CTBA | Center for Tax and Budget Accountability

Understanding and Addressing Chicago's Pension Funding Crisis

May 2, 2024

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1. Chicago's Four Public Employee Pension Systems are Materially Underfunded

The City of Chicago is responsible for funding the following four, defined benefit public pension plans: Laborers' and Retirement Board Employees' Annuity and Benefit Fund ("**LABF**"), Municipal Employee's Annuity and Benefit Fund ("**MEABF**"), Policemen's Annuity and Benefit Fund ("**PABF**"), and Firemen's Annuity and Benefit Fund ("**FABF**"). Under a "**defined benefit**" or "**DB**" system, benefits due to future retirees are based on a formula, and funded by assets of the system.[1] DB system assets come from a combination of contributions made by current workers and the public employer, as well as investment returns on those contributions.

Ideally, employer and employee contributions are set at levels that, when aggregated with anticipated investment earnings, are sufficient to cover the benefits of current workers when they retire, while maintaining a healthy "funded ratio" for the system.[2] A "**funded ratio**" is determined by dividing the current monetary value of a pension system's total assets by its total liabilities to pay benefits to current and future members.

According to the United States Government Accountability Office ("**GAO**"), to be considered financially healthy, a public pension system should have a "funded ratio" of at least 80 percent.[3] The Pension Protection Act of 2006 also uses an 80 percent funded ratio threshold as its basis for determining that a private plan is not at risk of defaulting on its liabilities.[4] Similarly, Standard & Poor's gives a rating of above average to pension systems that have funded ratios of 80-90 percent, while Fitch Ratings "considers a funded ratio of 70 percent or above to be adequate and less than 70% to be weak.[5]

The American Academy of Actuaries ("**AAOA**"), however, cautions that, because of various outside economic factors, like volatile interest rates and stock market fluctuations, "no single level of funding distinguishes a healthy plan from an unhealthy plan." [6] Instead, funded ratio just gives a snapshot of where a plan stands fiscally at a given moment in time. According to the AAOA, "while funded ratio may be a useful measure, pension plans should have a strategy to reach "100% funded within a reasonable amount of time." [7]

But whether 80 percent or 100 percent is used as the guideline, Chicago's pension systems are decidedly not healthy. In fact, the four systems have the lowest funded ratios for local pension plans in the country.[8] Based on 2022 data, which is the most recent available, the top four local government pension systems in the country have funded ratios that range from 112.8-102.6 percent.[9] Meanwhile the average funded ratio for a public pension system in the United States is 78.1 percent.[10] By comparison, Chicago's four pension systems range from between 39.9 percent to just 18.8 percent funded.[11]

Considered together, in 2022 Chicago's four systems had $44.7 billion in liabilities, but only $10.8 billion in assets to cover those liabilities.[12] This means Chicago, and hence its taxpayers, face a significant, as in $33.9 billion, aggregate unfunded liability (the "**Aggregate Unfunded Liability**" or "**AUL**")—which is effectively "debt" that is owed to the city's pension systems.[13] It also means that the aggregate funded ratio across all four Chicago pension systems is a woeful 24 percent.[14] For context, that 24 percent funded ratio comes in a full: 88.8 percentage points less than the best funded system in the country, 76 percentage points less than the 100 percent funded ratio supported by the AAOA, 56 percentage points less than the minimum 80 percent threshold many other authorities consider needed for being healthy, and 54.1 percentage points less than the national average for all public pension systems.[15]

The funded ratio of the city's pension systems are so low that the Boston University Center for Retirement Research is now projecting that two of Chicago's plans could deplete all their assets by 2030.[16] When a public pension system no longer has accumulated assets with which to pay its obligations, it becomes a "pay as you go" system. Under a "**pay as you go**" system, pension benefits are paid to existing retirees from some combination of the pension contributions then being made into the systems by current workers, and the public employer.[17] This means whatever benefit amount contributions put into the system by current workers do not cover is made up with general tax revenue.[18]

This is markedly different from the traditional way defined benefit pension systems are funded, where the contributions of current workers are combined with employer contributions and the investment returns thereon, to generate sufficient system assets to pay benefits as they become due to future retirees.[19] From a pure cost perspective, "pay as you go" can be a more expensive approach to pension funding, since there are no investment earnings available to reduce the contributions of workers and employers. Hence the public employer contribution, read that as "taxpayer contribution," has to cover the full

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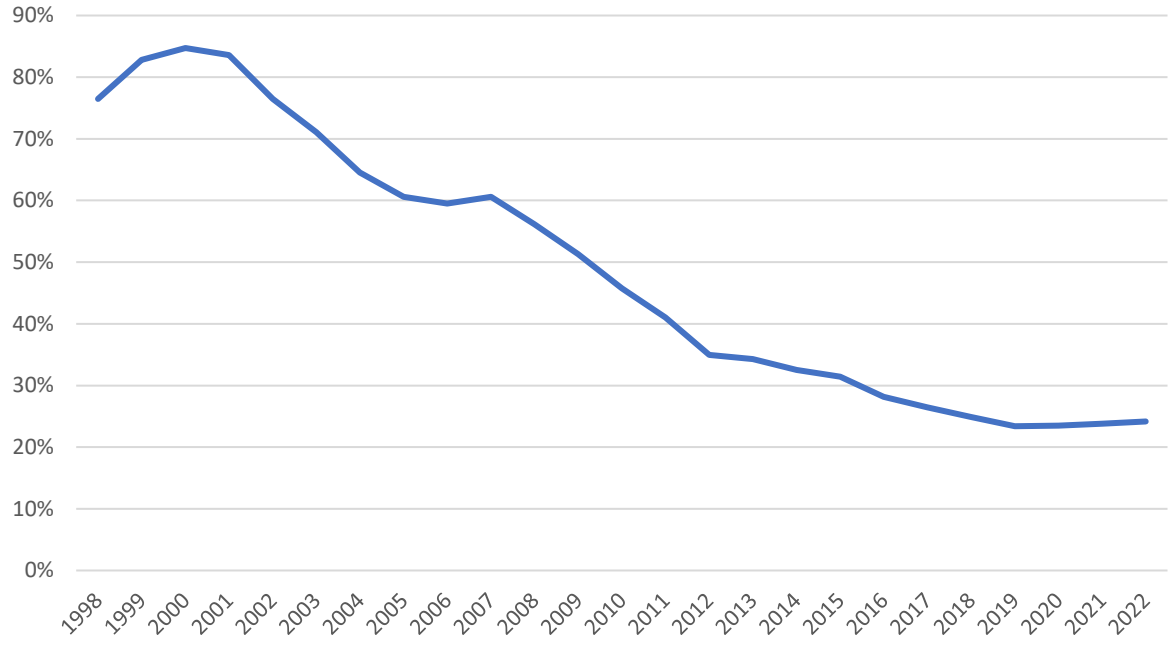
differential between the dollar value of the employee contribution collected in a given month, and the benefits payable to retirees in said month.

