



Chicago Teachers' Pension Fund

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August 24, 2011

### **A letter from Kevin B. Huber, executive director of the Chicago Teachers' Pension Fund**

How many times are politicians and outside organizations going to attack the benefits of public pension funds?

Public retirement pensions provide a backbone which allows teachers, police, firefighters, and municipal workers to live a modest retirement after decades of public service. The average Chicago Teachers' Pension Fund (CTPF) retiree earns \$42,000 per year after investing 28 years of service in the Chicago Public Schools. The assault on public pension benefits misleads the public and ignores the real problem: employers have knowingly neglected their responsibility to fund pensions for decades.

The Chicago Public Schools (CPS) recently released its budget and must increase taxes to help ease deficits. This action has again ignited cries for "reform" as various organizations decry the cost of Chicago teachers' retirement benefits.

I cringe every time I hear the word "reform" when referring to pensions. Reform means a correction of an abuse. When you correct an abuse, you go after the abuser – not the victim. The abuses in our pension system come from years of underfunding pensions – not from teachers earning modest benefits guaranteed by the Illinois constitution. Yet the teachers are continually attacked. It's time to set forth the facts about pensions. Taxpayers deserve to know why teachers' pensions have become so costly.

Pension fund mechanics are simple and have provided stable retirements for Chicago's teachers for more than 116 years. CTPF collects revenue, invests it, and distributes it in the form of pensions. Revenue for pensions comes from four sources: teacher contributions, employer contributions, State of Illinois contributions, and investment earnings.

#### **Teacher Contributions**

Each pay period during employment, 9% of a teacher's salary is allocated toward retirement benefits. Since 1895, Chicago's teachers have contributed toward their retirement from each and every paycheck they received. Chicago teachers have NEVER missed a payment to their pensions. Teachers do not contribute to or receive Social Security retirement benefits. A pension is the primary source of a teachers' retirement security.

#### **Employer Contributions**

For decades Chicagoans fulfilled their responsibility and made a direct payment to the pension fund when they paid their tax bills.

In 1995, however, the CPS system had a financial crisis and the Chicago Teachers' Pension Fund became a victim of its own success. At that time, CTPF enjoyed a funding level near 100%, and the cash-strapped school system saw an opportunity. CPS appealed to the legislature and Illinois lawmakers agreed to permanently redirect CTPF pension tax revenue directly into the CPS operating budget. During the period 1995-2005, CPS took in approximately \$2 billion in pension tax revenue and paid \$0 to the pension fund. CPS was required, due to years of underfunding, to finally begin making contributions to the fund in 2006.

In spring 2010, CPS sought and received an additional \$1.2 billion dollars in funding relief from the Illinois legislature as part of a three-year "pension reform" package. Since the package does not reduce the amount owed to the pension fund, the interest on the debt will eventually cost taxpayers an additional \$12 billion over the next 50 years.

**State of Illinois**

When the state agreed to let CPS transfer pension tax revenue to the CPS operating budget in 1995, it also declared its intent to provide the Chicago Teachers' Pension Fund with 20-30% of funds allocated to the statewide teachers' pension system. This revenue model would have reduced the burden on Chicago's taxpayers and provided a more equitable distribution of state pension dollars.

Unfortunately, state funding for Chicago teacher pensions has steadily declined since 1995, and CTPF will receive no state funding in 2011. These actions have shortchanged CTPF by approximately \$2 billion since 1995.

**Investments**

Although the investment markets have been volatile recently, the pension fund has achieved an annual rate of return of 8.42% since January 1, 1991. Solid investment returns are critical to the success of any pension fund, but without adequate employer contributions, a pension fund simply cannot survive.

**Finding a Solution**

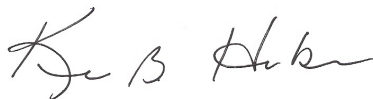
Various pieces of "reform" legislation have been proposed, but they all fail to recognize the real solution: mandated employer funding. The public continues to be deceived into believing that unaffordable benefits are the cause of our current dilemma.

Illinois Senate Bill 512, which stalled last spring, offered about \$2.7 billion in cuts to CTPF benefits over a 50-year period. Some have suggested merging our fund with the statewide Teachers' Retirement System, but this simply shifts the burden. The savings offered from benefit reductions and mergers are the equivalent of raindrops in Lake Michigan – they do not even make a ripple. Any solution that does not incorporate mandatory full employer funding is a solution that is destined to fail.

If revenue was collected when it was due instead of being deferred to future taxpayers, we would not have a problem. Had CTPF received the \$3.2 billion redirected to CPS and \$2 billion from the state, we would be 100% funded. Legislators, well-meaning community groups, and CPS system must face the fact that years of short-term financial thinking and conscious neglect of the pension fund have led to today's difficult financial position, not overly generous benefits.

We must eliminate the illusion that the hard-working middle class, including teachers, have caused the financial problems that plague the state and city. Choices have to be made and leaders must bear the burden of their promises. We have a problem to solve, and it is time for all of us to roll up our sleeves and get to work. The public needs to know the truth and deserves a reasonable long-term solution.

Sincerely,



Kevin B. Huber, executive director