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Inspector General Releases Report on City Furlough Program's Impact on Pensions

The City of Chicago Office of Inspector General (IGO) released a report today stating that the City publicly overstated savings realized from its furlough program by \$11.05 million. Additionally, the IGO report found that the furlough program will result in increasing the funding shortfall of City employees' pension funds by approximately \$24.55 million dollars.

"As the City tackles its daunting structural deficit, it is important the full impact of those efforts are accurately calculated and fully disclosed to the public," said Inspector General Joseph Ferguson.

Since mid-2009, the City has used furloughs (mandatory unpaid time off) as a way to cut costs, resulting in a reported savings of approximately \$134 million.

However, the IGO found that the City actually saved \$11.05 million less than has been reported. Furloughs reduce City employee contributions to the pension funds without any corresponding reduction to the pension benefits of affected employees. With no such corresponding reduction in pension liabilities, the estimated \$11.05 million decrease in pension funding caused by the furloughs will have to be balanced by increased funding in the future and therefore should not be reported or considered as savings.

Further, the City's mandatory contribution to the City's pension funds is based on employee contributions. The \$11.05 million decrease in the employee contributions due to the furlough program also results in an additional \$13.5 million decrease in present City payments to the funds. This totals \$24.55 million in reductions to the funding of the City's pension plans. The reductions in both the employee and City contributions from the furlough program increases the already grave funding gap in the City's pension funds. The IGO's conclusions assume the City is responsible for payment of pension benefits promised to City workers, but notes substantial ambiguity around whether the City in fact is legally required to do so.

This report is not a criticism of the furlough program. It is provided to correct the existing record regarding reported savings, and to clarify its full impact on pension funding, which should be incorporated into calculations regarding any future furloughs.

The report can be found [online](http://www.chicagoinpectorgeneral.org) at the IGO website: www.chicagoinpectorgeneral.org

The IGO is charged by ordinance with promoting economy, efficiency, effectiveness and integrity in the operations of the City government. In our continuing effort to be fully responsive to the City's challenges and supportive of the efforts of the Mayor and City Council in meeting those challenges, the IGO welcomes any suggestions or comments on our reports, or suggestions of City programs to review.

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