The bottom line is clear: Chicago's four public employee pension systems are not in sound fiscal shape. Given that the city has limited revenue options available to fund its pension obligations, and that the city's pension systems are creatures of state law, it is incumbent on state and city officials to devise a rational approach to funding Chicago's outsized pension obligations, that is designed to both get the city's pension systems financially healthy, and do so in a manner that the city and its taxpayers can reasonably afford.

2. Identifying the True Cause of Chicago's Pension Funding Challenges

To resolve any significant policy challenge, it is essential to identify what actually created the problem in the first place. In what may come as a surprise, Chicago's pension systems were not always poorly funded. In fact, as shown in **Figure 1**, the aggregate funded ratio of Chicago's four pension systems reached a peak of 85 percent in 2000.[20] Unfortunately thereafter, the aggregate funded ratio continued to decline steadily, falling all the way to just 24 percent in 2022.[21]

Figure 1
City of Chicago Aggregated Funding Ratio, 1998-2022



Source: CTBA Analysis of Historical Commission on Government Forecasting and Accountability data

So, what happened to drive this steady decline in the funded ratio of Chicago's pension systems over the past two-plus decades? Most people think, and many talking heads claim, that overly generous benefits were the primary reason the city's pension systems are so underfunded. The data, however, contradict that belief, and instead show that benefit levels are not and never have been the reason Chicago's pensions are so poorly funded. In fact, as shown in **Figure 2**, *changes in salary and benefit levels actually reduced the Aggregate Unfunded Liability by seven percent from 2007 through 2022.*[22]

Instead, the evidence clearly shows that the three main drivers of the city's pension funding shortfall have been: macroeconomic factors that generated investment losses, changes in actuarial assumptions, and a state-created statutory contribution scheme that for decades permitted Chicago to underfund the contribution the city should have been making into its pensions.

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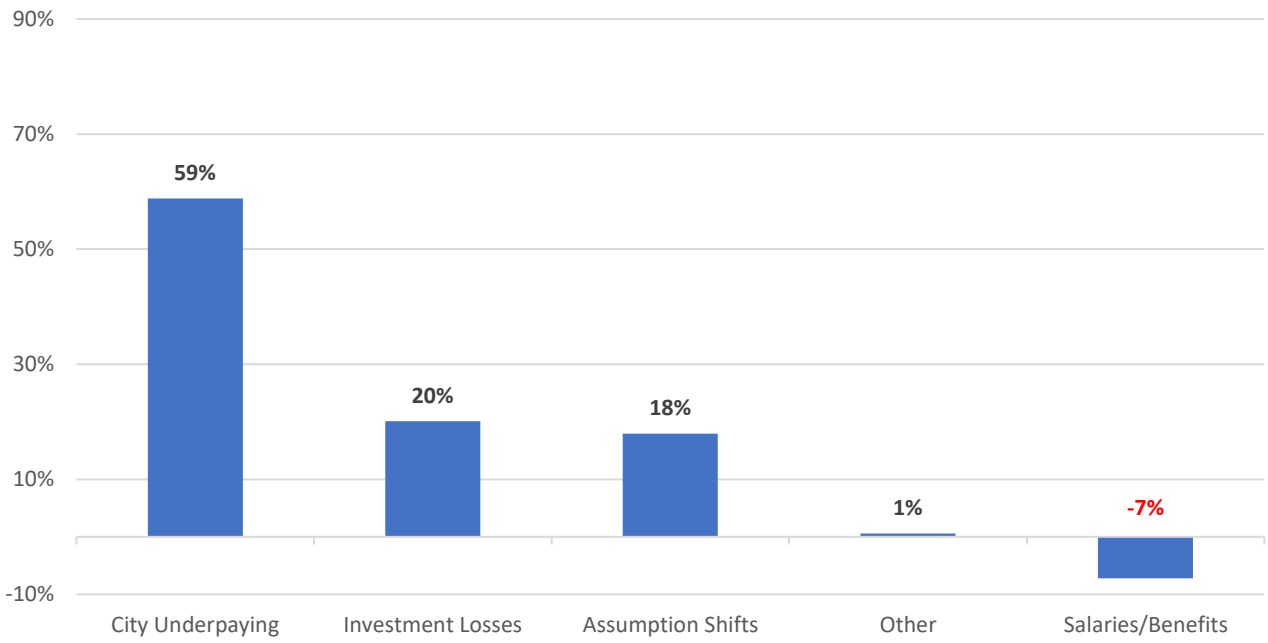
Figure 2
Reasons for $22.6 Billion Growth in Chicago's Unfunded Pension Liability (2007-2020)



Source: CTBA Analysis of Historical Commission on Government Forecasting and Accountability data

As detailed in **Figure 2**, investment losses triggered primarily by macroeconomic events account for 20 percent, or $4.52 billion, of the $22.6 billion growth in the Aggregate Unfunded Liability that has occurred since 2007. The first major economic factor that contributed to the decline in assets held by Chicago's pension systems was the proverbial bursting of the Dot Com Bubble in early 2000, and the associated market decline and somewhat mild recession that followed.[23] Shortly thereafter, the Great Recession shocked financial markets from December of 2007 through June of 2009, making it the longest recession to hit the nation since World War II.[24] Illinois' Commission on Government Forecasting and Accountability ("**COGFA**") estimated that these two recessions accounted for an aggregate $15.9 billion in investment related losses for Chicago's four pension systems.[25] Fortunately, investment returns realized since the end of the Great Recession have offset $11.8 billion of those aggregate losses, leaving the negative impact of $4.52 billion that exists today.

