

Is Rahm Emanuel Responsible for the Crumbling Chicago Teacher Pension Fund?

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Concepts and Theories

The following will be the concepts and theories will be discussed in this study.

- 1) **Pension fund:** A pool of money to fund a regular payment to retired employees. The employee contributes a portion of their salary each year to the fund as well the employer.
- 2) **Budget Gap:** The difference between the expenses and assets in an institution's budgets.
- 3) **Funded Ratio:** The ratio between the expenses and assets in an institution's budgets.
Usually shown in a percentage.
- 4) **Fiscal:** Related to finances in government.
- 5) **Deficit:** a shortage, sometimes relating to money.
- 6) **Assets:** A resource with economic value that is owned by an institution.
- 7) **Unfunded Liabilities:** A future payment that has nothing set aside to pay it.
- 8) **CTPF:** Pension Fund that is financed by CPS teacher salaries, the City of Chicago, the Illinois state government, and the US federal government.

Observations

Out of all major US cities, Chicago has a long history of financial instability and the Chicago Teacher Pension Fund is no exception. In the city of Chicago, the Mayor's budget has run a deficit each year since 2001. The State of Illinois also has a credit rating of Baa3, by far the lowest credit rating out of all states in the USA. As credit ratings keep falling, interest rates keep rising, and previous mayors have used a 'scoop and toss' method to pay off debt by issuing more bonds, worsening the problem.

The blowback of past fiscal mismanagement that prioritizes payments for government workers is now becoming apparent. Mayor Rahm Emanuel, who took office in 2011, gets the blame for this crisis from many Chicagoans and politicians including Illinois Governor Bruce Rauner. The question is, are Chicagoans justified in blaming Rahm Emanuel for the cities financial troubles?

Research Question

To what degree have Rahm Emanuel's fiscal policies been responsible for the CPS teacher pension crisis?

Hypothesis

Rahm Emanuel's fiscal policies are not responsible for the Chicago Teacher Pension Fund (CTPF) crisis.

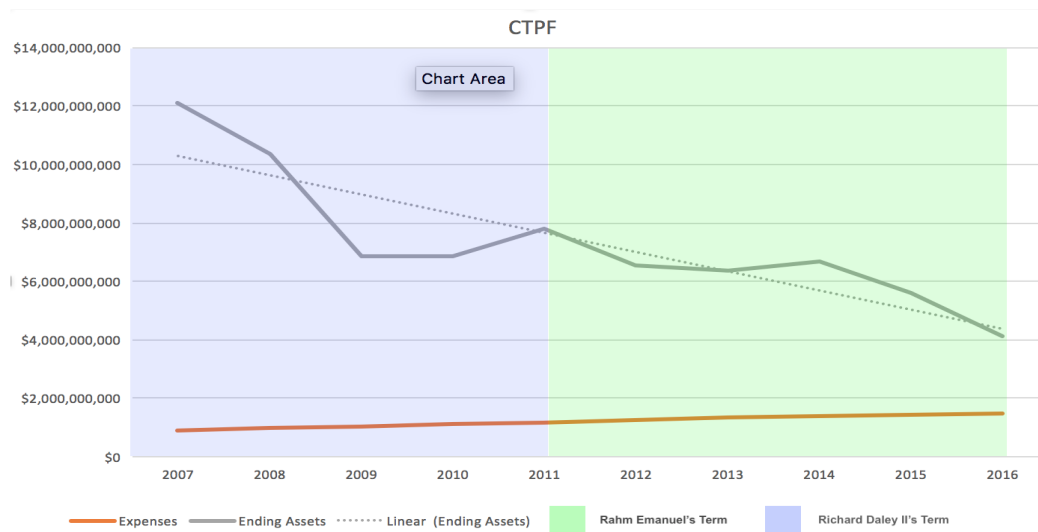
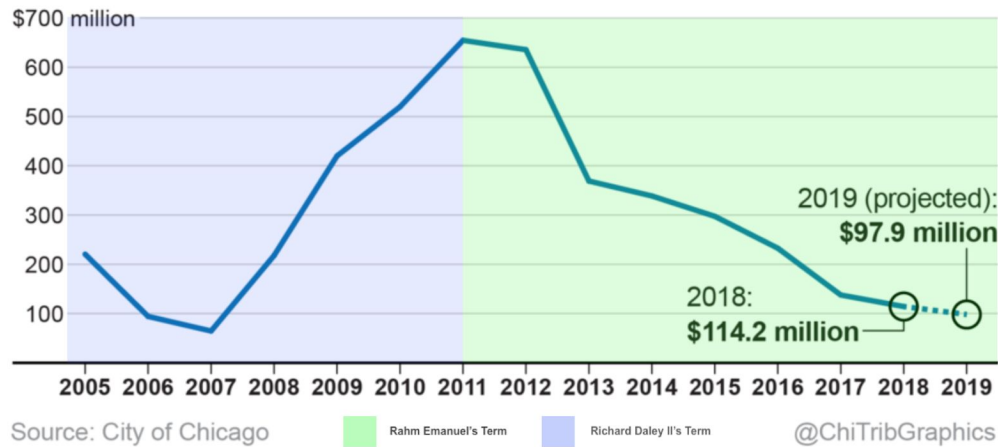
Test

We can assume my hypothesis is false if Mayor Emanuel runs a higher city budget gap than previous mayors and the CTPF debt worsens. I will be comparing the Chicago city budget gap and the CTPF unfunded liabilities during the end of Richard M. Daley's term and Rahm Emanuel's term to assess this.

Gather Data and Test Predictions

Chicago's budget gap

With projected figure for 2019, by fiscal year



Since 2007, the CTPF expenses have been steadily increasing while the value of their assets decrease. If this trend continues, the CTPF will go from having a budget surplus to a budget gap. This will create unfunded liabilities for the institution in the near future. This trend did not alter during the change of mayors, showing that the change most likely did not affect the Chicago teacher pension crisis. This differs from the trend in the city budget gap, where the gap increases during the end of Mayor Daley's term and decreases during Mayor Emanuel's term. In Conclusion, there is no correlation between the Mayor's fiscal responsibility measured by the city budget gap and the Chicago teacher pension crisis.

Evaluate Process

A possible confounding variable in this study would be the fact that multiple entities contribute to the CTPF. In previous years, one of the contributors, the State of Illinois has not been consistent in their payments to the fund. During the years where the state withheld payments, CPS had to issue bonds with high interest rates and empty their own bank accounts to cover the cost, decreasing their investment returns and creating more unfunded liabilities. This information affects the validity of this study because state contribution is a factor in the CTPF health and could be part of the reason the CTPF assets have decreased in previous years.

Another factor in the decreasing assets of the CTPF is the amount of teachers retiring. From 2007-present, the number of retirees has increased each year while the number of active teachers has decreased. Simply put, more retired teachers need their pension and there are less working teachers to fund them. When the budget of the CTPF was determined, economists may not have foreseen this demographic trend in retirees, putting more stress on the pension fund than anticipated. These confounding variables play a role in the health of the CTPF which makes for less of a direct connection between the Mayor's fiscal responsibility and the health of the CTPF.

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