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Illinois Risks Missing Merger Deadline for Local Pension Funds, Delaying Millions in Savings.

- **June 30 is the statutory deadline for combining assets**
- **Pending court case, low trust may be holding back transfers**

Illinois is at risk of missing a statutory deadline to merge hundreds of local police pension funds, which proponents of the consolidation say could delay millions in savings.

Still, Illinois Governor J.B. Pritzker is sticking to his stance that merging these assets is key to curbing local property tax hikes, he said this week.

A 2019 law championed by Pritzker seeks to combine more than 600 local public safety pension funds into two funds — one for firefighters and another for police. Pritzker argues that doing so would increase the funds' returns and contribute to fixing the problem of low funding levels that has weighed on budgets and dampened credit ratings. However, his plans are being delayed by a pending circuit court lawsuit and mistrust about shifting local funds to a state entity, particularly among the police pension plans.

So far, the Illinois Police Officers' Pension Investment Fund has gathered roughly $660 million of the $9.7 billion intended for consolidation by June 30, according to executive director Richard White. Additional funds that would bring the total to above $1 billion may come next month, he said.

"Things are going slowly," White said in an interview. "It means that the statutory deadline of June 30 will come and go without the consolidation process being complete."

Three dozen current employees and retirees, along with 18 local retirement plans, are still awaiting a ruling from a Kane County Circuit Court judge on a case that seeks to block the combining of assets. They filed a lawsuit in February 2021 saying the consolidation violates the state's constitution.

"The state is working diligently with all partners toward fulfilling the aims of the legislation," Jordan Abudayyeh, a spokesperson for Pritzker, said in an emailed statement. She declined further comment about the delays and low level of police pension asset transfers citing the pending litigation.

Reduced Fees

The delay in consolidating the assets could impact the bottom line of these funds.

The Firefighters' Pension Investment Fund is scheduled to almost fully consolidate $7.5 billion in local assets by June 30, said executive director Bill Atwood. While $6.8 billion has already been transferred in, another $700 million is coming, he said.

These merged assets will help reduce fees by $27 million a year, Atwood said. With the fund's

actuarially assumed rate of return, compounded savings could reach $375 million over a decade and more than $2.6 billion over 30 years, he said.

Even though the firefighters fund has continued to draw in assets, Atwood said there is some hesitation in transferring local funds.

“We are in Illinois and there is a history of problems here,” Atwood said. “We are right here. We are very transparent. You can see returns and compare.”

White, from the police fund, said building trust is a key part of his work as his team tries to consolidate more local assets.

“We are trying to be transparent. We are trying to build a relationship,” White said. “We have to establish that trust.”

Pritzker, a billionaire Democrat seeking re-election in November, has acknowledged that it may be a couple of years before savings come from combining the police funds.

Property Taxes

The stakes are high for Illinois, the U.S. state with the lowest rating despite upgrades from S&P Global Ratings and Moody’s Investors Service. Moody’s bumped up the state’s rating in June and again on Thursday to Baa1, citing its “capacity to rebuild financial reserves and increase payments towards unfunded liabilities.”

While the state’s $130 billion unfunded pension liability weighs on its rating and finances, the same problem plagues towns and cities across Illinois. The collective unfunded liability of local public safety pension plans through the end of fiscal 2020 was $13.3 billion, according to state data compiled by the Illinois Municipal League.

The state isn’t obligated to find solutions for the local plans, but underfunded pensions weigh on budgets and soak up revenue that could be used for other services. It can also lead to higher property taxes and erode credit outlooks. And, if its municipal governments struggle, the state’s economic rebound that already lags the national average could fall further behind.

Pritzker, meanwhile, remains optimistic. The pension consolidation plan “alleviates the pressure, the upward pressure on property taxes that are caused by increasing pension burdens across the state,” he said on Tuesday, shortly after he signed a $46 billion fiscal 2023 state budget into law that separately included a one-time property tax rebate.

“Already we’ve seen tens of millions of dollars of relief that’s come from that in the fire pensions and we expect that we will see that for police pensions coming over the next two years,” Pritzker said.

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