Of course, the assets of every other public pension system in America also took a hit during the aforesaid recessions. However, they were also able to recoup a large part of those losses after the Great Recession, which in part helps explains why the average funded ratio for public pensions in the U.S. sits at 78.1 percent today.[26] So clearly, macroeconomic factors alone do not explain the totality of the decline in funded ratio for the city's pensions that has transpired.

The second key factor that played a role in the growth of the AUL over this period was the decision by state lawmakers to change certain actuarial assumptions used in various pension system calculations. Key among these actuarial changes was the decision to lower the anticipated investment return assets held by the pensions would generate, as well as adjusting the estimate of the dollar value of future contributions into the systems downward, based on a projected decline in the number of employees who would be contributing to the pension systems.[27] Every time the anticipated rate of return ("**ROR**") associated with pension assets gets lowered, the unfunded liability grows. For example, in 2022 the anticipated ROR on investments made for MEABF was reduced from 7 percent to 6.75 percent.[28] That quarter-point differential may not seem material, but it makes a huge difference financially, given it covers the anticipated ROI on the investment of billions of dollars over a long period of time, typically 30 years.[29] In total, these changes in actuarial assumptions accounted for 18 percent or $4.06 billion of the $22.6 billion growth in the Aggregate Unfunded Liability depicted in **Figure 2**.[30]

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That said, the statutory contribution scheme that allowed the city to significantly underfund its pensions every single year for close to two decades was by far and away the biggest factor that drove this growth in the Aggregate Unfunded Liability. Inadequate statutorily authorized contributions ultimately accounted for fully 59 percent or $13.33 billion of the $22.6 billion AUL growth from 2007-2022.[31]

As indicated previously, the design of Chicago's pension systems is a creature of state law. And the pension funding structure created under state law was totally inadequate for one simple reason: it did not require Chicago to make an annual contribution to its pension systems that would be sufficient to satisfy the "Actuarial Required Contribution" ("**ARC**") amount.[32]

Basically, the ARC identifies how much should be contributed to a pension system in a given year, so that over the next 30 years: (i) any debt—that is unfunded liability—owed to the system is repaid sufficiently to hit the target funded ratio established for that system; and (ii) the cost of benefits then being earned by current workers over said 30-year sequence is covered; all while (iii) accounting for the system's projected cash-flow obligations to pay benefits to retirees during said 30-year period.[33]

A key component of the ARC is identifying the "normal cost" of the pension systems. The "**normal cost**" is the annual present value of the contribution needed to fund the pension benefits being earned by current workers, after accounting for any applicable investment income.[34] Over time, the failure to cover normal cost can lead to serious solvency concerns for a pension system. This is because assets that the systems should have available to invest, and hence produce returns, instead must be depleted to cover benefit payments due to pensioners.

Unfortunately, the Illinois Pension Code did not base Chicago's contributions to its systems on the ARC, or any actuarial principles at all for that matter. Instead, state legislation simply tied the amount of the city's pension contribution to percentage multipliers of payroll that generated overall contribution levels that were annually less than the ARC, and in many years less than the normal cost as well.[35] Since the pension contributions were tied solely to payroll, the contributions were not affected by a change in benefits, or assets and investments, just changes in payroll.[36] Contributions did not change under this approach even when the financial health of the funds deteriorated. There was simply no mechanism by which funding could self-correct.

Whenever a pension contribution is set at a rate below the ARC, it creates unfunded liabilities that have to be paid to the pensions in the future—together with interest that accrues and compounds on said unfunded liability annually until paid.[37] It also did not help that the state passed legislation that allowed Chicago to take "pension holidays"—that is make little to no pension contributions—in 2006 and 2007.[38] Mayor Richard Daley wanted these pension holidays to free up some city revenue during a time when Chicago was facing some fiscal pressure, but getting them passed in Springfield ironically created more fiscal pressure for the city in the long run, by ballooning the debt payments owed to the pension systems.[39]

The bottom line however is clear: state law ended up being the greatest driver of the growth in Chicago's AUL, that in turn led to the precipitous decline in the funded ratios of the city's systems.[40]

3. Making Matters Worse: The State-Imposed Pension Ramp for Chicago

By 2016, the underfunding of Chicago's pensions had become so significant that the state decided to address it legislatively. Two new state laws—Public Acts 100-0023 and 99-506, changed the methodology for computing the contributions Chicago had to make to its four pension systems.[41] The good news is this legislation finally ended the irresponsible fiscal practice of artificially tying the city's pension contribution to a dollar amount derived from multiplying applicable payroll by a pre-determined percentage, and completely ignoring all actuarial principles.[42] Under the new state law, a pension funding ramp was created for each of the city's four systems, designed to get those systems 90 percent funded by the end of their respective pension ramp periods, which run from 2055 through 2058, depending on the system (the "**Chicago Pension Ramps**").[43] The aggregate annual contributions the city is required to make under the period of time remaining in the Chicago Pension Ramps is shown in **Figure 3**.

