

CIVIC COMMITTEE
of The Commercial Club of Chicago



Civic Committee
State Finance
Priorities

December 2009

Civic Committee
of The Commercial Club of Chicago
21 South Clark Street
Suite 3120
Chicago, IL 60603
Phone: 312-853-1200
Fax: 312-853-1209
www.commercialclubchicago.org

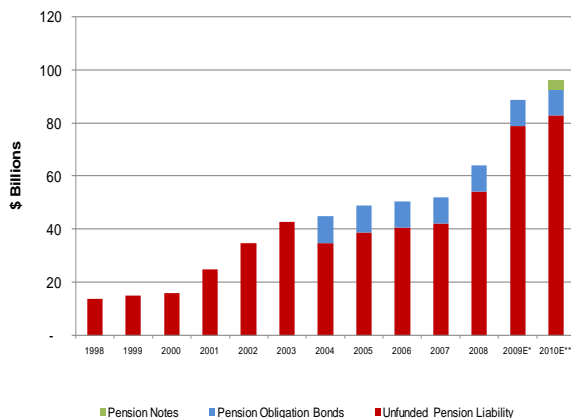
The State of Illinois is virtually bankrupt.

- The State's FY2010 real annual budget deficit – after adjusting for one-time and borrowed funds, and accrued pension and retiree health care costs – is in the range of \$15 Billion. That's just one year.
- The State's debt and unfunded obligations now total about \$130 Billion.
- The State is delaying payments to health care providers and other vendors, slow-paying its school districts and universities, and borrowing hundreds of millions to fund operations.
- Both Moody's and S&P have down-graded Illinois' debt within recent months.

We are in this mess largely because of the retirement programs for State employees and teachers, which have not been adequately funded. The State's pensions and retiree health programs are far more generous than those available to taxpayers in the private sector.

- By the end of this current fiscal year (FY2010), total unfunded pension obligations are expected to rise to more than \$95 Billion – compared to only \$14 Billion in 1998.
- The State's overly-generous retiree health plans add another \$24 Billion or more to the debt burden.

State Unfunded Pension Liability and Other Pension Debt



In September, the *Chicago Sun-Times* ran a four-part series on government pension abuses:

“Public Pensions, Fat Retirements; Thousands who worked for government draw 6 figures a year – the system costs taxpayers more than \$800 million every month.” (*Chicago Sun-Times*, September 11, 2009)

“A Public Pension – and Paycheck; Retire on Friday, start a new job on Monday – and we pay for it all.” (*Chicago Sun-Times*, September 13, 2009)

“Biggest Pension in City, Courtesy of Labor; Pension for ex-city steamroller operator isn't based on his city paychecks – it's tied to his salary as a powerful union boss.” (*Chicago Sun-Times*, September 14, 2009)

“Can State Find a Fix for Pension Crisis?; Suggestions: Give new hires less, end automatic 3% boost, raise retirement age.” (*Chicago Sun-Times*, September 15, 2009)

Today, a State worker or teacher may retire on full pension at the age of 55 or 60 – long before the normal retirement age in the private sector. (In Chicago, the worker can retire at 50 after 30 years of service.)

That worker or teacher may then take another State or local government job – double-dipping – with no limit on the total of annual pension payments received.

The State worker may retire at age 55 or 60 and receive gold-plated health insurance from the State – and the State pays 100% of the premium.

The State worker – after retirement – may have his/her annual pension payments increased each year using “cost of living” adjustments of 3%.

These practices have to stop. Unfunded retirement benefits are the basic cause of the State's fiscal crisis. Reform of these benefits is an essential element of solving the crisis. The State cannot afford to let this go on. It is unfair to the taxpayers – who do not themselves receive these benefits.

You can do two things.

First, when any candidate for State office in either party asks you for support, you can say: What are you going to do about the State fiscal crisis? We have a huge mess in the form of unfunded pension obligations. What are you going to do to clean it up? Will you support a less-costly, second-tier pension plan for State workers?

Second, if you wish to write to current officials or candidates, see the next page for a brief summary of the position the Civic Committee has taken on State finance and pension reform:

Civic Committee Recommendations

- Make major cuts in the State's operating budget – particularly in the areas of Medicaid and purchasing and contracting – and cap revenue-sharing and grants to local governments (see *Facing Facts 2009*).
- Create a second, less-costly tier of pension benefits for both new and current employees, and apply prospectively (thus protecting accrued contract rights).
 - Increase the normal retirement age to 67 and the early retirement age to 62.
 - Reduce the benefit accrual rate to 2.0% of pay for employees not covered by Social Security and 1.5% of pay for employees covered by Social Security.
 - Limit cost-of-living adjustments to 3% or ½ of the Consumer Price Index.
 - Calculate final average salary on the average of the highest consecutive 8 out of the last 10 years.
 - Adjust employee contribution levels to reflect changes in benefit levels.
- End pension abuses, such as double-dipping.
- Create a Retiree Health Care Trust Fund to develop and fund a reasonable health care program for the State's retirees through a fixed annual State contribution, contributions from active employees, and increased premium contributions from retirees.
- Fund the State's pension plans at the actuarially-determined level which would, at a minimum, keep the State's unfunded liability from growing even larger.
- Raising taxes should be the last resort – not the first. No new taxes without (1) major budget cuts, (2) an end to pension abuses, (3) prospective second-tier pension plans, (4) retiree health care reform, and (5) a realistic plan to balance the State's budget.