Life Preservers or Anchors?
An Examination of State Intervention in Municipal Pension Funding in Illinois

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In 2010 a major piece of legislation was passed in Illinois that created sweeping changes to over 650 local police and fire pension systems in the state (Public Act 96-1495). An important provision of that legislation was the creation of a new funding enforcement mechanism (referred to as a “pension intercept” or “enforcement mechanism”). Starting in fiscal year (FY) 2016, the enforcement mechanism allows the State Comptroller to intercept state-sharing revenue if municipalities’ contributions to their police and fire pension funds fall short of what their contributions are supposed to be under state law. That intercepted revenue is then re-directed to the pension systems to make up for the shortfall in governments’ contributions. A premise of the pension intercept is that state intervention can help ensure the fiscal sustainability of local governments and their retirement funds.

This white paper first examines pension underfunding in the United States to provide context about why governments’ pension contributions are a policy concern. Next, it provides an overview of police and fire pension funds in Illinois and explains how Illinois’ pension intercept is designed to work. It concludes by highlighting municipalities that have had the intercept triggered, consequences of such intervention, and direction for future research.

Pension Funding Challenges

Illinois frequently garners headlines about its underfunded public pension systems,¹ including both its state and local pension systems. For example, in 2015, the New York Times called Illinois’ state pension systems in “crisis.” That same year the City of Chicago’s credit rating was downgraded to junk status by Moody’s Investors Service in part due to the financial condition of its pension systems (Davey & Walsh, 2015). Public finance scholars from the University of Illinois System referred to Illinois pensions as “a (basket) case” (Brown & Dye, 2015).

Despite the frequency of headlines, Illinois is not alone, and a number of governments throughout the United States have underfunded pension systems. In fact, growing unfunded pension liabilities have been a concern for state and local governments for decades. A 1979 report from the Comptroller General of the United States called the funding of state and local government pension plans “A National Problem” (Staats, 1979).

Underfunded pensions occur when promised pension benefits are not backed with an adequate amount of assets (Inman, 1986). This situation can occur for a variety of reasons. For example, pensions may be underfunded because investment returns fall short of expectations, or actuarial assumptions about factors such as participant mortality rates may differ from reality (Coggburn and Kearney, 2010). Alternatively, elected officials may choose to deliberately underfund pension plans to save money in the short-term (Thorn and Randazzo 2015; Smith, 1981). Deliberate underfunding can be dangerous to governments and their residents as it is essentially

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¹ An underfunded pension system is one in which liabilities exceed assets. Two common metrics used to quantify the degree to which a system is underfunded is the dollar amount of unfunded liabilities and the ratio of assets to liabilities (referred to as the “funded ratio”).
“borrowing against the future” but can go unnoticed (Mitchell & Smith, 1994: 278).

Underfunded pensions are also not unique to the public sector. In fact, in an effort to address this issue in the private sector, Congress passed the Employee Retirement Income Security Act (ERISA) of 1974. ERISA ensured funding of private-sector pension plans and established the Pension Benefit Guaranty Corporation in case a plan did not have adequate assets to cover benefits. However, public pension plans were not included in ERISA (Munnell, Aubry, and Quinby, 2010).

For nearly two decades there has been a general downward trend in the finances of public pension systems throughout the United States. Munnell, Aubry, and Quinby (2010) found that in 2000, at the height of rapid stock market growth, a sample of 126 state and local pension plans had an aggregate funded ratio of 104 percent. Since the start of the new millennium, however, the aggregate funded ratio has been decreasing. During the 2007-2009 recession, public pension funds saw their assets decrease significantly, with the aggregate funded ratio dropping from 86.5 percent in 2007 to 78.4 percent in 2009. Most recently, the Center for Retirement Research (CRR) at Boston College found in a study of 180 public pension plans that the aggregate funded ratio was 72 percent (Aubry, Crawford, & Wandrei, 2018).

The CRR study found that funding varied notably between plans: the top third of plans had aggregate funding of 90 percent, 73 percent for the middle third, and 55 percent for the bottom third. The study also presents several troubling trends. First, it shows a growing divergence between the best and worst funded public pension systems. Second, this divergence is a relatively recent phenomenon and has largely taken place post-Great Recession. Although many pension systems’ finances have stabilized since the Great Recession, the systems in the bottom third have seen their finances continue to deteriorate (Aubry, Crawford, & Wandrei, 2018). Many of Illinois’ pension systems would be in the worst funded group. Even though Illinois is not unique in having unfunded pension liabilities, a continued decline in the finances of pension systems throughout the state is a worrisome trend. Finally, although not the sole source of unfunded pension liabilities, governments’ actual contributions were much lower than what they should have been for the least funded pension funds (Aubry, Crawford & Wandrei, 2018). In other words, insufficient government contributions are an important factor for understanding why some pension systems are severely underfunded today.

