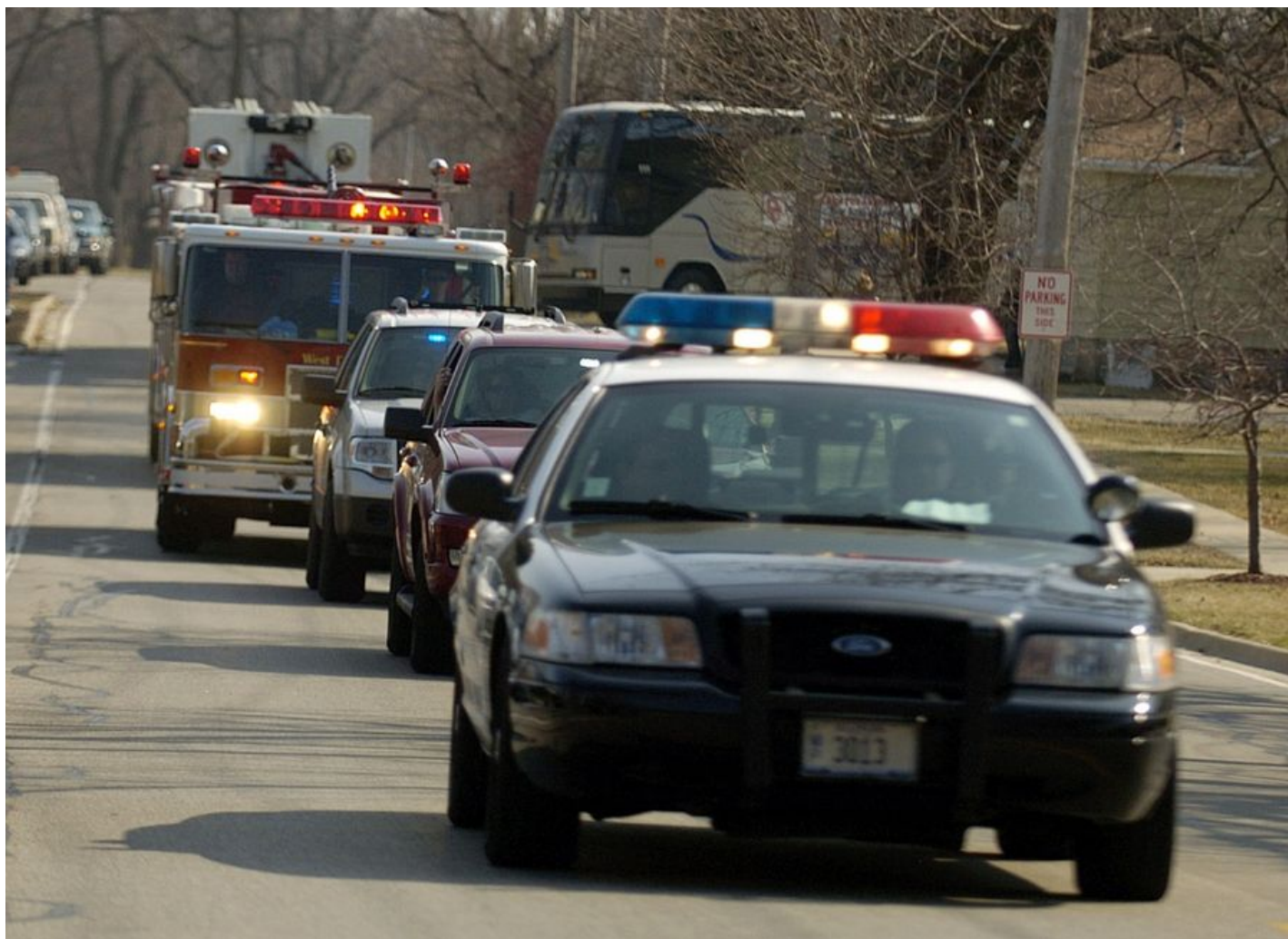


# Why administrative costs add millions to public safety pensions



Local fire and police pension funds' spending per participant on administrative costs is almost five times what the statewide pension funds spend. (*Daily Herald File Photo/March 2009*)