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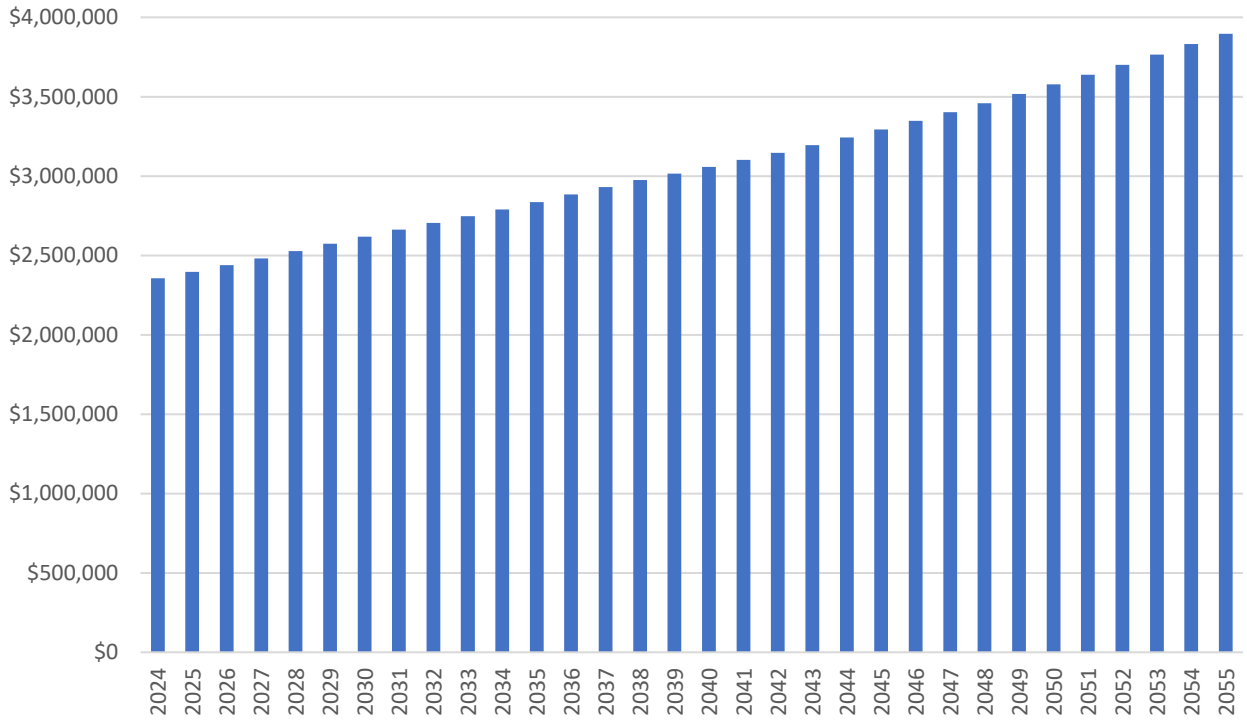
Figure 3
Aggregate Annual Pension Contributions Required under the Chicago Pension Ramps, FY2024 -2055 ($ in Millions)



Source: CTBA Analysis of 2022 Actuarial Reports for Chicago LABF, MEABF, PABF, and FABF

The bad news is the Chicago Pension Ramps, like the pension ramp established for the underfunded liability the state of Illinois owes to is pension systems, suffers from some significant design flaws. (To learn more about pension funding at the state level, see CTBA's report "Understanding—and Resolving – Illinois' Pension Funding Challenges.")

One of the core flaws in the design of the Chicago Pension Ramps is the failure to set annual contribution levels in an amount needed to satisfy the "Actuarially Determined Contribution" or "ADC" for the four funds, as demonstrated in **Figure 4** below.[44] The ADC is a contribution amount that actuaries determine is necessary to get a pension system 100 percent funded over a given period of time.[45] The biggest difference between the Chicago Pension Ramps and an ADC for the City is targeting a 100 percent funded ratio rather than 90 percent.[46]

Figure 4 shows that between 2013-2022, Chicago contributed roughly $12 billion less into its pension systems than the ADC contribution needed to reach a 100 percent funded ratio. This in turn grew the principal due under the AUL by that $12 billion amount over this period, and that $12 billion in new debt of course accrued interest that compounded annually, further worsening the AUL.

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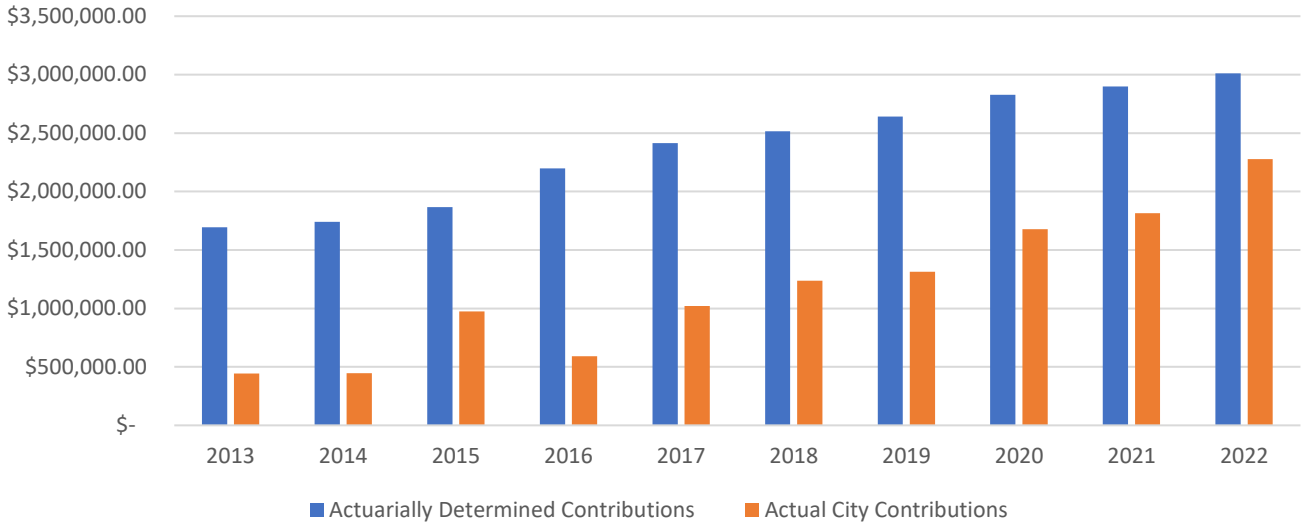
Figure 4
Actuarially Determined Contributions vs. Chicago Pension Ramps Contributions (2013-2022)

