Chicago Pension Turnaround Proposal

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NextGen Pension Challenge

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Chicago's pension crisis directly impacts every Chicagoan -- from the taxes they pay to the services they receive. The scale of the crisis calls for a highly transparent reform strategy that connects the abstractions of fiscal reform to issues that Chicagoans feel tangibly, promotes real political commitment, and addresses the necessary commercial and economic tradeoffs, the very issues that are contributing to the city's dire inability to pay its pension now.

Our proposal includes three steps which build upon each other:

1. Transparency to clearly define the problem -- both across all four funds and settlement reporting.
2. Accountability based in public safety and settlement reform to generate savings, which can then be directed to pensions and reduce borrowing needs.
3. And State Action – once Chicago demonstrates fiscal credibility, pushing for the broader Springfield-level reforms that pension governance ultimately requires.

At full implementation across Chicago Police Department (CPD) settlements, we believe our reforms can save approximately $135-210 million annually. However, the potential of these reforms more broadly across departments and the City of Chicago can generate significantly more savings for pension contributions, compounding over time.

1. Transparency

The City will produce a public dashboard of all four City-funded pensions (Police, Fire, Municipal, Laborers; not including Teacher, Transit, Park). Before finalizing public commitments and a clear roadmap, the City should ground its reform in independent actuarial analysis and insolvency scenarios and stakeholder input for funding pathways and service trade-offs.

The focus on pensions should also come with a focus on reforming historical fiscal mismanagement at the City - starting with its settlement processes and tendency to use one-time surpluses and savings to fund recurring spending while underfunding pensions. Pension transparency makes the costs of inaction harder to ignore and creates a public record against which political commitments can be measured.

The city would initiate:

1. A unified, City-owned, public-facing pension dashboard with crowding-out milestones and scenarios, with regular updates.
2. Settlement data standardization for internal/external reporting; department-level settlement attribution, scaling to budgeting/budget allocations; and stand up a settlement working group and pre-litigation resolution track.

2. Accountability

Build upon new visibility to pursue structural reforms that reduce both pension and budget liabilities longer-term, setting the City on a more sustainable fiscal path.

CPD settlements are the largest single driver of Chicago's settlement crisis and the natural starting point for accountability reform. When accounting for legal payouts and outside council fees, police settlements cost $1.2 billion between 2016 and 2026, running $569 million over budget. The pipeline of unresolved cases is large, costly, and growing. In one example, nine cases have so far been litigated against CPD Detective Reynaldo Guevara, and have collectively cost the City $112 million to date. There are still 44 more Guevara-related cases awaiting settlement or trial.

The cost of these misconduct cases is also reflected in borrowing costs incurred due to poor budgeting. $150 million in interest has already been paid on a$198 million settlement bond issued in, while $225 million in interest is still owed on it. In March 2026, the city issued a new bond in part of police settlements, with the portion for police settlements accounting for $88 million in interest over the next 7 years.

It's worth noting that a borrowing costs are higher than the above suggests. Chicago has historically borrowed for settlements without department-level attribution. That gap itself speaks to the need for transparency reform.

Four settlement reforms produce material recurring savings.

A Chief Risk Officer and legal triage function: The CRO position has sat vacant or underused since 2023. A reinstated CRO, paired with a formal pre-litigation review track, would accelerate settlement of wrongful conviction cases earlier in their life cycle and bring the City Council into the process to support collective settlements where appropriate. The city could also
The savings opportunity is in speed of settlement, not in choosing settlement over litigation. Chicago already settles the vast majority of misconduct cases and wins nearly all litigated cases. A CRO could also explore one mechanism Chicago hasn't used yet. Before a victim of wrongful conviction enters a civil court to sue for compensation, they need to have been acquitted and have often granted a Certificate of Innocence. The CRO would explore settlement offers at this stage, before a civil complaint is even filed, to cut costs further.

Estimated savings: $35–50 million annually, against an $88 million annual baseline cost.

Reduced outside legal fees: Outside counsel spending averages $25 million annually and has not translated into improved litigation outcomes. The true overrun on outside counsel is roughly 83%, not the 31% figure commonly cited, because the City's settlement budget tracking excludes outside counsel from the line item. Cutting outside counsel costs aggressively where in-house capacity exists yields an estimated $15-20 million in annual savings.

Proper budget attribution and reduced borrowing: Budgeting based on historical spend and trend analysis, paired with the transparency reforms above, would avert the last-second borrowing the City has used to cover settlement spikes. The 2014 settlement bond, the 2026 police settlement and firefighter back-pay loan, and other unattributed police-related borrowings together impose roughly $25 million in annual interest costs that are entirely avertable under a properly forecasted budget. Estimated savings: $25 million annually.

Department-level allocation: Allocating settlement costs to the departments that generate them creates direct incentives to reduce risk. Total annual departmental settlement spending is around $280 million; even modest behavioral response and improved internal accountability yields $50–90 million in recurring annual savings.

Long term, a fifth reform, an early warning system, addresses root causes rather than the bill. National data show misconduct payouts are highly concentrated. A small number of officers generate a disproportionate share of payouts. Tracking, warning, disciplining, and dismissing repeat offenders — coordinated with union negotiations — would reduce the volume of cases entering the settlement pipeline. Estimated savings: $10–27 million annually as cases that would have generated future payouts no longer occur. Comparable early warning logic should extend to workers' compensation claim concentration by department and supervisor, and to disability pension claims flagged by actuarial risk-scoring near retirement eligibility.

Independently, we suggest future reforms aimed at:

Civilianizing CPD, CFD, and OEMC administrative roles to reduce overtime and long-term pension accrual.

Commissioning an independent actuarial validation of Tier 3 (e.g., Safe Harbor compliance, fiscal sustainability) and use findings to inform Springfield legislation extending a hybrid pension structure to new CPD and CFD sworn hires.

3. State Pension Reform

The pension problem ultimately requires Springfield. We're being honest about that. But Chicago has been asking Springfield for help for years -- and the answer has consistently been some version of "fix your own house first."

Steps 1 and 2 of this proposal -- Transparency and Accountability -- are how Chicago fixes its own house. They demonstrate fiscal credibility, generate real savings, and build the political capital required to credibly ask for state action.

And at the end here, state action is where the largest savings ultimately lie. We have a few short-, medium-, and long-term potential reforms the City can pursue or support at a state level below.

Short-term reforms:

- Pension board governance and reporting: standardize actuarial assumptions and improve

transparency in financial disclosures
- Tier 2 safe harbor fix, benefit sweetener mitigation: ensure federal compliance while carefully limiting benefit expansions that could materially increase long-term liabilities

Medium-term reforms:
- Dedicated structural revenue: identify stable, recurring revenue streams explicitly tied to pension funding to reduce reliance on borrowing or one-time fixes
- Tier 3 framework (with safe harbor): create a more sustainable benefit tier for new hires that balances cost control with competitiveness and legal compliance

Long-term reforms:
- Pension Protection Clause modification: pursue narrowly tailored constitutional changes to allow adjustments to future benefit accruals while protecting earned benefits
- Additional structured relief: explore state-supported mechanisms such as re-amortization, refinancing, or shared funding structures to lower near-term fiscal pressure