

Pension Modernization Task Force

Key Recommendations

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Key Principles for Consensus and Compromise

- **Appropriate funding of pension costs and obligations from numerous sources is necessary to maintain and stabilize the pension system.**
- **Sufficient new revenues will be required to achieve appropriate funding.**
- **Modernization and reform are needed to demonstrate our continued commitment to a defined benefit pension system.**

Key Elements:

❖ Funding

- Consistent and increased funding is required to meet the state's constitutional and legal obligation to fund existing and future pensions.
- The 1995 ramp was too long and gradual to secure a good funding system. A new phase in, whether by a ramp or stair-step increases, is necessary to move from the funding currently required in FY09 to full actuarial funding, targeting 90% funding in 2045. This phase-up of funding needs to occur over a multi-year period shorter than the 1995 ramp at annual increases within the capacity of state revenue growth.
- Asset smoothing should continue to prevent disruption of state budgets as markets change.
- Increases in employee contribution rates help provide a
 - secure,
 - reliable, and
 - steady source of increased fundingbut should be implemented through the collective bargaining process.
- Pension obligation bonds, such as those suggested in the prior legislative session by Senator Harmon, should be used to re-finance a portion of the existing unfunded liability. Bonding about 20% of the unfunded liability would provide a downpayment to supplement regular annual payments, and if financed at less than the actuarial rate, would
 - provide long-term savings,

- provide needed cash for reinvestment by the pension systems, and
- would provide a more secure guarantee of payment by the state.
- Reduction of the actuarial target from its current 8½% rate to 8% would make pension funding actuarial calculations more conservative and more realistic. It would recognize that a portion of pension portfolios are invested in safer, lower yielding fixed income instruments.
- Broader investment policy, including the implementation of Public Act 96-0753 (HB 2557), should be utilized to maximize diversification and return.
- Asset infusions should continue to be pursued as possible funding sources to minimize the unfunded liability.

❖ Revenue Enhancements

- The existing state structural deficits, where expenses grow faster than revenues, must be brought into balance to enable adequate pension funding.
- Increases in taxes based on ability to pay must be utilized as part of a funding solution.
- Consideration should be given to studying the taxation of some early retirement income, not including any social security payments. Illinois is one of only two states that do not tax some retirement income.

❖ Modernization and Reform

- Modernization, including the current provisions of SB 1292, sponsored by Rep. Kevin McCarthy, is a necessary element in a package to successfully address funding and revenue elements.
- Pension modernization provides long-term savings to the pension system.
- Existing benefits for existing employees should remain intact, and modernization should only apply to new employees as they are hired after an appropriate transition period for implementation.
- Some moderation of retirement age provisions could be made, provided the remaining provisions of SB 1292 are intact, to provide a substantial, and not just a token, reform.
- Outlier provisions, such as double-dipping, union perks, and other outlier perks that favor only a small proportion of annuitants, must be reformed to insure that the larger number of moderate pensions do not appear tainted as well.