PENSION OVERHUAL DECIMATES BENEFITS FOR FUTURE HIRES

Short-term gains will produce undeniable long-term consequences

Chicago, IL (April 20, 2010) On April 14, 2010, Illinois drastically changed public employee pensions for all future new hires. Public Act 96-0889 was the largest and most substantial pension overhaul in the country. Higher retirement ages that will harm Illinois' education system and reduce public safety? Check. Reduced inflationary protection for vulnerable retirees? Check. Mandated pension holidays to continue the cycle of fiscal irresponsibility? Of course!

Proponents of the changes are claiming that this new law will reign in "Cadillac" pensions and improve the State's bond rating. However, last summer's Pension Modernization Task Force found that public employee retirement benefits in Illinois are below average, cost less than what private sector employers pay for retirement benefits, and due to insufficient revenues, the 1995 funding "ramp" is severely inadequate.

Despite years of discussion and thoughtful debate on how to maintain a fair level of pension benefits for employees, the General Assembly and Governor have enacted a law that does absolutely nothing to address Illinois' $77.8 billion unfunded pension liability.

The new law tackles the issue of an older workforce by increasing the retirement age, but this provision may have unintended consequences. Those in favor of increasing the retirement age do not believe it will affect Illinois' ability to attract and retain quality employees, but they may not be looking at the entire picture.

Specifically, proponents of increasing the retirement age may be taken aback at the normal retirement benefit provisions of other states competing for Illinois' top workers. Following the passage of P.A. 96-0889, Illinois now has the highest retirement age for teachers and public employees in the country!

Individuals will have to weigh the option to work until age 67, as educators in overcrowded poorly funded schools, or move to another state where the retirement age is younger. Future police officers and firefighters will have to weigh the option to work in a dangerous profession where injury or disability is evident, until age 60, or move to another state and retire at a much younger age.

Even more alarming, is the deliberate underfunding of the Chicago Teachers' Pension Fund. The new law underfunds the Chicago Teachers' Pension Fund by $1.2 billion over the next three years. What many do not realize is this underfunding will result in an additional $12 billion in Chicago property tax dollars being needed over the next 30 years. Ouch!

What seems to be lost among many is that each of these short-term gains will produce long-term consequences. The new reduction in the cost of living allowance for new hires will be the lesser of 3% or one-half of the Consumer Price Index for the preceding year. COLAS were implemented to provide inflationary protection for those that do not receive Social Security. Teachers, state employees, firefighters, police officers, university professionals, secretaries and groundskeepers constitute 78% of the public sector that will live on a fixed modest income.

In fact, according to the Bureau of Labor Statistics, metropolitan Illinois has seen a steady increase in the cost of essentials like food, housing, healthcare, gasoline, utilities, transportation and medical care. Overall, the cost of living increased by 17.8% during the 2001-2009 periods, when real wages for most Illinois workers were declining or stagnating. The fact that a portion of the population receives a pension means that a large number of older American households avoid material hardships associated with inadequate food, shelter, and healthcare.

"Real pension reform doesn't hurt minorities," said Representative Will Davis (D-Chicago) who voted against SB 1946. "It doesn't commit them [or anyone who is living on a fixed income] to a lower quality of life."

The reality is the new reduction in COLAs for many public employees will drive up the costs for the state in providing public assistance to those that once were able to afford the rising costs associated with inflation self-sufficiency.

P.A. 96-0889 was passed under the belief that Illinois would be able to recoup between $500 million to $1 billion in projected savings. However, the basis for that claim is unsubstantiated. Before the bill was passed not a single actuarial analysis was completed to determine the approximate savings, the impact to the systems and its workers.

Any theoretical or anticipated long-term savings have to be reduced by very real long-term costs. By taking short-term anticipated savings today the state is making the same reckless gamble it previously lost. The state should not be permitted to spend the present value of any hoped for long-term savings in the current fiscal year. That type of irresponsible fiscal practice propelled the state into the situation it finds itself in today.

# # #

If you would like more information about this topic, please read the IRSI Briefing paper titled "Swift Reform, Questionable Savings, Delayed Consequences" at www.ctbaonline.org , or call 312-332-1103 or email Bukola at bbello@ctbaonline.org.