

ILLINOIS PENSIONS 101

a visual guide to the State's biggest financial challenge

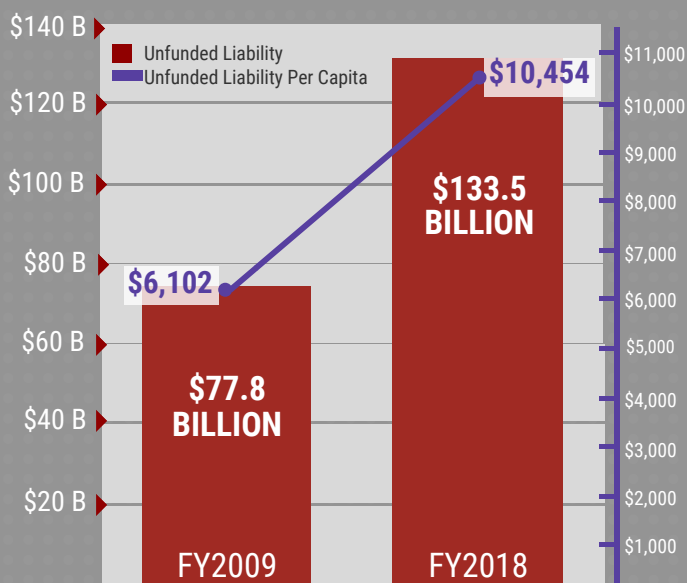
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CHAPTER 1

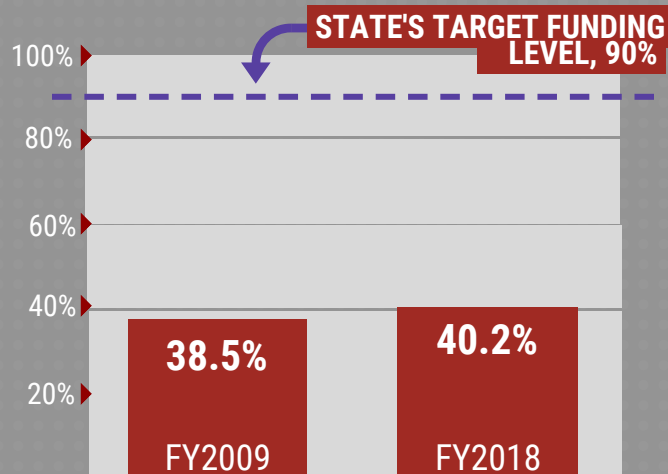
WHERE ARE WE NOW?

Figures are for all five State funds combined (SURS, JRS, GARS, TRS and SERS).

SECTION 1.1 UNFUNDED LIABILITY



SECTION 1.2 FUNDED RATIOS



* The State of Illinois is currently on a 50-year schedule to reach 90% funded. An actuarially sound pension payment plan calculates annual contributions to achieve a target of 100% funding within, at most, 30 years.

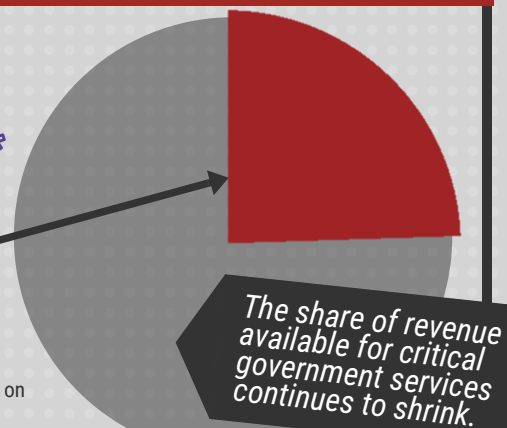
* Figures in 1.1 and 1.2 are based on a **number of assumptions**.

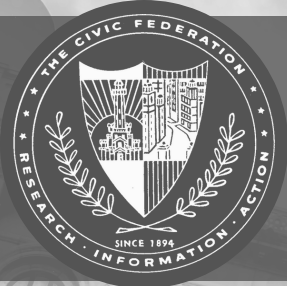
Notably, all five funds project expected rates of return on investment that are **higher** than their ten-year average actual rate of return.

