



# Peoria Pension Issues

April 26<sup>th</sup>, 2022

# Pension Overview

- Pensions represent a significant portion of the compensation of public employees
  - Pensions are monthly payments paid to individuals or their surviving dependents in consideration of past service
  - Illinois has 5 statewide systems (SURS, JRS, GARS, TRS, and SERS)
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- 10 pension systems that cover Cook County and Chicago public employees
  - 650 Police and Fire pension funds for all municipalities outside of Chicago – soon to be consolidated into one police and one fire fund
  - The Illinois Municipal Retirement Fund, which covers all other local government employees in the state

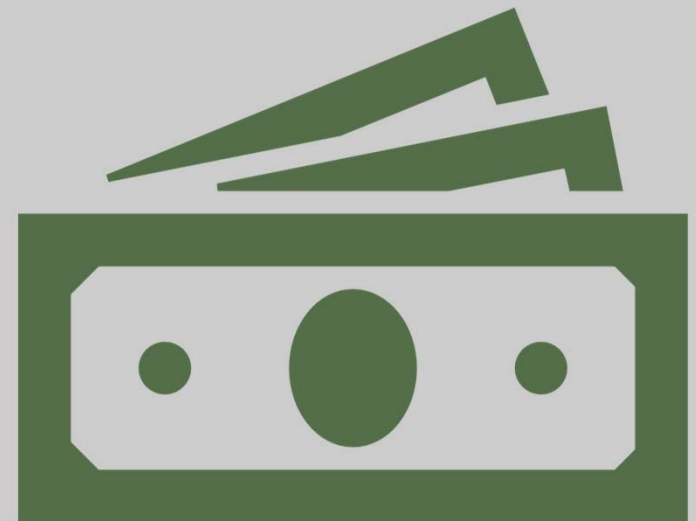
# Benefits Overview

Features	Police	Fire	IMRF	IMRF Tier 2*
<b>Employee Contributions</b>	9.91% of Salary No Social Security	9.455% of Salary No Social Security	4.5% of Salary 6.2% for Social Security	4.5% of Salary 6.2% for Social Security
<b>Final Rate of Earnings (FRE)</b>	Salary on Final Day	Salary on Final Day	Average of Highest 4 Years of last 10	Average of Last 96 Months, Wage Capped
<b>Full Retirement</b>	Age 50 with 20 Years	Age 50 with 20 Years	Age 60 with 8 Years Age 55 with 35 Years	Age 62 with 10 Years
<b>Pension Formula</b>	2.5% x FRE x Years of Service	2.5% x FRE x Years of Service	1.67% first 15 years 2.0% after 15 years	1.67% first 15 years 2.0% after 15 years
<b>Early Retirement Penalty</b>	No	No	Yes	Yes
<b>Maximum Pension (Years to Max)</b>	75% of FRE (30 years)	75% of FRE (30 years)	75% of FRE (40 years)	55% of FRE (30 years)
<b>Cost of Living Adjustment (COLA)</b>	3% Compounded	3% Compounded	3% Non-Compounded	3% Non-Compounded or ½ the CPI, Whichever is Less

\*Tier 2 was eliminated in 2019 for Police and Fire.

# What Affects Unfunded Liabilities?

- Salary Increases
- Employee Contributions
- Employer Contributions
- Investment Returns
- Benefit Increases
- Actuarial Assumptions
- Plan Demographics