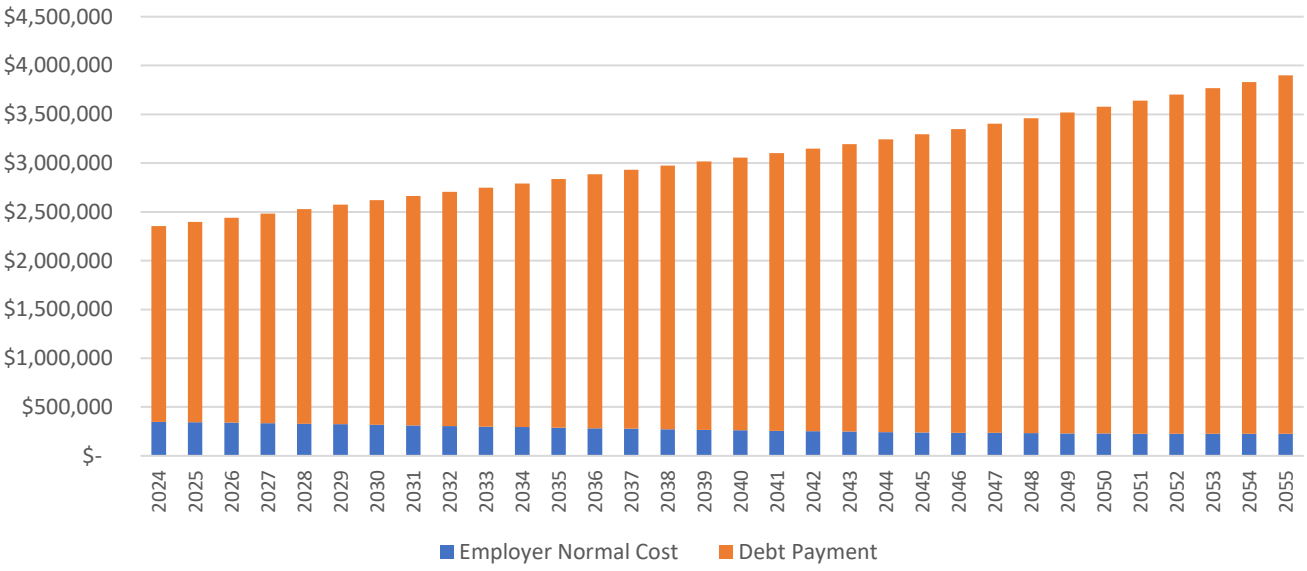


Source: City of Chicago, 2022 Annual Comprehensive Financial Report, Pages 124-125

A second key design flaw in the Chicago Pension Ramps was the unaffordably backloaded repayment schedule they created. As already shown in **Figure 4**, this payment schedule was so inadequate on the front-end that, rather than reduce the debt Chicago owed to its four pension systems, it actually increased that debt. To make up for the significant underfunding of Chicago's pensions created by the artificially low contributions they permitted over the first decade of implementation, the Chicago Pension Ramps had to escalate payments in out years at exceedingly high rates.[47]

Figure 5 shows exactly how backloaded the payment schedule is under the Chicago Pension Ramps, by breaking down the aggregate annual pension contribution by the portion comprised of debt service versus the normal cost of funding benefits being earned by current workers over the FY 2023-FY 2055 sequence.

Figure 5
Projected Aggregate, Annual Contributions under the Chicago Pension Ramps Differentiated by Normal Cost vs. Debt Service FY2024 -2055 ($ in Millions)



Source: CTBA Analysis of 2022 Actuarial Valuations for Chicago MEABF, FABF, PABF, and LABF

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Figure 5 makes it clear that the normal cost of funding future pension benefits being earned by current city workers is not driving the escalation in required pension contributions for Chicago. In fact, ***if Chicago had not underfunded pension contributions for decades, the normal cost contribution due for FY 2024 would be only $348 million, or roughly 12 percent of the $2.7 billion total contribution actually made.[48] The remaining $2.53 billion—or 88 percent of that contribution—was comprised of the debt service payment created under the Chicago Pension Ramps to repay what the city had previously underfunded.***[49]

On the other hand, the data also make it clear that pension benefit levels, as well as salaries paid to public sector workers, have neither created the city's pension funding challenges that exist today, nor the significant, $33.9 billion unfunded liability the city has to cover.

Clearly, the unaffordable backloading of debt service owed to the city's pensions under the Chicago Pension Ramps is what has put tremendous pressure on Chicago's resources, by calling for annual contribution levels that increase at rates which exceed historical inflation levels.[50] This means that without increasing revenue, the city will have to cut spending on current services to fund the Chicago Pension Ramps as currently devised. Indeed, an analysis of the change in the dollar amount appropriated under the city's Corporate Fund to cover pension contributions during the last decade shows this is already happening.

The Corporate Fund is the main, general services operating fund for Chicago.[51] Most service expenditures under the Corporate Fund—fully 50 percent—go to the core services of police and fire protection, streets and sanitation services, and other social services.[52]

Ten years ago in FY 2014, no Corporate Fund revenue was appropriated to cover city pension contributions.[53] But beginning in FY 2015, Corporate Fund revenue was used for pension appropriations. The FY 2015 Corporate Fund appropriation for pension funding was $140.2 million.[54] This was in large part because property tax revenue was insufficient to cover the backloaded increase in contributions scheduled under the Chicago Pension Ramps.[55] This trend has continued, and by FY 2024 the Corporate Fund pension appropriation of $800.2 million was an increase of 471 percent over the initial FY 2015 Corporate Fund pension appropriation.[56] Diverting revenue from the Corporate Fund to cover pension obligations directly reduces the revenue available to fund core services like police and fire. It also reduces the city's fiscal capacity to deal with unanticipated crises, like the COVID 19 pandemic, and the current challenges with housing and otherwise supporting migrant populations.

