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Chicago Mulls $10 billion Debt Sale to Fill Pension Funding Hole - Here's Why It's a Bad Idea

Fiscally-strapped Chicago may issue $10 billion of pension obligation bonds to help pay down a $28 billion gap

As Chicago considers a multibillion sale of pension obligation bonds, analysts say such bonds have rarely succeeded at topping up unfunded public pensions, and are historically linked to fiscal stress and municipal debt defaults.

"Generally, most muni analytics folks don't look upon pension bonds favorably," said Alan Schankel, municipal strategist for Janney Montgomery Scott.

Pension obligation bonds, or POBs, have been connected with high-profile municipal defaults in California's San Bernadino and Stockton, as well as Detroit. At the state level, issuers of POBs including New Jersey and Connecticut, and the territory of Puerto Rico, have seen a decline in their pension funding ratios and suffered downgrades to their credit rating as a result, noted analysts at Municipal Market Analytics. Illinois, in fact, issued pension bonds in 2003 that only temporarily brought up funded ratios.

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