain the factors that are continuing to lead to unsustainable increases in liabilities."

Benefit enhancements are a major source of increased liabilities for pension funds. The Civic Federation recommends that the General Assembly prohibit benefit enhancements unless a pension plan is over 90% funded. Pension funds that are struggling with unfunded liabilities should not be permitted to exacerbate their situation by granting greater benefits. In addition, healthy funds should only be permitted to grant benefit enhancements if they are covered by increased contributions from employers and/or employees.

In contrast, insufficient employer contributions are a main driver of asset shortfalls. Illinois statute currently defines employer contributions for most of these funds as a multiple of employee contributions two years prior. Statutorily required employer contributions are therefore not related to the level of funding in the plan. In its analysis, the Civic Federation presents two possible methods to rectify the situation, both of which require action by the General Assembly.

The first method would require increased employer contributions to a pension fund when its funded ratio falls below 90%. Such a provision would restore the link between employer contribution levels and the amount of funding that will actually be necessary to pay current and future benefits. The second recommendation would be to adopt the funding model of the Illinois Municipal Retirement Fund, which requires employer contributions at levels consistent with the actuarially required contribution (ARC). The ARC is a funding level calculated to cover the cost of all retirement benefits earned by employees in a year plus a sum that will help erase the unfunded liability within thirty years.

The Civic Federation's complete analysis and recommendations can be found on our website, www.civicfed.org.

The Civic Federation is an independent, non-partisan government research organization founded in 1894. The Federation's membership includes business and professional leaders from a wide range of Chicago area corporations, professional service firms and institutions.

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Status of Local Pension Funding
Fiscal Year 2005

An Evaluation of Ten Local Government Employee Pension Funds in Cook County

Prepared by
The Civic Federation

February 16, 2007

* * * * * * * *

In 1894, a group led by several of Chicago's most prominent citizens—including Jane Addams, Bertha Palmer and Lyman J. Gage—coalesced around a serious issue: the need to address deep concerns about the city's economic, political and moral climate at the end of the 19th century. The resulting organization, called The Civic Federation, evolved during the 20th century to become a leading advocate for governmental fiscal responsibility and an effective champion of rational tax policy. The work of the Federation continues to evolve in the 21st century as a greater emphasis is placed on working with government officials to improve the efficiency, effectiveness and accountability of Chicago-area governments.

Today, The Civic Federation remains true to the non-partisan mission established by its founding members. That mission is to work with Chicago area governmental bodies to help them reduce their costs and improve the quality of government services by:

- Promoting opportunities to reform local tax structures;
- Guarding against wasteful expenditure of public funds; and
- Serving as a technical resource to public officials and opinion leaders through non-partisan tax and fiscal research.

Since 1996, the Federation has produced an annual survey of the nine major local government employee pension funds in Cook County. In 2006, we added a tenth fund, the Retirement Plan for Chicago Transit Authority Employees.

This report is intended to provide the lawmakers, pension trustees, and the public with the information they need to make informed decisions regarding these important matters of local government finance.

Laurence Msall
President

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TABLE OF CONTENTS

EXECUTIVE SUMMARY 4

PUBLIC EMPLOYEE PENSION FUND OVERVIEW 6

Funds Included in Analysis 6
Active Employees and Beneficiaries 7

EVALUATING PENSION FUND STATUS 9

Pension Fund Status Indicators 9
Funded Ratio *10*
Unfunded Liabilities *10*
Investment Rate of Return *11*
Causes of Pension Funding Status Change 11
Sustained Investment Losses or Gains *11*
Benefit Enhancements *12*
Changes to Actuarial Assumptions *12*
Employer and Employee Contributions *13*
Scope of Report 15

FUNDED RATIOS: POLICY CONSIDERATIONS 15

Funded Ratio Triggers for Additional Contributions 16
Chicago Teachers' Retirement Fund Additional Contributions *16*
Chicago Transit Authority 90% Required Ratio *18*

ASSETS AND LIABILITIES OF LOCAL PENSION FUNDS 19

INVESTMENT RATE OF RETURN 22

Historical Trends 23

REVENUES 24

EXPENDITURES 26

Annuitant Health Insurance Benefits (Other Post Employment Benefits) 28

FUNDED RATIOS 30

Actuarial Value of Assets 30
Market Value of Assets 31

UNFUNDED ACTUARIAL LIABILITIES 32

CIVIC FEDERATION RECOMMENDATIONS 34

Link Benefit Enhancements for Healthy Funds to Full Funding of Enhancements 34
Reduce Benefits for New Employees: Establish a Two-Tiered System 35
Limit Annuity Increases for New Hires at the Lesser of 3% or CPI 35
Require Employer Contributions to Relate to Funding Levels 35
Reform Pension Boards of Trustees to Balance Stakeholder Interests, Safeguard Assets 36
Require CTA Pension Fund to Report to the Illinois Department of Financial and Professional Regulation 37

GLOSSARY 38

APPENDIX A: REVENUE AND EXPENDITURE CALCULATIONS 40

SOURCES FOR FY2005 42

EXECUTIVE SUMMARY

The Civic Federation recently concluded an analysis of the fiscal year 2005 actuarial valuation reports for ten major local government employee pension funds in Cook County. The funds analyzed in our report include the plans for the City of Chicago, Chicago Park District, Chicago Public Schools, Cook County, Cook County Forest Preserve District, Metropolitan Water Reclamation District, and the Chicago Transit Authority.

Ratio of Active Employees to Beneficiaries

Between FY1997 and FY2005, the ratio of total active employees to beneficiaries for the ten funds combined has gradually dropped from 1.79 actives for every one beneficiary to 1.43.

Assets and Liabilities

Combined, the ten pension funds had approximately $50.3 billion in accrued liabilities. The funds' assets had an actuarial value of $33.8 billion and a market value of $34.2 billion.

Unfunded Liabilities

Between FY2001 and FY2005, aggregate unfunded liabilities for the ten funds nearly quadrupled, jumping from $4.6 billion to **$16.5 billion**.

Investment Rate of Return

The average rate of return for those funds with a January 1 to December 31 fiscal year was 6.9%, down from 10.6% in FY2004. The average rate of return for funds using a July 1 to June 30 fiscal year was 10.1%, down from 15.3% in FY2004.

Revenues and Expenditures

Investment income represented 64.0%, or $2.6 billion, of the $4.0 billion that constituted the ten funds' aggregate income. Employee and employer contributions represented 16.4% and 19.4% of total income, respectively. Pension benefit payments represented 86.8%, or $2.5 billion, of the $2.9 billion in total expenditures.

Funded Ratios

Most actuarial funding ratios continued to fall in FY2005. The actuarial funded ratio for the aggregate of all ten funds' assets and liabilities was 67.2%, down from 70.0% in FY2004. The CTA Fund's funded ratio has fallen to 34.4% in FY2005. The next lowest FY2005 funded ratios are the Fire Fund at 41.8%, and the Police Fund at 50.7%.

Civic Federation Recommendations

Local governments must take immediate action to slow the downward spiral of pension underfunding by controlling factors which lead to increases in liabilities and shortfalls in assets. The Civic Federation urges local governments and pension funds to seek the following changes through legislation and/or collective bargaining:

- Prohibit benefit enhancements unless the plan is over 90% funded;
- Grant benefit enhancements for healthy plans only if the enhancements are fully funded by increased contributions;
- Reduce benefits for new employees, thus reducing liabilities on pension plans that have become unaffordable;
- Limit annual annuity increases to the lesser of 3% or inflation for new hires;
- Require employer contributions to relate to funding levels such that additional contributions are required when the funded ratio drops below 90%;
- Consider adopting the funding model of the Illinois Municipal Retirement Fund (funding at the actuarially required contribution level); at a minimum, adjust the property tax multiple at regular intervals of three to five years to reflect the actuarially determined funding needs of the plan;
- Reform the governance of pension boards of trustees so that their composition better balances stakeholder interests and safeguards assets; and
- Require the CTA pension fund to report to the Illinois Department of Financial and Professional Regulation as do other local government pension funds.

PUBLIC EMPLOYEE PENSION FUND OVERVIEW

All public pension plans surveyed in this report are defined benefit plans. In defined benefit plans, employers and employees annually contribute fixed amounts to investments intended to cover future benefit payments. Upon retirement, the employee receives an annuity based upon his or her highest salary (usually based on an average of several years) and length of service. If the amounts contributed to the plan over the term of the employee's employment (plus accrued earnings) are insufficient to support the benefits (including health and survivor's benefits), the former employer is required to pay the difference.

By contrast, in a defined contribution plan, the employee and employer contribute fixed amounts. The retiree's annuity is based upon the total amount contributed to the plan over the employee's tenure. In general, the employer's liability ends upon the employee's retirement, apart from ancillary health benefits. Two common examples of defined contribution plans are 401(k) or 403(b) plans. These designations refer to the governing sections of the tax code. Some public employee funds in the United States are now "hybrid" plans, offering a combined defined benefit and defined contribution to employees.

Funds Included in Analysis

The City of Chicago enrolls its employees in four different pension systems:

- Municipal Employees' Annuity and Benefit Fund of Chicago
- Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago
- Firemen's Annuity and Benefit Fund of Chicago
- Policemen's Annuity and Benefit Fund of Chicago

In addition, six other local government pension funds are analyzed in this report: [1]

- County Employees' and Officers' Annuity and Benefit Fund of Cook County
- Forest Preserve District Employees' Annuity and Benefit Fund of Cook County[2]
- The Metropolitan Water Reclamation District Retirement Fund
- Public School Teachers' Pension and Retirement Fund of Chicago[3]
- Park Employees' & Retirement Board Employees' Annuity and Benefit Fund[4]
- Retirement Plan for Chicago Transit Authority Employees

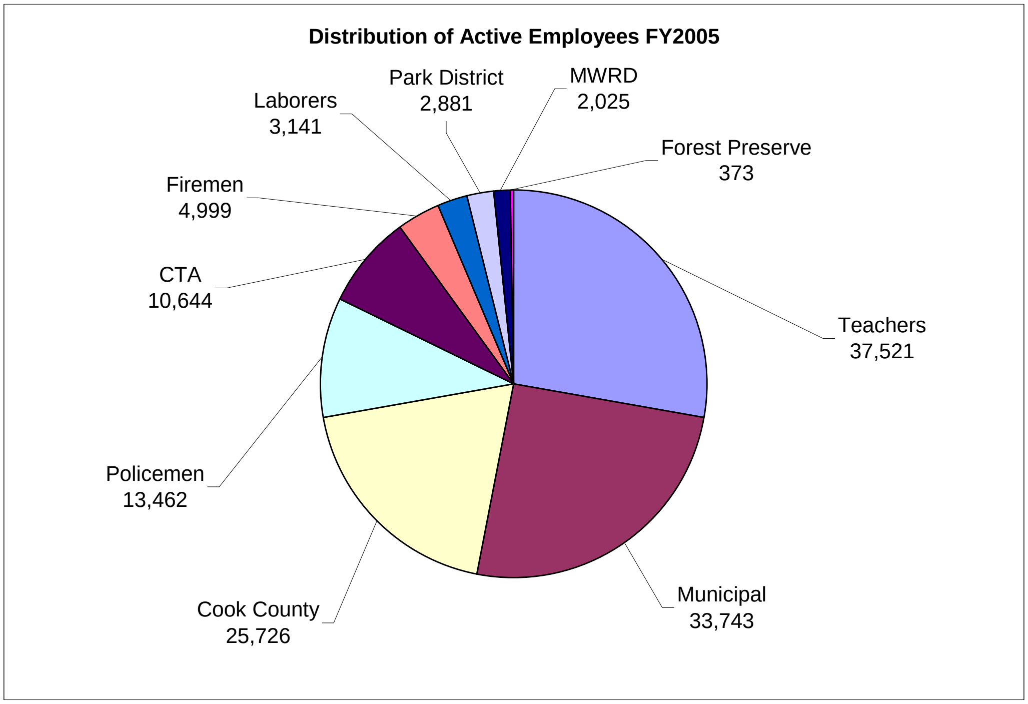
Unless otherwise noted, all fund data in this report is taken from the actuarial valuations and financial statements of the funds, as listed in the Sources on page 42. Specific page number references for revenues and expenditures are listed in Appendix A on page 40.

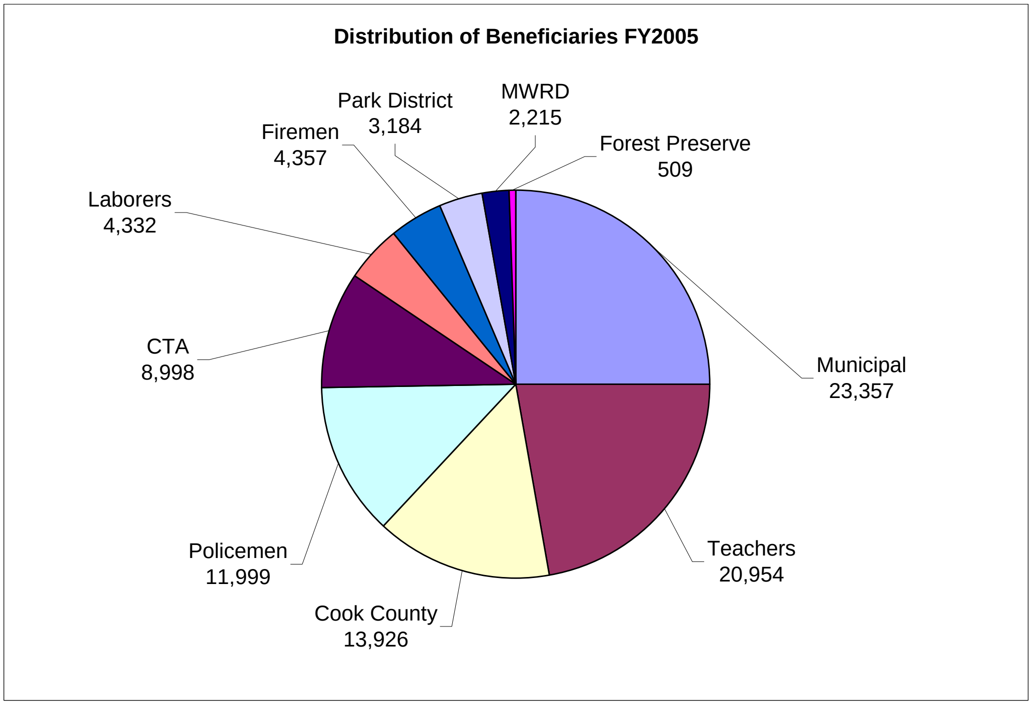
[1] The term "local government" is used here broadly and includes the Chicago Transit Authority, an Illinois municipal corporation. The seven governments and ten funds analyzed in this report were created by Acts of the Illinois General Assembly.
[2] The funds of Cook County and the Cook County Forest Preserve District are governed by the same pension board.
[3]The Chicago Board of Education enrolls teachers in the Public School Teachers' Pension and Retirement Fund of Chicago. All other employees of the Board of Education are enrolled in the City of Chicago's Municipal Employees' Annuity and Benefit Fund.
[4]The fiscal year of the Park Employees' and the Public School Teachers' pension funds is July 1-June 30. The other eight funds use a January 1 – December 31 fiscal year.