Meanwhile, despite the fact that benefits have not driven the pension funding challenges at either the city or state levels, the Illinois General Assembly passed legislation creating a new, lesser tier of benefits for public employees known as "Tier II," in an ill-conceived—and ineffective—attempt to reduce pension costs.[57] Not surprisingly, this failed to create any meaningful fiscal relief for state or city government, because it simply did not address the actual cause of the problem—decades of underfunding contributions, followed by creation of debt service repayment schedules that were unaffordably backloaded.

The kicker is that the decision to reduce benefits by creating Tier II ironically has the potential to create even greater fiscal challenges for both the state and city. This is because most public sector workers in Illinois are not enrolled in Social Security.[58] State and local government employers are able to save the cost of enrolling many employees in Social Security because of certain exemptions under federal law that are available, so long as the DB benefits being offered under the applicable public pension plans meet various safe harbor requisites.[59] Unfortunately, Tier II benefits are so low that they in all likelihood fail to satisfy these safe harbor requisites—and fixing that failure will impose additional costs on both the state and city.[60] (For more information on the problems created by Tier II, see CTBA's report "Illinois Teachers' Retirement System and Tier II Pension Law: An Overview.")

4. Recent Partial Attempts to Reduce Chicago's Aggregate Unfunded Liability

4.1. Chicago's Advance Pension Funding Contribution

In August of 2022, then Mayor Lori Lightfoot's budget office estimated that the city's four pension funds would experience an aggregate 12 percent investment loss in that calendar year.[61] If left unaddressed, Chicago's budget office estimated a one-year loss of that magnitude would have increased the city's statutorily required employer pension contribution by $100

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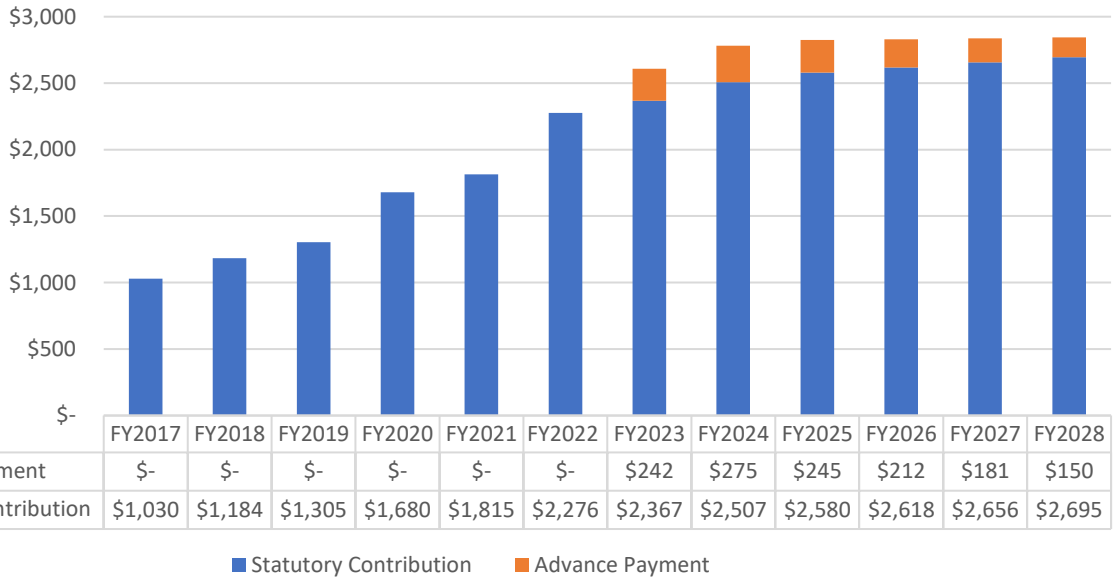
million annually over the remaining life of the Chicago Pension Ramps (i.e., thru 2055/2058).[62] To mitigate the potential impact of that 12 percent investment loss, Mayor Lightfoot's administration opted to make an FY 2023 contribution to the city's pension systems that was $242 million more than required by law. [63]

Lightfoot's administration then doubled down on its decision to mitigate this investment loss with pension contributions that exceeded the required amounts under the Chicago Pension Ramps, by implementing the "Advance Pension Payment Policy," which is depicted in **Figure 6**.[64] Under the Advance Pension Payment Policy, the city committed to making an annual contribution to its pensions systems that would be anywhere between $275 million to $150 million more than required by the Chicago Pension Ramps over the FY 2024 through FY 2028 sequence. According to its actuarial analysis, the city estimates that the Advance Pension Payment Policy will save Chicago some $2.6 billion in future pension costs.[65]

Figure 6
Chicago's Advance Pension Funding Policy Ramp ($ in Millions)



	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028
Advance Payment	$-	$-	$-	$-	$-	$-	$242	$275	$245	$212	$181	$150
Statutory Contribution	$1,030	$1,184	$1,305	$1,680	$1,815	$2,276	$2,367	$2,507	$2,580	$2,618	$2,656	$2,695

Source: City of Chicago Mid-Year Report, April 2023

It will also save the city some interest costs on its other debt service going forward. That is because the Advance Pension Payment Policy was cited by all major credit rating agencies as a material positive factor in the general obligation credit upgrades Chicago received between August 2022 and April 2023.[66]

Mayor Brandon Johnson's Administration continued the Advance Pension Payment Policy. In fact, Chicago's FY 2024 budget included an aggregate pension contribution that was $306.6 million more than what was required under the Chicago Pension Ramps.[67] This amount was slightly—as in $32.6 million—more than the amount identified in the Advance Payment Pension Policy for 2024.[68]

