
Chicago Reaches Plan to Shore Up Its Smallest Pension Fund.

Chicago Mayor Rahm Emanuel reached an agreement with unions on a way to shore up the smallest of the city's struggling pension funds, saying it would create a "path to solvency" after a previous overhaul was struck down by the Illinois Supreme Court.

The city and two unions reached a pact that — if finalized — would aid a pension that's set to run out of money by 2029. The deal would require an increase in contributions from employees who want to retire as early as 65 and boost Chicago's payments into the Laborers' and Retirement Board Employees' Annuity and Benefit Fund by no less than 30 percent a year over five years, beginning with the contribution due in 2018. The fund serves some 8,000 employees, retirees and beneficiaries.

"This agreement marks a tremendous step forward in ensuring that the city's employees and retirees have a secure retirement, while protecting Chicago's taxpayers from bearing the entire responsibility on their own," Emanuel said in a statement late Monday.

The arrangement would begin to chip away at Chicago's soaring debt to its employee retirement system, which has a more than $20 billion shortfall after years of failing to put enough taxpayer money aside. The mounting strain on the budget as the city is forced to catch up led Moody's Investors Service to cut Chicago's bond rating to junk a year ago, giving it a lower grade than any big U.S. city except once-bankrupt Detroit.

The laborers' agreement sets up a template to save the municipal pension. The later has almost $10 billion of unfunded liabilities, eight times the shortfall of the laborers pension.

Bond trading after the city's announcement signaled investor optimism around the plan. Federally tax-exempt Chicago bonds maturing in 2030 traded Tuesday for 44.9 cents on the dollar, the highest average price since April 2015, according to data compiled by Bloomberg.

"It's definitely positive that they've made some progress, and they have an agreement," said Daniel Solender, who oversees $19 billion as head of municipals at Lord Abbett & Co. in Jersey City, New Jersey. "With all their plans, there's so many levels of approval. It's still some time before we know if it's really a plan that'll work."

The proposal provides a "good framework" for how to approach the municipal pension, a larger fund, Chicago Chief Financial Officer Carole Brown said on a conference call with reporters. That fund is set to run out of money within 10 years.

"We're pretty optimistic about having a solution also for munis in relatively short order," Brown said.

Illinois Approval

Some details on the fix are still pending, and it would need state approval. The city won't push the needed legislation before the end of the regular session of the legislature on May 31. The city just presented the plan to the pension fund on Monday and the city has yet to draft the proposed bill, Brown said.

In March, the Illinois Supreme Court threw out Emanuel’s overhaul of the laborers and municipal workers pension fund that reduced benefits and increased city and employee contributions. The new proposal is intended to avoid a court challenge because it affects newly hired employees and gives those hired after Jan. 1, 2011, the choice of an earlier retirement age in exchange for putting more of their paychecks into the fund.

The deal would still give the pension decades to bring its assets in line with promised benefits. If implemented, the plan would get it to 90 percent funding — meaning it has 90 cents for every $1 it owes — by 2057.

“Choice is one of the areas that the Illinois Supreme Court indicated should pass constitutional muster,” Alex Holt, the city’s budget director, said on a conference call with reporters.

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