Active Employees and Beneficiaries

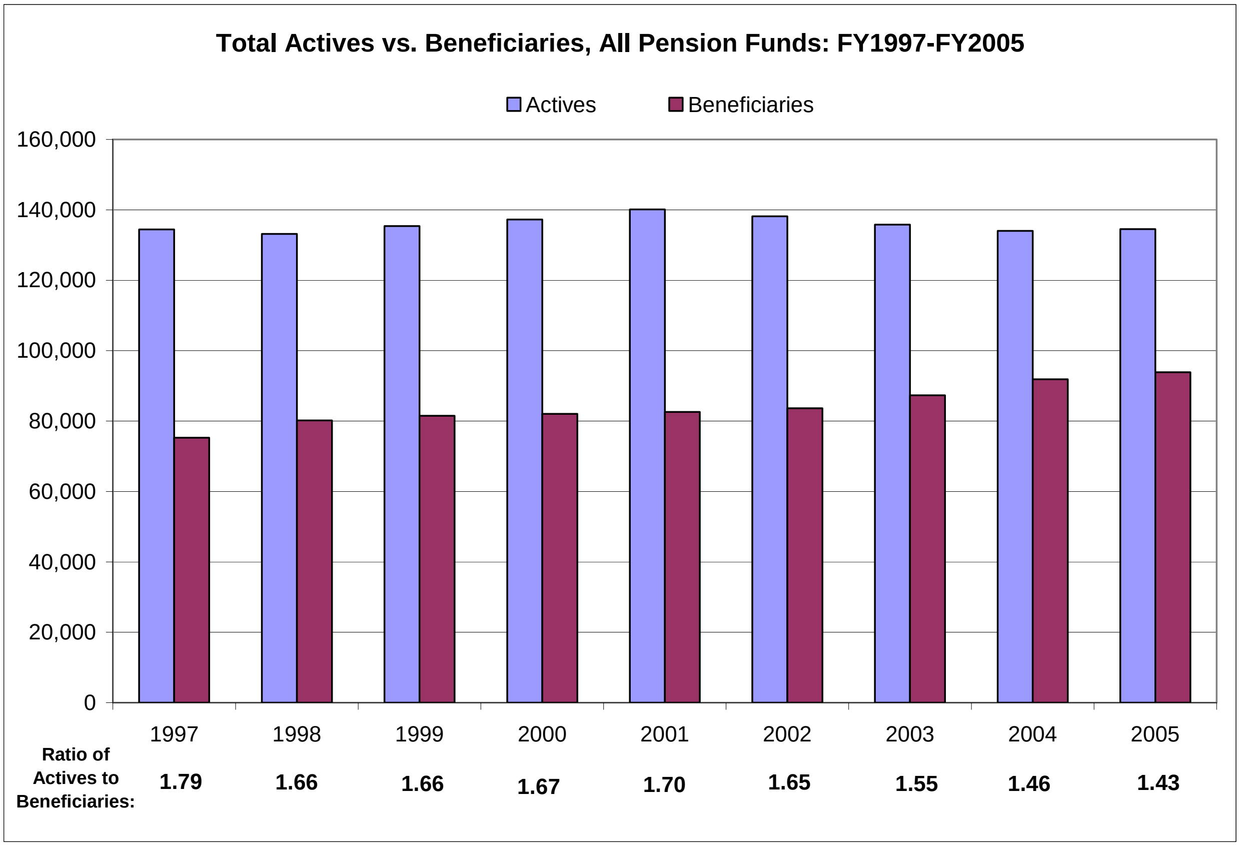
The ten pension funds reviewed in this report collectively covered 134,515 active public employees and 93,831 beneficiaries in FY2005.

The three largest funds -- Municipal Employees' Annuity and Benefit Fund of Chicago, Public School Teachers' Pension and Retirement Fund of Chicago, and County Employees' and Officers' Annuity and Benefit Fund of Cook County -- accounted for 72.1% of the active employees covered by these plans and 62.1% of beneficiaries.





The ratio of total active employees to beneficiaries has gradually dropped from 1.79 actives for every one beneficiary in FY1997 to 1.43 in FY2005.



In FY2005 the Cook County Fund had the highest active-to-beneficiary ratio, at 1.85. The Laborers', Park District, MWRD, and Forest Preserve Funds all had *more* beneficiaries than actives in FY2005. For most funds, decline in the ratio resulted from personnel cuts or early retirement initiatives. These measures simultaneously reduce the number of active employees and increase beneficiaries.

Ratio of Active Employees to Beneficiaries, by Fund: FY1997-FY2005									
	1997	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**
Fire	1.13	1.10	1.07	1.06	1.13	1.13	1.14	1.12	1.15
Police	1.36	1.34	1.31	1.28	1.24	1.21	1.20	1.15	1.12
Municipal	1.87	1.58	1.72	1.74	1.78	1.72	1.68	1.42	1.44
Laborers	0.95	0.85	0.90	0.97	0.99	0.92	0.90	0.71	0.73
Teachers	2.12	2.19	2.13	2.12	2.18	2.09	1.97	1.94	1.79
Park District	1.25	1.34	1.09	1.12	1.06	1.09	1.03	0.87	0.90
MWRD	0.98	1.00	0.99	0.97	0.99	0.95	0.94	0.93	0.91
Cook County	2.82	2.41	2.40	2.41	2.35	2.33	1.87	1.88	1.85
Forest Preserve	2.44	2.16	2.19	2.31	1.80	1.52	0.78	0.70	0.73
CTA	1.41	1.23	1.15	1.19	1.25	1.25	1.24	1.21	1.18

EVALUATING PENSION FUND STATUS

The following section describes the primary indicators of pension fund health used in this report.

Pension Fund Status Indicators

Pension fund status indicators show how well a pension fund is meeting its goal of accruing sufficient assets to cover its liabilities. Ideally, a pension fund should hold exactly enough assets to cover all of its current and prospective liabilities. Current liabilities are benefits owed to retirees in the current year, and include pension payments as well as any other retirement benefits, such as retiree health insurance. Prospective liabilities are all of the future retirement benefits promised to past and current employees and their beneficiaries. A pension fund is considered 100% funded when its asset level equals the actuarially determined amount required to meet all accrued current and prospective liabilities. A funding level under 100% means that a fund's current assets are less than the portion of the present value of future benefits that has been allocated for funding in prior years under the actuarial cost method.

Assets and liabilities are calculated using a number of actuarial assumptions. Liabilities are calculated using assumptions about such factors as salary levels, retirement age, and life expectancy. Assets can be reported by their current **market value**, which recognizes unrealized gains and losses immediately in the current year, but this measure is subject to significant market volatility and can be misleading, as year-to-year variations typically average out over the life of the pension plan. Under Government Accounting Standards Board (GASB) Statement No. 25, assets of public pension plans may also be reported based on their **actuarial, or smoothed, market value**. The actuarial value typically smoothes the effects of short-term market volatility by recognizing deviations from expected returns over a period of three to five years.[5] For example, one smoothing technique recognizes 20% of the difference between the expected (based on the assumed rate of return) and actual investment returns for each of the previous five years. Because the significant changes in reporting required by GASB 25 took effect in FY1997, the majority of trend data in this report begins with that year.

It is important to consider two critical factors when evaluating pension fund status. First, the status of a pension fund is in large part a function of the actuarial methods and assumptions made. Changes to assumptions based on demographic trends, plan experiences, or even a change in actuary can produce substantially different pictures of a fund's status.

Second, because pension financing is long-term in nature, pension fund status is best evaluated by examining multi-year trends, rather than a single year in isolation. Negative multi-year trends are cause for concern, and indicate a need for a change in funding strategy. A given indicator

[5] In November 1994, the Government Accounting Standards Board (GASB) issued Statement No. 25 that established new standards for the reporting of a pension fund's assets. The requirement became effective June 15, 1996. Up until that statement, most pension funds used two measurements for determining the net worth of assets, book value (recognizing investments at initial cost or amortized cost) and market value (recognizing investments at current value). In Statement No. 25, GASB recommends a "smoothed" market value, also referred to as the actuarial value of assets, in calculations for reporting pension costs and actuarial liabilities. The smoothed market value or actuarial value of assets accounts for assets at market values by recognizing unexpected gains or losses over a period of 3 to 5 years.

that is low, but has been stable for several years, should occasion a lesser degree of alarm than a once-healthy fund that has experienced precipitous decline in recent years.

The following three common indicators are used in this report:

Funded Ratio

The most basic indicator of pension fund status is its ratio of assets to liabilities, its funded ratio. Usually this ratio is expressed in terms of actuarial values, as required by GASB 25. When a pension fund has enough assets to cover all its accrued liabilities, it is considered 100% funded. This does not mean that further contributions are no longer required, but rather that the plan is funded at the appropriate level on the date of valuation. A funding level under 100% means that a fund does not have sufficient assets to cover that portion of the present value of future benefits that has been allocated for funding in prior years under the actuarial cost method.

Many experts claim that there is no real need for governments to achieve 100% funding. They argue that governments, unlike private corporations, are not at risk of dissolving and, therefore, can meet their obligations in perpetuity. However, public pensions should be funded sufficiently to prevent the *growth* of the unfunded liability. If the unfunded liability is growing and the plan has no practical strategy for reducing it, this is cause for serious concern.

The ultimate goal of any pension fund is to be fully funded, with 100% of accrued liabilities covered by assets, and there is no *official* industry standard or best practice for an acceptable funded ratio other than 100%. The Illinois General Assembly has set 90% as a target funded ratio for state pension funds, stating "90% is now the generally-recognized norm throughout the nation for public employee retirement systems that are considered to be financially secure and funded in an appropriate and responsible manner" (40 ILCS 5/1-103.3). Similarly, the Chicago Teachers' fund requires additional employer contributions when the ratio falls below 90% (40 ILCS 5/17-127*ff*.). Funded ratio targets are discussed in more detail beginning on page 15 of this report.

Unfunded Liabilities

Unfunded actuarial liabilities are those liabilities, both current and prospective, not covered by actuarial assets. It is calculated by subtracting the actuarial value of assets from the accrued actuarial liability of a fund.

One of the functions of this indicator is to measure a fund's ability to bring assets in line with liabilities. Healthy funds are ones that are able to reduce their unfunded liabilities over time; substantial and sustained increases in unfunded liabilities are cause for concern.

It can be useful to measure unfunded liability as a percentage of payroll covered by the plan. This measurement expresses the unfunded liability in terms of the current personnel expenditures and demonstrates the relative size of the unfunded liability. One of this indicator's functions is to measure a fund's ability to manage or make progress in reducing its unfunded liability. A gradual decrease in unfunded liability as a percent of covered payroll over time would indicate that a reasonable funding strategy is being pursued. If unfunded liability continues to increase as a percentage of covered payrolls, then a new funding strategy and a reduction in the level of benefits granted by the fund may need to be considered.

Investment Rate of Return

A pension fund invests the contributions of employers and employees in order to generate additional revenue over an extended period of time. Investment policies should be aligned with the fund's actuarial assumptions in order achieve appropriate risk and yield levels for the plan's portfolio. The annual rate of return on investments is an important indicator of the strength of a fund's investment strategy.

Most of the local funds assume an 8% average annual rate of return for actuarial purposes. A fund's rate of return for a given year can be compared to its assumed rate of return. Rates of return for various funds can also be compared to each other, or to specific market indices.

FY2005 Assumed Investment Rate of Return	
Fund	
Fire	8.00%
Police	8.00%
Municipal	8.00%
Laborers	8.00%
Teachers	8.00%
Park District	8.00%
MWRD	7.75%
Cook County	7.50%
Forest Preserve	7.50%
CTA	9.00%

Low or negative investment income usually causes a significant drop in pension fund assets, although this effect is smoothed over time under the actuarial method of calculating assets.

Causes of Pension Funding Status Change

The following are four major factors that influence a pension plan's funding status.

Sustained Investment Losses or Gains

Investment income is the primary driver of income for pension funds. It represented 64.0% of the total income for the ten funds combined in FY2005 (see p. 25). While employee and employer contribution amounts are relatively stable from year to year, investment income can fluctuate widely. When rates of return are positive, investment income usually represents the majority of a fund's total income. Multi-year investment gains or losses that deviate substantially from the assumed rate of return (often 8%) therefore have a major impact on fund assets.

The strong investment market of the late 1990s produced several years of significant gains for pension funds. Likewise, the market decline of 2000-2002 created major losses for the funds. The effects of these gains and losses are felt for several years beyond their market occurrence due to the actuarial smoothing of assets.

For example, the Chicago Park District fund experienced an overall investment return of roughly 9.6% in FY2005, above its actuarially assumed rate of 8%. However, when this return is calculated based on the actuarially smoothed value of assets over 5 years, it drops to 4.0%, increasing the unfunded liability by $23.8 million for FY2005.[6]

Benefit Enhancements

Enhancements to retirement benefits can take various forms, such as an increase in the annuity formula, reduction in total years of service required for maximum annuity, or a reduction in retirement age for maximum annuity. Specific early retirement initiatives, designed to encourage older employees to retire early, can also be considered benefit enhancements, although they are typically available only for a limited time and sometimes require additional employer or employee contributions.

Benefit enhancements increase the promised payments that will be made to beneficiaries either in the form of pensions or other post-retirement benefits, and therefore increase a pension fund's liabilities. In the case of collective bargaining, benefit enhancements are part of the overall economic package negotiated by employers and employees. Often those enhancements are granted in exchange for short-term employee concessions on salaries or health insurance. Offering benefit enhancements can seem like an attractive option to employers, since achieving short-term savings on other employee costs often feels like a more pressing need than controlling long-term liabilities. For the CTA, pension plan changes are made exclusively through the collective bargaining process. For the other nine funds analyzed in this report, plan changes that have been collectively bargained must also be passed by the Illinois General Assembly. The provisions of the plans are then codified in state statute.

For example, Public Act 94-0719, signed into law in January 2006, doubled the automatic annual cost of living increase for Chicago Police retirees born between 1950 and 1954 from 1.5% to 3.0%. Fund actuaries estimate that this change increased the plan's actuarial liability by $139.6 million in FY2005.[7]

Once granted, benefit enhancements cannot be diminished, according to the Constitution of the State of Illinois.[8] The only way for an employer to reduce retirement benefits in order to control liabilities is to reduce benefits for new employees. This is commonly called a "two-tiered" system, in which new and existing employees are promised different retirement benefits.

Changes to Actuarial Assumptions

Actuarial assumptions and methods can change for various reasons, including demographic trends, analysis of recent plan experiences, or new industry standards such as GASB requirements. There are a number of acceptable methods for computing a plan's assets, liabilities, and funding requirements. A change from one method to another can produce a significant change in a fund's assets, liabilities, or funding requirements.

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[6] Park Employees' & Retirement Board Employees' Annuity and Benefit Fund, *Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2004,* pp. 37 and 56. The Park Fund's fiscal year is July 1 to June 30.

[7] Policemen's Annuity and Benefit Fund of Chicago, *Actuarial Valuation Report for the Year Ending December 31, 2005* , pp. 9 and 15.

[8] In Illinois, as in many states, pension benefits granted to public employees are guaranteed by the State Constitution. *Constitution of the State of Illinois, Article XIII Section 5.*

For example, in FY2004 the Cook County and Forest Preserve pension plans changed actuaries. The new actuary used methods that resulted in higher actuarial asset values than did the previous actuary.[9] The change resulted in a funded ratio of 70.9% for Cook County in FY2004, rather than the 64.5% it would have been using the previous actuary's methods for calculating actuarial assets. Similarly, the Forest Preserve's FY2004 funded ratio was 76.0%, rather than 70.1%.

FY2005 the Cook County and Forest Preserve plans actuary changed the assumptions used to calculate actuarial liabilities, resulting in a decrease of $729.6 million in unfunded liabilities for Cook County and a decrease of $34.4 million in unfunded liabilities for the Forest Preserve.[10] Without this change in assumptions, the FY2005 Cook County funded ratio would have been 70.3%, rather than 75.8%, and the Forest Preserve ratio would have been 75.0% rather than 86.9%.

Employer and Employee Contributions

For eight of the ten plans analyzed in this report, the basic employer contribution is set in state statute as a multiple of the total employee contribution made two years prior. The statute requires that the employer levy a property tax not to exceed the multiple amount. Employers levy an amount that, when added to the revenue from Personal Property Replacement Taxes, equals the multiple amount.[11]

Employer contributions to the Chicago Teachers' Fund are not based on a property tax levy or multiple. They usually consist of a lump sum from the State of Illinois (roughly $65 million), as well as additional amounts from the State and the Chicago Board of Education when the funded ratio falls below 90%. The employer contributions to the CTA Fund are set at a percentage of pay; the employer contributes 6.0% of employee compensation and employees contribute 3%, for a total of 9%.

The following table lists the basic fund multiples and other employer contribution levels, not including special additions or subtractions specified in statute:

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[9] See footnote to page 9 of the County Employees' and Officers' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2004* and the Forest Preserve District Employees' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2004.*

[10] County Employees' and Officers' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2005*, pp. 13-14, and Forest Preserve District Employees' Annuity and Benefit Fund of Cook County, *Actuarial Valuation as of December 31, 2005,* pp. 13-14. The actuary does not disclose in the valuation exactly what assumption changes were made.

