



Message from the President

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President's Message: Illinois ranks No. 1 in financial negligence of public employee pension liability

Our state earned this dubious honor because our legislators have spent the last several decades frequently underfunding the state's yearly required pension contributions and routinely adding ill-advised pension sweeteners that add costs. The short-sighted and irresponsible fiscal policies of deferral and neglect of pension payments have contributed significantly to the state's current budget crisis, but the cost legacy will remain for generations.

Illinois taxpayers' unpaid pension bill for fiscal year 2008 was \$54 billion, according to the Pew Center on the States in its February 2010 report "The Trillion Dollar Gap," which put Illinois in the "worst shape" among all 50 states. After fiscal year 2010, the unfunded pension tab is projected at about \$83 billion. Taxpayers also have a \$13 billion debt for pension bonds the General Assembly authorized earlier this decade. Illinois' cumulative total debt is projected to exceed \$130 billion by the end of FY 2010.

This expense is so huge that it can no longer be ignored. Public employee pension reforms must be undertaken immediately, during the current legislative session.

Without immediate action the debt obligation of Illinois taxpayers will continue to swell for our children and grandchildren.

Crucial reforms needed

Fiscal discipline begins with the General Assembly. Legislators need to realize they're running a \$54 billion budget on behalf of 12 million residents. Responsible stewards of the taxpayers' money must:

- 1) Pay the required pension contribution for each fiscal year, without borrowing. Pension obligations should be paid with the same degree of responsibility as bonded debt obligations. Those two payments are the foundation for building a budget and ought to be committed before anything else.

If the state makes the full pension payment every year, it limits the compounding of debt. If the state continues to borrow to satisfy pension funding obligations, the annual cost for debt service on those bonds will displace even more money from a budget already unable to pay for essential government operations, according to the Civic Federation's "Fiscal Rehabilitation Plan for the State of Illinois" report released last month.

A study from the Pew Center on the States says, "Each year that lawmakers delay taking action aggravates the problem in the future, putting the state at risk of major increases in annual costs."

2) Key parts of the pension plans, including the retirement age and contribution levels, must be changed.

The state and its taxpayers can no longer support the Cadillac-level retirement plans public employees have received for decades and grown accustomed to expect.

Public sector employees, depending on where they work, might retire at 50, 55 or 60 with full pension benefits. These are defined benefits, which stay at promised levels, regardless of the ups and downs of the stock market. Contrast this with the private sector, where employers realized 20 years ago defined benefit programs could not be sustained without bankrupting the companies. Private employers had to adapt their budgets and benefits to adjust to the reality of a competitive world economy. Now, those fiscally responsible businesses and their employees, through their taxes, are subsidizing state pension systems that have yet to change and are out of touch with economic reality.

A report from the Civic Committee of the Commercial Club of Chicago released late last year offers strong and sensible reforms that have been echoed in subsequent reports. They include recommendations to:

Increase the normal state employee retirement age to 67 (with 10 years of service) and early retirement age to 62 (with 10 years of service). Limit cost of living adjustments to the lesser of 3 percent or half of the Consumer Price Index. Current retirees receive annual increases of 3 percent. Increase employee contribution levels. Change provisions for calculating salary in the years and months before retirement, so that workers do not receive unreasonable salary boosts just before retiring that allow them to receive substantially larger pensions.

Studies show changes to the retirement age would have the greatest effect over time. And, the increase in employee contributions would have an immediate impact – a jump of just 1 percent could save the state about \$180 million per year in its annual contribution cost, according to the Civic Federation.

At a minimum, Illinois should move to a two-tiered pension system and institute benefit changes like the ones mentioned above for new workers. Unfortunately, it will be many years before the state can reap the benefits of that change.

The Civic Committee report recommends making these changes to current employees' benefits as well. Public employee unions will no doubt challenge this in court, arguing that the Illinois Constitution does not allow it. However, unionized employees in the private sector have already adapted changes such as those now being proposed for the public employees. Although it is a difficult vote for legislators to take because of the political influence of unions it is a step that should be taken if the state is serious about correcting our fiscal condition.

