Illinois law specifies that funding for Chicago Teachers’ pensions shall be a combination of employer contributions, state appropriations, employee contributions, and earnings on investments (40 ILCS 5/17-127). A funding crisis at the Chicago Public Schools in the mid-1990s fundamentally changed the structure of pension funding. CPS administrators in need of operating revenue introduced legislation allowing the school district to use money earmarked for pensions (the tax levy) for operating costs.

As a component of the agreement to allow CPS to use the tax levy for operating costs, the State agreed to formalize a long-standing practice of making an annual contribution to CTPF: “The General Assembly finds that for many years the State has contributed to the Fund an annual amount that is between 20% and 30% of the amount of the annual State contribution to the Article 16 retirement system (TRS), and the General Assembly declares that it is its goal and intention to continue this level of contribution to the Fund in the future.” (40 ILCS 5/17-127).

The State of Illinois did not appropriate funds consistent with its goal and intent. Instead, between 1995 and 2016, State funding for CTPF dropped to less than 1% of the funding provided to downstate/suburban teacher pensions. During this same period, the Fund lost an additional $3.2 billion in revenue from its employer, which used pension funding “holidays” to help stabilize its own budget. These full or partial “holidays” from 1996 through 2005 and 2011 to 2013 deprived the Fund of revenue from investment returns. Lacking stable sources of revenue, the Fund liquidated assets and relied on investment earnings to pay pension obligations.

Decades of concern from CTPF members and a funded ratio dipping below 50% demonstrated the critical need for change. Improvements began when legislation signed in 2016 (Public Act 99-521) reestablished the CTPF tax levy. The levy, initially capped at 0.383% of Chicago’s property value, sent revenue directly to the Fund. Collected for the first time in Fiscal Year 2017, the levy generated approximately $250 million toward CPS’s $733 million contribution for Fiscal Year 2017.

Additional legislation signed on August 31, 2017, (Public Act 100-465) reformed the Illinois education funding formula, established the State’s obligation to fund the normal cost of Chicago’s teacher pensions, and provided funding to offset the cost of retiree health insurance. The legislation increased the ceiling for the tax levy to 0.567%.

Pensions provide secure and stable retirements for teachers, administrators, and public school personnel, and provide an economic engine for the City of Chicago and State of Illinois. Legislation passed during the past two years corrects long-standing funding shortfalls. Going forward, CTPF will have a solid path of diverse, stable, and equitable funding, ensuring that Chicago’s educators can retire with dignity and security.
Pension “holiday” takes $2 billion in funds earmarked for pensions and redirects them to the Chicago Public Schools (CPS) operating budget. CPS promises to resume payment to the Chicago Teachers’ Pension Fund (CTPF) when the funded ratio falls below 90%. The State of Illinois agrees to contribute 20-30% of the contribution made to downstate/suburban teachers pensions (TRS).

CTPF’s funded ratio falls, and CPS begins making payments to the pension fund for the first time in a decade.

P.A. 96-889 gives $1.2 billion in pension “relief” to CPS and extends the pension funding schedule by 14 years to 2059.

CPS makes required payments to CTPF at the reduced amount (about $200 million per year instead of the necessary $600 million).

CTPF funded ratio drops to 53.9%. CTPF liquidates $60-80 million each month to fund pension payments.

Facing a 2014 payment of more than $600 million, CPS requests additional “relief” with SB 1920 House Amendment #2. The measure was defeated.

CPS makes a $601 million pension payment to CTPF.

CPS makes a $634 million payment for 2015, and requests a payment deferral for 2016 and 2017. Discussions end without an agreement.

CPS makes a $676 million payment on June 30, 2016. P.A. 99-521 is adopted by the Illinois legislature, reestablishing a pension tax levy at a capped rate of 0.383%. The State of Illinois contribution to CTPF drops to $12.1 million. TRS receives $3.7 billion.

P.A. 99-521 becomes effective June 1, 2017. CPS makes direct payments totaling $483 million towards a total payment of $733 million for the 2017 fiscal year and the tax levy provides $250 million in July and August 2017.

P.A. 100-465 is enacted August 31, 2017. The law reformed the Illinois education funding formula, established the State’s obligation to fund the normal cost of Chicago’s teacher pensions, and provided funding to offset the cost of retiree health insurance. The legislation also raises the tax levy ceiling to 0.567%.
Prior to 1995 CTPF was funded through City of Chicago tax levy. 1995 legislation redirected tax levy to CPS operating budget.

FUNDING HISTORY

After the State appropriated $12.1 million for CTPF and $3.7 billion for TRS in FY 2016, the State, through P.A. 100-465, created an obligation for the State to pay the Fund’s normal cost and contribution to retiree health care going forward.

Illinois legislature passes P.A. 99-521, reestablishing the pension tax levy at a capped rate of 0.383%. (And in 2017, increases the levy ceiling to 0.567%). The levy generated approximately $250 million for FY 2017. This is the first time since 1995 that the Fund has a guaranteed revenue source.