[11] The Personal Property Replacement Tax (PPRT) is a corporate income tax, established when the Illinois General Assembly abolished all ad valorem personal property taxes on corporations in 1979. The State distributes PPRT revenues to local taxing districts according to a formula based partly on each district's share of personal property tax collection in 1976 or 1977.

STATUTORILY REQUIRED EMPLOYER CONTRIBUTION MULTIPLES		
FUND	**STATUTE**	**Required employer contribution: <u>multiple</u> of the employee contribution two years prior**
Fire	40 ILCS 5/6-165	**2.26**
Police	40 ILCS 5/5-168	**2.00**
Municipal	40 ILCS 5/8-173	**1.25**
Laborers	40 ILCS 5/11-169	**1.00**
Teachers	40 ILCS 5/17-127	State pays amount equal to 20-30% of the contribution made to TRS. State pays an additional amount equal to 0.544% of total teacher payroll, unless Fund was 90% or more funded (actuarial) in the previous fiscal year. Beginning 1999, the employer contributes an amount equal to 0.58% of each teacher's salary, to offset a portion of costs associated with P.A. 90-582, unless Fund was 90% or more funded (actuarial) in the previous fiscal year.
Parks	40 ILCS 5/12-149	**1.10**
MWRD	40 ILCS 5/13-503	**2.19,** excluding for employee contributions to optional additional benefits made after January 1, 2003, which are multiplied by **1.00**.
Cook County	40 ILCS 5/9-169	**1.54**
Forest Preserve	40 ILCS 5/10-107	**1.30**
CTA	N/A	employer contribution collectively bargained, not governed by statute[12]

These multiples are fixed, and except for the Teachers' fund, the employer is not permitted to reduce its contribution unless the funded ratio reaches 100%. There are sometimes exceptions to this rule. For example, Public Act 93-0654 allowed the Chicago Park District to reduce its employer contribution by $5 million in each of calendar years 2004 and 2005, although the District was not required to reduce its property tax levy equivalently. This will represent roughly a 50% reduction in the employer contributions for the Park's fund in FY2005 and FY2006.

Occasionally there are legislated requirements for additional employer contributions. For example, Public Act 90-766 required the City of Chicago to make additional contributions to the Fire and Police Funds for FY1999-FY2013 in order to reduce their unfunded liabilities. However, Public Act 93-0654 rescinded that requirement for FY2004-FY2013.

GASB Statements 25 and 27 require that actuaries calculate an actuarially required annual employer contribution (ARC). The ARC is equal to the sum of (1) the employer's "normal cost" of retirement benefits earned by employees in the current year, and (2) the amount needed to

[12] Provisions of the CTA Retirement Plan are subject to collective bargaining between the CTA and Locals 241 and 208 of the Amalgamated Transit Union. Plan text is available at http://www.ctapension.com/about/PlanDocument.asp.

amortize any existing unfunded accrued liability over a period of not more than 30 years.[13] Sometimes the fund actuary will express the ARC as a multiple and compare it to the statutory multiple. For example, for FY2005 the MWRD plan's actuaries calculated that the actuarially required employer multiple would have been 3.76, instead of the statutory 2.19. This shortfall resulted in a $25.2 million increase in the plan's unfunded liability for FY2005.

FY2005 Statutory Multiple for Employer Contribution vs. Actuarially Required Multiple		
	Actuarially Required Multiple (Normal Cost + UAAL Amortization)	**Statutory Multiple**
Fire	4.54	2.26
Police	5.30	2.00
Municipal	2.55	1.25
Laborers	1.23	1.00
MWRD	3.76	2.19
Cook County	2.77	1.54
Forest Preserve	2.71	1.30

Note: The Chicago Park District Pension Fund does not provide this figure.

In contrast to the Chicago-area public pension funds, all downstate firefighter funds, downstate police funds, and the Illinois Municipal Retirement Fund (IMRF) require employer funding at a level consistent with the ARC. The property taxes levied by these governments for pension purposes fluctuate according to the actuarial needs of the pension plans, not according to an arbitrary multiple of employee contributions.

Scope of Report

This report presents broad trends for the ten pension funds, often aggregating the results for all ten funds. It is designed to provide an overview of trends for these funds, not to examine the specific causes for changes in the status of individual funds. For such an analysis, readers should consult the *Actuarial Valuation Reports* and *Financial Statements* of the individual funds.

FUNDED RATIOS: POLICY CONSIDERATIONS

One policy question inherent in an examination of pension funding is, "How should the burden of payment be apportioned between current and future taxpayers?" If funding levels are too low, future taxpayers will experience a disparity between the level of taxes and the level of services they receive, since a disproportionate amount of their higher tax burden will be used to provide benefits to retirees. Pension benefits are constitutionally protected under Illinois law and therefore take precedence over all other obligations of government. On the other hand, if funding levels are too high, current taxpayers are being asked to endure a greater disparity between taxes paid and government services received than will future generations.

[13] See The Civic Federation, "Pension Fund Actuarially Required Contributions (ARC): A Civic Federation Issue Brief," forthcoming.

Many experts agree that there is no real need to achieve 100% funding. They argue that governments, unlike private corporations, are not at risk of dissolving and, therefore, can meet their obligations in perpetuity. However, public pensions should be funded sufficiently to prevent the *growth* of the unfunded liability. If the unfunded liability is growing and the plan has no practical strategy for reducing it, this is cause for serious concern. As stated by Keith Brainard, the Research Director for the National Association of State Retirement Administrators: "More pertinent considerations with regard to funding a public pension plan may be whether: a) the amount needed to fund the benefit and amortize the unfunded liability is causing fiscal stress, and b) the plan's unfunded liability is diminishing, or there is a plan in place to reduce the unfunded liability."[14] An employer's inability or decision not to meet its actuarially required contribution due to fiscal stress indicates a potentially serious problem. In its recommendations to the Governor and General Assembly of Vermont, the Commission on Funding the Vermont State Teachers' Retirement System puts it more bluntly: "While [insolvency] may seem somewhat far in the future, actuaries point out that the critical tipping point is not when assets run out or even decline, but when Governors and Legislatures no longer believe the required contributions are realistic and give up trying to fund the actuarially required contributions."[15]

Funded Ratio Triggers for Additional Contributions

Funded ratio is the core measure of a pension fund's health, and is used in the private sector to trigger increased funding requirements. The Pension Protection Act of 2006 changed the federal laws that govern private sector pension funds, requiring private plans to meet a 100% funding target, up from 90% previously under the Employee Retirement Income Security Act (ERISA). Plans that are less than 100% funded must make payments amortizing their unfunded liability over seven years. Plans that are less than 80% funded are considered "at-risk," and must make additional contributions to boost their funded ratio.[16]

Similar triggers and target ratios apply to the Chicago Teachers Retirement Fund and the Chicago Transit Authority Retirement Fund, as described below.

Chicago Teachers' Retirement Fund Additional Contributions

The Illinois state statutes governing the Chicago Teachers' Retirement Fund require additional contributions when the plan's funded ratio falls below 90%. The Chicago Teachers' Retirement Fund regular annual employer contributions include roughly $65 million in contributions by the State of Illinois and $11 million from other sources (primarily federal government for grant-funded positions). When the ratio falls below 90%, the State must pay amounts equivalent to 0.544% of payroll to offset a portion of the cost of benefit enhancements enacted under Public Act 90-582, and Chicago Public Schools (CPS) must pay 0.58% of payroll for the same purpose.

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[14] Keith Brainard, *Public Fund Survey Summary of Finding for FY2004,* (National Association of State Retirement Administrators, September 2005), p. 1.

[15] *Report of the Commission on Funding the Vermont State Teachers' Retirement System: Recommendations to the Governor and the General Assembly,* November 2005, p.12.

[16] House Committee on Education & the Workforce, "Bill Summary – Pension Protection Act (H.R. 2830): Strengthening Retirement Security, Protecting Taxpayers by Fixing Outdated Worker Pension Laws" (March 8, 2006) http://www.house.gov/ed_workforce/issues/109th/workforce/pension/ppasummarylong.htm . See also Deloitte, "Securing Retirement: An Overview of the Pension Protection Act of 2006," (August 3, 2006) http://www.deloitte.com/dtt/cda/doc/content/us_gre_securingretirement_310806.pdf .

In addition, Public Act 89-15 requires that CPS' minimum contribution to the Teachers' Pension Fund shall be an amount determined to bring the total assets of the Fund up to 90% of the total actuarial liabilities by the end of FY2045. The required CPS contribution is calculated as a level percentage of payroll over the years through FY2045. The CPS required contribution is the total amount of the employer contribution less other employer contributions and additional state and CPS appropriations made under Public Act 90-582.

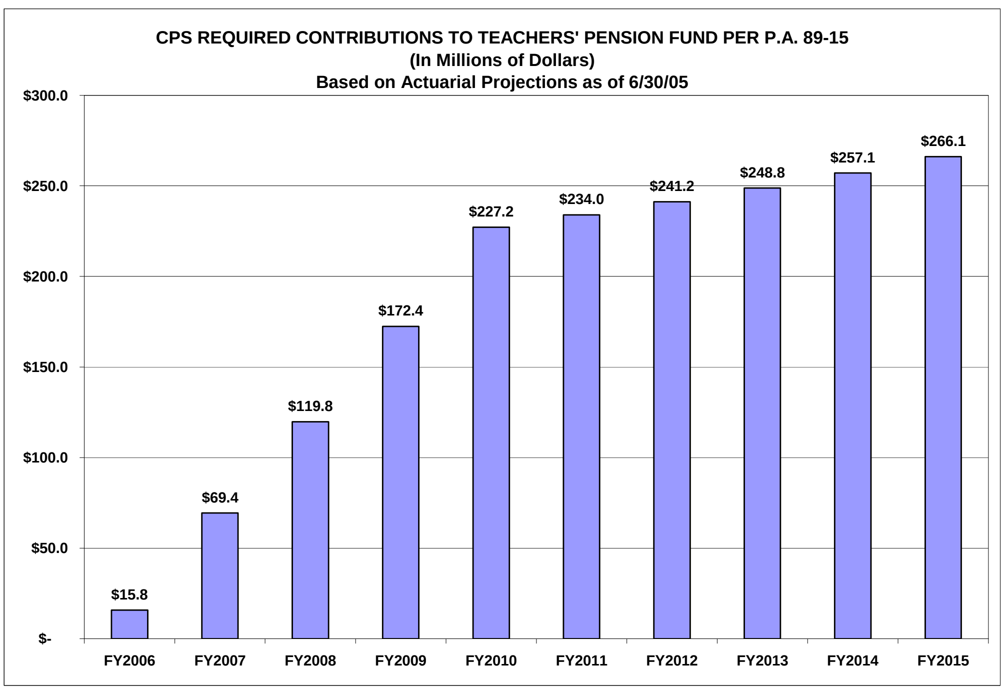
While a funded ratio of less than 90% triggers additional CPS contributions under both Public Act 90-582 and Public Act 89-15, the payments required under Public Act 89-15 are much more substantial because they require whatever amount is needed to bring the ratio to 90% by 2045. In FY2006, the required CPS contribution under Public Act 89-15 was $15.8 million. It will quadruple to at least $69.4 million in FY2007 as the unfunded liabilities of the Teachers Pension Fund continue to rise and the funded ratio correspondingly falls.

CPS (Employer) Contribution to Teachers' Pension Fund for State FY2006 & FY2007

		FY2006	FY2007
1	**Total Required Employer Contribution**	**$ 114,721,000**	**$ 167,245,000**
2	State Appropriations	$ 65,000,000	$ 65,000,000
3	Additional State Appropriations (P.A. 90-582)	$ 9,877,000	$ 10,242,000
4	Additional CPS Contribution (P.A. 90-582)	$ 10,530,000	$ 10,920,000
5	Other Employer Contributions	$ 13,494,000	$ 11,663,000
	CPS Required Contribution (1-2-3-4-5) Under P.A. 89-15	**$ 15,820,000**	**$ 69,420,000**

Source: FY2004 & FY2005 Actuarial Reports of the Chicago Teachers Pension Fund

The additional CPS contributions for Public Act 90-582 are projected to increase from $10.5 million in FY2006 to $34.9 million in FY2045, while the required CPS contributions under Public Act 89-15 will rise from $15.8 million to $809.6 million over the same period. The following exhibit shows the projected $250.3 million increase in required contributions between FY2006 and FY2015.



The Chicago Public Schools also annually appropriates 7% of its employees' regular salaries in order to pay the majority of the **employee contribution** to the Teachers' Pension Fund.[17] Essentially, the District "picks up" 7% of the 9% required employee contribution for the retirement system.

CPS has indicated that it has two long-term strategies to manage these increasing contributions:

1. Pursue legislation requiring the State to assume greater responsibility for funding CPS' pension fund. For example, it could ask the State to contribute the equivalent of 20-30% of its contribution to the downstate Teachers' Retirement System to CPS. FY2007 state contributions to CPS are at roughly 7.3% of TRS contributions. State statute indicates that it is the state's intention to fund CPS at 20-30% of its TRS contribution (40 ILCS 5/17127).

2. Pursue legislation that would smooth the annual funding requirement schedule, which currently is structured with a steep ramp through 2010.[18]

Chicago Transit Authority 90% Required Ratio

The CTA Retirement Plan FY2005 funded ratio is 34.4%, and is projected to reach 0% in 2012 if nothing is done to boost assets or reduce liabilities. The fund's poor financial health is primarily the result of benefit increases, insufficient employer and employee contributions, and health care benefits paid for retirees and their dependents over the past twenty-five years.[19]

Although there is no state statute mandating a funded ratio "trigger" for the CTA, the rapid decline of the plan's funded ratio in recent years eventuated in new legislation requiring substantial increases in contributions going forward. Passed in the spring of 2006 as part of the FY2007 Budget Implementation Act, Public Act 94-0839 requires that beginning January 1, 2009 the CTA and its employees to make annual pension contributions sufficient to bring the funded ratio to 90% by 2058. The Act specifies that payments are to be made as a level percentage of payroll, and that post employment healthcare benefits provided by the pension fund are to be excluded from the actuarial calculations used to determine required contributions. The 50-year schedule and 90% funding target are similar to the funding plan for the State of Illinois' five retirement systems.[20]

The CTA pension fund estimates that the 2009 required combined employer and employee contribution will exceed $150 million, up from $51.7 million in 2005 (2005 employer contributions were $30.5 million). This reflects an increase from the current combined employer and employee contribution of 9% of payroll up to 22.5% of payroll. Required contributions are

[17] *Chicago Public Schools FY2005 Budget*, p. 72.
[18] Information provided by Chicago Public Schools Office of Management and Budget, June 6, 2006. In January 2006, CPS Superintendent Arne Duncan had publicly suggested that CPS should seek legislation to reduce the funded ratio trigger from 90% to 80%, thus easing the CPS' contribution requirements. The Civic Federation vigorously opposed this proposition.
[19] Retirement Plan for Chicago Transit Authority Employees *Basic Financial Statements and Management's Discussion and Analysis for the Year Ended December 31, 2005*, p. 6.
[20] See The Civic Federation, "The State of Illinois Retirement Systems: Funding History and Reform Proposals," (October 26, 2006). http://www.civicfed.org/articles/civicfed_220.pdf

projected to reach $1.1 billion (the size of the CTA's entire FY2006 operating budget) by 2059.[21] This substantial increase in employer contributions puts further pressure on the CTA's already strained operating budget.

Unlike other state and local pension funds, CTA pension plan benefits and contributions are collectively bargained rather than set in state statute. Recent union negotiations were expected to address the dire state of the pension by changing some pension provisions and increasing contribution levels. Despite the precarious status of the pension fund and the dramatic increases in employer contributions slated to begin in 2009, the July 18, 2006 arbitration award made no changes to either pension contributions or benefit levels.

