# We Are One Illinois
# Pension Benefit Cut Analysis – Summary

*Introduction*

- **The Problem Is the State's Fiscal Irresponsibility and Unreliability**: It is universally accepted that Illinois faces the worst pension situation in the nation. For decades, politicians in Springfield failed to make adequate, actuarially-sound payments into the state's pension systems. Most egregiously, in certain years, the state completely skipped making payments. As a result, the state dug itself into an astounding $95 billion hole.
- **The Problem Is <u>Not</u> Outrageous Benefits or the Dependability of Workers' Contributions**: Benefit levels are not the core of the problem. On average, Illinois public employees receive a modest $32,000 benefit. Almost 80% of Illinois workers in state-funded pension systems are ineligible for Social Security, making pensions their only reliable means of retirement security. Meanwhile, despite decades of the state's fiscal negligence, public employees faithfully paid into the system. There were no "pension holidays" for workers – just the assurance that their retirement benefits, which they worked for years to earn, would be waiting for them unaltered upon retirement.
- **The Constitution Explicitly Protects Pension Benefits – and Does So Because of the State's Past Fiscal Neglect**: Fortunately for public workers, that assurance is guaranteed in Article XIII, Section 5 of the Illinois Constitution – the Pension Protection Clause – which became a part of the constitution because of the state's past fiscal irresponsibility. It reads: "Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." Indeed, this clause was amended into the constitution at a time when Illinois' pension systems were at similarly low funded ratios.
- **The "Quinn Plan" (HB 1447) Violates the Constitution by Coercing Employees and Retirees into Diminishing their Benefits through a No-Win False "Choice":** The Quinn plan forces workers and retirees to "choose" to cut their future pension benefits and lose access to retiree health care in order to keep a cost-of-living-adjustment (COLA) that keeps pace with inflation. Alternatively, workers and retirees can "choose" to ensure their COLAs will lag inflation, in exchange for access to an uncertain, unspecified retiree health care benefit. Either way, workers get less retirement security through a coercive, unconstitutional false "choice."

*Key Findings: Quinn Plan*

- **Inflation-Compounding Eats Away Uncompounded COLAs:** The white paper demonstrates:
    - Employees who "choose" the diminished COLA *would forfeit a third of their inflation-adjusted purchasing power over the first twenty years of their retirement*.
    - Because the diminished COLA lags inflation by design, *income replacement rates in retirement would fall to 40% to 60% of final pay* after twenty years of retirement. (Experts recommend income replacement rates of 85% to maintain living standards.)
    - When compared to Social Security's fully inflation-indexed system, the Quinn plan COLA would leave retirees with *a monthly check that is 25% less* than an annuity adjusted according to Social Security.
- **Meanwhile, Retired Americans Are More Susceptible to Inflation:** The effects of inflation are particularly pronounced for retirees. Compared to other age groups, older Americans more frequently purchase services, such as health care, that are susceptible to higher inflation rates.
- **The Quinn Plan Will Hurt the Illinois Economy:** A Teachers' Retirement System study found its retirees are highly likely to remain in Illinois (i.e., 80% do). That means they spend their pension earnings in Illinois, which has a multiplier effect and thus creates jobs in Illinois and contributes to the state's overall economic health. The study found that teachers' pensions and benefits injected $3.1 billion into the Illinois economy, which supports over 32,000 full-time jobs.

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- **The Bottom Line:** Payments to the pension funds are not only a constitutional necessity but the fulfillment of the state's ethical obligation to the people who teach our children, keep our communities safe, and provide assistance to those in need. The public workers Illinoisans rely on – teachers, caregivers, firefighters, nurses, police officers, and corrections officers, to name a few – have been promised a secure retirement in return for their service. The state must stop using its pension funds as a credit card to pay for education, public safety, health care, and other core services, and it must repay the money it has borrowed from those funds. At the same time, it is critical that Illinois has replacement revenue to fund the vitally important public services that have historically been sustained by pension borrowing.

*Key Findings: HB 6258*

- **The Latest Pension Proposal, HB 6258, Contains Positive Developments, But Also Significant Problems**: Our coalition appreciates the latest attempt by lawmakers to move the pension conversation forward. Certain elements of HB 6258, such as a type of pension funding guarantee from the state accompanied by a dedicated revenue stream, mark positive developments. However, HB 6258 also has significant problems, for example:
    - **HB 6258's COLA Cuts Are Nearly as Bad as the Quinn Plan, and Other Components Further Balance the Pension Debt on the Backs of Workers**: Because the COLA caps are not indexed for inflation and COLAs are delayed, retirees in TRS or SERS would lose between 28% and 31% of their purchasing power in retirement under our study's model. The bill also increases retirement ages for middle-aged and younger workers, caps pensionable salary, and increases employee contributions.
    - **Questions Linger on HB 6258's Constitutionality, Actuarial Impact, and Feasibility**: HB 6258 would unilaterally diminish or impair already accrued benefits for workers and retirees in Tier I. On its face, this would appear to violate the Illinois Constitution's Pension Protection Clause even more blatantly than the Quinn Plan. Furthermore, it is also unclear at this time whether the legislation generates enough revenue for the pension systems to become actuarially sound or whether the payment schedule is fiscally feasible. One of the bill's lead sponsors commented at the onset that HB 6258 "is not a bill that has gone through robust actuarial analysis," and so we are awaiting further study on this aspect of the legislation. Lastly, a preliminary study suggests the HB 6258 cash balance plan for SURS offers a benefit too low to qualify as an alternative to Social Security.