SECTION 1.3 IMPACT OF PENSIONS ON THE ILLINOIS STATE BUDGET

FY2019 General Funds pension spending of **\$8.4 BILLION*** is expected to represent **24.5%** of state-source revenues.

* FY2019 contributions are subject to change, based on participation in voluntary pension buyout programs. This figure includes pension-related debt service.





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CHAPTER 2

WHAT ARE THE DRIVERS & CONSEQUENCES?

SECTION 2.1 UNDERFUNDING

Between FY1996 and FY2018, **inadequate State contributions** accounted for approximately

44.4%

of all growth in the unfunded liability of the State's five pension funds.

SECTION 2.2

COMPOUNDING AUTOMATIC INCREASES

HOW A DOWNSTATE TEACHER'S ANNUITY GROWS WITH 3% COMPOUNDED AUTOMATIC INCREASE

*In 2018, the average downstate teacher retired at **age 61** with a starting annual benefit of **\$55,596***

Base	\$55,596	Year 14	\$81,645
Year 2	\$57,264	Year 15	\$84,094
Year 3	\$58,982	Year 16	\$86,617
Year 4	\$60,751	Year 17	\$89,215
Year 5	\$62,574	Year 18	\$91,892
Year 6	\$64,451	Year 19	\$94,649
Year 7	\$66,385	Year 20	\$97,488
Year 8	\$68,376	Year 21	\$100,413
Year 9	\$70,427	Year 22	\$103,425
Year 10	\$72,540	Year 23	\$106,528
Year 11	\$74,717	Year 24	\$109,724
Year 12	\$76,958	Year 25	\$113,015
Year 13	\$79,267		

*The 3% compounded annual increase provided by many funds in Illinois is an expensive benefit, as an employee can effectively **double** their annual benefit within 25 years.*

SECTION 2.3

ROADBLOCKS TO SOLVING THE PROBLEM

CONSTITUTIONALITY

A clause in the Illinois state constitution says that pension membership is a contractual relationship that shall not be "diminished or impaired".

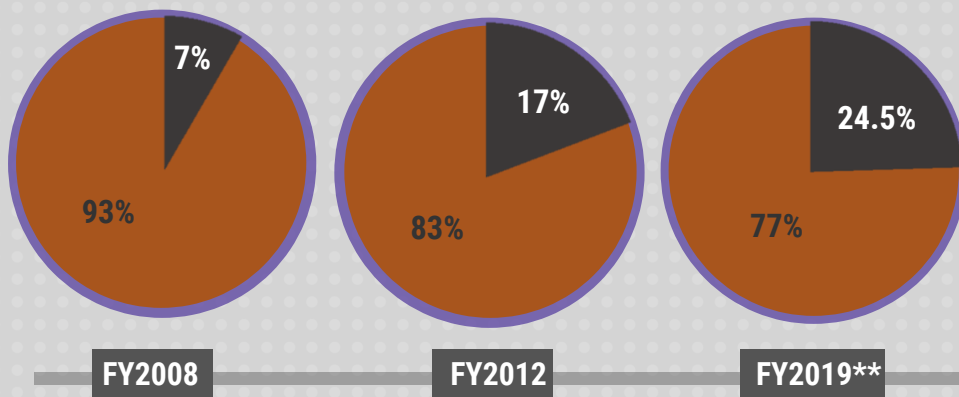
ILLINOIS COURTS

Illinois courts have ruled that any change to existing benefits, including to automatic annual increases, is therefore unconstitutional.