ASSETS AND LIABILITIES OF LOCAL PENSION FUNDS

The most fundamental question about pension funds is whether or not their assets are sufficient to cover total liabilities incurred. Liabilities are determined using actuarial assumptions. The assumptions are used to calculate the value of all future pension payments for both current and retired employees as well as any other beneficiaries. Under GASB Statement No. 25, assets of public pension plans are reported based on the actuarial value, or smoothed market value, of the assets. The actuarial value typically smoothes the effects of short-term market volatility by recognizing deviations from expected returns over a period of three to five years.[22] The current market value is another measure used to determine the assets of the plan. It reflects the value of the pension fund's assets at the end of the fiscal year. This measure is subject to variations in the market that can be misleading because the variations should average out over the life of the pension plan.

At the close of FY2005, the ten pension funds combined had approximately $50.3 billion in accrued liabilities. Combined assets had an actuarial value of $33.8 billion and a market value of $34.2 billion. As shown in the following figure, the Teachers Fund had the greatest assets at liabilities in FY2005, followed by the Cook County and Municipal Funds.

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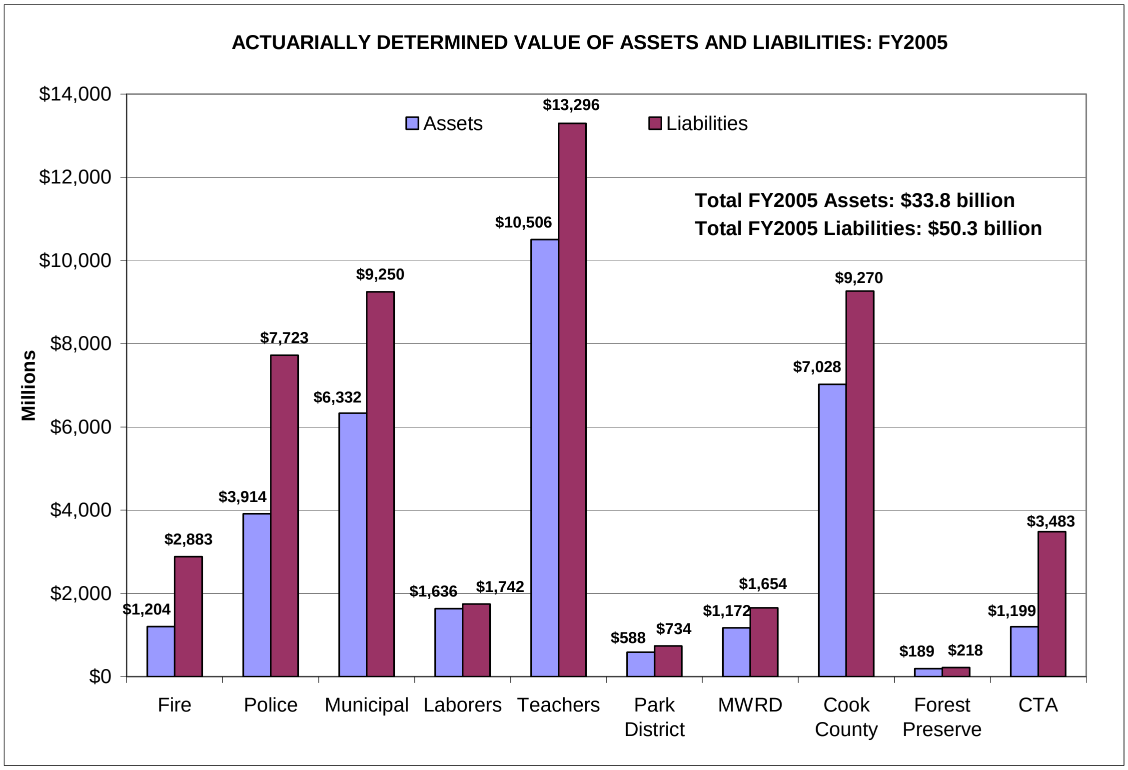
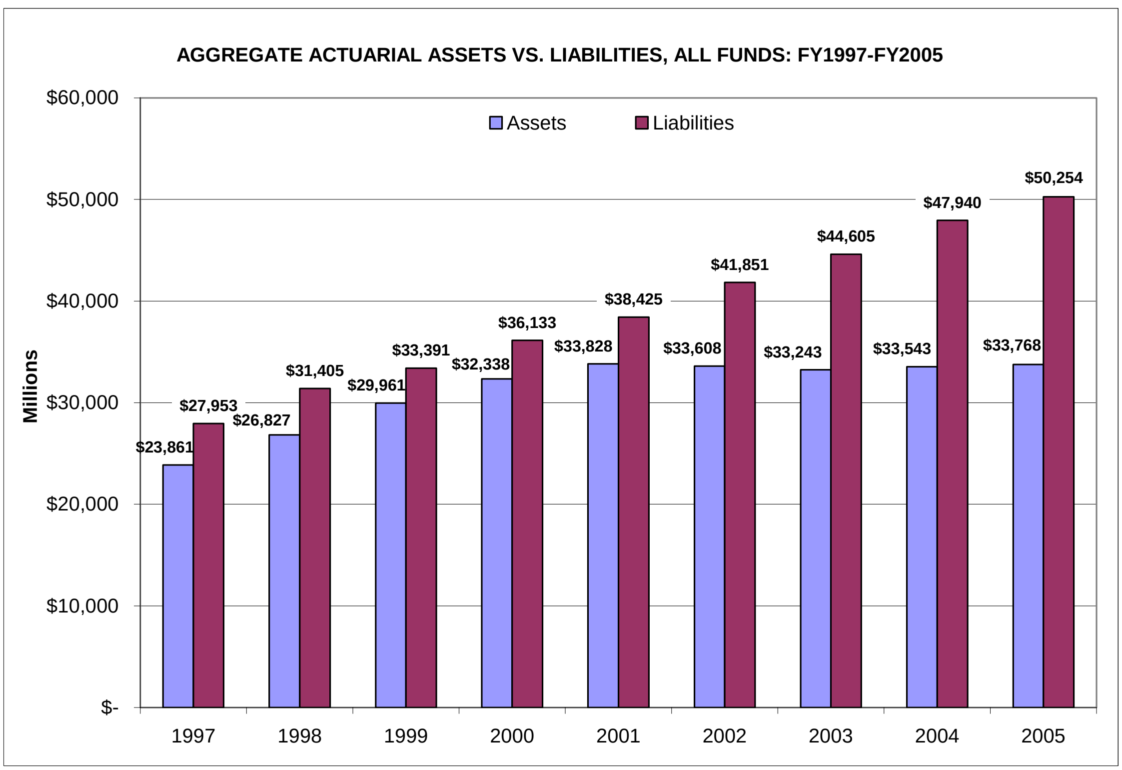
[21] In contrast, the State of Illinois' required pension contributions at the end of its 50-year amortization period in 2045 will be $15.6 billion for the 5 retirement systems, or roughly 33% of the State's FY2006 operating budget.

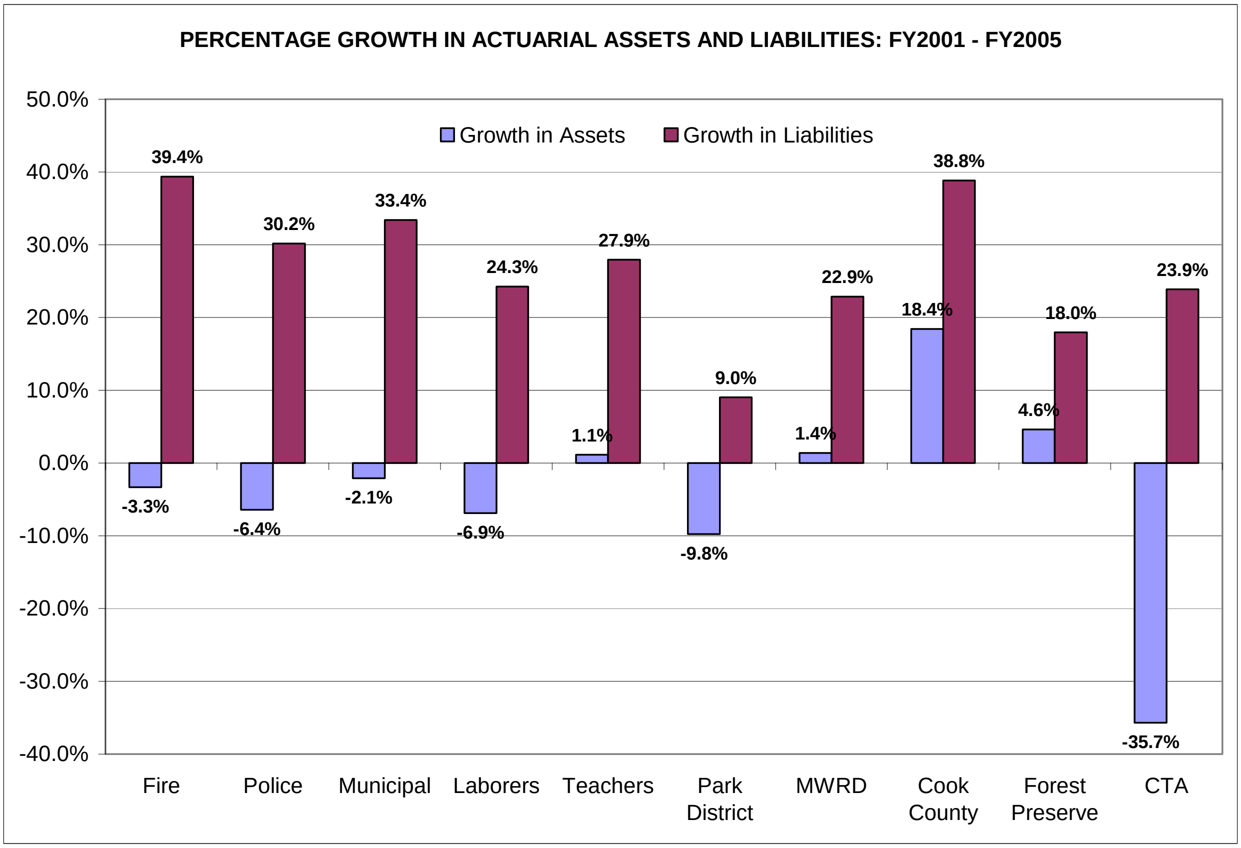
[22] In November 1994, the Government Accounting Standards Board (GASB) issued Statement No. 25 that established new standards for the reporting of a pension fund's assets. The requirement became effective June 15, 1996. Up until that statement, most pension funds used two measurements for determining the net worth of assets, book value (recognizing investments at initial cost or amortized cost) and market value (recognizing investments at current value). In Statement No. 25, GASB recommends a "smoothed" market value, also referred to as the actuarial value of assets, in calculations for reporting pension costs and actuarial liabilities. The smoothed market value or actuarial value of assets accounts for assets at market values by recognizing unexpected gains or losses over a period of 3 to 5 years.



The following figure shows the growth of aggregate actuarial assets and liabilities for all funds combined, from FY1997 to FY2005. Aggregate liabilities increased by $22.3 billion, or 79.8%, over the 9-year period, while actuarial assets increased by $9.9 billion, or 41.5%, and declined in FY2002 and FY2003. Although actuarial assets declined in FY2002 and have remained flat, liabilities have continued to grow by 5 to 9% annually.



Of the ten pension funds, the Fire Fund and the Cook County Fund have experienced the fastest growth in liabilities over the past five years, with growth rates of 39.4% and 38.8%, respectively. The CTA Fund experienced the greatest loss in actuarial assets, falling -35.7% during the same period. It is important to recall that the Cook County and Forest Preserve Funds changed actuaries and actuarial assumptions in FY2004, resulting in greater assets and lesser liabilities than would have been calculated under the previous assumptions (see page 13). Between FY2001 and FY2005, liability growth has significantly exceeded asset growth for all ten funds.



Another point of comparison made in the following figure is the difference between the current market value of assets and the actuarial value of assets. Under actuarial value reporting, unexpected investment gains or losses are smoothed over a period of 3 to 5 years.[23] In this case, the losses experienced in fiscal years 2001 and 2002, as well as the gains of 2003 and 2004, have not yet been fully recognized in the actuarial value. In fiscal year 2005, aggregate market value for all funds is $417.1 million more than actuarial value, indicating that the smoothed actuarial value is still reflecting the slower market of 2001-2002 and has not yet fully realized the gains of more recent years.

[23] The Teachers' pension fund uses a 4-year smoothing period. The nine other funds reviewed here use a 5-year smoothing period. "Unexpected" gains or losses are those that deviate from the assumed rate of return.

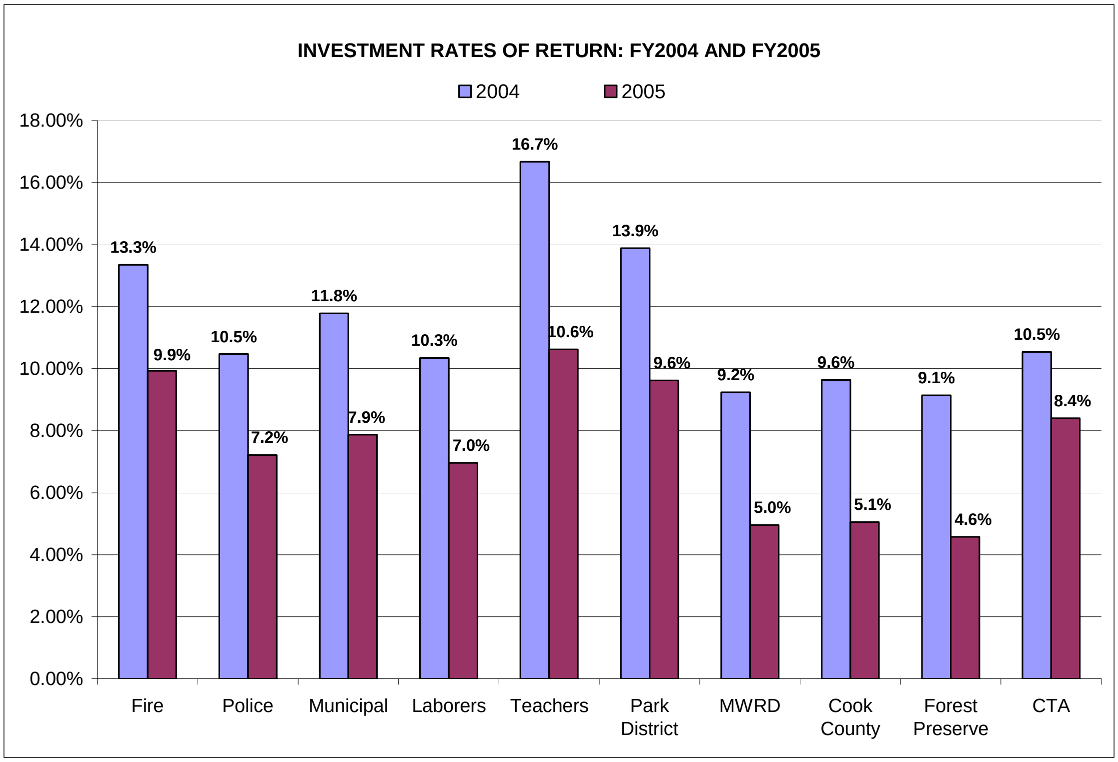
COMPARISON OF CURRENT MARKET VALUE VS. ACTUARIAL VALUE OF ASSETS AT THE CLOSE OF FY2005				
Fund	**Current Market Value**		**Actuarial Value**	
Fire		$1,274,657,483	$	1,203,654,052
Police	$	3,954,836,588	$	3,914,431,654
Municipal	$	6,356,888,734	$	6,332,378,676
Laborers	$	1,659,061,366	$	1,635,595,437
Teachers	$	10,867,618,095	$	10,506,471,213
Park District	$	577,728,818	$	587,774,143
MWRD	$	1,159,313,053	$	1,171,844,612
Cook County	$	6,963,954,756	$	7,027,508,138
Forest Preserve	$	186,792,426	$	189,066,378
CTA	$	1,184,055,811	$	1,199,055,000
TOTAL	**$**	**34,184,907,130**	**$**	**33,767,779,303**

INVESTMENT RATE OF RETURN[24]

During FY2005, each of the ten pension funds yielded a positive rate of return. In aggregate, the funds generated a combined investment rate of return of 7.9%, compared to a 12.3% aggregate return for FY2004.[25] *It is important to note that the Park District and the Teachers' Funds use a July 1 – June 30 fiscal year instead of the calendar year used by the eight other funds, thus their rates of return reflect the last half of 2004 and the first half of 2005. The investment rates of return for the Teachers and Park Funds are not strictly comparable to those of the other eight funds.* The FY2005 average rate of return for those funds with a January 1 to December 31 fiscal year was 6.9%, down from 10.6% in FY2004. The average rate of return for funds using a July 1 to June 30 fiscal year was 10.1%, down from 15.3% in FY2004.

