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## **Chicago Pension Payments Will Lag Despite Legal Outcomes: Moody's**

CHICAGO — Chicago's contributions to its four retirement systems will be too skimpy to curb unfunded pension liability growth in the next 10 years regardless of how state lawmakers address the problem and how the court system rules, Moody's Investors Service said on Tuesday.

The third-biggest U.S. city has been mired in a financial crisis largely fueled by its \$20 billion unfunded pension liability.

Moody's, which dropped Chicago to the "junk" level of Ba1 with a negative outlook in May, laid out four scenarios facing Chicago based on the fiscal 2016 budget it passed last month.

That spending plan for the fiscal year beginning on Jan. 1 includes a record \$543 million, phased-in property tax increase dedicated to public safety worker pensions.

Mayor Rahm Emanuel linked the size of the tax hike to an Illinois bill reducing the city's contribution to its police and firefighter retirement systems initially by \$220 million. Senate bill 777 passed the House and Senate, but is on hold due to an ongoing budget battle between Democratic lawmakers who control the legislature and the Republican governor, who has been critical of that measure.

If the bill fails to become law, the city would remain subject to a 2010 state law that mandates an immediate \$550 million increase in contributions, leaving the property tax hike initially \$220 million short.

Emanuel's budget also assumes the Illinois Supreme Court will find a 2014 state law that boosted contributions and reduced benefits for the city's municipal and laborers' retirement systems constitutional after a lower court tossed out the law.

Moody's said the most positive outcome would be a high court ruling in favor of the 2014 law without the enactment of SB 777.

"Although it would require larger pension contributions than currently budgeted, the higher payments would achieve the slowest and least extensive growth in unfunded liabilities among the four scenarios," said Moody's analyst Matthew Butler.

Negative outcomes would involve the state supreme court's rejection of the 2014 law with or without the enactment of SB 777.

"This would exert additional negative credit pressure on Chicago's credit quality because it would likely remove all flexibility to reduce unfunded liabilities through benefit reform and raise the probability of plan insolvency," Butler said.

The city plans to defend the 2014 law before the Illinois Supreme Court next week, claiming that without it the police and firefighter retirement systems will run out of money in the next decade.

By REUTERS

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(Editing by Matthew Lewis)

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