SECTION 2.4

THE BIG CONSEQUENCE: CROWDING OUT

STATE-SOURCE GENERAL FUNDS REVENUE CONSUMED BY PENSION COSTS COMPARED WITH OTHER PURPOSES



■ Pension costs as % of state-source revenue

■ % of all state-source revenue left for other purposes

**Estimated.

Growing pension obligations divert resources away from other critical areas, such as:



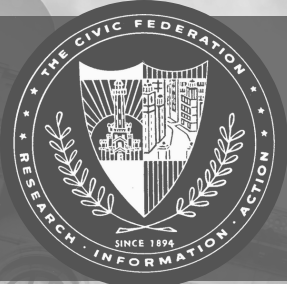
EDUCATION



PUBLIC SAFETY



INFRASTRUCTURE



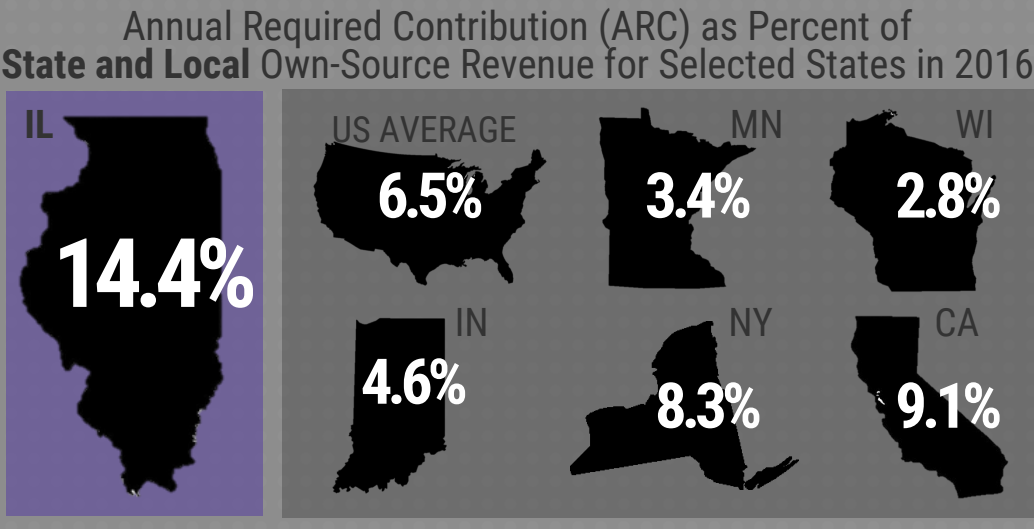
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CHAPTER 3 HOW FAR IS ILLINOIS FROM BEST PRACTICES?

SECTION 3.1 MORE OF ILLINOIS' STATE AND LOCAL REVENUE HAS TO GO TO PENSIONS THAN IN OTHER STATES

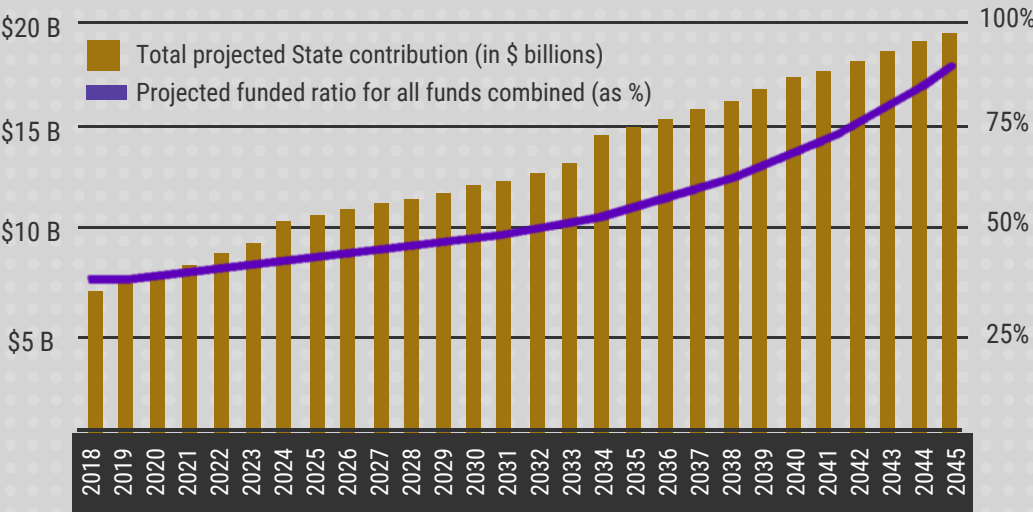


The ARC is an estimate of what the State *ought* to be paying.

