Debunking Myths Spread by Supporters of Pension-Cutting Senate Bill 1

Many lawmakers and supporters of pension-slashing SB 1 are trying to justify their bad, mistaken positions. This document provides the real truth behind the bill so that you can challenge supporters.

On State Finances

Myth: *"SB 1 will save $160 billion over the next 30 years. That's more than other plans, and it'll bring solvency and stability to Illinois' finances and pension systems."*
Fact: SB 1 won't save a penny. The bill is unconstitutional, so its savings are an illusion. It's only going to cost the state time and money and kick the can down the road all over again. The state may even owe back-payments to the retirement systems or to individuals whose pensions were cut. Ultimately, Illinois' retirement systems and finances will be in worse shape than before.

Myth: *"SB 1 saves more than other plans."*
Fact: The bill negotiated by the union coalition also provided significant savings – around $140 billion – but achieved those savings in a much fairer, legal way. The coalition's plan is constitutional, so its savings are real, unlike SB 1's.

Myth: *"Pension payments are crowding out other spending and causing layoffs and program cuts to education, health care, social services, and other areas."*
Fact: Illinois has a revenue problem, and that's what's forcing layoffs and program cuts. In the same week lawmakers voted to cut pensions, they also voted for millions in new tax breaks for huge corporations. Politicians clearly don't have their priorities in the right order.

On Constitutionality

Myth: *"We need to have a bill go to court as a test case. This moves the state forward."*
Fact: Passing SB 1 as a "test case" is just another way of kicking the can down the road and not dealing with the state's real problems – like inadequate revenue to fund vital services. The Illinois Constitution is crystal clear – and so is the case law that's followed it. There's no need for a test case to prove that. It didn't have to be this way. Legislators could have passed a legal plan, such as the coalition's negotiated bill, and actually solved the problem.

Myth: *"We need to move forward so that there's no more uncertainty."*
Fact: SB 1 has caused all sorts of uncertainty. Our coalition is preparing to sue over the bill's constitutionality, which means everyone will live with continued uncertainty until the lawsuit is resolved. That does nothing to cure anyone's anxiety – and the prospect of deeply cut pensions is a cause for anxiety in itself. Again, the legislature could have chosen to vote for a legal solution supported by the coalition to address the state's pension issues, but it instead chose to tie the state up in court.

On Pension Cuts

Myth: *"SB 1 does not affect retirees. It protects them from deep cuts."*
Fact: Nothing could be further from the truth. Retirees face the same, deep, COLA-cutting formula that active employees face. Retirees' COLAs will be subject to low caps, calculated by multiplying years of service times 3% times $1,000 (or $800 for those coordinated with Social Security). Many senior citizens' pensions will be cut by around one-third because of this harmful formula.

Myth: *"SB 1 protects low-wage workers' pensions."*
Fact: Regardless of being a low-wage or high-wage worker, public employees and retirees stand to lose one-third of their pensions' value in retirement because of the COLA cut. Take the example of a sanitation worker, age 43, who will eventually retire with 25 years of service and receive a $25,000 pension benefit and Social Security. That worker stands to lose nearly $100,000 from his pension after 20 years in retirement.

Moreover, for workers 45 or under, retirement ages will increase by up to five years – regardless of their wage level. This is a pension-slashing bill, period.

Myth: *"SB 1 doesn't cut pensions – just growth on pensions that happens with COLAs."*
Fact: COLAs are an essential part of pensions. They protect senior citizens from inflation in retirement. Illinois' 3% compounded COLA is almost the same as the 30-year average of Social Security's compounded COLA (2.9%). 80% of public employees won't receive Social Security; their pension is their retirement – it's their life-savings. Employees make decisions to retire based on their full retirement package. COLAs are subject to the same constitutional protections as other parts of the pension.

Myth: *"SB 1's COLA adjusts with inflation, just like Social Security. Retirees will keep up with inflation."*
Fact: Pensions will still erode to inflation under SB 1 because the new formula that governs how COLAs are calculated cuts pensions deeply. The fact that the COLA is indexed to CPI does very little to curb the damage done by the formula. Even with CPI-indexing, the COLA is still structured to erode retirees' pensions over time.

Consider the example of a teacher with an average TRS pension of $48,000 and 30 years of service. Over the next five years, a retired teacher would lose more than $8,000 and, over 25 years, would lose more than $225,000 under the COLA formula – even with CPI adjustments. A teacher, age 49, who retires at normal retirement age will lose more than $14,000 in the first five years of retirement and more than $313,000 after 25 years.

Other Topics

Myth: *"SB 1 does not affect the City of Chicago or other retirement systems."*
Fact: Mayor Rahm Emanuel has made clear that the city's systems are next. Media reports already suggest action could be taken in early 2014 on Chicago's systems.

Myth: *"SB 1 contains a funding guarantee."*
Fact: SB 1's funding guarantee isn't ironclad. It's so weak it could lead to state underfunding all over again. The legislature could simply vote with a simple majority to change the state's required payment and totally circumvent the guarantee. This does not correct the systemic problem of state underfunding – and could lead to chronic underfunding all over again.

Myth: *"The new SB 1 is an improvement on the old SB 1. It's a compromise."*
Fact: The new SB 1 is no compromise at all. In fact, the new SB 1 is virtually the same as the old SB 1. Both versions feature almost the exact same COLA formula, COLA holidays, retirement age increases, and pensionable salary cap. The new SB 1 even expands the state's reliance on inefficient 401(k)'s that undermine defined-benefit plans. They're the same bill.