**Jake Griffin**

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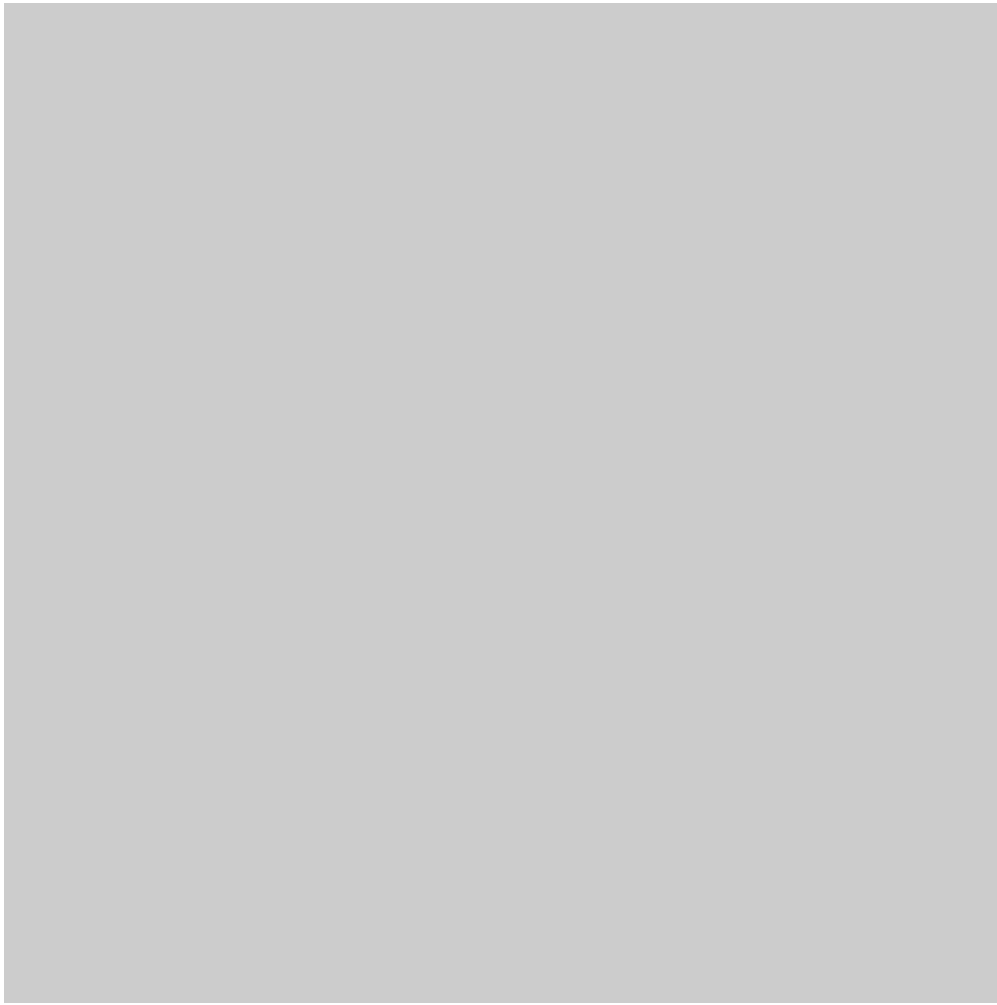
The Illinois Teachers' Retirement System spent \$77 on administrative costs last year for every educator and retiree participating in the pension program.

But that was the lowest amount among the statewide pension plans, none of which spent more than \$120 per participant for administration last year.

It's in contrast to the cost for nearly 650 separate suburban and downstate fire and police pension funds. The average cost to administer those plans was \$500 per participant, according to a Daily Herald analysis of pension fund financial records available at the Illinois Department of Insurance's website (<https://insurance.illinois.gov/Applications/Pension/PensionDataPortal.asp>)

In the suburbs, firefighter pension funds in North Aurora and Hampshire spent more than \$2,000 per person, as did the Elburn police pension fund. Only the Addison and Palatine firefighters pension funds, the Glendale Heights police pension fund, and both of Elk Grove Village's public safety pension funds spent less than \$100 per participant on administrative costs, according to the analysis.

All told, the public safety pension boards combined to spend more than \$21.4 million on administrative costs like legal fees, medical consultations, accounting, conferences, travel for pension board members, state filing fees and general office supplies.



Those expenses are covered by the payments made by taxpayers to fund public safety pensions, by contributions from firefighters and police officers who are in the pension programs, and by investment income. The overhead costs divert money that otherwise could go to reduce unfunded liability in the police and fire pension funds, a big component of many suburbs' budgets.

Experts believe administrative overhead would be substantially reduced through consolidation, but a new law signed Wednesday by Gov. J.B. Pritzker that merged fire and police pension assets into two investment funds stopped short of fully combining all operations.

Consolidation should reduce a lot of the financial overhead, said Chris Goodman, an assistant professor of public administration at Northern

Illinois University. "But the trade-off is how much local control do you lose?" Goodman asked.

Those five-member local pension boards, each of which has two current public safety employees and one retired employee among its members, determine disability claims of their colleagues.

A "duty disability" pension can be far more lucrative to public safety employees than a standard disability pension. A duty disability also comes with lifetime health care benefits, which are also covered by taxpayers.

In 2018, there were almost 10 times as many duty disability pensions for firefighters as non-duty disability pensions -- 1,129 to 144. For suburban and downstate police, the ratio was 3 to 1.

Because the suburban and downstate fire and police pension boards were left intact, the administrative cost savings won't be realized, experts said. Professional services like accounting, medical consultations and legal fees alone accounted for \$10.3 million of the public safety funds' administrative costs last year, according to the analysis.

The administrative cost analysis does not include investment fees because of the consolidation plan. Lowering those fees was a major selling point for combining the funds' assets.

"When you have higher amounts of money to invest, you can get better deals from investment managers," said Tom Kuehne, Arlington Heights' finance director and board member of the Illinois Municipal Retirement Fund, the largest public pension program in the state.

Pritzker empaneled a task force to examine consolidating the public safety pension funds. The recommendation was to start with the investments.

"The task force determined an important first step was to consolidate pension assets for investment purposes, resulting in billions more in returns for the pension funds," said Pritzker's press secretary, Jordan Abudayyeh. "The task force's work isn't done and they have agreed to continue to look for efficiencies and savings for taxpayers."

There is no timetable to address further consolidation of the pension funds' operations, though some see it as inevitable.

"It's such a huge undertaking; you have to do it in steps," said Naperville Fire Chief Mark Puknaitis, the past president of the Illinois Fire Chiefs Association. "By chewing at this elephant all at once, you're going to choke, so you have to take one bite at a time."

Goodman sees the decision to ease into consolidating the funds as pragmatic.

"You don't want to make such a large-scale change and have it go massively wrong," he said.

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