Illinois Pension Reform Is No Permanent Fix

When Illinois House Speaker Michael Madigan opened debate over his bill intended to solve the state's $100 billion shortfall in funding four of its five public pension plans, he said:

> There will be changes here, much-needed changes, but this bill is a well-thought-out bill, a well-balanced bill that deserves the support of this body, the state Senate, and the approval of Governor Quinn.
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> Something's got to be done. We can't go on dedicating so much of our resources to this one sector of pensions.

Madigan instead birthed a mouse on Tuesday that passed the House, 62 to 53, and the Senate, 30 to 24. The cuts in Madigan's bill were minuscule, but they were sufficient to offend Democrats who did not want to make any cuts whatsoever. On the other hand, Republicans did not like the bill because the cuts didn't go deep enough.

The bill, which Quinn is expected to sign shortly, contains modest reductions in the cost-of-living-adjustments — COLAs — that apply to retirees drawing benefits from the plans, but also extends slightly the time required for employees to start receiving those benefits. As a sop to the unions, the bill also includes a provision allowing the pension plans to sue the state if at any time in the future the legislature fails to fully fund those four pensions.

Amazingly, in light of the fact that all three credit rating agencies have now given Illinois the lowest rating of any state in the country partly because of these pension plan shortfalls, Madigan's bill *reduces* current contributions from the state's employees to the plans.

Madigan's bill is a compromise from his previous offering that would have made deeper cuts in benefits; it looks more like Senate President John Cullerton's offering, which was even less realistic. Even so, union-backed political action committee We Are One promised a legal challenge to the bill on the basis that it would rob future retirees of their benefits. According to a study offered by that group, a person with a $50,000 annual pension who has worked for 30 years to get it will have lost 80 percent of its purchasing power 20 years into his retirement. A statement from We Are One claimed:

> This is no victory for Illinois, but a dark day for its citizens and public servants. Teachers, caregivers, police and others stand to lose huge portions of their life savings because politicians chose to threaten their retirement security, rather than pass a much fairer, legal, negotiated solution.

State House Representative Dennis Reboletti said, "There will be lawsuits filed as soon as Gov. Quinn finishes the last 'N' on his name" signing the bill into law. Illinois' constitution provides guarantees that present and future benefits, once enacted, cannot be reduced, setting the stage for a battle similar to the one being waged in Michigan.

There are other problems facing the bill, not the least of which is the dubious accounting finagling that Madigan employed in order to promise that the bill would save an estimated $160 billion over the next 30 years and fully fund all plans by 2044. Madigan also estimated a savings of $20 billion in the first year. However, a closer look at the bill by Jonathan Ingram of the Illinois Policy Institute, revealed the financial finagling necessary even to get to that number. Said Ingram:

> It turns out that somewhere between $6 billion and $8 billion of Madigan's promised reduction is solely the result of accounting gimmicks….
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> This new accounting method [provided for in the law] actually increases the state's unfunded liability … in the short term….
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> [Madigan's bill] simply delays implementing [that] accounting change until fiscal year 2016. This means that the state gets to pretend that at least $6 billion to $8 billion of the pension debt simply doesn't exist for now.

Such finagling and claims of reform over the last two decades have led to increases, not decreases, in the pension plans' unfunded liabilities. For example, in 1996, then-Governor Jim Edgar proposed a "pension ramp" which was designed to eliminate the state's then just $20 billion pension plan shortfall. Eight years later that shortfall had risen to $43 billion. In 2003, then-Governor Rod Blagojevich borrowed $10 billion to plug the hole, but by 2009 the hole had increased to $78 billion. Present Governor Pat Quinn borrowed $3.5 billion in 2009 and another $3.7 billion in 2010 to close the gap, but by the end of 2011 the gap had widened to $83 billion. In 2011 Quinn signed into law a tax increase, bringing in an extra $20 billion to close the gap, but instead it widened further, to the present $100 billion.

All manner of solutions abound, from cutting benefits to delaying retirement dates to increasing contributions from employees to reducing the COLA to setting up 401(k) defined contribution plans. But none of these will work if there is no will or determination to do so. That takes character, will, integrity, commitment, responsibility and a large dose of reality. At present, these continue to be in short supply in Springfield.

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