Myth v. Fact: What you should know about CTPF pensions

Pensions provide secure and stable retirements for teachers, yet their very existence has come under attack. CTPF sets the record straight by debunking some common pension myths.

Myth #1: Public pensions are too generous

Fact: The average Chicago Teachers' Pension Fund (CTPF) retiree earns $42,000 per year after investing 28 years of service in the Chicago Public Schools.

Breaking down the distribution of pensions, 42% of CTPF retirees earn less than $42,000 per year, and 27% of CTPF retirees earn less than $30,000 per year. In contrast, less than one ½ of 1% of all CTPF retirees earn more than $100,000 per year. (Fiscal year 2010 data).

Myth #2: Pensions drain our economy

Fact: pension benefits have a substantial positive impact and ripple effect on our economy.

A study released in 2009 by the National Institute on Retirement Security found that in the State of Illinois**, each $1 paid out in pension benefits supported $1.50 in economic activity in the State of Illinois.** State and local pensions in Illinois supported 83,611 jobs that paid $5.5 billion in wages and contributed $2 billion in federal, state, and local tax revenues.

Myth #3: Pensions are "given" to teachers

Fact: Teachers contribute to retirement and earn pensions with every paycheck they receive.

Each pay period during employment, 9% of a teacher's salary is allocated toward retirement benefits.

Myth #4: Teachers receive Social Security

Fact: Teachers do not contribute to or receive Social Security retirement benefits.

A pension is the primary source of teachers' retirement security.

Myth #5: Teachers don't contribute enough to their pensions

Fact: Teachers contribute more than the average taxpayer to fund their retirement.

The normal Social Security benefit contribution is 6%, but teachers contribute 9% toward retirement. Teachers' benefits may be higher than the average Social Security benefit, but teachers contribute 50% more to retirement during their active employment.

Since 1895, Chicago's teachers have contributed toward their retirement from each and every paycheck they received. Chicago teachers have NEVER missed a payment to their pensions.

Myth #6: Pensions are too expensive

Fact: Pensions are an efficient way to fund retirement.

Pension mechanics are simple and have provided stable retirements for Chicago's teachers for more than 116 years. CTPF collects revenue, invests it, and distributes it in the form of pensions. Revenue for pensions comes from four sources: teacher contributions, employer contributions, State of Illinois contributions, and investment earnings.

When all four sources make regular contributions, funding is stabilized and obligations can be met. The system has worked for more than 100 years, through countless financial downturns, wars, and depressions. Problems arise when funding sources fail to make adequate contributions to support the fund.

Myth #7: Teachers should have a 401K instead of a pension

Fact: 401(k) plans jeopardize retirement security for individuals and would weaken the health of the pension plan.

Moving to a defined contribution plan or 401(k) savings plan would weaken the overall health of the fund and eliminates a guaranteed pension benefit for participants.

A 401(k) program hasn't been adopted by our Social Security system – for an obvious reason – benefits are not guaranteed. Retirees need some guaranteed income in retirement and pensions are the most efficient way to deliver these guaranteed benefits. Millions of Americans suffered unimaginable losses during the financial downturn – and were forced to delay retirement as they saw their savings disappear.

Myth #8: Pension reform legislation will solve our problems and save taxpayers a lot of money

Fact: Various pieces of "reform" legislation have been proposed, but they all fail to recognize the real solution: mandated employer funding.

The public continues to be deceived into believing that unaffordable benefits are the cause of our current dilemma.

Illinois Senate Bill 512, which stalled last spring, offered about $2.7 billion in cuts to CTPF benefits **over a 50-year period**. This bill simply shifts more of the funding burden to teachers without requiring the employer to make adequate contributions. Without revenue a fund cannot survive. Any reform must include a guarantee of funding for employers otherwise teachers will continue to be shortchanged.

Myth #9: Teachers pensions have caused this problem

Fact: a lack of Employer contributions led to this situation.

For decades Chicagoans fulfilled their responsibility and made a direct payment to the pension fund when they paid their tax bills.

In 1995, however, the CPS system had a financial crisis and the Chicago Teachers' Pension Fund became a victim of its own success. At that time, CTPF enjoyed a funding level near 100%, and the cash-strapped school system saw an opportunity. CPS appealed to the legislature and Illinois lawmakers agreed to permanently redirect CTPF pension tax revenue directly into the

CPS operating budget. During the period 1995-2005, **CPS took in approximately $2 billion in pension tax revenue and paid $0 to the pension fund.** CPS was required, due to years of underfunding, to finally begin making contributions to the fund in 2006.

In spring 2010, CPS sought and received an additional $1.2 billion dollars in funding relief from the Illinois legislature as part of a three-year "pension reform" package.

If CPS had paid the money earmarked for pensions directly to the fund, CTPF would be about 90% funded today.

Myth #10: The State of Illinois is spending a lot of money to support CTPF pensions

Fact: CTPF receives almost no revenue from the State of Illinois.
In 1995 when the state agreed to let CPS divert pension tax revenue to the CPS operating budget, it also declared its intent to provide the Chicago Teachers' Pension Fund with 20-30% of funds allocated to the statewide teachers' pension system. This revenue model would have reduced the burden on Chicago's taxpayers and provided a more equitable distribution of state pension dollars.

Unfortunately, state funding for Chicago teacher pensions failed to materialize. The state has failed on its promise and has shortchanged CTPF by nearly $2 billion since 1995. While the suburban and downstate pension system will receive over $2.5 billion in **annual** support for 2011, CTPF will receive no state funding. The state has not lived up to its promise to Chicago's teachers.