
LABOR COALITION TASK FORCE PROPOSALS

The labor coalition of this Pension Task Force, consisting of members from the Service Employees International Union, Illinois Federation of Teachers, American Federation of State County & Municipal Employees, and the Illinois Education Association, would like to propose the following statements for the task force to endorse:

- The Illinois pension funding crisis is massive, and the need for a solution is urgent. The current \$70 plus billion unfunded liability for the five Illinois state pension funds, and the nearly \$10 billion owed to the holders of the Pension Obligation Bonds, were primarily caused by inadequate funding, that is, funding by the state well below the GASB standard of Actuarial Required Contributions (the ARC as defined as the normal cost plus amortization of the unfunded liability over 30 years). Covered employees have always made their full contribution as required by the Pension Code.
- The proper discount rate for valuing the unfunded liabilities of the five state pension systems is their long-term actuarial assumption for the rate of return on plan assets. The Task Force recommends that each of the systems examine the current assumption to see if modification is warranted by current market conditions. Using a low risk discount rate, as is required for U.S. private pension funds, is NOT appropriate for public pension funds, and would end up costing taxpayers more to address the pension funding crisis.
- The longer Illinois waits to address this problem, the larger it will get. Solving the problem sooner will be much less costly.
- The retirement benefits for Illinois public school teachers, university employees, and state employees are, as a whole, comparable to similar plans sponsored by other states. In addition, the employee contribution rates for these Illinois public sector workers are comparable to similar public pension plans.
- The state's normal cost is very affordable, in light of the fact that there is no FICA tax for over 75 percent of the workers. These benefits are more affordable than the average cost in the private sector. This is because Illinois teachers, university employees, and state employees contribute significantly more to their retirement plan than is typical in the private sector.
- A second tier of pension benefits for new hires does not solve the problem of how to pay for the current unfunded liability. The only answer to this problem is for the Illinois General Assembly and the Governor to enact new revenues that can both support state-funded services and pay down the pension debt.
- The General Assembly should create a funding plan based upon the actuarial required contribution, targeted to 100 percent of actuarial liabilities, with no unsustainable funding "ramps."
- Currently, the five state pension funds are on year 15, the final year of the ramp period defined in the current pension funding law, which went into effect for FY 1996. At a minimum, the General Assembly must follow current law and fund the pensions at the required level for FY 2011 and beyond. Anything less than



this would repeat the problems of the past, deferring our pension obligations to future taxpayers.

- The General Assembly should consider modifications to the Pension Code to encourage employees to continue working beyond the years required to accrue the maximum pension percentage. Properly structured, these modifications could reduce the burden on the state's pension costs and help retain valuable employees.
- The pension obligation bonds issued so far by the state have been used in large measure as a substitute for regular pension contributions from the General Revenue Fund, in effect borrowing to pay the ongoing cost of pension benefits. This is a band-aid approach and is not sound public policy. In the future, such pension obligation bonds should be used ONLY as a pure debt swap, and the repayment to the bond holders should be done on a level-dollar basis (and never back-loaded), and only in tandem with the required ARC for the normal cost and the remaining unfunded liability on the books of the pension funds. Pension Obligation Bonds should only be considered when market conditions look favorable.
- The state should convene a pension policy task force every 3-5 years to evaluate the pension systems' performance.