It should be noted that Illinois' FY2018 contribution was only **66%** of its ARC.

Note: Data factored into the above figures includes only the largest state and local pension funds in each state | Source: publicplansdata.org

SECTION 3.2 THE CURRENT PLAN IS NOT SUFFICIENT

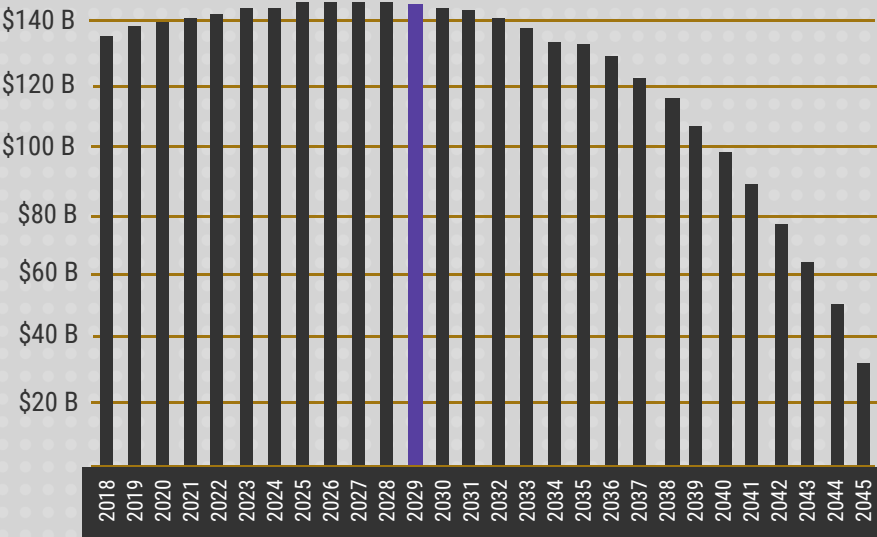


THE PLAN TO 90% FUNDED

To achieve the 90% funding goal set by the General Assembly, annual State contributions are currently projected to rise to **\$19.6 billion** in the next 27 years from \$8 billion in FY2018.

PROJECTED UNFUNDED LIABILITY BASED ON STATUTORY CONTRIBUTIONS

Even with those increases, contributions are not expected to be sufficient to keep unfunded liabilities from growing until **FY2029**.





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CHAPTER 4

WHAT HAS BEEN TRIED?

SECTION 4.1

CREATION OF A LOWER TIER OF BENEFITS IN 2010

Tier II applies to all employees hired after 2010. Changes include:



Increased
retirement
age



Capped
pensionable
earnings



Replacement of the
3% compounding
automatic increase
with simple interest

*This new tier of benefits **does not affect** current retirees or employees hired prior to 2011. Consequently, its effect on the State's finances has so far been minor and **most of the savings will come far in the future.***

SECTION 4.2

OTHER ATTEMPTS AT PENSION REFORM

A number of attempted reforms have been found unconstitutional because they "reduced" existing retiree or current employee benefits.

JAN 2014

CHICAGO PARK
DISTRICT REFORMS
ENACTED

MAY 2015

STATE OF ILLINOIS
REFORMS STRUCK
DOWN BY ILLINOIS
SUPREME COURT

JULY 2017

STATE ENACTED A
THIRD TIER OF BENEFITS,
WHICH HAS YET TO
BE IMPLEMENTED.

