

Task Force Recommends Consolidating Downstate, Suburban Police and Fire Pensions, Would Save \$2.5 Billion Over 5 Years

October 10 2019 2:10 PM



SPRINGFIELD - The Pension Consolidation Feasibility Task Force issued a report to Governor JB Pritzker today recommending that the state take action in the veto session to consolidate the nearly 650 suburban and downstate police and fire pension plan assets

into two new statewide systems, which could generate as much as \$1 million a day in additional returns for the funds and help stabilize pensions and protect the retirement security of our brave first responders.

The consolidated funds would total more than \$14 billion in assets, generating an additional \$820 million to \$2.5 billion in investment returns alone over the next 5 years and an additional \$3.6 to \$12.7 billion in investment returns alone over the next 20 years, based on the performance of the statewide municipal employees' fund.

The two consolidated funds – one for police and one for fire – would pool assets to lower administrative costs and gain access to better investment opportunities, improving performance and easing the growing pressures on local property taxes to pick up the tab when funds underperform.

“Under the current arrangement, Illinois’ suburban and downstate police and firefighter pension funds are underperforming by nearly one million dollars per day. That’s not just a missed opportunity – that’s a hole these funds are digging deeper every year – and then municipalities have to ask taxpayers to fill the hole,” said Governor JB Pritzker. “We’ll be proposing legislation this fall to consolidate the assets of the 649 suburban and downstate pension funds into two statewide funds. This consolidation will improve the financial health of the plans and help secure the future for the retired workers who rely on them – and it will alleviate some of the property tax burden plaguing homeowners and renters across our state.”

Because most of the existing 650 funds are so small – nearly half have less than \$10 million in assets – returns on their investments have been significantly lower than other pension systems. Currently, the array of smaller funds each pay higher administrative fees and see significantly lower investment returns than larger pension plans in Illinois, averaging 2% less annually during the past 10 years than the statewide municipal employees' fund.

With regard to the two new funds, the task force also recommends that the state make some changes to Tier 2 beneficiaries' plans to address future concerns about the safe harbor standard of the Social Security Administration and Internal Revenue Code, as well as avoiding substantial and sudden future costs to municipalities resulting from non-compliance.

In the future, the task force could consider consolidating the benefit administration of the suburban and downstate police and fire pensions, as well as the advantages of further consolidation of other state and local benefit plans, including Chicago's funds.

Governor Pritzker established the task force less than a month into office, on Feb. 11, 2019. Former Chicago Board Options Exchange Chairman and CEO William J. Brodsky, Associated Fire Fighters of Illinois President Pat Devaney and former Illinois Senate Minority Leader Christine Radogno co-chaired the 10-member committee.