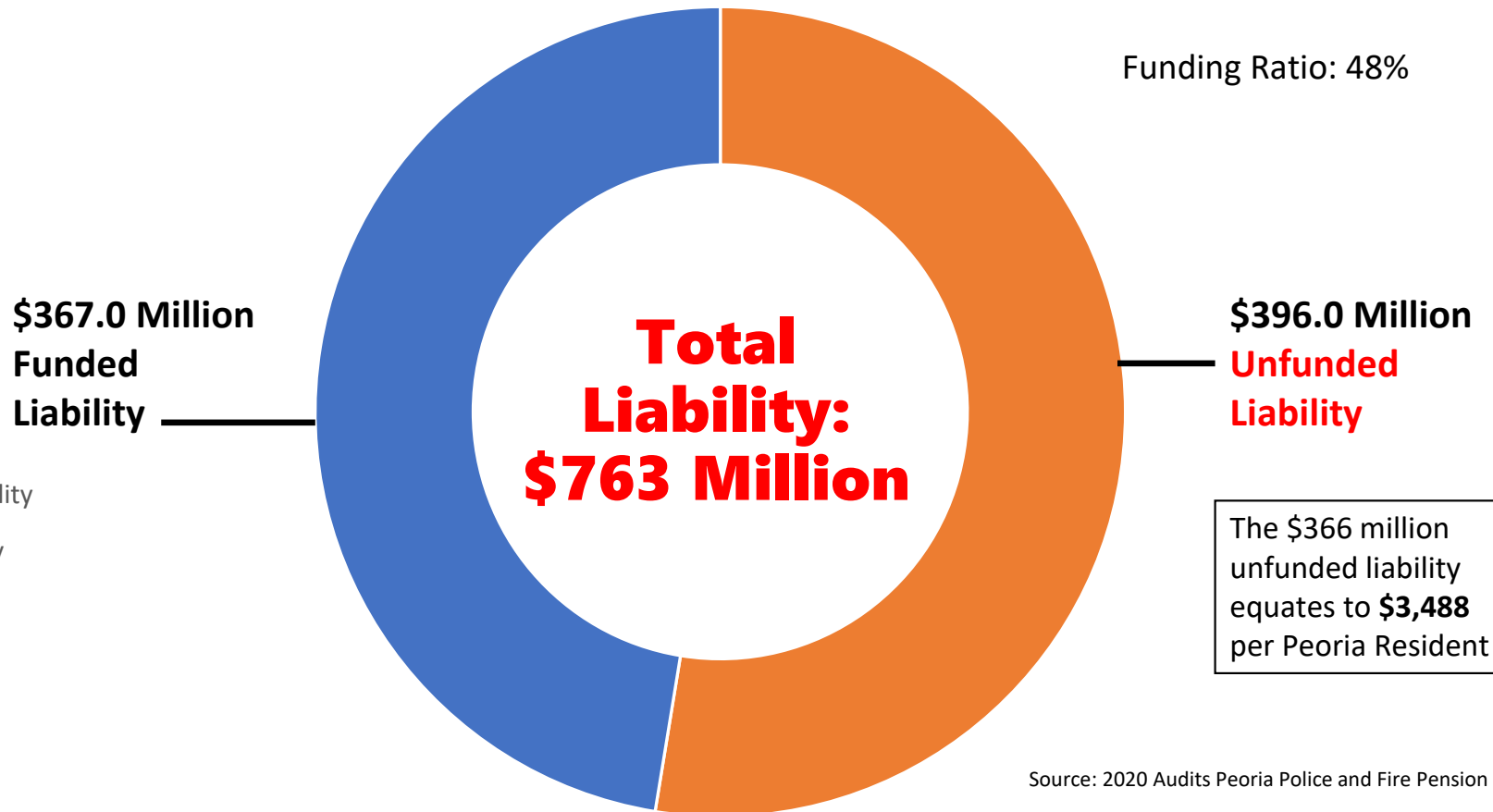
# Public Safety Pensions: Who is Responsible?

	STATE	PENSION BOARD	ACTUARY	CITY
Establishes Benefit Levels for Employees	✘			
Determines Contribution Levels for Employees	✘			
Determines the Pension Board Composition	✘			
Determines the Investment Mix Limitations	✘			
Establishes the Fund Targeted Rate of Return		✘		
Hires Investment Fund Managers		✘		
Determines Investments		✘		
Makes Duty Disability Determinations		✘		
Sets the Employer Contribution Level			✘	
Levies the Taxes to Collect the Employer Contribution				✘

