



OFFICE OF THE MAYOR
CITY OF CHICAGO

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CONTACT:

Mayor's Press Office

312.744.3334

press@cityofchicago.org

**MAYOR EMANUEL, POLICE SERGEANTS' ASSOCIATION ANNOUNCE
UNPRECEDENTED CONTRACT AND PENSION REFORM AGREEMENTS**

*Both Sides Proud of Process; Agreement is a Win for Sergeants,
City Taxpayers and Chicago's Future*

Mayor Rahm Emanuel and Chicago Police Sergeants' Association President James Ade today announced a landmark contract agreement that will ensure fair employment terms for the next five years, preserve retirement security for the sergeants, while reducing the burden on City taxpayers.

"The leadership and collaboration exhibited by the sergeants' association is as commendable as it is inspiring. We put politics aside, sat down together and found a solution," said Mayor Emanuel.

"Chicago Police Sergeants show leadership everyday protecting the people of Chicago. Today, their leadership protects our future by ensuring the retirement of their members while helping to set our city onto a path of long-term financial security."

The new collective bargaining agreement and pension benefit modifications announced today are the culmination of more than 12 months of negotiations between the Emanuel administration and the Sergeants' union. Once ratified by the members of the union, the four-year collective bargaining agreement phases-in a 9 percent pay increase. The agreement maintains eligibility for retiree health care at age 55, but also requires future retirees to contribute 2 percent of their retirement annuity toward their benefit. Additionally, the Sergeants and the City also agreed on contract provisions to encourage completion of disciplinary investigations of alleged misconduct within 18 months, striking a balance between the need for a fair, comprehensive investigation and the interest of the employee and the complainant in prompt, fair resolution of complaints.

The pension modification framework announced today is a critical first step and baseline framework for fixing the City's pension crisis. The landmark pension plan reforms include modifications to key cost drivers including retirement age, employee contributions, and the Cost of Living Adjustment (COLA). The reforms will apply to both current and future retirees.

"We believe this agreement addresses the concerns that were brought to us by our membership, as well as the concerns of the city," said President Ade. "By working in partnership with the city administration we were able to maintain our members' benefits and ensure their pensions for the future. Neither the Association or the City could have done this alone."

The pension reforms that will lead to these dramatic savings for city taxpayers are as follows:

Employee Contributions: Currently, the Sergeants contribute 9 percent a year to their pensions. The Sergeants' Association agreed to a 3 percent increase in employee contributions – 1 percent each year over three years starting July 1, 2013. As such, by 2015, the Sergeants will contribute 12 percent to their pension plans. Once the pension fund reaches an 80 percent funding level, the employee contributions will be reduced back down to 10 percent.

Cost of Living Adjustment: The Cost of Living Adjustment, known as COLA, is one of the largest cost drivers that have led to the city and state's significant unfunded pension liabilities.

Current Retirees: Almost all of the current retirees in the Sergeants Association receive a 3 percent simple COLA. Under the new agreement, COLA for current retirees will be reduced to 2.5 percent simple and will be frozen in years 2014, 2016 and 2018. In 2019 and thereafter, COLA is 2.5 percent, non-compounded.

Future Retirees: Additionally, under this agreement, future retirees, who would receive 1.5 percent non-compounded COLA under current law will also experience a suspension in COLA in every other year beginning in 2014 and will receive a 2.5 percent simple COLA in between suspension until the pension fund is 60 percent funded. Once greater than 60 percent funded, the COLA will only be suspended every third year, with a 2.5 percent COLA, non-compounded in intervening years. When the Pension Fund funding level reaches 80 percent or higher, the COLA suspension is discontinued and annual COLA is increased to 3.0 percent, non-compounded.

Safeguards: Illinois pension law does not have safeguards in place to adjust pension funding in the event of a negative economic event such as the recession that began in 2007 and the dot-com burst in the late 1990's. As a result of both of these events, the pension funds lost significant investments and the unfunded liability grew exponentially. With this new agreement, the City of Chicago and Sergeants' union have put a safeguard in place that stipulates if the pension funding level ever drops below 80 percent, then COLA suspensions will turn back on.

Retirement Age: Under this agreement the retirement age has been increased by three years to 53 years of age.

Increase in Maximum Pension Annuity: Currently, City of Chicago employees in the Municipal and Laborers pension funds receive up to 80 percent of their salaries when they retire. The public safety employees receive up to 75 percent of their salaries. Under this agreement, the Sergeants will

now be eligible to accrue an 80 percent pension by working two additional years. If a Sergeant retires before age 64 they will receive a benefit equal up to 75 percent of final salary, and that will increase up to 80 percent once the retiree reaches 64 years of age.

Funding: In 2010, the Illinois General Assembly passed what is known as S.B. 3538 (Public Act 096-1495), which requires local governments across the State to begin funding pensions for police and fire employees on an actuarial basis. Actuarial funding must start in 2016 and be sufficient to assure 90 percent funding by 2040. Without any corresponding reforms, this funding requirement would force the City of Chicago in 2015 to either identify nearly \$600 million in spending cuts, impose a property tax increase for that same amount in 2015 or a combination thereof to cover what is due across the city's two public safety pension funds.

Under the terms of this agreement announced today, the City and the union have agreed to a funding structure that will protect retirees and provide the City the ability to manage its fiscal future. Both parties will seek legislation that will call for the City to increase funding for the Sergeants' retirement over a seven-year period and then enter into actuarially required funding, to be completed no later than 2055. This seven-year increase in funding, also known as a ramp, will give the City more time for an improved economic environment and expanded tax base.

"We cannot solve the pension crisis with one agreement, but with these reforms we have set the stage and shown that real solutions are possible when people come together at the table," said Mayor Emanuel. "We all want what's best for our employees, retirees and taxpayers."

The terms of the agreements must be approved by the Association's full membership as well as City Council. The City of Chicago and Sergeants' Association will draft pension reform legislation and work together to pass it through the General Assembly as soon as possible.

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