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U.S.

Chicago Mayor's Pension Conundrum

By **MARK PETERS**

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CHICAGO—Mayor Rahm Emanuel, who built a reputation in Washington as a blunt problem solver, is grappling with one of the nation's biggest municipal-pension shortfalls, setting up a showdown with labor unions as he stakes his first term on reshaping city government.

The former chief of staff to President Barack Obama inherited a retirement system for teachers, firefighters and other city workers that is underfunded by almost \$24 billion—and the bills are starting to come due.

Under Illinois law, the city schools in coming months must resume regular payments to the teachers retirement system at a cost of \$404 million a year, or nearly 8% of current Chicago education spending. Mr. Emanuel also faces a state mandate to more than double payments to the pension funds for police, firefighters and other unions.

If these payments were funded by property taxes, his administration estimates residents would face a 150% increase—an option Mr. Emanuel says he won't consider.

His other options also are tough. Mr. Emanuel could try to reach agreements on benefits cuts with individual unions, though such efforts so far have fallen flat. Or he could bypass unions by persuading the Illinois legislature to trim pension benefits for city employees and current retirees or give the city the power to do it.

Much of this could come to a head in the next two months as the legislature grapples with its own huge state-worker pension problems and Mr. Emanuel is pushing for Chicago to be part of any resulting legislation.

Mr. Emanuel's assessment: Workers are paying into a retirement system that makes unrealistic promises, and the city is offering benefits it can't pay. "The system today as constructed is not honest to the employees and is not honest to the taxpayers," he said in a recent interview.

Chicago is one of the most dramatic examples of a fiscal crunch that many states and cities face as underfunding, market losses on pension investments and stagnant tax revenue push some pension funds toward insolvency. Mr. Emanuel's national reputation and the city's long history as a cradle of organized labor could make Chicago a key battleground as public-sector unions fight to fend off attempts to claw back benefits.

Mr. Emanuel won his office in 2011 with little union support as he pledged to shake up the old order. Since then, he has brokered a labor deal at the city's convention center,



Rahm Emanuel faces a \$24 billion shortfall in public-worker pensions. GETTY IMAGES

extended the school day and balanced the city's \$8.3 billion budget.

His relationship with several unions has been rocky. Last month, police sergeants overwhelmingly rejected a pension deal the Emanuel administration saw as a model. The mayor faced off with the teachers union last September in a seven-day strike that didn't address the ballooning pension costs but instead concerned teacher evaluations and layoffs tied to school closings. More recently, the teachers led a pushback against the mayor's plan to shutter more than 50 schools.

One recent bright spot for Mr. Emanuel has been a decrease in violent crime. While high-profile crimes such as the murder of 15-year-old honors student Hadiya Pendleton grabbed headlines, the murder rate overall dropped 40% in the year's first three months.

Mr. Emanuel says that pension costs loom over any progress the city makes. Within three years, his administration estimates, annual pension costs for city workers other than teachers will reach \$1.1 billion, compared with less than \$500 million this year, squeezing services from tree trimming to police patrols.

"There's a set of choices. Reform pensions and continue to be able do other things that are essential for a great city—or make pension payments and do certain things to the rest of the budget that are not part of a great city," Mr. Emanuel said.

A recent study by the Center for Retirement Research at Boston College of 128 county and municipal pension funds found Chicago with three of the 12 most underfunded systems. Chicago is in "a shockingly bad situation," said Alicia Munnell, the center's director.

Chicago has chronically underfunded its retirement systems, setting its annual contribution to the pension funds through a state formula rather than amounts set by actuaries. For the teachers fund, the schools were allowed to pay less than actuaries required. Data from the Boston College study show Chicago on average contributed less than half of what actuaries required between 2007 and 2010, while the vast majority of the cities and counties it looked at paid 100% or more.

Earlier this year, Mr. Emanuel's administration and leaders of the police sergeant's union reached a preliminary four-year contract with a 9% raise in total. In exchange, union leaders pledged to support efforts at the state level to solve the pension issue by reducing cost-of-living increases for current retirees, raising the retirement age and increasing worker contributions.

Union members rejected the deal by a 6-to-1 margin last month, with rank-and-file officers pushing the sergeants to shoot it down. For some officers, the deal belied the mayor's statements that he wanted to work with unions to resolve the pension shortfall. "To me, being a partner shouldn't mean my way or the highway," said Mike Shields, president of Chicago's largest police union.

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