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Pension Modernization Task Force Summary

House Joint Resolution 65 established the bipartisan Pension Modernization Task Force. The Task Force and its four sub-committees met periodically from June 18, 2009 to November 9, 2009. The reporting date for the Task Force was November 1, 2009; however, the report was not formally issued until November 17, 2009. The report was not approved by a majority of the Task Force members; however, it does accurately represent the findings of the body. It states that the reason that the State of Illinois is faced with this “pension crisis” is not because of benefits, but instead it is due to a lack of commitment to a sound funding plan.

Findings

The Task Force found that, according to the *Wisconsin Legislative Council's 2006 Comparative Study of Major Public Employee Retirement Systems*, pension benefits in Illinois are “in the statistical median” when compared to other states. The cost of Illinois pension benefits is not out of line when compared with neighboring states. Illinois ranks at or near the bottom in terms of employer cost. In comparing the cost of Illinois pension benefits with retirement cost in the private sector, it was found that the private sector pays more than what the State of Illinois pays for pension benefits. Private employers pay the 6.2% Social Security tax and provide, on average, a 3% employer match on a 401(k) plan for a total cost of 9.2% of salary. In comparison, Illinois’ cost for benefits being earned today by members of the Teachers Retirement System is 6.63%.

The Task Force also examined the amount of savings that could be attained by adopting Governor Quinn’s two-tier proposal. While reducing benefits certainly would reduce costs, these saving would not be realized for approximately 25 to 30 years. The Task Force concluded that changing benefits now will not impact the funded status of these systems and will not reduce the required pension payment in the near-term. The subcommittee also found that the current benefit structure was not to blame for the funded status of these systems, but it is the “State’s inability to fund its pension systems according to actuarial principals.”

The Task Force recognized the dire financial situation in Illinois when making proposals for future funding of Illinois pension systems. The Task Force recommended that at the minimum the state should continue to follow the current funding plan. The Task Force recommended that the General Assembly and governor consider asset transfers such as the sale or lease of the Illinois Lottery and examine the issuance of another series of pension obligation bonds that would be used exclusively for refinancing the current unfunded liability and not used for making the normal payments to the systems.

(over ⇒)

Excerpts

"A second tier of benefits for new hires does not solve the immediate problem of paying for the existing unfunded liability."

--David Vaught Senior Advisor to the governor, currently Director of the Governor's Office of Management and Budget, October 13, 2009 letter, p. 114 of report

"...the report clearly underscores the fact that full actuarial calculated payments to the systems based on both actual cost and unfunded liability must be made."

--Pension Modernization Task Force transmittal letter, November 17, 2009

"Just to keep the unfunded liability from growing, the State should be funding pensions to the extent of about \$8.3 billion out of operating revenues."

--Minority report of the Civic Committee of the Commercial Club of Chicago, p. 54 of report

"Overall, the information presented demonstrated that current state pension system benefits were not overly generous when compared to other state public benefit systems."

--Representative Roger Eddy (R-Hutsonville) November 4, 2009 letter, p. 116 of report

"We only need to look at past failures of other states, such as Alaska, Michigan, and West Virginia, to understand that shifting state employees from a defined benefit plan to a defined contribution system is not the panacea we are hoping for the State pension systems."

--Representative Raymond Poe (R-Springfield) October 16, 2009 letter, p. 117 of report

"The only answer to this problem is for the General Assembly and the governor to enact new revenues that can both support state-funded services and pay down the pension debt."

--Pension Task Force Labor Coalition proposals, p. 136 of report

"Illinois does not have overly generous benefits."

--Center for Tax and Budget Accountability Summary of testimony before Pension Modernization Task Force, p. 139 of report

"Full actuarially required contributions have rarely been made. Pension obligation bonds have masked the problem."

--AON Consulting Pension Modernization Task Force presentation, August 12, 2009, p. 11 of presentation