2014

2015

2016

2017

2018

APRIL 2014

CITY OF CHICAGO
MUNICIPAL AND
LABORERS REFORMS
ENACTED

MARCH 2016

CITY OF CHICAGO MUNICIPAL
AND LABORERS REFORMS
STRUCK DOWN BY ILLINOIS
SUPREME COURT

DEC 2013

STATE OF ILLINOIS
REFORMS ENACTED

APRIL 2018

CHICAGO PARK DISTRICT
REFORMS STRUCK DOWN
BY COOK COUNTY
CIRCUIT COURT



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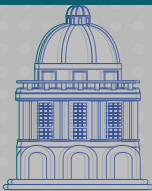
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CHAPTER 5 WHAT'S NEXT? NO EASY OPTIONS.



None of these options are sufficient on their own. Solving the problem will require a mixed approach.

CONSTITUTIONAL AMENDMENT



The Illinois General Assembly should vote to place a **Constitutional amendment** on the ballot that would clarify the pension protection clause.

BENEFITS

Could pave the way for reducing the 3% compounding automatic increase.

BUYOUTS AND CONSIDERATION



Reforms that ask employees or retirees to **voluntarily** agree to a reduced benefit could be more likely to sustain a constitutional challenge.

BENEFITS

Could result in meaningful progress without requiring changes to existing law.

CAUTION

Any such programs should be subject to a **full actuarial analysis** before counting on any savings.

PENSION OBLIGATION BONDS



The State could **borrow** tens of billions of dollars to invest in the funds.

BENEFITS

If the funds were to get a higher return on their investment than the interest the State pays on the debt, there would be long-term savings.

CAUTION

This is an **extremely risky** gamble. Poor returns on investment would effectively add to the State's overall burden. Success relies heavily on market conditions.

REAMORTIZATION



While plans vary, they generally **lower the target funded ratio** and level out annual contributions over time.

BENEFITS

Creates a more realistic funding plan with lower out-year contributions.

CAUTION

By lowering the target funded ratio, reamortization plans effectively extend unfunded pension liabilities further into the future and make paying for obligations **even more expensive** in the long-run.

REVENUE



It is unlikely that this challenge can be overcome with cuts alone. More revenue will be needed.

OPTIONS INCLUDE:

END THE TAX EXEMPTION FOR RETIREMENT INCOME

EST. WORTH IN FY2019: \$2.5 BILLION

EXTEND THE SALES TAX BASE TO SOME SERVICES

EST. WORTH BY FY2023: \$588 MILLION

CAUTION

Any new revenue should be:

- **Balanced** by spending controls
- **Reliable** and **sustainable**

(Unlike taxes on sports gambling or marijuana)



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CHAPTER 6

WHAT ABOUT THE LOCAL CRISES?

SECTION 6.1

THE MAGNITUDE OF THE LOCAL PROBLEM

Extraordinary measures have become the norm across the state:

- ▶ **Rockford, Danville, Peoria** and many other municipalities have implemented large increases to taxes and fees dedicated to funding their pensions.
- ▶ Community leaders in **Calumet Park** have even discussed outsourcing fire services as the city struggles to pay the costs associated with its part-time fire department.
- ▶ In **Alton**, officials are working to sell the water treatment plant to prop up the city's woefully underfunded pension funds. Movement on this extraordinary measure was not even sufficient to save the city from a credit rating downgrade late last year.

LOCAL
GOVERNMENTS
FROM
QUINCY to
DECATUR
ARE STRUGGLING
UNDER THE
WEIGHT OF THEIR
OWN PENSION
CRISES.

SECTION 6.2

SOLUTIONS AND STATE AID

CONSOLIDATION

ILLINOIS HAS
MORE THAN
650
LOCAL POLICE
& FIRE PENSION
FUNDS
(EACH WITH ITS OWN
GOVERNING BOARD)

*Consolidation
of these
pension funds
would **cut**
administrative
costs and
could **boost**
investment
returns.*

STATE ASSISTANCE TO AVOID BANKRUPTCY

*Many other states have
mechanisms for assisting
distressed municipalities.*

THESE INCLUDE:



Find more information at
civiced.org/LGPA

The Civic
Federation
proposes a

**LOCAL
GOVERNMENT
PROTECTION
AUTHORITY**

that could provide
expert assistance
to ailing Illinois
local governments