<u>Illinois Pension Crisis in a "Nutshell"</u>

The magnitude of the deficit related to public pensions that the State of Illinois, the City of Chicago and municipalities across the state is substantial. The Commercial Club of Chicago, The Civic Federation and the Illinois Municipal League as well as very prestigious law firms, public relations firms and lobbyists have led the call for reductions of benefits and changes to public employee pension systems throughout the state. These prominent business and civic minded organizations have collectively cast the blame for the fiscal woes of the State of Illinois, the City of Chicago, as well as many municipalities, on public employees and the costs associated with unfunded financial obligations of their pension funds.

All of these "so-called" civic minded organizations have shocked the average taxpayer with the estimated price tag to 'fix' the various pension systems. Public employees, unions and pension funds have sustained a barrage of accusations such as: insufficient employee contributions, faltering pension fund investment portfolios and overly generous benefits. A look into the history of how the pension crisis in and throughout the state has evolved demonstrates that none of the accusations leveled by these organizations are the root cause of the current fiscal mess. However, no matter how the crisis evolved, it must be addressed in a manner which provides for equitable solutions and meaningful reform.

According to the National Institute on Retirement Security (NIRS), State of Illinois government employees' pension contributions and benefits are comparable with other states as well as private sector pensions. Studies, including The City of Chicago's Mayor's Commission to Strengthen Chicago's Pension Funds found that Chicago employees pay a higher percentage, as much as 9 1/8% of salary and receive benefits under a lesser formula than most of the U.S. public employee benefit plans surveyed. So, the cause of the Illinois fiscal crisis is not attributable solely to employees making insufficient contributions or obtaining overly generous retirement benefits. Additionally, as an elected trustee on the Firemen's Annuity and Benefit Fund of Chicago, our investment return average over the past 20 years exceeds 9% which beats the estimated target returns. It is a misdirected and misguided argument for politicians and regulators to assign the culpability for the current public pension "under-funded" problems to the pensions themselves; especially given the elevated relative historic return of the FABF and other public defined benefit plans with similar long term performance.

The challenges facing Illinois pension funds today have existed for many years. The State of Illinois and many municipalities across the state historically have historically not properly funded their respective retirement plans. A pension crisis nearly forty years ago led the State, in 1971, to enact a constitutional guarantee of government sponsored pensions in. Since then, three separate court cases involving employer funding of public sector employee pensions were argued all the way to the Illinois Supreme Court. In *The People ex rel Illinois Federation of Teachers, AFT, AFL-CIO vs. Lindberg*, 60 Ill.2d 266 (1975), *McNamee vs. State of Illinois*, 173 Ill.2d 433 (1996) and *The People ex rel Sklodowski vs. The State of Illinois*, 182 Ill.2d 220 (1998) the Court held that the concerned employees did not have a right to compel their respective government employers to make appropriate contributions until the retirement plan became insolvent and unable to pay the benefits promised.

In light of the Illinois Supreme Court's decisions, the State of Illinois, the City of Chicago and many municipalities throughout the state however, continued to fail in adequately funding their retirement systems. While the Illinois Supreme Court historically has upheld or overturned other decisions based on public policy reasons, allowing legislators to put the State in a massive fiscal crisis, ignore the very real and imminent threat to the retirement security of innocent public servants were not the type of public policy issues which the Court felt compelled to take a leadership stand on. The Illinois Supreme Court essentially nurtured the current crisis by giving state and municipal elected leaders the green light to ease budget problems, keep property taxes as low as possible and protect pet projects at the expense of the retirement plans and an unsuspecting taxpayer.

On the state level, legislators deprived the retirement systems of revenue on several occassions by legislatively reducing or eliminating employer contributions to various State sponsored retirement systems. These legislative directives were called "holidays". In Chicago, the Municipal Employees Benefit Fund and the Laborers Pension Fund were mandated to provide three early retirement initiatives over the past twenty years, while employer contributions were legislatively reduced. The City was thereby able to reduce payrolls and contributions. The City's actions added a significant stress to their retirement systems by requiring that they pay benefits sooner and with less money to provide for the promised benefits. The Chicago Teachers Pension Fund essentially funded school reform. The Chicago Tribune reported that the City with the aid of allies in Springfield essentially took a 10 year holiday from contributing to the Chicago Teacher's Pension Fund depriving it of over 1.5 billion dollars. Throughout the state, the Illinois Public Pension Fund Association (IPPFA) has found that many municipalities utilized overly aggressive assumptions that reduced the employer's required contributions to their retirement systems. Collectively, Pension Funds across the state have been required to pay legislatively mandated disability, retirement and survivor benefits with less revenue.