4.2. Revenue Needed to Fund Chicago's Pension Contributions

For decades, the city made its aggregate pension contribution primarily from one revenue source—the property tax.[69] Over the last few years, however, as the backloaded payments established under the Chicago Pension Ramps continued to escalate annually at unaffordable rates, the city had to find other sources of revenue to help cover this expenditure. By FY 2024, the $2.7 billion pension contribution Chicago made was funded through the following revenue sources:

- $1.3 billion from property tax collections (including the levy allocable to the Library Fund),
- $800.2 million from the Corporate Fund,
- $259.8 million from the Water-Sewer Tax,
- $298.6 million from the City's enterprise and special revenue funds, and
- $35.0 million from the new Casino Public Safety Pension Fund.[70]

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Note that more than half of this funding is no longer coming from property taxes, which are the dedicated revenue stream for pension payments. Because the payment schedule created under the Chicago Pension Ramps is so backloaded, Chicago is being forced to divert revenue from its Corporate, Enterprise and Special Revenue Funds—which could otherwise have gone to cover public services—to instead cover pension debt.[71] As the annual payments of debt service under the Chicago Pension Ramps continues to escalate, the sustainability of this practice is not a given, and tax increases may have to be put on the table.

In what was ostensibly justified as an attempt to develop a new revenue source to fund pensions, the City Council voted to authorize Chicago's first casino in May 2022.[72] Revenue from casino operations was specifically earmarked to the Police and Fire pension systems, which as previously noted are on the brink of insolvency.[73]

Bally's Corporation won the right to operate the Chicago casino, and established a temporary facility in Medinah Temple, located in Chicago's River North Neighborhood.[74] Bally's made an initial upfront payment to Chicago of $40 million in FY 2022.[75] At that time, officials in Mayor Lightfoot's administration estimated the casino would bring in roughly $200 million in tax revenue each year by 2027.[76]

By January 2024, it had become apparent that casino revenue was not meeting projections.[77] According to Illinois Gaming Board data, Bally's turned a profit of nearly $30.4 million from its opening in mid-September of 2023 through the end of December of that year, with about $3.1 million of that going to the city.[78] This was less than one-quarter of the $12.8 million in casino revenue projected by Mayor Lightfoot's budget team two years earlier.[79] However, as of March 2024, revenue at the Medinah Temple casino grew 12.7 percent to more than $11.1 million in adjusted gross receipts, according to data provided by the Illinois Gaming Board.[80] This made Bally's Chicago fourth ranked in revenue among the state's fifteen casinos.[81] To what degree this level of growth for the Medinah Temple Casino can be sustained remains unknown. Given the lackluster start to revenue generation, the volatility of casino revenue, and the negative externalities associated with running a casino in downtown Chicago, it remains to be seen to what extent casino revenue will stabilize funding for the city's pension systems.

4.3. Pension Task Force

In early 2023, Mayor Brandon Johnson established a task force to address Chicago's pension funding problem.[82] The task force began meeting in June of 2023 and included members representing his administration, the City Council, the General Assembly, organized labor and the pension funds.[83] At the time of this Report, no findings have been published by the task force.

5. Responsibly Re-Amortizing the Pension Debt Can Save Billions in Taxpayer Costs While Getting All Four Pension Systems Healthy

The Center for Tax and Budget Accountability ("**CTBA**") has reviewed the Chicago Pension Ramps and modeled out an alternative approach that would get Chicago's four systems 82 percent funded by 2055—which is a better funded ratio than the current target of 77.5 percent contained in the Chicago Pension Ramps—while saving taxpayers $11.1 billion dollars in debt service payments. This amounts to an 11 percent savings over the current Chicago Pensions Ramps.

It also creates a more sustainable payment schedule for Chicago, by not backloading the debt service, thus avoiding the approach in the Chicago Pension Ramps which increases payments annually until ballooning to almost $4 billion by 2055.[84] This suggested re-amortization of the city's pension debt is shown in **Figure 7**.

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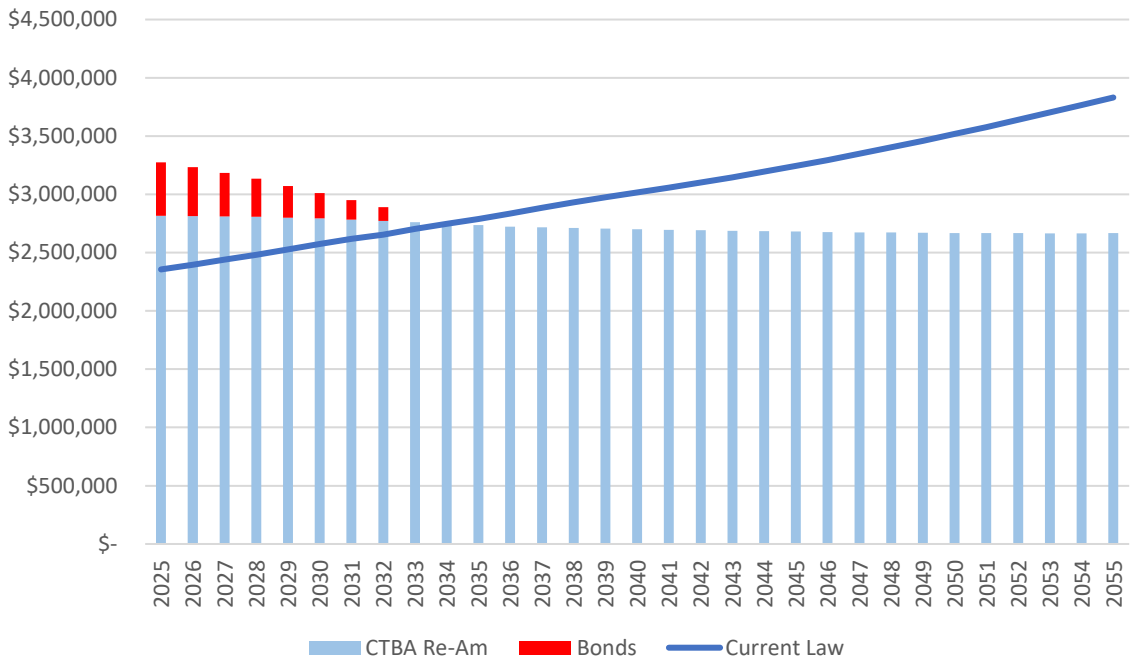
Figure 7
CTBA Re-Amortization Payment Schedule Compared to Current City Pension Ramps, FY2025-FY2055 ($ in Millions)



