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March 22, 2010

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Martire on Budget Crisis

Executive Director Ralph Martire on Terry Savage's CBS "Monsters & Money". http://cbs2chicago.com/video/?id=69039@wbbm.dayport.com

REGISTER NOW!

The Economic Effects of Illinois' Fiscal Policies

The Center for Tax and Budget Accountability hosts it's 9th Annual Fiscal Symposium on Illinois' recurring budget shortfalls. Join panelists for a timely discussion on the interplay between adequately funding basic services and economic development.

Tuesday, March 30, 2010
Union League Club of Chicago
69 West Jackson Boulevard
Main Lounge, Second Floor
Chicago, Illinois 60604

Registration $50
Begins at 8:15 a.m., Program at 9:00 a.m., Continental Breakfast

Keynote: David Wilhelm, Founder and President of Woodland Venture Management and former Chairman of the Democratic National Committee

Moderator: Carol Marin, Sun-Times columnist

Panelists:

- Illinois Representative Barbara Flynn Currie, 25th District
- Illinois Representative William "Will" Davis, 30th District and Chair of the Illinois Legislative Black Caucus
- Michael Gelder, Senior Health Care Policy Advisor to Governor Pat Quinn
- Dr. Michael A. Jacoby, Executive Director, Illinois Association of School Board Officials
- James D. Nowlan, Senior Fellow with the Universiry of Illinois, Institute of Government and Public Affairs and an adjunct professor of public policy at Knox College

Click here to download a copy of the registration form.

Deadline to register is Friday, March 26, 2010

THE TRUE STORY ON PENSION FUNDS

Dennis Byrne's Chicago Tribune column on January 26, 2010, which ostensibly highlighted the fiscal strain caused by the state's $77.7 billion unfunded pension liability, sheds no real light on the subject and, in fact, simply repeated much of the misleading media coverage of this issue to date.

Faced with the annual challenge of either making its pension contribution and cutting services, or maintaining spending on services, such as education, healthcare, public safety and caring for elderly, politicians made the politically facile decision to divert revenue they should have used to fund pensions, into maintaining services, which is poor fiscal policy - but a far cry from what Byrne claims.

Again ignoring reality, Byrne contends that "overly generous public pensions are to blame for much of the state's financial difficulty". Sure, that makes headlines - but it just simply isn't true. Just like everyone else who makes this claim, Byrne cites no data to support it - because he can't. In reality, based on the Report on the Financial Condition of the State Retirement Systems as of June 30, 2009,the average pension benefit for retired employees in the state is $26,663.00, which is $2,221.90 a month. And that's it, because 78 percent of state employees do not receive Social Security.

That also means the state saves taxpayer money because it doesn't have to pay the 7.65 percent FICA tax, or a 6.2 percent payroll tax. In fact, if the state consistently made its actuarially determined employer contribution to the system, the normal cost of Illinois' pension benefits would be less expensive for taxpayers than what private employers spend on 401(k)s and Social Security.

Byrne disingenuously asserts Illinois "swiped money from the irresistible billions sitting in the pension funds" - which never happened. Illinois never took money out of the pension systems to fund services; the state just never made the payments!

That's the catch. The state has, for decades now, failed to make its actuarially determined employer contribution to Illinois' five pension systems - even thought that contribution is lower cost than the typical private sector 401(k) plan plus Social Security. The reason for that failure is simple. The very same long term structural revenue problems built into the state's fiscal system that have resulted in ongoing deficits for years, made it difficult for Illinois to fund its lower cost and competitive pension system. So it didn't.

Byrne's disdain for facts is nowhere more apparent than in his proposed solutions to the unfunded liability problem. He claims the state's need to under fund the pensions would go away if only Illinois would stop the "ballooning expense of state government." Newsflash: After adjusting for inflation and population growth,

Illinois' FY 2010 General Fund appropriations for services of $26 billion is $600 million to $2.1 billion less than it was a decade ago. Of this amount, nine out of ten dollars goes to education, health, human services and public safety. Bottom line: Illinois is low spending, ranking 45th nationally and going lower.

