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Jennifer Hochschild: Chicago's solution to public pension debt is a generational scam

Chicago City Hall is seen on Oct. 22, 2024. (Chris Sweda/Chicago Tribune)

By JENNIFER HOCHSCHILD

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Chicago is drowning in debt that no one alive today created, yet everyone must pay.

The city of Chicago owes a staggering $35 billion to $60 billion to public sector pension funds — several times the annual city budget. Chicago is in deeper arrears than almost all other American cities, including New York.

This is not new. Back in 1917, just a decade after social worker Jane Addams helped establish the innovative teachers pension fund, the Illinois General Assembly warned that the condition of the pension system was "one of insolvency" and "moving toward crisis" because the "financial provisions (were) entirely inadequate for paying the stipulated pensions when due."

Commissions have repeated the message ever since then. The response? While solemnly promising to pay up, politicians have steadily increased benefits while adding a provision to the state constitution declaring pension recipiency to be an "enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

Ever-rising pension provisions, even in the face of ever-rising deficits and interest payments, are easy to explain. Although public sector jobs may not pay especially well, the promise of a secure and substantial income after retirement is a strong economic incentive for workers and a morally honorable stance for city residents to uphold. In addition, promises of added pension benefits are politically valuable to all contract negotiators. Union leaders can assure members of a constitutionally guaranteed gain. Mayors can postpone new strains on their overstretched budgets while avoiding strikes by firefighters, police, teachers and garbage collectors. Aldermen need not raise taxes during their terms in office. Existing pension funds can be used as huge credit cards to cover urgent expenses of schooling, policing and health care. Voters are unaware or uninterested.

The real mystery isn't why Chicago has this problem — it's why every American city hasn't generated ever-increasing pension deficits.

As pension debt ballooned along with the proportion of the city's budget (slowly) dedicated to funding pension systems and as property taxes rose, observers began taking more notice. By the mid-2010s, all three major credit agencies downgraded both Chicago and Illinois with ratings that, as The Economist noted, put the state "on par with Botswana" — prompting an incensed Tribune editorial to ask what Botswana had done to deserve such an insult.

After passing more laws that further increased pension promises without any financial offsetting, Illinois legislators acted in 2010. Their solution was to make future workers — people who couldn't oppose the bill because they weren't yet employed or possibly even adults — absorb the rising costs.

In the classic Illinois tradition, the Tier 2 bill was introduced one morning without any notice, debate or analysis; it passed both houses of the legislature that day. Then-House Speaker Michael Madigan noted that "we don't have actuarial numbers relevant to this Amendment" but nevertheless claimed that it would save "over a hundred billion dollars" over an unspecified time frame.

The speaker's prediction may turn out to be right; those savings are coming entirely at the expense of young workers who took jobs after the tier system was established. Even Chicago's Civic Federation — a longtime advocate for reducing pension deficits — calculated disapprovingly that Tier 2 teachers pay almost 2% of their salaries to subsidize their predecessors' benefits. The teachers pension fund managers calculated, in fact, that on average, Tier 2 recipients would receive a small net negative outcome from their pension contributions. Experts fear that newer workers are receiving pensions so low that they might violate the federal "safe harbor" law prohibiting payouts less than what Social Security would have paid that worker.

But there's an even more troubling dimension that has gone almost unmentioned in public discourse and probably unnoticed by most observers: the racial wealth transfer. From 1940 through 1980, Chicago's non-Hispanic white population declined from about 90% to about 40%. Today, the city is roughly one-third Black, one-third Hispanic and one-third white. These demographic shifts mean that Chicago's increasingly diverse young workforce is financing more and more of the retirements of a generation of predominantly white pensioners.

I see no easy resolution to this conjunction of demographic change, financial insouciance and political expediency. But Chicagoans should at least recognize the irony. Once again, white Americans are benefiting from the labor of their nonwhite compatriots — with no controversy, and the blessing of state law and advocates of responsible governance.

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