Source: CTBA Analysis of 2022 Actuarial Valuations for Chicago MEABF, FABF, PABF, and LABF

Overall, these savings are accomplished by:

(i) having the city make its aggregate pension contribution fully at the beginning of the fiscal year, rather than on a sporadic basis to the various systems throughout the year,
(ii) frontloading $1.5 billion worth of contributions in FY 2025 by issuing pension obligation bonds in that year which, for purposes of projecting cost CTBA assumes would bear interest at the rate of 6.2 percent over the FY 2025-2032 sequence (based on the higher Treasury I-Bond interest rate), and
(iii) making additional advance payments of roughly $100 million per year through 2033, in line with, but slightly above the existing Pension Advance Funding Policy.

Under CTBA's modeling, changing the timing of when the city pension contribution is received and hence invested by the pension funds to beginning of the fiscal year generates significant additional investment returns that compound annually, reducing long-term costs materially.[85]

Figure 8 summarizes the savings generated by replacing the Chicago Pension Ramps with CTBA's re-amortization.

Figure 8
CTBA Re-Amortization Model vs. the Chicago Pension Ramps, FY2025-FY2055

Current Law Cost	Bond Amount	CTBA Re-Am cost	Savings
$98.1B	**$1.5B**	**$87B**	**$11.1B**

Source: CTBA Analysis of 2022 Actuarial Valuations for Chicago MEABF, FABF, PABF, and LABF

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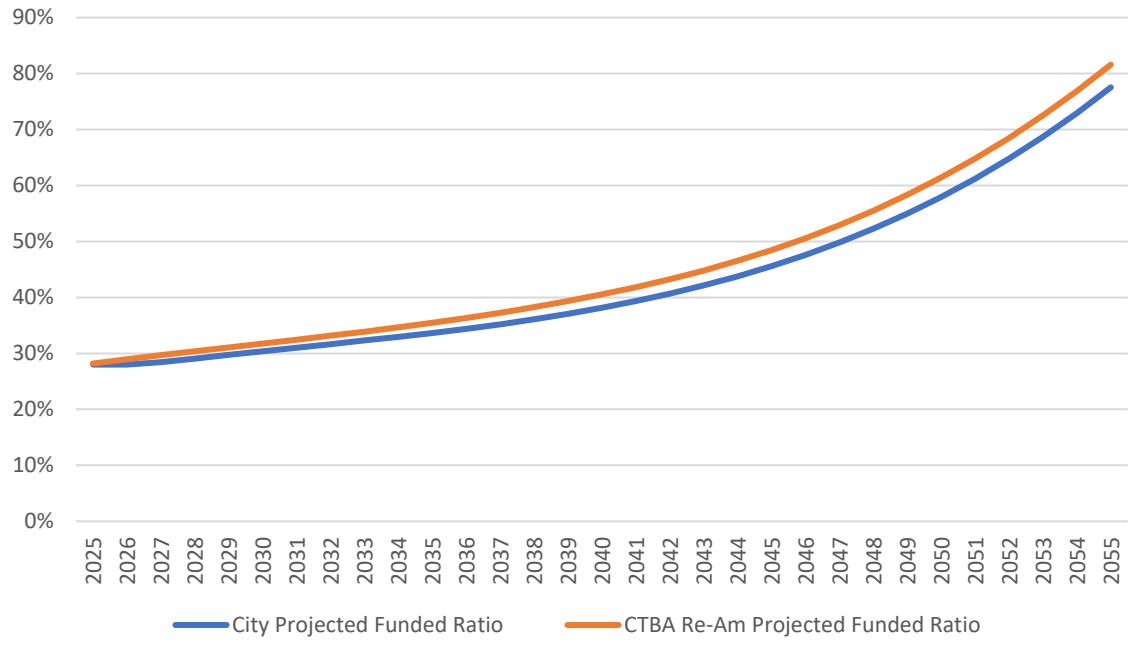
Moreover, the advance payments made to the systems under CTBA's suggested re-amortization not only increase the funded ratio of the city's four pension systems faster than the existing Chicago Pension Ramps, it also gets them to a greater overall funded ratio at the end of the ramp, as shown in **Figure 9**.

Figure 9
CTBA Re-Amortization vs. Projected Current Law Funded Ratio (2025-2055)



Source: CTBA Analysis of 2022 Actuarial Valuations for Chicago MEABF, FABF, PABF, and LABF

Under CTBA's approach, Chicago's four pension systems attain an aggregate funded ratio of 82 percent funded by 2055, which is greater than the aggregate funded ratio of 77.5 percent attained by 2055 under the Chicago Pension Ramps. Post 2055, it will be easier and less expensive for the city to get the final two systems to the current target of 90 percent funded by 2058, and then shoot for the ideal 100 percent funded post 2058.

The above analysis uses the assumed actuarial rates of return for Chicago's four systems shown in **Figure 10**. Actual returns may be less or greater than the assumed.

Figure 10
Actuarial Rates of Return for Chicago's Four Pension Systems

	PABF	FABF	LABF	MEABF
Actuarial Rate of Return	6.75%	6.75%	7.25%	6.75%

Source: 2022 Actuarial Valuations for Chicago MEABF, FABF, PABF, and LABF

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