In failing to fund their employee's benefits, the State of Illinois and municipalities throughout the State reaped billions of dollars in short term savings that were budgetary windfalls. These savings are in addition to those savings attributable to the fact that many of these government employers were not required to pay the Social Security payroll tax and worker compensation insurance as is required by all private sector employers. These benefits are often paid directly from the retirement systems. Prior to 1986, public employees were not eligible for Medicare. These units of government did not have to make these contributions either. The cost of siphoning off the necessary contributions from the pension funds to fund other legislative priorities was to pass billions of dollars of unfunded pension obligations to taxpayers, create the current crisis and undermine the retirement security of hundreds of thousands of Illinoisans. All taxpayers, as well as public employees should be furious.

Many commentators on the subject blame the economy for the current pension crisis. It is definitely a contributing factor. However, when times were good, the State of Illinois, the City of Chicago, and many municipalities throughout the State did not make the necessary actuarial required employer contributions to their retirement systems. It should also be noted that that when the economy worsened, the same legislators again chose to kick the can down the road, failing to make necessary employer actuarial required contributions. In every economic environment, our legislatures have failed to properly fund the retirement systems causing the costs to pay for the promises that have been made to public employees throughout much of the State to skyrocket. This is similar to what occurs when individuals keep using their charge card and only make the minimum payment toward the account, and continue to spend money they don't have. Sooner or later, the holder of the debt becomes concerned and raises the debtor's interest rate or refuses to extend any more credit. This is the situation the State of Illinois has had to confront over the past several years. The debt situation forced the state to raise the personal and corporate income taxes to pay overdue bills to begin and regain the confidence of creditors.

Since the pension crisis has come to attract considerable public attention, many legislators have honed in on the advice of corporate leaders to assist in resolving the pension crisis in this state. The track record of some of those involved or utilized as outlets are highly suspect, given that several corporations advocating for reform leveraged their businesses into bankruptcy and decimated employees and shareholders alike. Too frequently, the only winners in advice proffered by these business experts are the corporate executives themselves, who even in today's sluggish economy are reported to be reaping record bonuses. In spite of what many of these corporate leaders have led their employees to believe, defined benefit plans, like the Illinois Retirement Systems that have been decimated by political irresponsibility, are not more costly than defined contribution retirement systems. They are only more costly when irresponsible employers fail to make the proper payments for decades.

Many commentators and corporate interests advocate defined contribution plans like 401k's as an alternative for defined benefit plans. While there is the potential for 401k's to provide adequate retirement security, the data shows that self managed retirement vehicles are improperly utilized, and that there are tremendous adverse social implications of an aging society with insufficient retirement savings being forced onto public assistance programs because they aren't investment gurus. Additionally, as a society, we really do not want every member of society to focus on investments and investment returns. We need teachers, innovators, doctors, nurses, craftsmen and laborers. We also do not want firemen running into a burning building or police officers apprehending criminals wondering if there is enough money in their 401k to provide for their families if they should succumb to the dangers of their occupation. To require every member of society to have the supposed financial acumen of some of the leading commentators on pension reform is ludicrous.

In times as trying as these, it is easy to recognize the concerted effort by some "so called" leaders, opinion makers, and journalists to assess blame. They have rounded up all the likely suspects for sentencing. The public is being led to believe that the economy, public pension funds and their greedy current and retired participants are the root cause of what ails Illinois. I beg to differ. Public sector employees are being targeted to deflect attention from the true culprits in Illinois fiscal crisis. The root cause is a failure of leadership. Legislators must stop using the pension systems as cash cows and finally end pension holidays. The failure to make the necessary payment to the systems is bad public policy as the short term gains create long term fiscal problems. Additionally, the state must establish and enforce appropriate funding levels without wavering. Finally, we all as Illinoisans must demand the end of any abuses of our pension systems but support keeping our promises to those who have faithfully served the public delivering vital public services by cleaning the streets, picking up garbage, teaching children, caring for the elderly, fighting fires and keeping our communities safe and livable.

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