A government’s annual pension contribution is supposed to be linked to the finances of a pension system. This means that a government’s pension contributions should increase as the system’s finances decrease. During the Great Recession, governments’ revenues sharply declined at the same time that pension systems suffered large investment losses. This meant that governments faced a difficult situation of needing to dramatically increase their pension contributions while grappling with large revenue shortfalls. For many places making those higher payments was not feasible.

However, even before the Great Recession, many governments were contributing less than the amount necessary to maintain their pension systems’ finances over time (Aubry, Crawford, & Wandrei, 2018). This has left the least funded governments facing a Catch-22: in order to shore up the pension systems’ finances, governments need to substantially increase their annual pension payments above prior levels, but part of the reason the systems are underfunded today is that governments did not make adequate payments in the past.  

“The least-funded governments [face] a Catch-22...[they] need to substantially increase their annual pension payments...but part of the reason the systems are underfunded today is that governments did not make adequate payments in the past...”
**Police and Fire Pension Funds in Illinois**

In Illinois, the creation, funding requirements, and benefit formulas of public pensions are determined by state statute (collectively referred to as the “Pension Code”). State law specifies that cities, townships, villages, or incorporated towns with a population of at least 5,000 and that have full-time paid firefighters and/or police officers create fire and police pension funds (40 ILCS 5/3; 40 ILCS 5/4).

Although state law dictates many aspects of the retirement systems, they all operate independently and each has its own local board of trustees.

As of 2016, there were 651 police and fire pension funds in Illinois, with the number of active employees ranging from zero to 291. The average fund has 34 active employees. Similarly, the finances of the funds range significantly with some being extremely underfunded to others having assets that exceed liabilities. In aggregate, the pension funds are 58 percent funded. Similar to national trends, the police and fire pension funds’ finances have declined over time. Figure 1 shows the aggregate funded ratio for the police and fire pension funds between 1991 and 2016 (Commission on Government Forecasting and Accountability, 2013 and 2017).

**Figure 1: Aggregate Funded Ratio, Illinois Police and Fire Pension Funds**

![Graph showing aggregate funded ratio from 1991 to 2015](image)

Under state law, a municipality’s annual contribution to its police and/or fire pension fund must be sufficient so that each is 90 percent funded by the end of 2040. An unusual aspect of Illinois law is that the statutorily required contribution can be determined by an actuary hired by the municipality, an actuary hired by the pension fund, or an actuary retained by the Illinois Department of Insurance (IDOI). There is no clarification as to which actuarial figure should be used if different contribution requirements are produced by different actuaries. Although state law always dictated the amount municipalities were required to contribute to their police and fire pension systems, there was no mechanism to enforce those payments until passage of the 2010 law.

Since annual contributions are a function of a pension system’s current finances, this means that contributions for municipalities with lower funded pension systems should be higher than for other municipalities. As of 2016, only 28 funds (or 4.3 percent of all police and fire pension funds) had a funded ratio above 90 percent. Nearly one-third of the police and fire pension funds (or 184 funds) had a funded ratio below 50 percent. Previous evidence (e.g. Dulebohn, 1995) suggests that a number of poorly funded pension plans face chronic underfunding; that is, governmental entities do not make their full statutorily required contributions repeatedly over a number of years.

**Illinois’ Intercept Law**

Public Act 96-1495 of 2010 changed many provisions of the Illinois Pension Code. Importantly, it created a new funding enforcement mechanism for police and fire pension funds. Beginning in 2016, if a municipality pays less to its pension funds than is statutorily required, the pension fund can request that

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2 In addition, fire protection districts that employ full-time paid firefighters must also create fire pension funds. Cities, townships, villages, or incorporated towns with populations that are less than 5,000 can elect to have fire and police pension funds through referendum. Last, municipalities in which the population exceeds 500,000 are subject to different pension laws (Articles 5 and 6 of the Illinois Pension Code).

3 This figure does not include Chicago’s police and fire pension funds. Chicago’s pension funds are excluded because they are subject to different state laws than all other police and fire pension funds in Illinois.