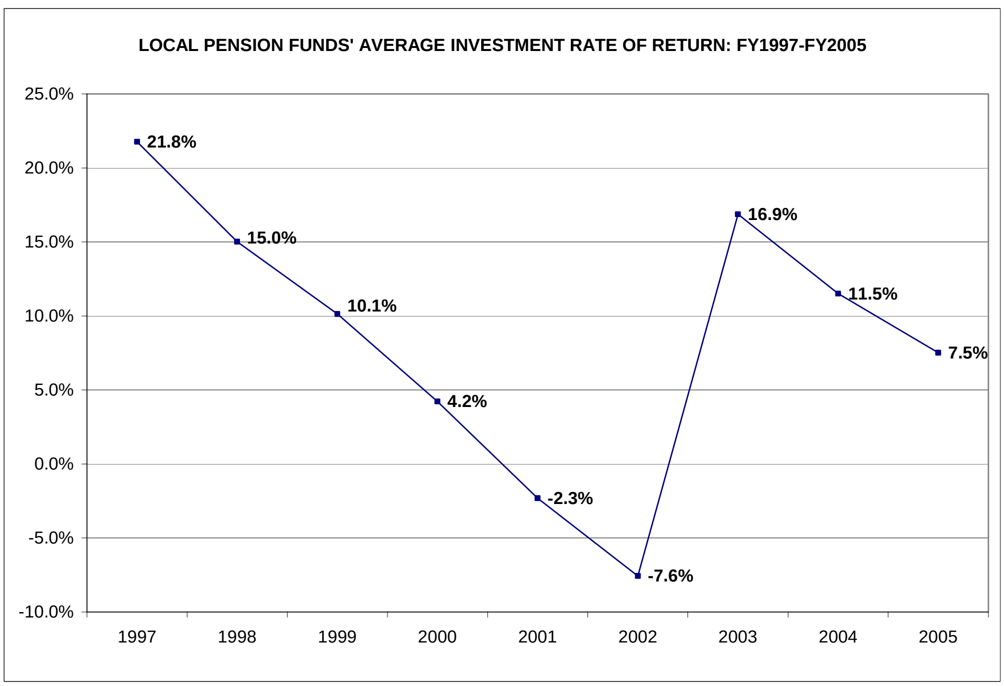
The FY2005 investment returns generated a total of $2.6 billion for the ten funds combined, compared to $3.7 billion in FY2004. A comparison of the investment rates of return for FY2004 and FY2005 in the following figure shows that for the eight funds using a calendar year fiscal year, investment returns fell 2 to 5 percentage points in FY2005, with returns for the MWRD, Cook County, and Forest Preserve being the lowest.

[24] The Civic Federation calculates investment rate of return using the following formula for all funds: Current Year Rate of Return = Current Year Gross Investment Income/ (0.5*(Previous Year Market Value of Assets + Current Year Market Value of Assets – Current Year Gross Investment Income)). Although this is a standard actuarial formula, it not necessarily the one used by all funds' actuaries, thus investment rates of return reported here may differ from those reported in a fund's actuarial statements.
[25] The "aggregate" rate of return calculates the rate based on the combined investment income of all the pension funds. The "average" rate of return calculates each fund's rate of return separately and averages the results.

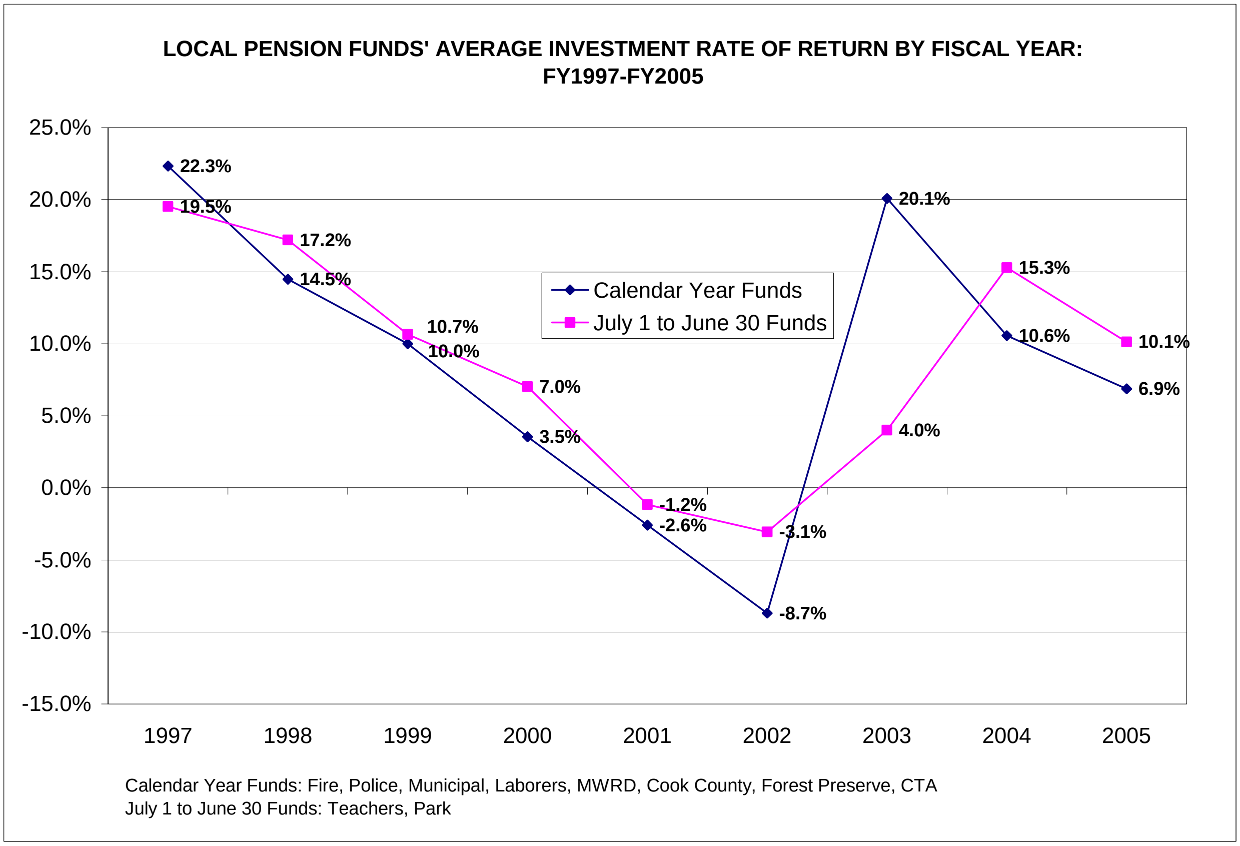


Historical Trends

Investment rates of return should be considered from a historical perspective. During the latter half of the 1990s, strong financial markets significantly increased local pension funds' assets. In 1997 the ten funds experienced rates of return ranging from 18.5% to 37.3%. That positive trend reversed, however, and by the close of FY2002 every fund had a negative rate of return, ranging from –3.4% to –12.9%. In FY2003, the rates of return for all funds turned positive again, with an average rate of 16.9%. The average rate of return fell to 7.5% in FY2005.



The following figure also presents the average investment rate of return, but splits the ten funds into two groups: those with calendar year fiscal years and those with July 1 to June 30 fiscal years. Differences in the trend lines reflect the timing of market trends. For example, calendar year funds saw 20.1% average returns in FY2003, and July 1 to June 30 funds saw only 4.0% average returns in FY2003 (July 1 2002-June 30 2003). This difference is due to market declines in the second half of 2002 and a steady bull market in the last half of 2003.



REVENUES

Of the three primary revenue sources for the pension plans studied here (investment income, employer contributions, and employee contributions) investment income is the primary driver of total income for all of the pension funds.

The increases in asset values experienced in the late 1990's, the subsequent declines in 2001 and 2002, and the recovery in 2003 caused significant shifts in the relative prominence of pension fund revenue sources. In FY2003, strong investment returns generated positive income for all of the pension funds for the first time since FY2000. FY2005 income for all funds totaled $3.9 billion, down from $5.1 billion in FY2004. For each fund, investment income constitutes the greatest portion of total income. Some funds report "Other" income, which includes sources such as transfers from other governments with reciprocal agreements, interest income from operating accounts, and other miscellaneous revenue. See Appendix A for detail on the sources for revenue and expenditure figures presented in this report.

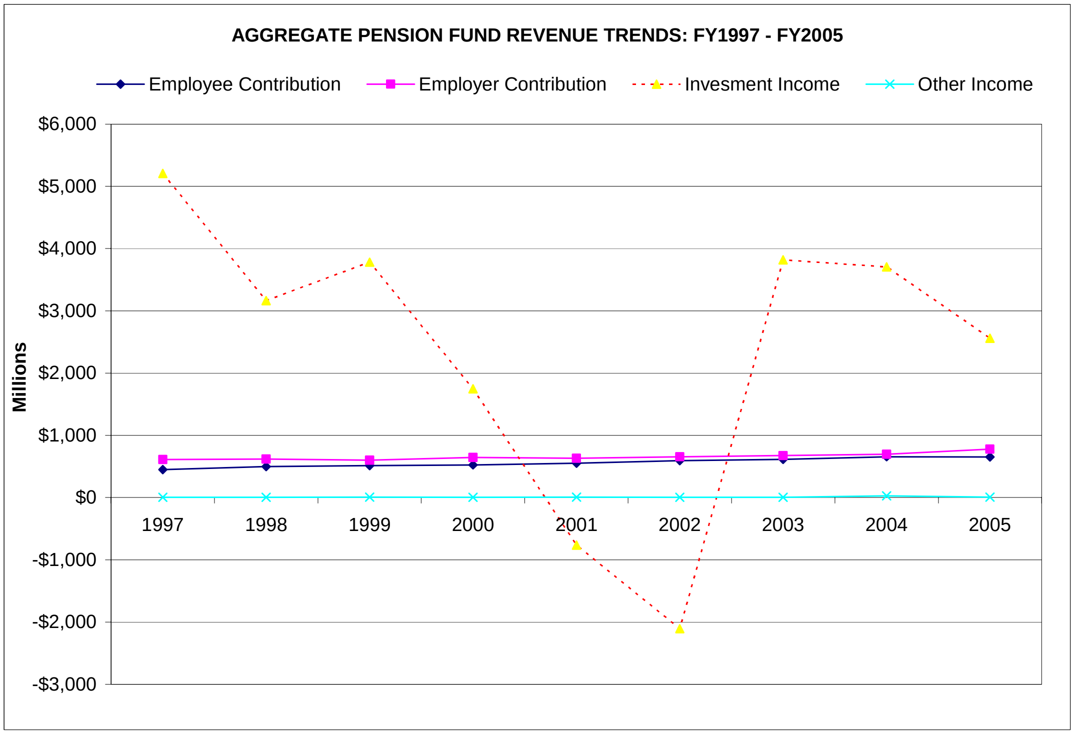
FY2005 REVENUES BY SOURCE					
Fund Name	Employee Contribution	Employer Contribution	Investment Income	Other Income	TOTAL INCOME
Fire	$ 35,696,863	$ 90,128,915	$ 117,411,089	$ 456,518	$ 243,693,385
Police	$ 89,109,811	$ 177,910,607	$ 272,431,406	$ 367,764	$ 539,819,588
Municipal	$ 122,542,484	$ 155,067,116	$ 423,976,996	$ -	$ 701,586,596
Laborers	$ 16,256,802	$ -	$ 124,842,915	$ 40,435	$ 141,140,152
Teachers	$ 175,706,081	$ 73,917,464	$ 1,068,924,722	$ 561,154	$ 1,319,109,421
Park District	$ 8,515,799	$ 4,768,605	$ 52,861,817	$ -	$ 66,146,221
MWRD	$ 14,468,188	$ 26,174,492	$ 55,859,896	$ 4,526	$ 96,507,102
Cook County	$ 174,213,741	$ 214,849,442	$ 334,685,556	$ 7,031,759	$ 730,780,498
Forest Preserve	$ 2,627,465	$ 3,224,743	$ 8,318,393	$ 4,760	$ 14,175,361
CTA	$ 15,066,332	$ 30,568,030	$ 99,549,886	$ -	$ 145,184,248
TOTAL	**$ 654,203,566**	**$ 776,609,414**	**$ 2,558,862,676**	**$ 8,466,916**	**$ 3,998,142,572**

The following table shows each fund's fiscal 2005 revenue by source as a percent of total income. Investment income represented 64.0% of total income for all funds combined in FY2005.[26] Employee and employer contributions represented 16.4% and 19.4% of total income, respectively.

FY2005 REVENUES BY SOURCE AS % OF TOTAL					
Fund Name	Employee Contribution	Employer Contribution	Investment Income	Other Income	TOTAL INCOME
Fire	14.6%	37.0%	48.2%	0.2%	100.0%
Police	16.5%	33.0%	50.5%	0.1%	100.0%
Municipal	17.5%	22.1%	60.4%	0.0%	100.0%
Laborers	11.5%	0.0%	88.5%	0.0%	100.0%
Teachers	13.3%	5.6%	81.0%	0.0%	100.0%
Park District	12.9%	7.2%	79.9%	0.0%	100.0%
MWRD	15.0%	27.1%	57.9%	0.0%	100.0%
Cook County	23.8%	29.4%	45.8%	1.0%	100.0%
Forest Preserve	18.5%	22.7%	58.7%	0.0%	100.0%
CTA	10.4%	21.1%	68.6%	0.0%	100.0%
TOTAL	**16.4%**	**19.4%**	**64.0%**	**0.2%**	**100.0%**

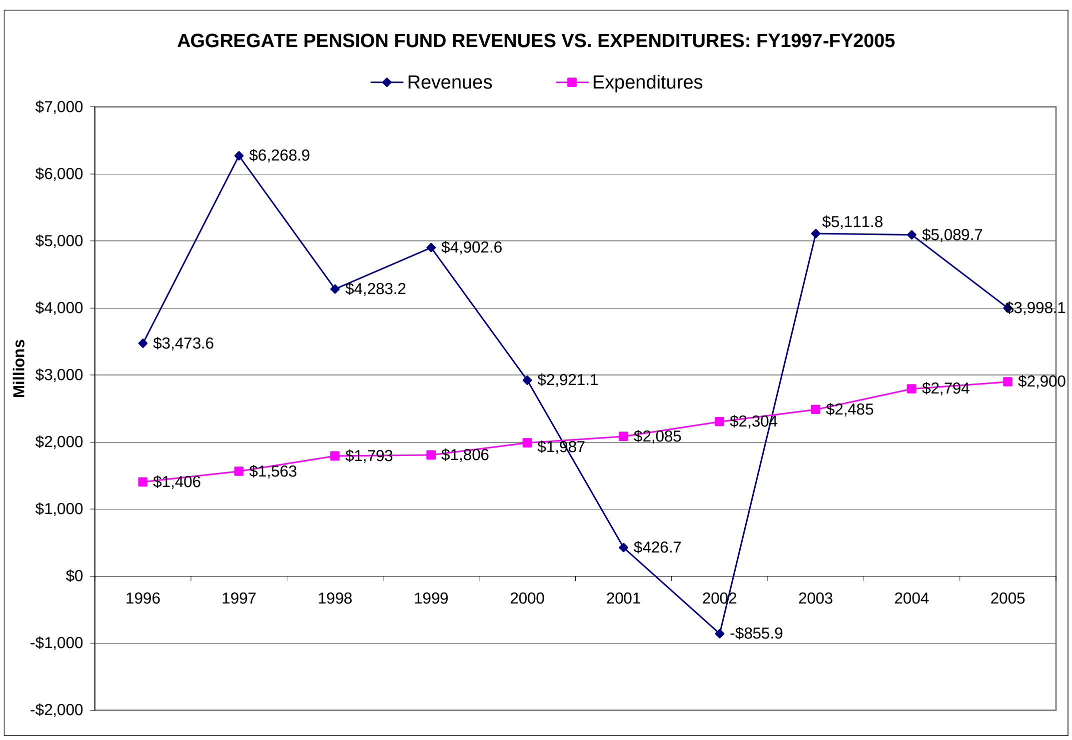
The following chart illustrates that while historically investment income has fluctuated considerably, aggregate employer and employee contributions have remained relatively constant at approximately $500-$600 million each.

