Clock Is Ticking on Illinois Pension Reform

Two competing bills for pension reform have just passed the Illinois legislature, with hopes that one of them will be passed before the legislature adjourns for the summer on May 31. One of them has the blessing of the teachers' union and Democrat John Cullerton, president of the state senate. The other passed the House, and neither addresses the issue of Illinois' huge pension liabilities frontally.

Sandi Weingarten, president of the American Federation of Teachers (AFT), called the senate bill "smart and fair" and based on union members' willingness to "accept cuts in their retirement benefits to ensure long-term stability of the state's pension system," and said it was a "compromise."

The AFT represents a million members in the teaching profession, as well as nursing and healthcare workers and federal, state, and local government employees. The AFT agreed not to sue the state if Cullerton's bill is passed into law.

The competing bill passed by the House — informally called the Madigan Bill, named for House Speaker Michael Madigan, also a Democrat — makes deeper cuts in benefits than the unions want. The Madigan Bill appears to have the support of Governor Pat Quinn, another Democrat, who is caught in the middle. He has made pension reform his number one priority but he faces reelection next year and needs union support.

Details of the Senate/Cullerton bill reveal very slight reductions in benefits, involving pensioners' choices between a cost-of-living adjustment (COLA) of 3 percent a year that is compounded annually, or not. If the compounded COLA option is selected, then health insurance will not be provided. And vice versa. If a pensioner wants both a COLA that is compounded annually and health insurance in retirement, then his contribution to the plan increases slightly.

Greg Hinz pointed out in *Chicago Business* that Cullterton's plan would decrease the state's unfunded liability, currently at $97 billion, by about 10 percent, leaving the balance to be paid for by taxpayers: "Over the next 31 years, taxpayers would still have to put in $336 billion [to fully fund the pension plan's liabilities] … and those numbers may be optimistic."

On the other hand, the Madigan Bill passed by the house doesn't do much better: The reduction in liability would be about $28 billion, still leaving the plan in dire financial straits. And the taxpayers would be left paying the balance, estimated at $140 billion over those 31 years.

Hinz, while favoring the Madigan Bill, says the Illinois legislature is likely to go with the union-backed Cullerton bill because it makes it look to the average voter like the legislature is really doing something about the problem while not doing much of anything. Wrote Hinz:

> The problem is that lawmakers will be sorely tempted to go with Mr. Cullerton's bill because it will get much of labor off their backs in the next election.
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> That argument will surely carry in the Senate. And it could carry in the House.

Outside observers are seeing that neither bill produces anything like the reforms needed to make the Illinois pension plan solvent. An editorial in the *Chicago Sun-Times* was clear:

> The Senate bill is the worst kind of reform: it looks like progress and it could be passed off as such by campaigning politicians. But the bill saves relatively little and allows Illinois to continue the outrageous pass-the-buck behavior that got us in trouble in the first place.

How much trouble, exactly? Enough to cause the Securities and Exchange Commission (SEC) in March to charge the state with fraud:

> An SEC investigation revealed that Illinois failed to inform investors about the impact of problems with its pension funding schedule as the state offered and sold more than $2.2 billion worth of municipal bonds [to cover pension plan shortfalls]….
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> Illinois failed to disclose that its statutory plan [adopted in 1994] significantly underfunded the state's pension obligations and increased the risk to its overall financial condition….
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> [That plan] … underfunded the state's pension obligations and back loaded the majority of [its] pension contributions far into the future.

That's how the SEC defines "kicking the can." There were "pension holidays" grafted into the 1994 scheme, as well, which allowed the state to avoid making its full pension plan payments several times over the next few years and, with the help of compound interest on the unpaid liability, the shortfall grew so rapidly that Illinois now sports the worst credit rating of any state in the union.

This is how business is done in the Illinois legislature: Promise the unions little if any change in exchange for political and financial support (i.e., in 2008 the AFT provided campaign contributions of $1.8 million to Hillary Clinton and $2 million to Barack Obama). Leave the taxpayers twisting in the wind. After all, the legislature still has 31 more years to get their house in order under the original 1994 act.

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