4 Note City of Chicago pension funds are excluded.
the State Comptroller intercept state-sharing revenue and divert it from the local government to the applicable pension fund to make up for pension funding shortfalls.\textsuperscript{5}

Importantly, the intercept is triggered based on the municipality’s actual contributions being less than required under state law, and not the financial condition of the pension fund. A pension fund could be significantly underfunded (meaning its liabilities exceed its assets), but the intercept will not be triggered as long as the municipality makes the statutorily required contributions. Last, it is up to the local pension boards to request the intercept—this action does not happen automatically. The State Comptroller does not monitor whether municipalities are in compliance with the Pension Code’s funding requirements. As a result the intercept ultimately hinges on local pension board trustees’ decisions.

A Special Case: The City of Chicago

Like other municipalities the City of Chicago has both a police and fire pension fund. However, Chicago’s pension funds are subject to different articles of the Illinois Pension Code (specifically Articles 5 and 6). Beginning in tax levy year 2020, Chicago’s annual contributions must be sufficient so that its police and fire pension funds will each be 90 percent funded by the end of FY 2055. In addition, the city is also responsible for a municipal employees’ and a laborers’ pension funds.

The intercept mechanism differs slightly for Chicago’s pension funds. For Chicago the only revenue that can be intercepted are state grants (40 ILCS 5/5-168; 40 ILCS 5/6-165; 40 ILCS 5/8-173; and 40 ILCS 5/11-169). In contrast, all state-sharing revenue can be intercepted for all other municipalities. As a result, a much smaller pool of money can be intercepted if Chicago fails to make its statutorily required pension contributions. For example, Chicago received $169 million in state grants in 2017 (City of Chicago, n.d.), which represents less than 3 percent of the approximately $7 billion in total governmental funds revenues the City received in FY 2017 (Illinois Comptroller, n.d.).\textsuperscript{6} By contrast, the city of Harvey received approximately $7.5 million in state-sharing revenue (including shared income tax, sales tax, motor fuel tax, replacement tax, and gaming tax) in FY 2017,\textsuperscript{7} which represented nearly 25 percent of the city’s total governmental funds revenue (Illinois Comptroller, n.d.).

Combined, the City of Chicago’s four pension funds have $28 billion in unfunded liabilities and are only 26.5 percent funded. All four funds filed claims with the State Comptroller that the city’s pension contributions have fallen short of required payments. As of June 2019, approximately $24 million in claims had been filed by the four funds. The City of Chicago did attempt to obtain a restraining order in order to prevent the State Comptroller from intercepting state grant funds, but was denied by a judge (Shields, 2019).

Other State Interventions

The State of Illinois is not alone in maintaining a mostly reactive role in local government finances.

\textsuperscript{5} Municipal employees (with the exceptions of Cook County and Chicago) are in the Illinois Municipal Retirement Fund (IMRF). The IMRF determines municipalities’ annual pension contributions. If actual contributions fall short of what is required the IMRF can also trigger the intercept. This white paper focuses only on the intercept as it relates to police and fire pension funds.

\textsuperscript{6} For this calculation we used the total governmental fund revenue reported in the Illinois Comptroller’s Financial Database. We used that database to have a consistent data source for all municipalities in our study. Total governmental funds revenues include general, special revenue, capital project, and debt service funds.

\textsuperscript{7} 2017 is the most recent financial data available for the City of Harvey.
States have historically been more reactive than proactive in local government finances; that is, state action only occurs in response to some external stimulus (e.g., a request from a local government, media attention). For example, when New York City was on the brink of financial collapse in the 1970s, it was only after an emergency was apparent that the State of New York stepped in (Berman, 1995).

More recently, some states have pursued increasingly proactive approaches, whereby state governments take action prior to the introduction of an external stimulus. Some proactive approaches have had mixed results and/or proven controversial. The State of Michigan, for example, began monitoring local financial condition using a 10-point indicator system in 2002 (Crosby & Robbins, 2013), and more recently passed legislation to allow state-appointed emergency managers nearly total authority to run local governments in the case of financial distress. Such laws have been met with citizen protests and lawsuits (Nickels, 2019), and have also been criticized for disproportionately affecting minority communities (Lee, Krings, Rose, Dover, Ayoub, & Salman, 2016).

Although proactive approaches such as Michigan’s have generated considerable controversy, a purely reactive approach also has consequences. Considerable damage to the local government may have occurred by the point a crisis is reached—for example, debt may have mounted to the point where day-to-day operations are constrained. This damage may mean that crises are more difficult to resolve (Berman, 1995).

