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ILLINOIS FACES FINANCIAL DISASTER; URGENT NEED FOR MEDICAID AND PENSION REFORMS

Civic Federation Analysis Projects \$34.8 Billion in Unpaid Bills by FY2017

(CHICAGO) The Civic Federation's Illinois research institute warns that Illinois could face an unprecedented \$34.8 billion backlog of unpaid bills if action is not taken immediately by the Governor and General Assembly to stabilize the State's finances in FY2013 and beyond. The Federation's new FY2013 Budget Roadmap analyzes the state's current fiscal position, reviews Governor Quinn's three-year budget plan, presents a rough five-year budget projection for FY2013 to FY2017 and provides recommendations to improve the state's financial condition. The full 53-page report is available at www.civicfed.org/iifs.

"The Governor and General Assembly must act now," said Laurence Msall, president of the Civic Federation. "Failure to address unsustainable trends in the State's pension and Medicaid systems will only result in financial disaster for the State of Illinois." The Federation's five-year budget projection shows the State's backlog of unpaid bills increasing from \$9.2 billion at the end of FY2012 to \$34.8 billion at the end of FY2017. The Civic Federation's five-year forecast incorporates known spending pressures in the areas of Medicaid, health care and pensions while keeping other areas of spending flat and takes into account future revenue expectations including the scheduled reduction in income tax rates beginning in FY2015.

The increase in the State's unpaid bills is driven largely by an unsustainable rise in State Medicaid costs. According to an analysis by the Illinois Department of Healthcare and Family Services, current trends of rising Medicaid costs and insufficient State Medicaid appropriations could cause the backlog of unpaid Medicaid bills to reach a staggering \$21.0 billion by the end of FY2017. The Civic Federation urges aggressive implementation of Medicaid reform legislation passed in January 2011 which addressed two of the program's major shortcomings: inadequate use of managed care and overuse of institutional care for the elderly and disabled. The Federation also recommends that the State continue work to control prescription drug costs and eliminate programs that are not eligible for federal reimbursement such as Illinois Cares Rx.

Rising pension costs will also contribute to the State's potentially paralyzing load of unpaid bills. Pension funding problems were exacerbated by investment losses in FY2008 and FY2009 but are mainly due to a history of insufficient State funding for the pension system. As of June 30, 2011, the five retirement systems in the State of Illinois had total unfunded liabilities of \$83.1 billion and a combined funded ratio of 43.3%. "Illinois can no longer afford to grant automatic pension benefit increases that are not tied to the cost of living increases," said Msall. In this analysis, the Civic Federation is recommending for the first time that current Illinois retirees and employees hired before January 1, 2011 receive the same annual benefit increases as new workers: 3% a year or one-half of the increase in CPI, whichever is less, increased by a simple interest rate.

In addition to an unprecedented level of unpaid bills, the State's operating deficit is expected to increase dramatically to \$3.2 billion in FY2017 from \$508 million in FY2012. "The State of Illinois' continued practice of spending more than it takes in and pushing operating expenses into future fiscal years is a growing threat to our most vulnerable social service providers, local governments and anyone doing business with the State of Illinois," said Msall.

The Institute for Illinois' Fiscal Sustainability at the Civic Federation is made possible by a generous grant from the John D. and Catherine T. MacArthur Foundation. The Institute's mission is to improve the State's decision-making process by providing timely fiscal policy analysis and recommendations to State officials, the media, and the public through education and digital outreach. Please visit www.civicfed.org/iifs for more information.



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