Even worse, Byrne's suggestion that Illinois switch new hires out of the current defined benefit system and into a defined contribution 401(k)-styled system would cause a financial meltdown. Why? Because the contributions of new workers wouldn't go into the pension system that already results, draining the only reliable funding sourced those systems have had. After all, teachers, social workers, police officers and health care workers never took a pension holiday - they've contributed fully to their retirement benefits every year. Byrne's suggestion is so unworkable that it wouldn't reduce the unfunded liability by one red cent, but it would cost taxpayers hundreds of millions more in administrative costs. That's been the real life experience of conservative states like Nebraska and West Virginia who made this mistake years ago and recently switched back to defined benefit programs -- to save taxpayers money.

The states poorly designed revenue system created the structural deficit that in turn gave elected officials incentives to shortchange the state's employer contributions to its pension systems. Pension funding reform is not possible without enhancing state revenue through a substantial reform that both modernizes the tax system and makes it fairer.

One more important point on public pensions has to be highlighted - their economic impact. When former workers receive their state retirement benefits, they don't stuff them in their mattresses. Instead, retirees spend their pension benefits on purchases in the local economy, like utilities, mortgages, prescription refills and groceries. This spending stimulates local economies statewide, creating and/or supporting the private sector. The positive impact this has in Illinois is substantial. In fact, according to the National Institute for Retirement Security, for fiscal year 2005-2006, Illinois' public pension benefits had a total economic impact of more than $12.9 billion. Each taxpayer dollar invested in Illinois' public pensions supported $5.62 in total state economic activity, while each dollar paid in benefits supported $1.50 in economic activity. Given that over three-quarters of state workers do not get social security, a significant cut in state pension benefits will ultimately hurt businesses across Illinois.

- Bukola Bello, CTBA Director of the Illinois Retirement Security Initiative (IRSI)

Overview of Human Service Funding

Human services in Illinois are primarily overseen by three agencies: the Department of Human Services (DHS), the Department of Children and Family Services (DCFS), and the Department of Aging. Each of these agencies receives the bulk of its funding from the State of Illinois' General Revenue Fund. For Fiscal Year 2010, the Illinois General Assembly appropriated $5.45 billion to be spent across DHS, DCFS and Aging. Due to the state's anticipated revenue shortfall of just over $1 billion for FY2010, it is unlikely the full appropriated amounts for DHS, DCFS and Aging will actually be available in FY 2010. This would continue a pattern of human service cuts by the state.

In fact, after adjusting for inflation (using the Midwest CPI), since FY2003 Illinois has cut an average of $385 million per year from its funding for human services. That means in total, DHS, Aging and DCFS programs have been cut by $3.0 billion through FY2010. In addition, from FY 2002 through FY 2010, Illinois' population increased by 5.2%. To merely keep pace with the increasing population, Illinois would have had to increase human services funding, on average, by $169 million per year, rather than cut it.

So, after accounting for both inflation and population growth, the state has cuts its funding for human services

by a total of $4.4 billion since FY2002.

Illinois has the fifth largest population and economy of any state, yet ranks in the bottom ten states in terms of General Fund spending as a percentage of GDP. The idea that Illinois is spending too much of its budget on human services is simply not supported by any data.

The effects of Illinois' systematic cuts to human services are being felt more heavily now than ever. Couple the annual cuts to the budget for essential human services with the current nationwide recession, and you get a perfect storm of increased demand for human services, and a state that is simply unable to provide a baseline level of human services to those most in need. Moreover, the impact of the cuts extends beyond those who need the services. Close to 75% of all Human Services in Illinois are delivered by private businesses. The cuts to human services funding, therefore, have resulted not only in people who desperately need these services (such as developmentally disabled adults, at-risk children, homebound seniors, or people dealing with mental health problems) not being able to receive them, but also in job losses for the individuals who contract with the state to provide the services in question.
- Yerik Kaslow, Research Associate

For more information, see CTBA's "Special Report: Illinois State Funding for Human Services in Context" or for a copy of the report, click here.

SOON TO BE RELEASED

CTBA's State of Working Illinois 2009 report, the latest information on job, wage, benefit and industry trends in Illinois from 1990 through 2009, will be released in the near future. Watch for publication announcement!

Feedback: Contact CTBA editor Kathy Miller with your comments:
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