What is the Impact of Illinois’s Pension Intercept?

Determining the impact of Illinois’ intercept law requires identifying which municipalities have historically paid less than statutorily required to their pension funds, which are continuing to do so, and which have had state-sharing revenue intercepted.

While identifying which places are paying less than state law requires seems straightforward, such efforts are hindered by two important issues. First, there is ambiguity over municipalities’ required contributions. This is because as previously mentioned the statutorily required contribution can be determined by one of three different actuaries. Each actuary may use different assumptions, potentially creating three very different required contribution amounts. We found that there was a wide range in the difference between IDOI’s recommended contribution and the contribution requirements determined by locally retained actuaries. For example, the contribution requirement for 2017 determined by an actuary retained by a Lake County municipality was 15 percent more than IDOI’s recommendation. In contrast, the 2017 contribution determined by a different actuary for a McHenry County village was 40 percent less than IDOI’s recommendation. Identifying which actuary is being used and the associated contribution figure requires requesting this information from each municipality individually.

Second, many municipalities make their pension payments with property tax revenue and because of the property tax cycle there is a lag time between municipalities’ budgeted pension payments and when those payments are actually made to the pension funds. This makes it difficult to align figures for the statutorily required contributions produced by actuaries with actual contributions. These data limitations may make it incorrectly appear that a municipality has paid less than required to its pension fund. Definitively determining whether a

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8 Typically a government sets the levy (the total amount of property tax revenue needed) in one year, and the actual taxes are collected the next year. For example, the City of Chicago sets the levy for tax year 2015 in 2015, but property owners pay the 2015 taxes in two installments in 2016.
municipality has shorted its pension funds is a time-consuming process that involves examining each fund individually, and carefully reviewing documents collected from multiple sources.

Although IDOI is not charged with enforcing the intercept provision, it does collect information about the police and fire pension funds annually. Importantly, IDOI has data on what its actuary recommends municipalities pay to their respective pension funds and actual payments. We used this data from IDOI to examine 336 municipalities in Illinois to identify a subset of places that may have shorted their pension funds.

For each municipality, we calculated payment ratios for years 2005-2010 and 2014-2016, and determined an overall average for each municipality for that time period. The “payment ratio” is defined as the ratio of an actual contribution to IDOI’s estimate of the required contribution from two years prior (e.g. the 2016 payment ratio compares the actual 2016 payment to IDOI’s 2014 estimate). Figure 2 shows the distribution of average payment ratios for the 336 municipalities.

Figure 2: Distribution of Municipalities’ Average Payment Ratio

We used the average payment ratio rather than using a simple annual payment ratio to smooth out any volatility and anomalies. For example, local governments may have a plan to fund their pension plan adequately, but may not necessarily contribute the precise amount required to do so each year. Rather, we expect that periods of shorting may be followed by periods of overfunding (and vice versa) and that these actions would offset one another (Mitchell & Smith, 1994).

As shown in Figure 2, the majority of municipalities had an average payment ratio near 1, which indicates that most are likely making their statutorily required pension payments. As previously discussed, municipalities’ actual payments could vary from IDOI’s recommendation because the municipality hired its own actuary and/or because the recommended figure is matched to the incorrect payment.

Using the average payment ratios, we identified 22 municipalities that we believed were likely continuing to short their pension systems after the intercept provision took effect in 2016. We then requested documents from the municipalities to determine whether their actual contributions were indeed less than what they were statutorily required to pay. We found that while the majority (14 municipalities) were indeed shorting their pension funds, only two municipalities had state-sharing revenue intercepted: Harvey and North Chicago.

Our findings thus far indicate that many pension funds may not be utilizing the enforcement mechanism. As such, a weakness of the law is that municipalities may be shorting their pension funds without those funds requesting action by the Illinois

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9 Years 2011, 2012, and 2013 are excluded for several reasons. First, there is incomplete data for 2011, which prevented us from calculating the payment ratios for years 2013 and 2011. Second, 2012 was excluded because it is unclear which funding law (the prior law or P A096-1495) the 2010 IDOI recommended payment and 2012 actual payments are based on.

10 The actual payment is compared to the estimated required payment from two-years prior because the pension payments are often made with property tax revenue, and because of the property tax cycle there is a delay between when the required payment is determined and when money is actually transferred to the pension fund.
Comptroller. As previously mentioned, we found this to be the case for the majority of municipalities in the small sample we examined. This limitation, combined with municipalities’ ability to negotiate settlements with the pension funds (discussed in the next section), means that while the intercept provision is meant to ensure municipalities properly fund their pension systems, it may be largely ineffective.

