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Is Consolidating the Assets of Illinois' Public Pension Funds a Good Idea?

We don't have enough information to say for certain whether the Pritzker task force recommendations are prudent policy.

On Oct. 10, 2019, the Illinois Pension Consolidation Feasibility Task Force released its report to Gov. J.B. Pritzker. The Task Force was charged with studying the possibility of consolidating some of Illinois' hundreds of public pension funds and providing recommendations to the governor. The main focus was Illinois' public safety pension funds — there are over 600 individual funds for police officers and firefighters throughout the state.

The public safety funds range significantly in size and financial condition, and each one currently operates independently with its own board of trustees. Most, however, are underfunded, and the financial health of the funds has long been a concern. This is, in part, because municipalities' annual pension payments are linked to the finances of the pension funds — as a pension fund's finances deteriorate, the municipality's payments should increase. State law requires municipalities' contributions to be sufficient so that each public safety fund is 90% funded by 2040 (meaning 90% of the liabilities are matched with assets). Because most public safety pension funds are underfunded, municipalities' contributions are projected to increase significantly over time. The increasing pension contributions are a growing fiscal pressure for municipalities.

Unfunded liabilities for all public safety funds totaled $11 billion as of fiscal year 2017, and between 2012 and 2017 the median increase in unfunded liabilities from year-to-year was nearly $400 million. A policy change that boosts the finances of the pension funds—like consolidation—could reduce municipalities' required contributions. However, consolidation should not be thought of as something that will resolve the challenge of unfunded pension liabilities or municipalities' increasing pension contributions.

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CRAIN'S CHICAGO BUSINESS

by AMANDA KASS
University of Illinois at Chicago

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