# What is the Scope of the Public Safety Pension Problem in Peoria?

End of Fiscal Year 2020

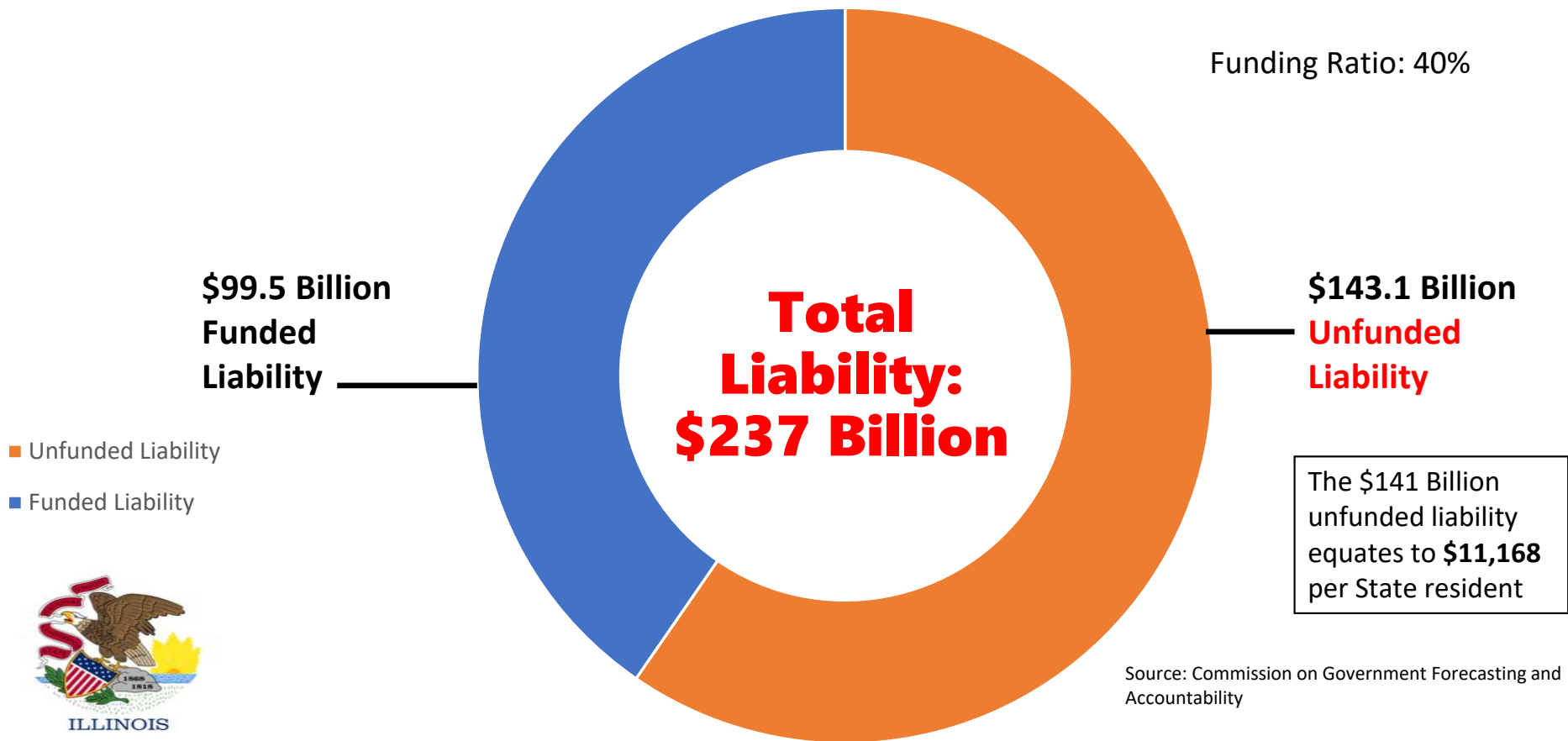
Funding Ratio: 48%



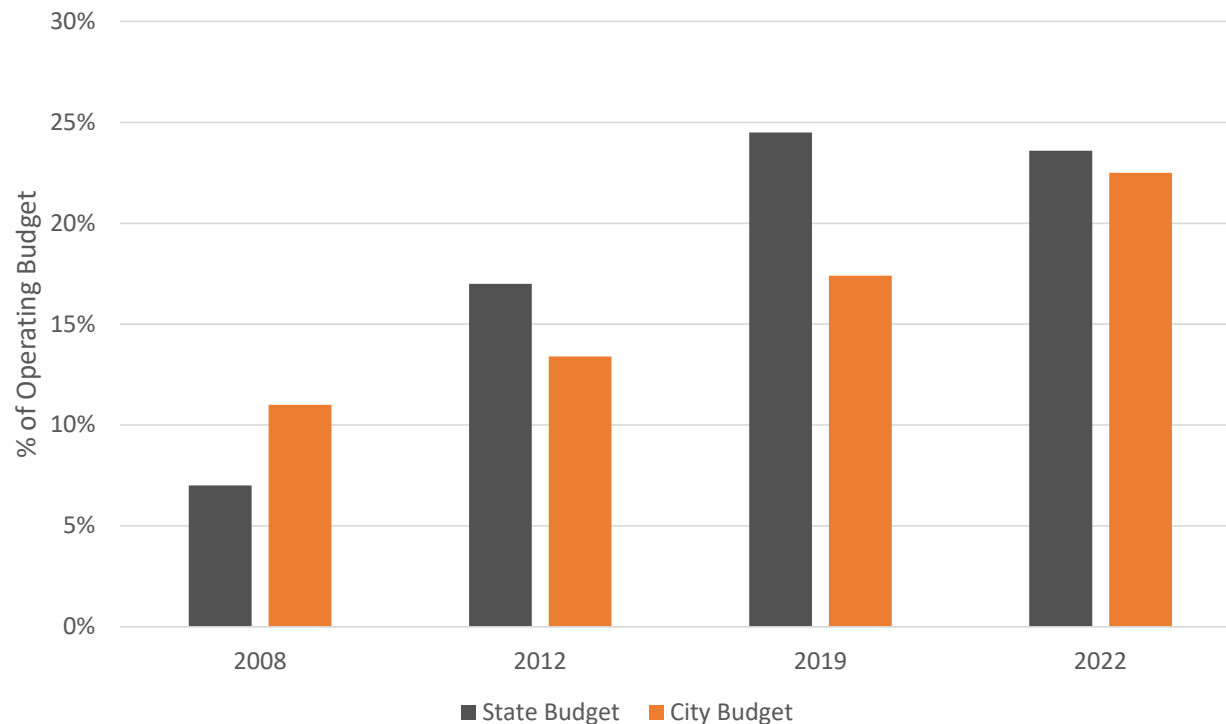
Source: 2020 Audits Peoria Police and Fire Pension Boards

# What is the Scope of the State Pension Problem?

End of Fiscal Year 2020



# Pensions are Crowding out Other Services



- Pensions will consume 23.6% of State-Sourced General Revenue in 2022, up from 7.0% in 2008
- Pensions will consume 22.5% of City Operating Revenue in 2022, up from 11.0% in 2008