**What Has Happened When Funds Have Been Intercepted?**

Harvey was the first municipality where the intercept was triggered. In January 2018, the Harvey Police Pension Fund notified the State Comptroller that the city owed it over $7 million for unpaid pension contributions between 2007 and 2014, and requested the intercept to make up for those delinquent contributions. The City of Harvey had a longstanding dispute with its pension funds over delinquent contributions, and both pension funds had previously sued the city for failing to make the statutorily required pension payments. In 2015, the city was found to owe its police pension fund $7,027,548 in unpaid pension contributions. That same year the city was also found to owe its fire pension fund over $12 million in delinquent pension contributions.

The Comptroller subsequently intercepted over $1 million in state-sharing revenue and this caused an acute operating budget crisis for Harvey. In response to state-sharing revenue being withheld, local officials laid off a large portion of the workforce, including dozens of police officers and firefighters (Blumberg, 2018). The city disputed the intercept, but ultimately a negotiated settlement was reached in June 2018. Under the settlement, portions of state-sharing revenue will go to the police and fire pension funds until the settlements from the 2015 judgements have been paid off (City of Harvey v. Susana A. Mendoza Case No. 18 CH 4443, Circuit Court of Cook County, Illinois). While this resolution alleviated the immediate budget crisis, the enforcement mechanism could be triggered in future years if the city’s payments fall short again.

The second place the intercept was triggered was North Chicago, a suburban community near Lake Michigan in northern Illinois. On April 5, 2018, the North Chicago Firefighters’ Pension Fund requested the Comptroller intercept state-sharing revenue to make up for the city’s delinquent 2016 and 2017 contributions. The fire pension fund asserted that North Chicago’s total contributions for those two years was less than statutorily required (specifically, 37 percent less than the City’s own contribution recommendations), and as a result the city owed the fund $863,677. Similar to the Harvey case, the situation in North Chicago was resolved with a settlement between the city and pension fund. At the May 15, 2018, meeting the fire pension fund’s trustees agreed to accept a $150,000 settlement from the city. This meant that while the city contributed more than it otherwise would have to the fire pension fund, its contributions were still less than statutorily required.

For many years both Harvey and North Chicago paid less to their pension funds than was required by state law, which contributed to the downward trend in the pension systems’ funded ratios. Table 1 shows the funded ratio for each municipality’s police and fire

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11 We examined intercepts related to police and fire pension funds, and excluded from our study were intercepts related to municipalities’ required contributions to the Illinois Municipal Retirement Fund.

12 The ruling was upheld by the Illinois Appellate Court on April 10, 2017 (see Board of Trustees of the Harvey Police Pension Fund v. City of Harvey, Case No. 06 CH 15468 and Case No. 17 CH 8194, Circuit Court of Cook County, Illinois).

13 This judgement stemmed from a 1995 settlement between the city and fire pension fund (City of Harvey Board of Trustees of the Firefighters’ Pension Fund v. City of Harvey, Case Nos. 10 CH 53364 & 93 CH 1459, Circuit Court of Cook County, Illinois).

14 Another reason the Harvey case is unique is that its revenue from the state sales tax was pledged to a 2008 bond issuance. As such bondholders had a claim to intercepted state sales tax revenue. Bondholders were included in the settlement agreement.
pension funds. As highlighted by Table 1, all four pension funds are significantly underfunded.

**Table 1: Funded Ratios, as of FY2018**

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<thead>
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<th>Fire Fund</th>
<th>Police Fund</th>
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<tr>
<td>Harvey</td>
<td>20.1%</td>
<td>47.3%</td>
</tr>
<tr>
<td>North Chicago</td>
<td>29.0%</td>
<td>25.7%</td>
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</table>

Source: Illinois Department of Insurance, Complete Profile Reports

As the funded ratios for the pension systems have decreased, the required contributions for Harvey and North Chicago have increased, creating wide gaps between what the municipalities should be paying and their actual contributions. For example, Harvey’s contributions to its pension funds in 2016 were 85 percent less than IDOI’s recommendation.

Harvey’s and North Chicago’s financial challenges are not new. For example, Harvey made headlines decades ago in the *Chicago Tribune* for approving a FY 1990 budget with a deficit of nearly $2 million. The deficit was due in part to federally mandated sewer improvements. The City had also run a $1.1 million deficit in FY 1989 (Zabell, 1989).