[26] Investment income is presented as a gross figure, not net of investment costs. Investment costs are counted as an expense, alongside administrative costs and other types of expenditures.

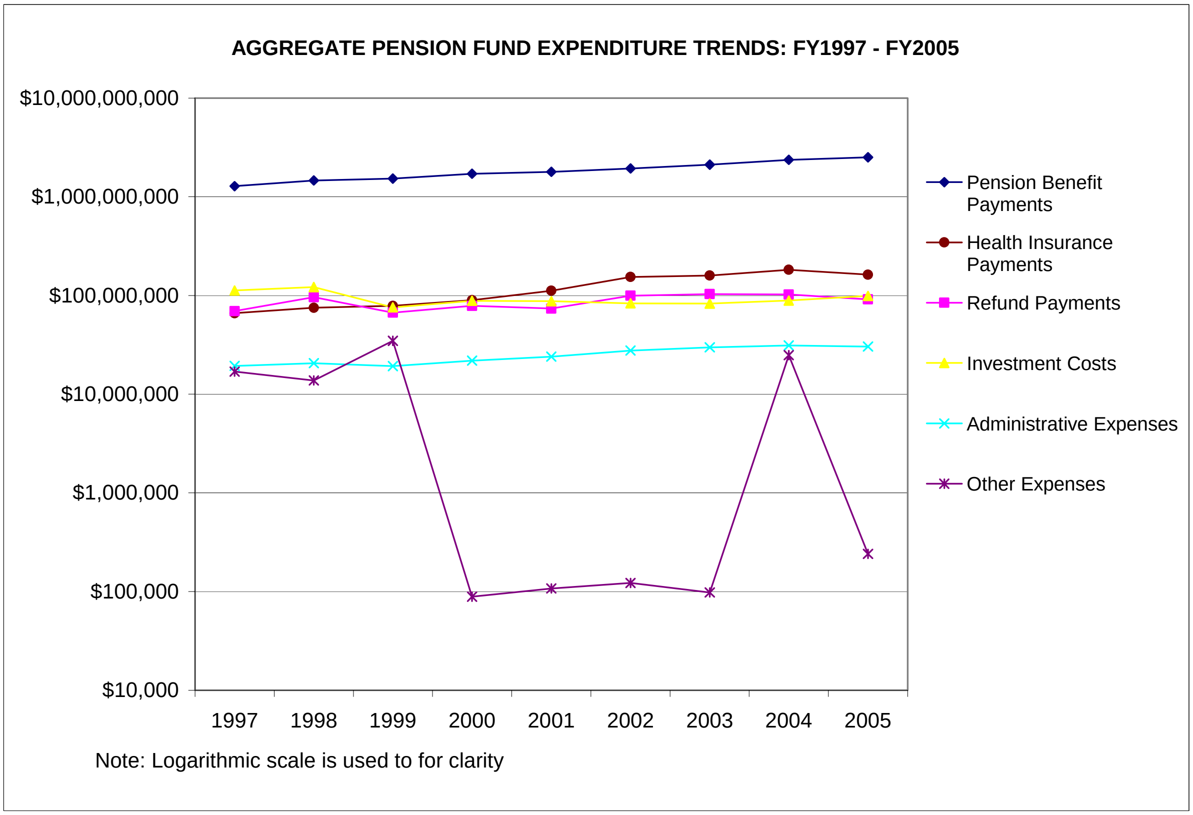


EXPENDITURES

In contrast to the fluctuating revenues, aggregate pension fund expenditures have grown steadily by an average of 8.5% annually between FY1997 and FY2005. The following table compares aggregate revenues to expenditures between FY1997 and FY2005.



The funds' primary expenditure is for pension benefit payments, which constituted roughly 85.0% of the ten funds' aggregate expenditures between FY1997 and FY2005. As described in the following section, eight of the ten funds also provide a subsidy for retiree health insurance payments. The total amount of pension benefit payments made has increased by 84.8% since 1997, from $1.3 billion to $2.4 billion. Other types of expenses include retiree health insurance payments, refund payments, administrative expenses, and investment costs.



The following two tables show fund expenditures by type and as a percent of total expenditures. Total expenditures for all funds were $2.9 billion, of which 86.8% was for benefit payments.

FY 2005 EXPENDITURES BY TYPE							
Fund Name	Pension Benefit Payments	Health Ins. Payments	Refund Payments	Other Expenses	Administrative Expenses	Investment Costs	TOTAL EXPENDITURES
Fire	$ 163,871,251	$ 2,187,458	$ 1,469,848	$ -	$ 2,290,371	$ 5,394,733	$ 175,213,661
Police	$ 423,468,890	$ 7,976,128	$ 5,644,241	$ -	$ 2,660,819	$ 11,042,179	$ 450,792,257
Municipal	$ 524,613,684	$ 8,877,021	$ 26,737,456	$ -	$ 5,545,268	$ 21,666,395	$ 587,439,824
Laborers	$ 102,871,709	$ 2,293,118	$ 4,240,024	$ -	$ 2,985,293	$ 7,057,650	$ 119,447,794
Teachers	$ 654,273,183	$ 54,410,887	$ 24,858,695	$ -	$ 7,477,671	$ 32,026,381	$ 773,046,817
Park District	$ 55,901,007	$ -	$ 1,960,489	$ -	$ 1,185,866	$ 3,240,179	$ 62,287,541
MWRD	$ 83,293,069	$ -	$ 1,287,679	$ -	$ 1,298,604	$ 2,083,143	$ 87,962,495
Cook County	$ 320,009,904	$ 28,308,863	$ 23,041,743	$ -	$ 4,452,683	$ 9,953,617	$ 385,766,810
Forest Preserve	$ 9,781,277	$ 1,327,412	$ 730,332	$ 240,405	$ 58,892	$ 211,355	$ 12,349,673
CTA	$ 179,035,372	$ 56,880,663	$ 1,452,286	$ -	$ 2,379,397	$ 6,042,800	$ 245,790,518
TOTAL	**$ 2,517,119,346**	**$ 162,261,550**	**$ 91,422,793**	**$ 240,405**	**$ 30,334,864**	**$ 98,718,432**	**$ 2,900,097,390**

FY 2005 EXPENDITURES BY TYPE: as % of Total							
Fund Name	Pension Benefit Payments	Health Ins. Payments	Refund Payments	Other Expenses	Administrative Expenses	Investment Costs	TOTAL EXPENDITURES
Fire	93.5%	1.2%	0.8%	0.0%	1.3%	3.1%	100.0%
Police	93.9%	1.8%	1.3%	0.0%	0.6%	2.4%	100.0%
Municipal	89.3%	1.5%	4.6%	0.0%	0.9%	3.7%	100.0%
Laborers	86.1%	1.9%	3.5%	0.0%	2.5%	5.9%	100.0%
Teachers	84.6%	7.0%	3.2%	0.0%	1.0%	4.1%	100.0%
Park District	89.7%	0.0%	3.1%	0.0%	1.9%	5.2%	100.0%
MWRD	94.7%	0.0%	1.5%	0.0%	1.5%	2.4%	100.0%
Cook County	83.0%	7.3%	6.0%	0.0%	1.2%	2.6%	100.0%
Forest Preserve	79.2%	10.7%	5.9%	1.9%	0.5%	1.7%	100.0%
CTA	72.8%	23.1%	0.6%	0.0%	1.0%	2.5%	100.0%
TOTAL	**86.8%**	**5.6%**	**3.2%**	**0.0%**	**1.0%**	**3.4%**	**100.0%**

Annuitant Health Insurance Benefits (Other Post Employment Benefits)

Detailed financial information about public employee non-pension retirement benefits (Other Post-Employment Benefits, or OPEB) is not currently required in governmental audited financial statements. To address this issue, the Governmental Accounting Standards Board (GASB) issued two statements in June 2004 providing reporting guidelines for these types of benefits, GASB Statements 43 and 45.[27] GASB 43 and 45 will require governments and retirement systems to calculate and report total OPEB liabilities according to guidelines similar to those used in reporting pension liabilities. These requirements will be phased in from 2005-2008 depending on the size of individual governments. All of the pension funds in this report will be required to follow the reporting guidelines for the fiscal year that begins after December 15, 2005. The funds' sponsoring governments are required to begin reporting for the fiscal year beginning after December 15, 2006.[28]

The four City of Chicago pension funds (Fire, Police, Municipal, and Laborers) all subsidize the participant portion of retiree health insurance premiums for those annuitants participating in the City's retiree health insurance program. The City's contribution is roughly 50% of the premium cost, with the remainder to be paid by the annuitant. The Fire, Police, Municipal, and Laborers' pension funds each contribute roughly 34% of the annuitant contribution, effectively subsidizing 13% of the total premium cost.[29]

The Chicago Teachers pension fund reimbursed annuitants for 70% of their health insurance premiums in FY2005, with a total payment not to exceed $65.0 million annually.[30] The Chicago Public Schools do not contribute to retiree health insurance.

[27] The Financial Accounting Standards Board Statement 106 (FASB 106) required private sector employers to reporting accrued liabilities for retiree health benefits in their financial statements in 1993.

[28] For more on OPEB and GASB reporting requirements, see The Civic Federation, "Other Post Employment Benefits: GASB Statements No. 43 and 45, Reporting Guidelines for Government Financial Statements," (updated October 25, 2006). http://www.civicfed.org/articles/civicfed_202.pdf

[29] Specifically, the pension funds provide subsidies of $85 per month for non-Medicare eligible annuitants and $55 per month for Medicare eligible annuitants. See for example the Policemen's Annuity and Benefit Fund of Chicago *Actuarial Valuation Report as of December 31, 2005*, p. 51. Cost allocation estimates provided to The Civic Federation by Ferhan Hamid, City of Chicago, June 20, 2006.

[30] Chicago Teachers' Pension Fund, *110th Comprehensive Annual Financial Report for the Year ended June 30, 2005*, p. 27. For the first month of FY2005, the rebate percentage was 52%, but increased to 70% for the remaining eleven months. The rebate percentage varies each year. State law requires that total rebates not exceed $65 million annually, in additional to any carryover amounts from the previous year.

The Cook County and Forest Preserve District governments allow annuitants to participate in their retiree health insurance programs but do not contribute to their premium costs. However, the respective pension funds do subsidize annuitant premiums, at a rate of 55% for retiree annuitants and 70% for survivor annuitants as of January 1, 2006.[31]

The Park District and MWRD governments provide retiree health insurance but their respective pension funds do not subsidize it. The Park District subsidizes roughly 50-75% of retiree premium costs depending on plan type, number of dependents, and date of retirement.[32] The MWRD subsidizes roughly 80% of retiree premiums.[33]

The CTA agency does not contribute to retiree health care, but the CTA pension fund pays 100% of the retiree health insurance premiums for employees on the payroll on or before September 5, 2001. Employees hired after that date will not receive any annuitant health care subsidy upon retirement. The pension fund also subsidized retiree dependent health care at a rate of roughly 43% for pre-Medicare dependents and 34% for Medicare eligible dependent in FY2005.[34]

Retiree Health Insurance Premium Subsidies

Fund	Employer Contribution	Pension Plan Contribution	Retiree Contribution
Fire	50%	13%	37%
Police	50%	13%	37%
Municipal	50%	13%	37%
Laborers	50%	13%	37%
Teachers	0%	70%	30%
Park District	50-75%	0%	50-25%
MWRD	80%	0%	20%
Cook County	0%	55% retiree, 70% survivor	45% retiree, 30% survivor
Forest Preserve	0%	55% retiree, 70% survivor	45% retiree, 30% survivor
CTA	0%	100% for employee on payroll on or before 9/5/2001; 0% for employees hired later. 43% for pre-Medicare dependents, 34% for Medicare dependents	0% for employee on payroll on or before 9/5/2001; 100% for employees hired later. 57% for pre-Medicare dependents, 66% for Medicare dependents

Note: Percentages are approximations for FY2005 and may vary by plan type or other factors.
Sources: See text footnotes

[31] County Employees' Annuity and Benefit Fund of Cook County *Actuarial Valuation as of December 31, 2005*, p. 32 and Forest Preserve District Employees' Annuity and Benefit Fund of Cook County *Actuarial Valuation as of December 31, 2005*, p. 31.
[32] Letter from Timothy J. Mitchell, General Superintendent/CEO of the Chicago Park District to Chicago Park District Retirees, January 30, 2006.
[33] J. Peter Douville, Compensation and Benefits Manager in the Metropolitan Water Reclamation District of Greater Chicago Personnel and Benefits Department, in a fax to the Civic Federation, May 15, 2006.
[34] Retirement Plan for Chicago Transit Authority Employees, *Actuarial Valuation Report for the Year Beginning January 1, 2006*, pp 3, 28. and 31. The percentages are derived from the following figures: average dependent contribution rate of $6161 for pre-Medicare and $2610 for Medicare-eligible. Total blended per capita claim costs for retirees and dependents were $10,387 for pre-Medicare and $3971 for Medicare-eligible.

FUNDED RATIOS

This report uses two measurements of the pension plans' funded ratios: the actuarial value of assets measurement and the market value of assets measurement.

The actuarial value of assets measurement looks at the ratio of assets to liabilities and accounts for assets by averaging unexpected gains and losses over a period of three to five years (see page 9 for an explanation of actuarial value of assets). The market value of assets measurement looks at the ratio of assets to liabilities by recognizing investments only at current value.

Actuarial Value of Assets

Eight of the ten funds lost ground in terms of their actuarially funded ratios in FY2005. The Cook County and Forest Preserve funds' ratios both improved in FY2005 due to changes in actuarial methodology that reduced the funds' unfunded liabilities by $507.5 million and $30.2 million, respectively.[35] The 34.4% CTA funded ratio is of serious concern due to that fund's rapid decline from an 80.0% ratio in FY1999. However, a large part of the decline is attributable to a change in actuarial assumptions to more fully recognize healthcare liabilities. Taking into account healthcare liabilities, the FY1999 actuarial funded ratio was closer to 65.0%.[36]

The low funded ratios of the Fire and Police pension funds are also a continuing cause for concern, since these ratios have fallen to 41.8% and 50.7%, respectively, although their decline has been less precipitous than that of the CTA. On the high end of the scale, the Laborers' Fund dipped below 100% funded for the in FY2004 and is now 93.9% funded. The employer contribution to this fund was waived when the plan was over 100% funded.[37]

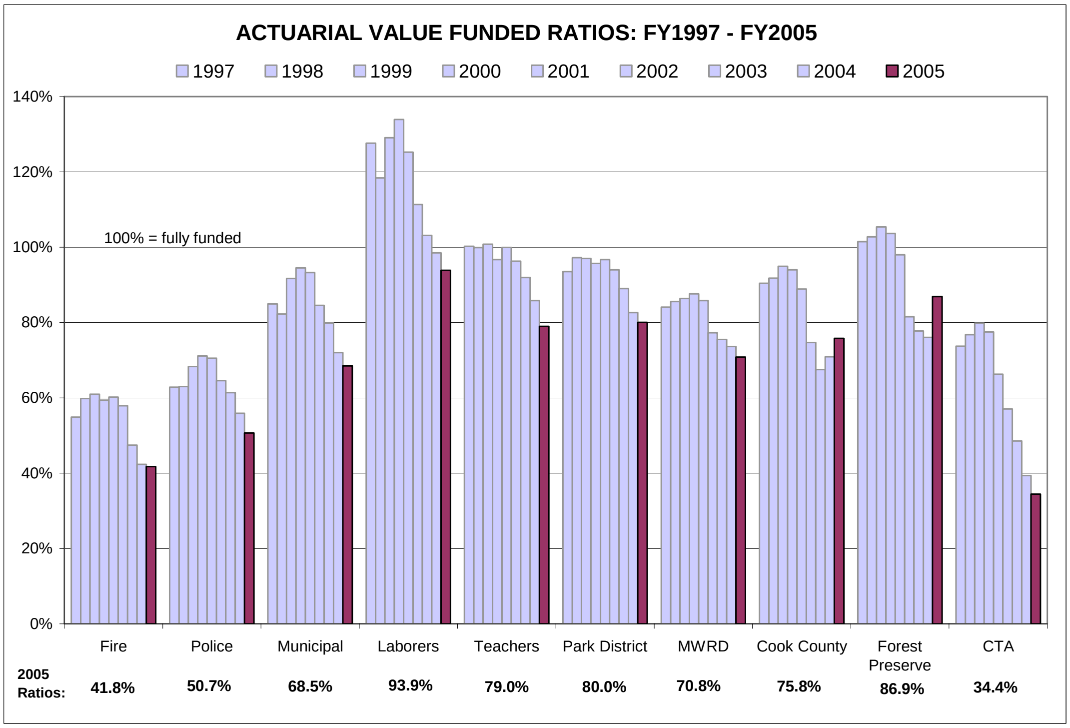
The actuarial funded ratio for the aggregate of all funds' assets and liabilities was 67.2%, down from 70.0% in FY2004.

