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Everybody takes a hit with pension reform

By Jim Nowlan

Everybody—state employees, teachers, professors, taxpayers—will take a hit when the legislature enacts pension reform, probably this spring. We will be paying for sins of the past and in my view it won't be fair to present employees but is nevertheless necessary.

Beginning in the 1930s and '40s, state employees and teachers have been provided pensions. In return for contributions from both the employees and the state, the latter guaranteed pension payouts based on a formula of years served and highest compensation earned.

Over the years, benefits became enriched while the state in many years paid in less than necessary to develop an asset pool adequate to fund the pension. As to the first point, I retired from the state university system at age 55 with 11 years of service and free health care forever.

Other enrichments were going on. In the early 1990s, statewide officers from the governor on down watched quietly while a bill went through the legislature that changed their pension base.

The base went from that of the salary of the state senate president to their own much higher salaries, thus doubling their later pensions without making payments to support to higher payouts.

There are many other examples of this pension enrichment over the years.

As for payments into the pension funds, the state has been particularly remiss during the Blagojevich years, with the legislature either not making any payments or borrowing to make the payments, which only adds to the burden later.

We are also living longer, which increases costs for pensions that have guaranteed payouts.

To address the problem, in the early 1990s lawmakers created a staircase of increased required state payments, but delayed the steep steps up until now. For example, the annual state payments required by law have jumped from a couple billion early in last decade to $6.8 billion this year, with another $2 billion to help pay off borrowing for pensions a few years back. Not sustainable, as further dramatic growth is crowding out spending for education, which has been cut significantly in recent years.

Something has to be done. The state estimates a pension deficit of about $100 billion. But I am told the Moody's rating service may place the Illinois deficit at $200 billion.

This because Illinois pension systems have been projecting average growth in assets of 8 percent, whereas Moody's pegs the growth at more like 4.7 percent on average.

A figure of $200 billion represents about $15,000 per person in Illinois.

House Bill 3411, which I predict will form the basis for pension changes, is sponsored by House members Elaine Nekritz (D-Northbrook) and GOP House leader Tom Cross (R-Oswego).

The bill gives everyone a haircut, if you will. In briefest summary, here are a few of the provisions in a complex bill.

The 3 percent annual cost of living adjustment is reduced sharply. Retirement ages are increased. Employees will be required to pay more into the pension systems. Pension payouts are capped at the maximum taxable income for Social Security, which is about $108,000.

In addition, the state would shift the burden of paying for pensions to school districts and universities, where it should have been all along. This will save state government big dollars but

increase costs for schools and universities, which are partially state funded and in the case of schools and community colleges, funded by property taxes as well.

With responsibility for their own pension benefits, school districts would have been less likely to spike the final salaries of their administrators, which dramatically increased pension payouts without providing the underlying asset base to support the later pensions.

Over the years, way too many expensive games such as this have been played with pensions!

Under the Nekritz-Cross plan, the state will also have to pay more than required if the pension programs were fully funded, but maybe a couple billion dollars a year less than at present.

Then the question becomes "Is the proposal constitutional?" The Illinois Constitution declares that membership in any pension program "shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired."

Here your non-lawyer columnist goes out on a limb. I predict the state high court will swallow hard and find that the guarantee applies to benefits already earned by an employee but not to his future benefits. If the Nekrtiz-Cross bill does this, it may pass constitutional muster. [CHECK this out.]

These are tough times for Illinois governments, and this is one of the toughest issues that must be addressed.