A number of these long-standing financial challenges have been created and/or magnified by demographic headwinds. Both cities have lost population between 2000 and 2010. Poverty and unemployment rates are also well above the state average in Harvey and North Chicago, as shown in Table 2.

**Table 2: Demographic Comparison**

<table>
<thead>
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<th>Illinois</th>
<th>Harvey</th>
<th>North Chicago</th>
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<tbody>
<tr>
<td>Poverty Rate (Families)</td>
<td>9.8%</td>
<td>28.8%</td>
<td>18.2%</td>
</tr>
<tr>
<td>Unemployment Rate</td>
<td>7.4%</td>
<td>18.5%</td>
<td>9.4%</td>
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<tr>
<td>Median Household Income</td>
<td>$61,229</td>
<td>$24,343</td>
<td>$41,679</td>
</tr>
<tr>
<td>Population Change – 2000 to 2010</td>
<td>3%</td>
<td>-16%</td>
<td>-9%</td>
</tr>
</tbody>
</table>

Sources: U.S. Census Bureau, 2013-2017 American Community Survey 5-Year Estimates; 2010 Census; and 2000 Census

Harvey has a poverty rate nearly triple the state average, and an unemployment rate that is 2.5 times the state average. Similarly, North Chicago has a poverty rate that is nearly double the state average, and an unemployment rate a full two percentage points above the state average.

Combined, these demographics create fiscal challenges for both Harvey and North Chicago. A decrease in population means fewer people paying property taxes that can be dedicated to both public services and adequate pension payments. At the same time, those people who do remain may not be able to pay their assessed taxes. In 2018, delinquent property taxes cost Harvey an estimated $12 million (Schutz, 2018), which represents nearly half of the city’s annual budget. This means that even if cities such as Harvey and North Chicago do levy the correct amount of property taxes, they still may not receive adequate revenues to make their required pension contributions. Low property tax collection rates may be an underlying reason why governments’ pension contributions are less than statutorily required.

Finally, rising poverty rates is associated with increased need for public services, which creates additional spending pressures. For example, increased social services (e.g. community centers) may be needed. Similarly, increased poverty is also
associated with an increased need for public safety services (Hendrick, Jiminez, & Lal, 2011).

Ultimately, municipalities such as Harvey and North Chicago not only have historically struggled to make required pension payments, but may continue to do so because these municipalities have limited and declining fiscal capacity to devote toward making pension payments.

What’s Next for the Pension Intercept?

The intercept provision is still relatively new, and further study is needed to better understand its impact. One area for further inquiry is examining why some pension boards did not trigger the intercept when they could have. From our sample we identified 14 municipalities that shorted their police and/or fire pension funds between 2016 and 2018 and the local pension boards did not trigger the intercept. There are a number of possible reasons why trustees chose not trigger the intercept. It may be the case that trustees are mindful of the wider consequences an intercept could have on a municipality’s operating budget. Or it could be that pension funds are not aware of the shortfall in a municipality’s contributions.

Further research is also needed to better understand the variance in financial condition between police and fire pension funds in Illinois and what role deliberate underfunding has played. In addition, more research is necessary to better understand why municipalities’ contributions have been less than statutorily required. Since many municipalities pay their contributions via property taxes it could be the case that the shortfall in contributions is because of property tax delinquencies. Municipalities may be levying the amount needed to make the full pension payment, but the actual contributions may be less than required because of property tax collection rates being less than 100 percent. In other words, municipalities may not be deliberately paying less than the statutorily required contributions. In other cases, however, municipalities may be willfully budgeting less than required.

Last, we suspect that intercept law’s impact has varied based on municipalities’ fiscal capacity. For some places pension shorting may have been a political decision to prevent raising taxes. For others, however, there may be structural factors that prevent municipalities from making the payments (e.g. high property tax delinquency rates that cause collected revenue to be less than the levy). Since there was a lag time between when the law was passed (2010) and when the intercept went into effect (2016), we expect that a number of municipalities that had been shorting their pension funds stopped doing so during that time period. As such, it is likely that the municipalities continuing to short their pension systems (like Harvey and North Chicago) are ones that do not have the capacity to make the required pension payments while also maintaining current levels of service. As such, a likely limitation of the law is that it does not address underlying financial structural factors beyond a municipality’s ability to remedy that may be at the root of pension shorting.
References