It is important to consider actuarial funded ratios over time. The following chart illustrates the ten funds' actuarial standing since FY1997.

[35] County Employees' Annuity and Benefit Fund of Cook County *Actuarial Valuation as of December 31, 2005*, pp. 13-14 and Forest Preserve District Employees' Annuity and Benefit Fund of Cook County *Actuarial Valuation as of December 31, 2005,* pp.13-14.

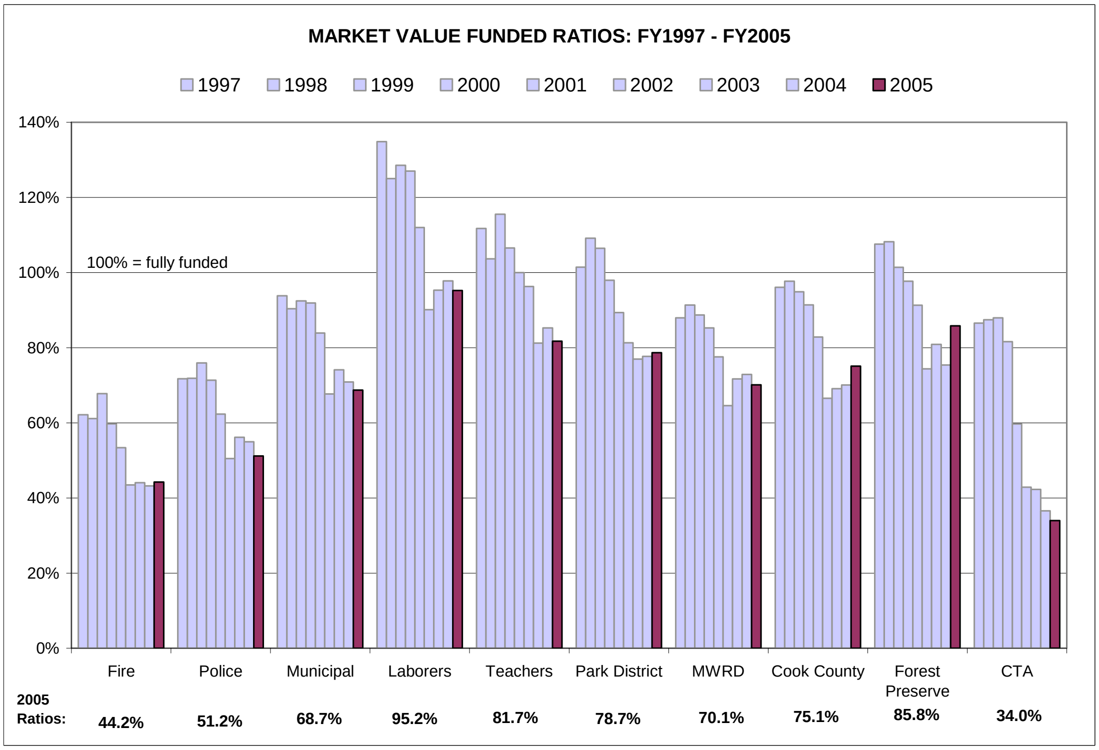
[36] "Historical Information for the Retirement Plan for CTA Employees, 1977-2005," provided by the Retirement Plan for Chicago Transit Authority Employees, February 16, 2006.

[37] Pursuant to Public Act 93-0654, the Laborer's Fund is not required to make employer contributions unless the funded ratio *excluding early retirement initiative liabilities* drops below 100%. The City will be required to resume making contributions to the Laborer's fund in FY2007 (see *Laborers' and Retirement Board Employees' Annuity and Benefit Fund of Chicago Actuarial Valuation Report for the Year Ending December 31, 2005*, p. 6).



Market Value of Assets

It is also useful to evaluate the pension plans' market value funded ratios over time. The following table illustrates the fluctuations in the market value funded ratio since 1997. Market value funded ratios are more volatile than the actuarial funded ratios due to the smoothing effect of actuarial value (see Glossary). Five funds' FY2005 market value funded ratios are slightly below FY2005 actuarial funded ratios, while five are slightly above.

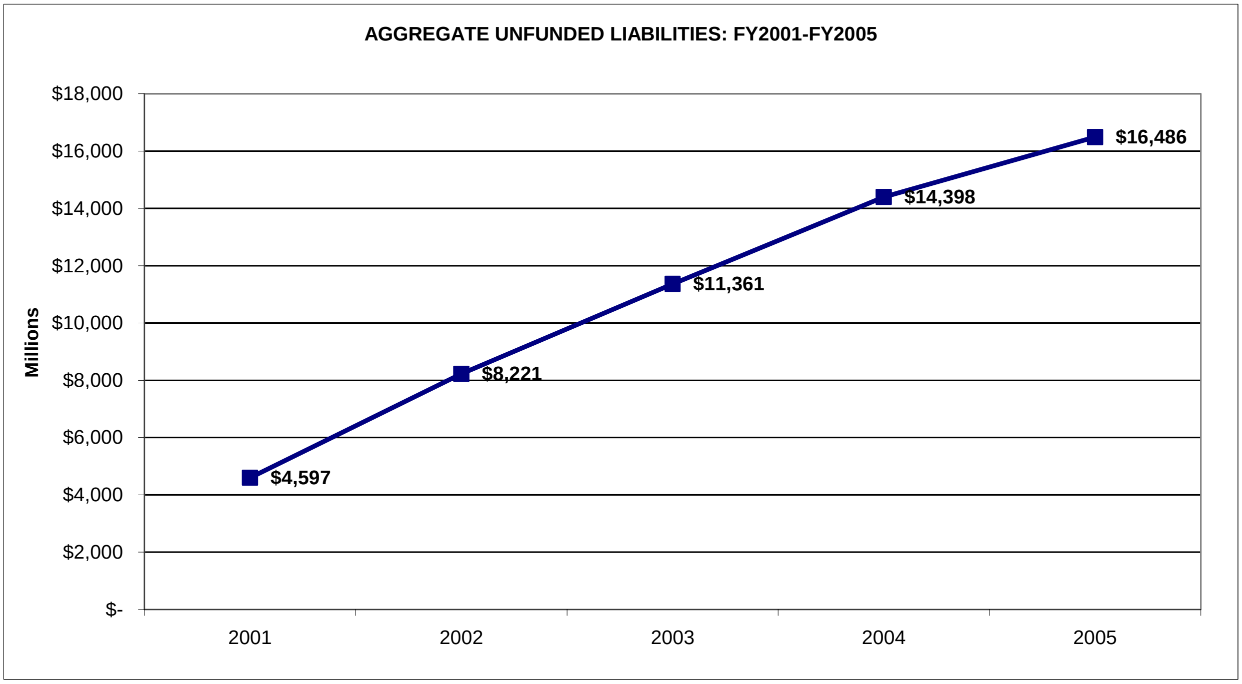


UNFUNDED ACTUARIAL LIABILITIES

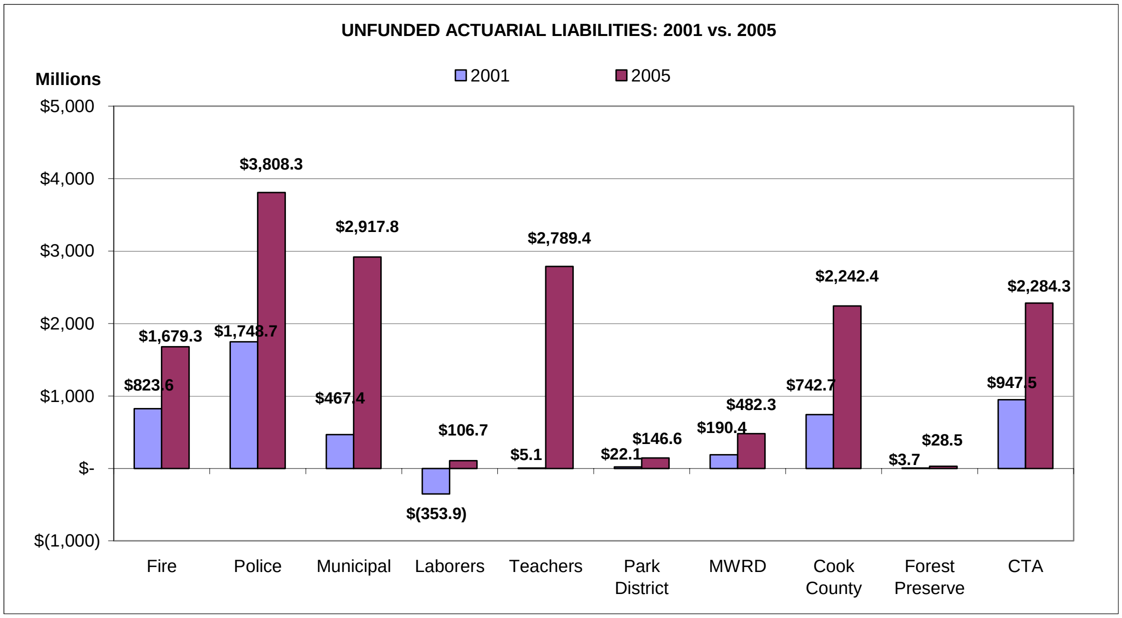
The difference between assets and liabilities is known as the unfunded liability. This figure is derived by subtracting the actuarial value of the assets from the accrued liability of each fund.

One of the functions of this indicator is to measure a fund's ability to bring assets in line with liabilities. Healthy funds are ones that are able to reduce their unfunded liabilities over time; substantial and sustained increases in liabilities are cause for concern.

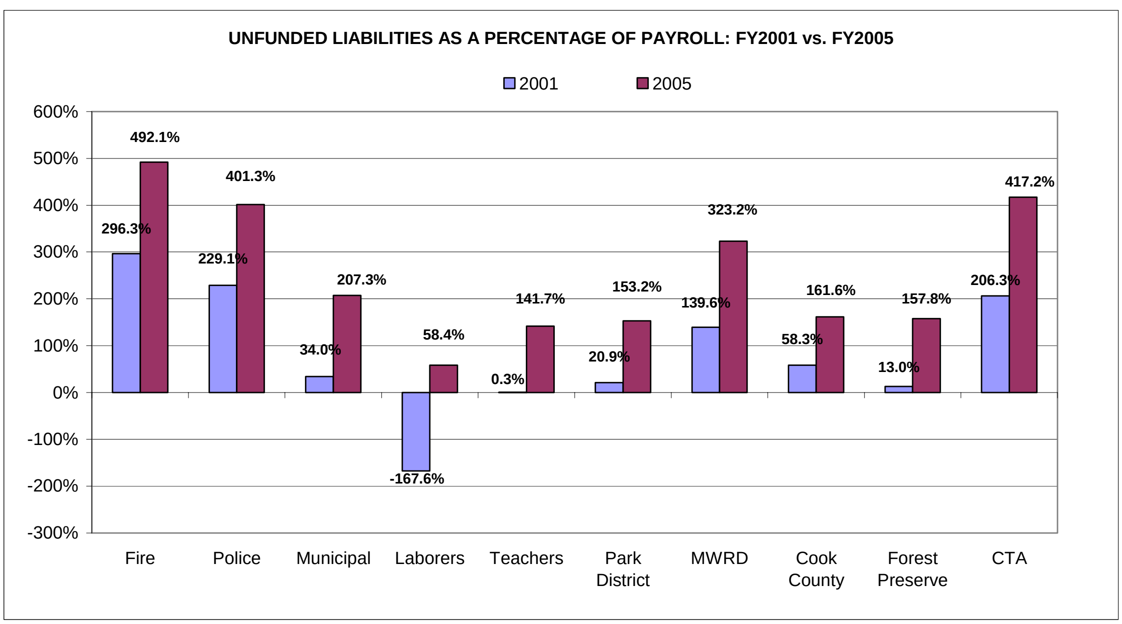
The aggregate unfunded liability of the ten pension funds has increased rapidly in recent years, as shown in the following chart. Between FY2001 and FY2005, aggregate unfunded liabilities have nearly quadrupled, rising from $4.6 billion to $16.5 billion. Between FY2004 and FY2005, unfunded liabilities for the ten funds grew by 14.5%, or $2.1 billion.



The largest FY2005 unfunded liability is in the Police pension fund at $3.8 billion, an increase of 117.8% over FY2001. The highest rate of increase in unfunded liability was experienced by the Teachers fund, which went from having only $5.1 million in unfunded liabilities to $2.8 billion—an increase of over 50,000%. The Municipal, Forest Preserve, and Park District funds all saw increases of over 500% between FY2001 and FY2005.



Another indicator of funding progress is the reporting of a fund's unfunded liability as a percentage of covered payroll. This measurement expresses the unfunded liability in terms of the current personnel expenditures and demonstrates the relative size of the unfunded liability. One of the functions of this indicator is to measure a fund's ability to manage or make progress on reducing its unfunded liability. An indication of a reasonable funding strategy would be a gradual decrease in unfunded liability as a percent of covered payroll over time. If the opposite is true and unfunded liability continues to increase as a percentage of covered payrolls, then a new funding strategy and reduction in the level of benefits granted by the fund should be considered. Every fund has experienced significant increases in unfunded liabilities as a percentage of payroll in the last five years. The Fire Fund has the highest unfunded liabilities as a percentage of payroll, at 492.1%, followed by the CTA and Police funds. The Laborers fund has experienced the highest rate of growth in its unfunded liabilities as a percentage of payroll, increasing by 226 percentage points in five years.



CIVIC FEDERATION RECOMMENDATIONS

Growth in liabilities has significantly outpaced growth in assets for local pension funds since 1997, resulting in aggregate unfunded liabilities of $16.5 billion for the ten major funds in FY2005. There is no indication that this trend will reverse, or even slow, unless substantial changes are made to the pension plans both in terms of benefits provided and contributions made.

Local governments must take action now to control the downward spiral of pension underfunding. In 2005, the State of Illinois adopted several key reforms designed to help the State control mounting employee retirement costs for its five retirement systems. The Civic Federation strongly supported these reforms and believes that the time has come to also apply some of these reforms to local government benefit plans.[38] We offer specific recommendations designed to improve the long-term financial health of the local funds, and address the major causes of funding decline that are within the control of the governments. ***We urge the local governments and pension plans to seek such changes through collective bargaining and/or state legislation***.

Prohibit Benefit Enhancements Unless Plan is Over 90% Funded

Benefit enhancements are a major source of increased liabilities for pension funds. In the case of collective bargaining, these enhancements are often granted in exchange for short-term employee concessions on salaries or health insurance. Offering benefit enhancements can seem like an attractive option to employers, since achieving short-term savings on other employee costs usually feels like a more pressing need than controlling long-term liabilities.