3) Stop pension abuse.

Workers should not be able to take unfair advantage of the state pension system – and, as a result, taxpayers. This includes workers who collect two or more full state pensions and those who receive gratuitous salary increases of 5, 10, 20 percent or more just before they retire, for the express purpose for raising their pensions for the rest of their lives. In some cases these end-of-career raises are worth millions in lifelong payments.

Quite simply, each person should be limited to one state pension. Double dipping at the taxpayers' expense has long been seen as a manipulative scam. It is a luxury taxpayers cannot afford.

Also, the benefit structures that reward school superintendents and legislators are egregious. As cited in a recent *Chicago Tribune* story, some local school boards award school leaders golden parachute-type benefits that are clearly abusive to the taxpayer. These local school board members have shown a total lack of accountability and disregard for the sensitivities of taxpayers. The *Chicago Sun-Times* series that appeared last year focusing on the biggest beneficiaries of the state's pension funds was equally revealing.

When these abuses occur in towns, state offices and school districts, it hurts all of us as each tweak contributes more to the state's total pension obligation. It makes our state a less attractive place to locate and do business. The exorbitant pension debt obligations owed by Illinois taxpayers may hamper job growth as the size of this long-term debt is a clear signal to investors that Illinois' political class lacks the fiscal discipline and stability an investor expects.

Unfunded costs hurt municipalities, taxpayers

The state legislature's pension policies are hurting our municipalities. A recent Civic Federation report shows that Chicagoans have a particularly heavy pension burden. For example, Chicago teachers' pensions are paid from the Chicago Public Schools education fund, which is primarily supported by property taxes, while the rest of the state's public school teachers have their pensions covered by the state treasury. Thus, Chicago residents are paying taxes to support two teacher pension systems.

Many municipalities across the state have banded together in the Pension Fairness for Illinois Communities advocacy group, which is demanding state-level public safety pension reforms. Municipal officials have little choice in meeting police and fire pension costs because the benefits are set by the legislature, while the revenue is derived from local property taxpayers. Police and fire pension costs have a significant and uncontrollable effect on municipal budgets

In addition, we must confront the effects of the unhealthy relationship between public employee unions and legislators who have consistently and routinely granted pension sweeteners over the years. The public employee unions are cognizant of the relationship between lawmakers and their union benefits. Unions are big donors to legislators and provide workers for their campaigns. Consequently, it is hard for legislators to resist union interests in enhancing taxpayer funded retirement plans.

We insist that reform is the only way to rein in pension frills that are out of step with reality and a needless burden on taxpayers who are already straining in a difficult economy. Taxpayers deserve to see these cost-restraining actions adopted as law before accepting higher taxes.

Lawmakers have a sacred duty to run the state's finances responsibly for current and future generations. For many years, they have failed. It's time for them to learn from prior neglect and make pension reform their first priority, beginning with the General Assembly and judges' pension systems.

It is encouraging that the House Democrats have moved a bill – HB 6368 – which alters the General Assembly and judges' pension systems to raise the retirement age to 67 (from 55 for legislators and 60 for judges) and ties an annual cost of living increase to the CPI, or 3 percent, whichever is lower. The proposal also caps the maximum annuity at 60 percent of the highest eight consecutive years of service during the last 10, rather than 85 percent of the salary on the last day of service.

The proposal is only expected to achieve about \$22 million in savings for the next fiscal year, but it is significant that the legislators might change their own benefit structure to reflect what is being sought for all of the public employee pension systems. If approved HB6368 would represent an important step toward correcting Illinois pension laws.

For the first time in memory it appears the Illinois General Assembly might pass legislation that will restructure public employee pension plans in a manner that will curb the continual escalation of liability that has long been the tradition in our state. It would be the responsible thing to do. Illinois taxpayers and voters should encourage them to follow through with these necessary changes.

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