BOE requests & receives additional $1.2 billion in pension payment “relief” for 2011-2013.

CPS collects $2B in pension tax revenue; contributes $0 to CTPF.

GA installs “safety net” to protect Fund. State of Illinois states its “goal and intention” to contribute 20% to 30% of TRS contribution. Law also requires CPS to resume contributions when funding falls below 90%.

BOE resumes payments to CTPF

After 1995 CTPF was funded through City of Chicago tax levy. 1995 legislation redirected tax levy to CPS operating budget.
While the Illinois Pension Code outlines the State’s previous commitment to funding CTPF at 20%-30% of the amount appropriated to the downstate/suburban retirement system (administered by the Teachers’ Retirement System of the State of Illinois), the funding was far below that rate for decades (see chart below).

Legislation passed in 2017 reformed the Illinois education funding formula, established the State’s obligation to fund the normal cost of Chicago’s teacher pensions, and provided funding to offset the cost of retiree health insurance.

Cited: “The General Assembly finds that for many years the State has contributed to the Fund an annual amount that is between 20% and 30% of the amount of the annual State contribution to the Article 16 retirement system, and the General Assembly declares that it is its goal and intention to continue this level of contribution to the Fund in the future.” (40 ILCS 5/17-127).
PENSIONS MATTER

CTPF Education & Advocacy Initiative

Pensions provide secure and stable retirements for teachers, administrators, and public school personnel, and provide an economic engine for our city and state.

1. CTPF MEMBERS DO NOT MAKE SOCIAL SECURITY CONTRIBUTIONS

A pension is the primary source of Chicago Teachers’ Pension Fund (CTPF) members’ retirement security. Most Americans contribute 6.2% of earnings to Social Security for retirement, but CTPF members do not contribute to Social Security and instead contribute 9% of their earnings to fund their retirement pensions. Benefits earned over a lifetime of service are deferred compensation, guaranteed by Illinois law.

2. PENSIONS CREATE A POSITIVE IMPACT ON ILLINOIS’ ECONOMY

About 85% of CTPF beneficiaries live in Illinois, and 50% of those members live in the city of Chicago. Pension benefits generate $1.8 billion in total annual economic impact on our State and help generate 12,949 jobs.

3. A LACK OF FUNDING, NOT GENEROUS BENEFITS, CAUSED FINANCIAL PROBLEMS WITH THE PENSION SYSTEM

Prior to 1995, the Chicago Public Schools Board of Education (CPS) funded pensions on an annual basis through a property tax levy. In 1995, CPS sought and received a change in the law which allowed it to keep pension tax revenue (P.A. 89-0015). This law redirected more than $2 billion in funds designated for pensions into the CPS operating budget. A 2010 law (P.A. 96-889) granted CPS an additional $1.2 billion in pension funding relief and extended the funding schedule by 14 years to 2059. Legislation passed in 2016 and 2017 (P.A. 99-521 and P.A. 100-465) restored the tax levy, (remitted directly to the Fund), and provided for a State contribution for the Fund’s normal cost of pensions and retiree health insurance. This revenue will not eliminate the need for additional employer contributions, as decades of employer underfunding must still be addressed.

4. RETIREES DEPEND ON CTPF FOR HEALTH INSURANCE

CTPF offers comprehensive group health insurance for members who must pay for their coverage after retirement. The Fund offers a health insurance premium subsidy, to help offset insurance costs, but it is limited to $65 million per year. CTPF was recently forced to cut benefits to retirees, and the amount will continue to decline as the number of retirees and their health insurance costs increase.

29,543 ACTIVE MEMBERS CONTRIBUTE TO THE FUND

Active members include teachers, administrators, other certified individuals, and CTPF staff.

- 76% of CTPF members are women.
- The averages for active members: age 41.5, 10.4 years of service, and annual salary of $70,103 for 2016.
- Active members contribute 9% of their salary to the pension fund every pay period during employment.

28,298 BENEFICIARIES RECEIVE CTPF PENSIONS

24,732 Retirees
3,090 Survivors
476 Disability

- CTPF members do not make contributions to Social Security during employment.
- CTPF paid out $1.4 billion in pension benefits in 2016.
- The average annual benefit in 2016 was $48,126.46.
- During the past 10 years, the number of retirees has increased about 20%.
- The average age for retirees was 74.2 in 2016. The most senior member reached age 110 in 2016.

HEALTH INSURANCE

- CTPF offers group health insurance coverage for members who must pay for health insurance when they retire.
- CTPF offers a subsidy to help pay for the cost of retiree health insurance. The subsidy was 50% in 2016.

FUNDED RATIO

- CTPF’s funded ratio as of June 30, 2016 was 52.4%. The ratio was nearly 100% in 2002.