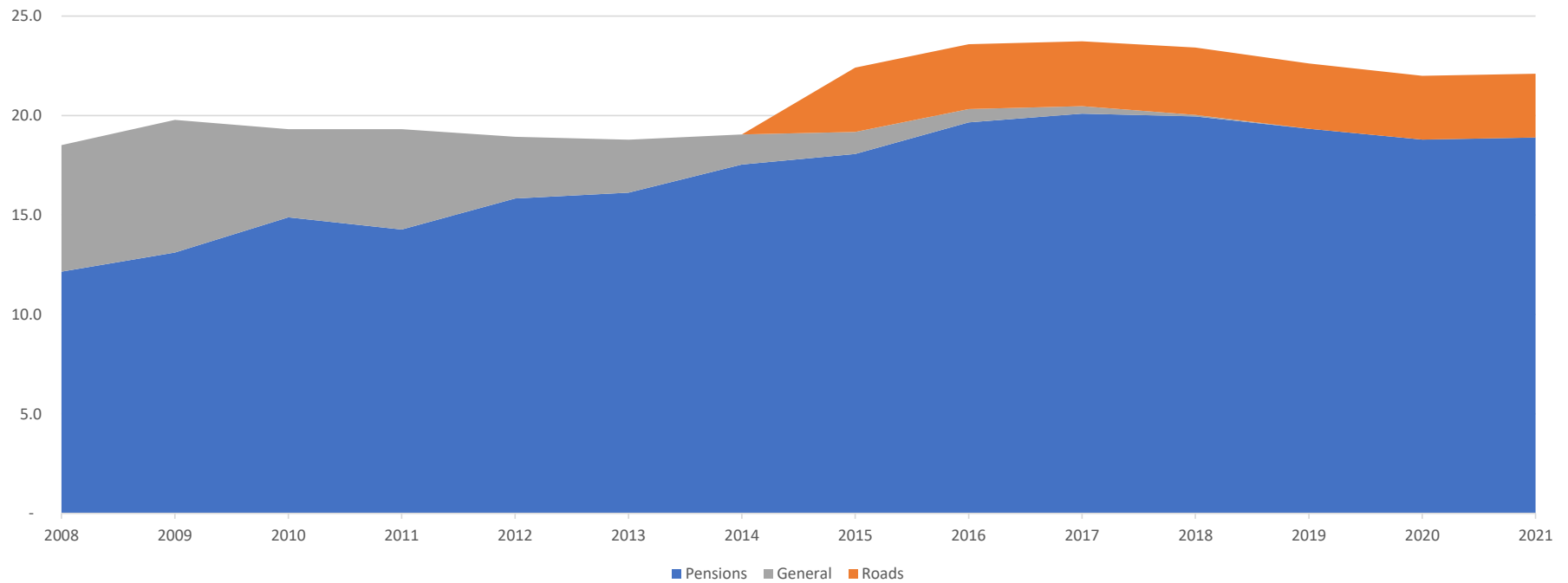


# Where Does Your Property Tax Dollar Go?



Source: 2019 Extended Property Tax Rates, Peoria County GIS

# Where Does Your City Property Tax Dollar Go?



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Pensions	12.1	13.1	14.9	14.3	15.8	16.1	17.5	18.1	19.7	20.1	20.0	19.3	18.8	18.9
Roads	-	-	-	-	-	-	-	3.2	3.3	3.3	3.4	3.3	3.2	3.2
General	6.4	6.7	4.4	5.0	3.1	2.7	1.5	1.1	0.7	0.4	0.1	-	-	-

