



## Pension argument pits 'haves' and 'have nots'

Some want pension system abolished; others say it's the way to attract top-tier teachers

By Matt Arado | Daily Herald Staff

Published: 4/27/2010 12:00 AM | Updated: 4/27/2010 7:13 AM

### More Coverage

#### Part I

- [Pensions for 131 school retirees top \\$150,000 each annually](#) [04/25/10]
- [Pension crisis took decades to create, one day to 'fix'](#) [04/25/10]
- [Financial problems not unique to the teacher pension fund](#) [04/25/10]
- [Editorial: Springfield's costly and broken pension promise](#) [04/25/10]

#### Part II

- [The hidden cost of inflated pensions: Schools forced to pay up](#) [04/26/10]
- [Editorial: School boards part of pension problem](#) [04/26/10]

#### Part III

- [Pension argument pits 'haves' and 'have nots'](#) [04/27/10]
- [Editorial: Now is time for resolve, reason](#) [04/27/10]

#### Related data

- [Average teacher and administrator salaries](#)

*Coming tomorrow: Increase taxes or cut benefits? What to do next.*

Madge and Jim Pierce spent years scrimping and pumping nearly 40 percent of their income into a 401(k), only to see their funds take a big hit that nearly derailed their 2008 retirement.

"If you don't get some kind of pension, you're really on your own," said Jim Pierce of Grayslake.

But Shirley Forpe didn't have to worry so much about the latest economic downturn. A retired public school art teacher from Palatine, she is guaranteed a pension of \$81,600 a year.

To make anywhere near the same amount from a 401(k), she figures she would need \$2 million in savings.

"I don't think I'm suffering, but I think I earned it," Forpe said.

The difference in financial security between those with public pensions and those without has become glaringly visible during the ongoing recession, so much so that some in the "have not" camp are wondering why their tax dollars are going toward someone else's pension while their own retirements are insecure.

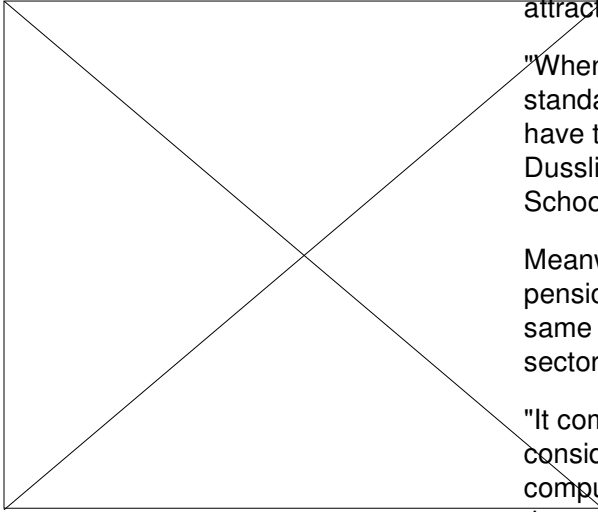
The question has become more insistent as Illinois racks up a staggering \$78 billion pension liability - \$6,050 for every person in the state - resulting from years of state leaders shirking pension obligations and diverting funds for other needs.

Meanwhile, pensions topped \$150,000 last year for 131 retired public school administrators from the suburbs and downstate, though many retired educators get much less.

- [Highest pensions paid in Illinois for public school administrators and teachers](#)

The debate over pensions for school teachers and administrators is particularly contentious in the suburbs, where salaries that often are among the highest in the state drive pensions up.

## Video



Many school board members and superintendents say salaries, and the resulting pensions, are the way they attract top educators to suburban schools.

"When you're asked to meet the kind of academic standards our communities want us to meet, you have to have the people on staff to make that happen," said Bill Dussling, president of the Northwest Suburban High School District 214 school board.

Meanwhile, some are calling for an end to public pensions altogether, advocating replacing them with the same Social Security-plus-401(k) that many private-sector workers must rely upon.

"It comes down to: Why should public employees be considered special?" said Bill Zettler, a Prospect Heights computer programmer. "Everyone's hurting because of the economy, but now we're all being asked to give money toward state employees' retirements. It's simply

not fair."

Yet making such a change is not so simple.

### Public pay rises

Guaranteed pensions used to be the trade-off for lower annual salaries in the public sector, like the \$7,000 Forpe made during her first year as a teacher.

But in relatively affluent areas like suburban Chicago, government workers now make as much as - if not more than - their private-sector counterparts.

The federal Bureau of Labor Statistics reported in fall 2008 that the average hourly wage for all private-sector workers in the Chicago metropolitan area was \$22.36. The average hourly wage for government workers was \$30.51.

Statewide, salaries for all teachers average \$61,402; administrators average \$106,217. Nearly two-thirds of schools in the North, Northwest and West suburbs exceed the state average, an analysis of 2009 district report card data shows, topped by Maine Township High School District 207, paying teachers an average of \$94,205 and administrators an average of \$139,671; Palatine-Schaumburg High School District 211 at \$92,811 and \$123,414; and Fenton High School District 100 at \$92,373 and \$131,638.

As a result of such salaries, pension amounts given to public-sector retirees from the suburbs tend to be much higher than statewide averages.

