The real facts about public pensions in Illinois

Public employees earn less than private-sector employees, even when health and retirement benefits are included. A recent study by the University of Wisconsin-Milwaukee revealed that state workers earned 11 percent less and local workers 12 percent less than comparable private sector workers between 2000 and 2008. Here in Illinois, state and local employees did even worse over the same period, with differentials of 12.5 percent and 13.3 percent, respectively. "Public workers get lower pay than private-company employees even when benefits are included," Bloomberg reported. "Total compensation is 6.8 percent lower for state employees and 7.4 percent less for local workers [and] the pay gap is widening".

The vast majority of participants in state-funded retirement systems do not receive Social Security. Their pension is their only retirement income. Nearly four in five participants in state-funded retirement systems (78%—including teachers, other school district workers and university employees) don't qualify for Social Security. For most public employees, their pension is the sole source of retirement income.

Even for those who do receive Social Security, pension benefits are very modest. The typical retired state employee on the standard formula—those who do receive Social Security, including the caregiver for the disabled, the child protection worker, the state park employee—earns a pension of about $22,000 a year. Here's the simple math: State employees accrue a modest benefit of 1.67% of their final average salary for every year they worked. (That percentage is lower than the 1.94% national average for public pension plans.) The typical state retiree leaves the workforce with 24 years of service; multiplied by 1.67% this yields a pension benefit of 40% of the final average salary.

Public employees contribute significantly to pay for their own pensions. Teachers pay 9.4% of their salary directly into the Teachers Retirement System (TRS). State employees on the alternative formula contribute 8.5% of their pay into SERS. And state employees on the standard formula in effect contribute 7% of their checks—4% deducted, and an additional 3% in the form of a pay raise given up in 1998, with the understanding this amount would go directly into the pension fund.

The pension debt was caused by politicians who habitually failed, over decades, to pay the state's modest share of pension costs. The legislature's bipartisan Commission on Government Forecasting and Accountability found that from FY 1996 through FY 2008, the state's pension debt grew by $35.6 billion. Of this, $30.3 billion (85%) is the result of factors not attributable to employees (53% the state's failure to pay its share, 24% early retirement incentives, 8% poor stock performance).

The state's cost for pensions is equal to or less than private-sector retirement benefits. The state's normal cost for pensions today is about 8 percent of payroll across the three large systems (teachers, state employees, university employees). That amount was already forecast to decrease to just 6 percent of payroll due to changes passed five years ago. The state additionally pays about 3 percent of payroll into Social Security—that represents its full FICA contribution for the 1 in 5 pension-fund participants eligible. In all, the state's normal cost for retirement benefits is today about 11 percent of payroll. In the private sector, every employer must pay 6.2 percent of payroll into FICA—and on average, contribute an additional 4 to 5 percent of payroll to employee 401(k) or pension program. That's a total cost in the private sector of 10.2 to 11.2 percent of payroll.

Cutting pension benefits for current public employees is unconstitutional. Article XIII of the Illinois Constitution states that membership in a public pension system is an enforceable contractual relationship, "the benefits of which may not be diminished or impaired."

The corporate CEOs pushing to slash modest pensions for public-service workers themselves enjoy million-dollar pensions. The Commercial Club of Chicago is leading the charge to slash pension benefits for public servants, using what the editorial board of the Chicago Sun-Times called "exaggeration and gross simplification of Illinois pension systems" to mislead and misinform the public, The Big Business elites who run this lobbying group don't seem to see the irony in their own golden pension parachutes. Take the chairman of the Civic Committee of the Commercial Club for example: Abbott Laboratories CEO Miles D. White, whose total compensation from the company in 2010 topped $26 million. When he retires, he will draw on not one but two defined-benefit pensions worth a combined $20 million. All this for a guy whose company's stock fell 11% last year, and who, on Jan. 26, 2011, announced the layoff of 1,400 employees.