

Illinois pension changes in jeopardy

By Jim Nowlan

In a recent decision, the Illinois Supreme Court threw a possible monkey wrench into plans by the state of Illinois to reduce pension benefits for state workers and retirees, increase state payments for pensions from what they had been, and stabilize the worst-funded state pensions in the nation.

In a 6-1 decision, the state high court came down hard on the side of pensioners and declared that heavily subsidized health care programs for state retirees were guaranteed by the pension protection clause in the Illinois Constitution.

This decision signals that pension changes adopted last year by the legislature and governor, after the gnashing of teeth, may also be struck down.

I have written before in this space that the state pension woes are enough to make one weep. The state has over-promised and underfunded pensions while state workers dutifully made their contributions.

The state's unfunded pension liability is estimated to be \$100-140 billion, depending upon what rate of investment return is calculated. That amounts to about \$8,000-10,000 per person in our state.

Many local government fire fighter and police as well as City of Chicago pension systems are also sadly underfunded.

It isn't fair to reduce what has been promised, yet I think the overall sustainability of the pension systems themselves is at stake. (I have a small state pension, based on some years working at the University of Illinois.)

To address the underfunding problem, in 1995 governor Jim Edgar enacted a program to increase state payments over the years. As a result, annual total state pension payments increased sharply from \$2 billion in 2010 to more than \$8 billion this year.

The dramatic increase was a big factor in the temporary tax increase of 2011 and will be a factor in making the increase permanent, or so I predict.

According to the Taxpayers' Federation of Illinois, state payments in 2020 are projected to equal 34 percent of all revenue from our big three taxes (individual and corporate income and sales taxes)!

So the legislature and governor came up with a plan in 2013 that would reduce the 3% annual cost-of-living adjustment, phase in increases in retirement ages to 67, and put in place a pensionable salary cap of \$107,000, among other lesser changes.

The state would also make significantly greater payments into the pension funds than in the past, though less than the \$8 billion of this year. State contributions would be \$1.2 billion less next year and reductions in contributions through 2045 would be about \$140 billion.

In contrast, neighboring Wisconsin has a pension system that has been fully funded for years. The Wisconsin system is about the same size as that in larger Illinois, because that state includes most local government employees. Still, the required state contribution by Wisconsin in 2011 amounted to less than \$1 billion.

The difference between \$8 billion and \$1 billion represents money that can go into education, social services and other

If the state high court were to strike down the 2012 pension law, Illinois would be in a pickle. We already have a fairly high overall tax burden, with the recent tax increases. Even more taxes would ultimately be needed, I predict, to make the pension system fully funded over time.

Yet Illinois right now has a bad business climate, people are in a funk, and more people leave the state each year than come in.

We simply cannot afford even more taxation if we are to remain a viable state, nor can we afford too much further bleeding of money away from education and social services to pay for pensions.

So what are the options to a possible, even likely court rejection of the pension changes enacted in 2013?

One might be a constitutional amendment to remove the absolute pension guarantee, but that would require 3/5ths votes in both houses of the legislature, which is not likely.

If the state high court rejects the state pension changes, Illinois will become even more so a state of high taxes and limited services.