City Headcount  
2002, 2010,  
2020 2022

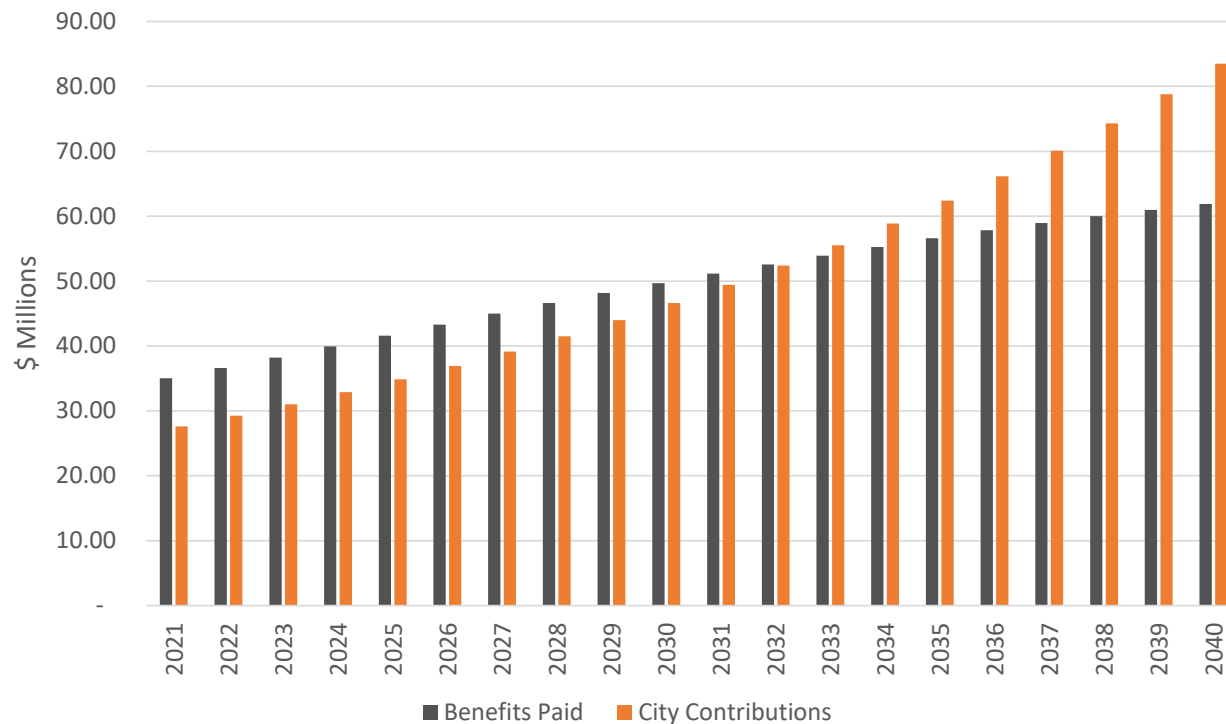
To staff the 239  
FTEs cut since  
2002, the City  
would need an  
additional \$30.5M.

	2002	2010	2020	2022	%Change 02/22
Back Office	94	75	63	67.5	-28%
Line Departments					
Police	298	256	249	242	-19%
Fire	216	214	189	178	-18%
Public Works	132	97	92	86	-35%
Community Development	104	80	36	41.5	-60%
Emergency Communications	48	38	35	38	-21%
<b>Total Headcount</b>	<b>892</b>	<b>760</b>	<b>664</b>	<b>653</b>	<b>-27%</b>

## Police and Fire Pension Funds Future Obligations and Contributions, 2010, 2019, 2020-2023

	2010	2019	2020	2021	2022	2023
<b>Police Pension</b>	4.6	11.5	12.8	13.8	14.5	15.4
<b>Fire Pension</b>	5.6	10.3	11.8	12.4	13.2	14.0
<b>Total Pension Contributions</b>	10.2	21.8	24.6	26.2	27.7	29.4
Property Tax	8.5	17.0	15.0	14.8	14.8	15.1
PPRT	1.7	3.6	4.0	4.2	4.5	4.6
Pension Fee	0.0	1.2	1.6	2.0	0.0	0.0
<b>General Fund Transfer Needed</b>	<b>0.0</b>	<b>0.0</b>	<b>4.0</b>	<b>5.2</b>	<b>8.4</b>	<b>9.7</b>

# What Does The Future Hold?



- Benefits will exceed contributions until 2032
- The City will need to increase contributions from \$26M to \$84M annually
- Increase of \$494M over the next 20 years

# Roadblocks to Solving the Problem

## CONSTITUTIONALITY

- A clause in the Illinois Constitution says that pension membership is a contractual relationship that shall not be “diminished or impaired”

## ILLINOIS COURTS

- The State Supreme Court has ruled that any change to existing benefits, including to automatic annual increases is therefore unconstitutional

# What's Next? No Easy Solutions

- **Constitutional Amendment** – Could address the compounded COLA. **Requires 60% approval.**
- **Buyouts of Future Benefit Increases** – Could reduce future costs. **Constitutional?**
- **Pension Obligation Bonds** – Higher returns could save money. **RISKY!**
- **Reamortization** – Creates a more realistic funding plan. **Adds more long run costs.**
- **Additional Revenue** – Retirement taxation, sales tax on services. **Additional cost to taxpayer.**
- **Service Reductions** – continued downward pressure on current services. **Less services for citizens.**

QUESTIONS