Consider the Teachers' Retirement System, the state's largest pension program and the one that covers public school teachers and administrators who work outside the city of Chicago. More than half of the state's unfunded pension liability - about \$44 billion - is promised to this group.

In 2009, the average pension benefit for a TRS retiree was about \$43,000 a year, calculated as up to 75 percent of the average of the four highest paid years of work. But retired school administrators from the suburbs can receive four or five times that much.

In 2009, Gary Catalani, former superintendent of Wheaton Warrenville Unit District 200, received the biggest pension payout in the suburbs covered by the Daily Herald, according to TRS. He got a pension of \$237,195 a year. Henry Gmitro, the former superintendent of Carol Stream Elementary District 93, received \$234,803 a year.

These pensions are guaranteed for life, and they increase each year by a 3 percent cost-of-living raise.

"You've got some educators ... being paid millions of dollars in retirement," Zettler said. "That's nuts."

TRS officials point out that those kinds of payouts are rare. Less than 2 percent of TRS retirees statewide made \$100,000 or more in pensions in 2009, TRS officials said. More than 60 percent - or about 53,000 retirees - collected less than \$50,000 for the year.

Time for 401(k)?

Yet that sounds generous to many private-sector employees whose guaranteed retirement income is limited to Social Security, supplemented with 401(k) funds that may include employer contributions and other investments that fluctuate with the financial markets.

The Pierces have a Social Security income of about \$33,600 for the two of them.

Both employed in jobs that did not provide pensions, they spent seven years socking away nearly 40 percent of their income - Madge deposited her entire paycheck into her 401(k) at the time - and cut back drastically on their spending to prepare for retirement.

Then the recession hit. The downturn in the stock market wiped out between 30 percent and 40 percent of their 401(k) accounts, the main source of their retirement funds.

"Overall, we've done OK, but it was nerve-racking for awhile there," said Jim Pierce, who spent the past 30 years working for a private mail processing company.

In Illinois' pension funds, the state took the hit when investments headed south, driving the pension debt even deeper.

That's one reason pension critics like Zettler, and like Jim Tobin of the group National Taxpayers United, said school teachers and administrators should be converted to Social Security and 401(k)s for financing retirement, a change that many experts say could be made only for new employees.

"We're all in this together," Zettler said. "Public employees should share in the economic risk."

Others, though, question whether getting rid of guaranteed public pensions would produce savings for taxpayers.

For one thing, school districts would likely have to start paying a 6.2 percent payroll tax for all the teachers and administrators who would be covered by Social Security, a cost that would almost certainly be passed on to local property owners. Under Social Security, workers also pay 6.2 percent.

At the same time, the state's existing \$78 billion pension debt would still have to be paid.

Members of TRS, who do not contribute to Social Security while working for public schools, send 9.4 percent of their pay toward retirement benefits. Other contributions come from school districts (0.58 percent), the state (amount determined by actuary) and investment earnings.

A 2007 study conducted by the Center for Tax and Budget Accountability, a bipartisan, not-for-profit organization that studies public spending in Illinois, concluded that scrapping pensions and moving public employees to a "defined contribution system" for retirement - a 401(k) plan, for example - would cost state taxpayers more in the long term. The study was conducted as part of the center's Illinois Retirement Security Initiative project.

Defined contribution plans have much higher administrative costs, the study found, to the tune of \$275 million to \$610 million more per year. At the same time, such plans provide lower benefits for retirees.

The study cites the case of Nebraska, which in the mid-1960s switched state and county employees from guaranteed pensions to a defined contribution system. By 1999, the state discovered that its expenses related to administering and funding the defined contribution system were double what they would have been with the old pension system. The average retirement benefit for public employees, meanwhile, was \$11,230 under the new system, compared to \$16,797 under the pension plan. The state decided to go back to the pension system.

But because administrative costs are a small percentage of overall costs, the bigger question is how much the benefits cost.

By that measure, Illinois Teachers Retirement System spokesman Dave Urbanek said, it's impossible to compare without assuming how much the employer and employees would contribute, which would be up to lawmakers.

Laurence Msall, president of the Civic Federation, said the idea of switching deserves another look. He pointed out 401(k)-style retirement plans wouldn't be so popular in private industry if they didn't save money. And they'd end the legislature's ability to run up a multi-billion-dollar pension debt.

"The defined contribution plans eliminate the shenanigans and underfunding that occurs. It's much more transparent," Msall said.

So far, Illinois' attempts to fix the pension system have been much less drastic. On April 14, Gov. Pat Quinn signed into law provisions meant to limit pension payments for teachers and most other public employees. The changes, which include an increase in the retirement age, a cap on the amount of income that counts toward a pension and new limits on annual pension increases, are expected to save taxpayers more than \$100 billion during the next 35 years, But the changes affect only those who aren't yet hired - and who mostly won't be retiring for decades.

Melba Hanssen, an Itasca resident who worked in public and parochial schools for 35 years in Arlington Heights and Mount Prospect, said she hopes guaranteed public pensions remain, though she recognizes the security her pension gives her compared to people with 401(k)s.

"I have a lot of sympathy for people without pensions, but you don't correct something by tearing down something good," she said.

- Daily Herald staff writer Robert McCoppin contributed to this report.

