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Rahm Emanuel Shouldn't Gamble on Chicago's Pensions.

Selling debt is a short-term fix that could exacerbate a challenging long-term problem.

Mayor Rahm Emanuel of Chicago, a former investment banker, should understand why issuing debt to fund pensions is a risky idea.

Emanuel, who is leaving office in May, told city council members on Wednesday that he would set in motion a plan for Chicago to sell what he branded as "fund stabilization bonds." Officials have floated the prospect of an offering as large as \$10 billion, which would be the largest-ever for a locality. Even that wouldn't even completely solve the problem: Chicago's four pension systems are underfunded by a combined \$28 billion. Even with the sale, the funding status of the systems would rise to just 50 percent, still well below what any observer would consider healthy.

The city would essentially be gambling that its retirement plans could earn a long-term return greater than the interest rate it pays on the taxable securities. Say that's 5 percent. Sure, the plans' projected rate of return is about 7.5 percent, but does anyone really think that's a surefire target in the years to come? Among those who are skeptical about future returns is Ray Dalio, founder of Bridgewater Associates, which has made the most money for investors in the history of the hedge fund industry.

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Bloomberg Opinion

By Brian Chappatta

December 12, 2018, 1:48 PM MST

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