However, some local governments have offered benefit enhancements that they simply cannot afford in the long-term. Often these enhancements are written into statute by the General Assembly and Governor despite significant existing unfunded liabilities. The Civic Federation recommends that the **General Assembly stop granting any new retirement benefit enhancements for local governments unless the pension fund is over 90% funded**. The Federation believes that 90% is a healthy level of funding for a public pension fund. Pension funds that are struggling with unfunded liabilities on current benefits should not be permitted to exacerbate the situation by granting greater benefits.

Link Benefit Enhancements for Healthy Funds to Full Funding of Enhancements

The Civic Federation believes that **healthy local pension funds (over 90% funded) should be permitted to grant benefit enhancements only if employer and/or employee contributions are increased sufficiently to fully fund the benefit enhancements**. Under this pay-as-you-go system, the enhancements would not be permitted to erode the overall health of the fund.

[38] The Civic Federation, *State of Illinois Pension Systems*, (Chicago: The Civic Federation), May 2, 2005. http://www.civicfed.org/articles/civicfed_188.pdf. The Civic Federation opposed legislation passed in 2005 allowing the State to reduce its pension contributions by $1.2 billion in FY2006 and $1.1 billion in FY2007.

Public Act 94-0004, Illinois' 2005 pension reform law, requires that every new benefit increase made to one of the five state retirement systems must identify and provide for additional funding to fund the resulting annual accrued cost of the increase. It also requires that any benefit increase **expire after five years**, subject to renewal. The Civic Federation supports extending this reasonable control on benefit enhancements to the local public pension funds through a change in the state statutes governing those funds.

Reduce Benefits for New Employees: Establish a Two-Tiered System

Once granted, benefit enhancements cannot be diminished, according to the Constitution of the State of Illinois.[39] The only way for an employer to reduce liabilities by reducing retirement benefits is to reduce those benefits for new employees. This is commonly called a "two-tiered" system, where new and existing employees are promised different retirement benefits. By scaling back on retirement benefits for new hires, governments can undo some of the damage done by excessive benefit enhancements granted in the past. For example, an arbitration award reduced benefits for CTA employees hired after September 5, 2001 by setting an age minimum for the early retirement option and eliminating a hospitalization supplement for retirees.[40] The Civic Federation urges other local governments to consider similar ways to **reduce benefits for new hires**, thus reducing liabilities on pension plans that have become unaffordable.

Limit Annuity Increases for New Hires at the Lesser of 3% or CPI

One reasonable way to curb retirement costs would be to limit annuitants' annual automatic cost of living increases to the lesser of 3% or the increase in the Consumer Price Index. For example, Cook County pension fund beneficiaries receive 3% annual cost of living increases.[41] However, this rate has often exceeded the rate of inflation. To control costs, **annual annuity increases for new hires should be fixed at the equivalent of the projected Consumer Price Index or 3%, whichever is less**.

Require Employer Contributions to Relate to Funding Levels

The basic employer contributions for eight of the ten local funds analyzed here are simply a multiple of past employee contributions, with no relationship to the funding status of the plan.[42] Only the Teachers' fund has a trigger that requires additional contributions when the funded ratio drops below 90%; this is a good provision to ensure that contributions do not fall hopelessly behind when funded ratios begin falling. **The Civic Federation recommends that employer contributions for all funds be tied to funded ratios, such that additional contributions are required when the ratio drops below 90%.** This would entail devoting a greater portion of the property tax levy to pensions for those plans that are supported by a property tax, or seeking legislative authority for the use of general revenues or an alternative revenue source.

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[39] In Illinois, as in many states, pension benefits granted to public employees are guaranteed by the State Constitution. *Constitution of the State of Illinois, Article XIII Section 5.*

[40] For employees hired before September 5, 2001, early retirement is available after 25 years of service; for employees hired after September 5, 2001, early retirement is available after 25 years of service and attainment of age 55. Similarly, employees hired after September 5, 2001 do not receive the hospitalization supplement paid for by the Plan upon retirement. See the plan text, available at http://www.ctapension.com/about/PlanDocument.asp.

[41] Cook County Employees' Annuity and Benefit Fund *Actuarial Valuation as of December 31, 2005,* p. 30. The CTA retirement fund does not have an automatic annual increase, but periodically grants ad hoc dollar amount annuity increases through collective bargaining.

[42] See page 13.

In addition, **all local pension funds should consider adopting the funding model of the Illinois Municipal Retirement Fund, which requires employer contributions to be funded at levels consistent with the actuarially required contribution (ARC)**, rather than a multiple of employee contributions made two years prior. **At a minimum, the multiple should be adjusted at regular intervals of three to five years to reflect the actuarially determined funding needs of the plan.**

Reform Pension Boards of Trustees to Balance Stakeholder Interests, Safeguard Assets

Achieving serious reforms that can have a real impact on the health of local pension funds will require a strong and unwavering commitment on the part of local governments. It will also require that their efforts not be thwarted by the trustees of the pension funds. The mission of a public pension fund board of trustees should be to safeguard the fund's assets through prudent investments and effective management. Unfortunately, some local pension boards also act as advocates on behalf of fund members, lobbying for benefit enhancements that ultimately increase the funds' liabilities.[43]

As outlined in the Civic Federation's *Recommendations to Reform Pension Boards of Trustees Composition in Illinois*, the Federation believes that a pension board should not function as an advocate for the interests of one stakeholder, especially when advocating those interests creates increased liabilities for the fund.[44] Rather, the trustees should focus on conserving and increasing the fund's assets to ensure that sufficient amounts are available to pay promised benefits when they come due. Although not all pension boards produce results favoring one stakeholder over another, board composition is an indicator of whose interests are most likely to be represented in the board's actions. Unfortunately, most Illinois public pension boards' membership does not reflect a balance of interests. On the boards of the ten local funds surveyed here, either half or a majority of trustees are active employees or retirees.

In our view, a pension board of trustees should:

- Balance employee and management representation on pension boards so that employees and retirees do not hold the majority of seats;
- Develop a tripartite structure that includes independent citizen representation on pension boards, and
- Include financial experts on pension boards and require financial training for non-experts.

We urge local governments to seek legislative reform of the pension board governance structure to ensure greater balance of interests and ensure that trustees focus on their mission of safeguarding assets, not increasing liabilities.

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[43] The Chicago Public School Teachers' Pension and Retirement Fund's 2004 *Comprehensive Annual Financial Report* states the Trustees' commitment to advocating benefit increases for employees: "The Trustees and Fund administrators will continue to work diligently to represent the interests of the members through further accomplishment of the Trustees' legislative agenda. The Board, in conjunction with Fund consultants, continues to work in Springfield toward improving benefits for the members," page 13.
[44] The Civic Federation, *Recommendations to Reform Pension Boards of Trustees Composition in Illinois*, (Chicago, IL) February 2006.

Require CTA Pension Fund to Report to the Illinois Department of Financial and Professional Regulation

Illinois statute requires that local government pension funds provide annual financial statements to the Illinois Department of Financial and Professional Regulation's Division of Insurance. These statements must include actuarial statements and must be filed no later than nine months after the close of the pension fund's fiscal year. The CTA, however, is exempt from these requirements.

The Civic Federation believes that the **General Assembly should remove the exemption for the CTA pension fund and require it to report to the Division of Insurance as do other local pension funds.** Information on the CTA pension fund would then be included in the Department's biennial report on local pension funds.

GLOSSARY

Actuarial Value of Assets: Under Government Accounting Standards Board (GASB) Statement No. 25, assets of public pension plans may be reported based on their **actuarial, or smoothed, market value**. The actuarial value typically smoothes the effects of short-term market volatility by recognizing deviations from expected returns over a period of three to five years.[45] For example, one smoothing technique recognizes 20% of the difference between the expected (based on the assumed rate of return) and actual investment returns for each of the previous five years.

Actuarially Required Annual Employer Contribution (ARC): The sum of (1) the employer's normal cost of retirement benefits earned by employees in the current year, and (2) the amount needed to amortize any existing unfunded accrued liability over a period of not more than 30 years.

Defined Benefit Plan: A type of pension plan. In defined benefit plans, employers and employees annually contribute fixed amounts to investments intended to cover future benefit payments. Upon retirement, the employee receives an annuity based upon his or her highest salary (usually based on an average of several years) and length of service. If the amounts contributed to the plan over the term of the employee's employment (plus accrued earnings) are insufficient to support the benefits (including health and survivor's benefits), the former employer is required to pay the difference.

Defined Contribution Plan: A type of pension plan. In a defined contribution plan, the employee and the employer contribute fixed amounts. Upon retirement, the employee receives an annuity and interest based upon the amount contributed to the plan over the term of his or her employment. Once the employee retires, the employer has no further liability to the employee (except, perhaps, for ancillary health benefits). Historically, defined benefit plans were the most common type of plan, but changes in tax laws encouraged numerous conversions in the private sector to defined contribution plans. Two common examples of defined contribution plans are 401(k) and 403(b) plans, named after the governing sections of the Federal tax code. Some public employee funds in the U.S. are now "hybrid" plans, offering a combined defined benefit and defined contribution to employees.

Funded Ratio: The ratio of assets to liabilities. Usually this ratio is expressed in terms of actuarial values, as required by GASB 25. When a pension fund has enough assets to cover all its accrued liabilities, it is considered 100% funded.

GASB Statement No. 25: The Government Accounting Standards Board (GASB) is an independent, non-profit organization that establishes accounting and reporting guidelines for

[45] In November 1994, the Government Accounting Standards Board (GASB) issued Statement No. 25 that established new standards for the reporting of a pension fund's assets. The requirement became effective June 15, 1996. Up until that statement, most pension funds used two measurements for determining the net worth of assets, book value (recognizing investments at initial cost or amortized cost) and market value (recognizing investments at current value). In Statement No. 25, GASB recommends a "smoothed" market value, also referred to as the actuarial value of assets, in calculations for reporting pension costs and actuarial liabilities. The smoothed market value or actuarial value of assets accounts for assets at market values by recognizing unexpected gains or losses over a period of 3 to 5 years.

state and local governments in the United States. GASB Statement 25, issued in November 1994, made a number of changes to reporting requirements for public pension fund assets and liabilities.

GASB Statements Nos. 43 & 45: The Government Accounting Standards Board (GASB) is an independent, non-profit organization that establishes accounting and reporting guidelines for state and local governments in the United States. GASB Statements 43 and 45, issued in June 2004, provide reporting guidelines for Other Post Employment Benefits (OPEB), namely retiree health insurance. GASB 43 and 45 will require governments and retirement systems to calculate and report total OPEB liabilities according to guidelines similar to those used in reporting pension liabilities. These requirements will be phased in from 2005-2008 depending on the size of individual governments.

Market Value of Assets: Assets can be reported by their market value, which recognizes unrealized gains and losses immediately in the current year and can produce significant fluctuation year-to-year. This measure is subject to volatility in the market and can be misleading because the variations typically average out over the life of the pension plan.

Multiple: For eight of the pension funds analyzed in this report, the basic employer contribution is set in state statute as a multiple of the total employee contribution made two years prior. The statute requires that the employer levy a property tax not to exceed the multiple amount. Employers levy an amount that, when added to the revenue from Personal Property Replacement Taxes, equals the multiple amount. For example, the MWRD must contribute an amount equal to 2.19 times the employee contribution made two years prior.

Two-Tiered System: A pension plan where new and existing employees are promised different retirement benefits. Once granted, benefit enhancements cannot be diminished, according to the Constitution of the State of Illinois. The only way for an employer to reduce liabilities by reducing retirement benefits is to reduce those benefits for new employees, creating a "two-tiered" system.

Unfunded Liabilities: Those liabilities, both current and prospective, not covered by actuarial assets. It is calculated by subtracting the actuarial value of assets from the accrued actuarial liability of a fund.

APPENDIX A: REVENUE AND EXPENDITURE CALCULATIONS

The following two tables list the source documents for pension fund revenue and expenditure amounts presented in this report, as well as the line items included in revenue and expenditure totals. In some cases, the Civic Federation calculates income and expenditures differently than does the fund. For example, the Civic Federation considers investment fees as an expenditure rather than a deduction from gross investment income.

FY2005 REVENUES BY SOURCE					
Fund Name	Source Document	Employee Contribution	Employer Contribution	Investment Income	Other Income
Fire	Financial Report, p. 11	Total Plan Member Contributions	Total Employer Contributions	Net investment income + net securities lending income	Gift fund donations + litigation settlement + miscellaneous income
Police	Actuarial Valuation, p. 19	Member contributions	City contributions	Investment income net of expenses + investment expense (Market value)	Misc. revenue
Municipal	Actuarial Valuation, p. 28	Member contributions	City contributions & Misc.	Investment income net of expenses + investment expense (Market value)	none
Laborers	Actuarial Valuation, p. 28	Member contributions	none, because City contribution not required per P.A. 93-0654	Investment income net of expenses + investment expense (Market value)	City contributions & Misc.
Teachers	Comprehensive Annual Financial Report, p. 25	Employee contributions	Intergovernmental net (Total)	Invesment income + investment expense	Miscellaneous
Park District	Comprehensive Annual Financial Report, p. 24	Employee contributions	Employer contributions - statutory reduction	Investment income, Securities lending income	none
MWRD	Comprehensive Annual Financial Report, p. 23	Employee contributions	Employer contributions	Gross investment income	Misc. income
Cook County	Actuarial Valuation, p. 9	Employee contributions	Contributions from Cook County	Total invesment income, Securities lending	Federal government contributions, Miscellaneous, Employee transfer to Cook County, Charged to Forest Preserve
Forest Preserve	Actuarial Valuation, p. 9	Employee contributions	Contributions from Forest Preserve District	Total invesment income, Securities lending	Misc. income
CTA	Actuarial Valuation, p. 12	Member contributions	CTA contributions	Investment income net of expenses + investment expense	Misc. revenue

FY 2005 EXPENDITURES BY TYPE							
Fund Name	**Source Document**	**Benefit Payments**	**Health Ins. Payments**	**Refund Payments**	**Other Expenses**	**Administrative Expenses**	**Investment Costs**
Fire	Actuarial Valuation, p. 19	Benefit payments	none	Refunds	none	Administration	Investment expense
Police	Comprehensive Annual Financial Report, pp. 77-78 and Actuarial Valuation, p. 19	Employee, spouse, dependent, ordinary duty and children disability, death	Hospitalization	Refunds	none	Administration	Investment expense
Municipal	Actuarial Valuation, p. 28	Benefit payments--Pension	Benefit payments--Health Insurance Supplement	Refunds and rollovers	none	Administration	Investment expense
Laborers	Actuarial Valuation, p. 28	Benefit payments--Pension	Benefit payments--Health Insurance Supplement	Refunds and rollovers	none	Administration	Investment expense
Teachers	Comprehensive Annual Financial Report, p. 25	Pension benefits, Death benefits	Refund of insurance premiums	Refunds, 2.2 legislative refunds	none	Administrative and misc. expenses	Investment advisory and custodial fees, Securities lending expense
Park District	Comprehensive Annual Financial Report, p. 24	Total benefits	none	Refund of contributions	none	Administrative and general expenses	Investment expenses, Borrower rebates, Bank fees
MWRD	Comprehensive Annual Financial Report, p. 25	Total annuities and benefits	none	Refunds of employee contributions	none	Administrative expense	Investment expenses
Cook County	Actuarial Valuation, p. 9	Total annuities and benefits minus Group health insurance	Group health insurance	Refunds of employee contributions	none	Administrative expenses	Investment fees
Forest Preserve	Actuarial Valuation, p. 9	Total annuities and benefits minus Group health insurance	Group health insurance	Refunds of employee contributions	Employee transfers to Cook County, Charged to Cook County	Administrative expenses	Investment fees
CTA	Actuarial Valuation, p. 12	Pension and death benefits	Health benefits	Refunds	none	Administation	Investment expense

SOURCES FOR FY2005

Fire

- Firemen's Annuity and Benefit Fund of Chicago, *Actuarial Valuation Report for the Year Ending December 31, 2005*, Gabriel, Roeder, Smith & Co. April 2006.
- Firemen's Annuity and Benefit Fund of Chicago, *Financial Report for the years ended December 31, 2005 and 2004.* May 3, 2006.

Police

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