

Daily Herald

Big Picture . Local Focus

Pension crisis took decades to create, one day to 'fix'

By John Patterson | Daily Herald Staff

Published: 4/25/2010 12:06 AM

More Coverage

Stories

- [Pensions for 131 school retirees top \\$150,000 each annually](#) [04/25/2010]
- [Pension crisis took decades to create, one day to 'fix'](#) [04/25/2010]
- [Financial problems not unique to the teacher pension fund](#) [04/25/2010]
- [Editorial: Springfield's costly and broken pension promise](#) [04/25/2010]

Related data

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

Coming

- **Monday:** Schools fined by state for flouting rules meant to rein in excessive pensions.
- **Tuesday:** Teacher pensions vs. Social Security - should educators switch?
- **Wednesday:** Increase taxes or cut benefits? What to do next.

SPRINGFIELD - After dodging the state's debt to Illinois pension systems for years, state lawmakers crammed through reforms in a matter of hours.

The legislature's sudden resolve came from a threatened drop in its credit rating that could have jeopardized funding for \$31 billion worth of capital construction projects. Wall Street, it turns out, has grown increasingly impatient with Illinois' inability to address long-running problems. Gov. Pat Quinn signed the measure April 14.

But the changes, which reduce benefits for new employees hired after Jan. 1, do little to address how the state will pay \$78 billion it owes the pension funds. It's a debt that ultimately decides how much money is available to spend on education, police and the myriad other policies and programs supported by state taxpayers dollars.

A plan to pay down this massive liability passed in 1995, championed by the Republicans who controlled state government at the time. But it's by no means a quick fix. It put the state on a 50-year payment plan that would result in the pension systems being 90 percent funded in 2045. The five state retirement systems are, on average, only 38.4 percent funded currently.

Recently, the state has been meeting its minimum payments for the 50-year fix only by borrowing - \$3.5 billion last year alone.

How did it get this bad?

The answer stretches back decades, covering numerous political administrations and legislative careers at the Capitol, all of whom had a role in spending state pension money on things other than state pensions.

"A lawmaker who has to run for re-election in the relatively near future is more interested in using the money for programs that provide results for the here-and-now than squirreling away money for benefits that won't

come for decades," said political observer Charlie Wheeler, who's tracked state spending since the early

1970s, first as a statehouse reporter and now as a professor at the University of Illinois' Springfield campus.

The irony is those decisions will ultimately lead to lawmakers having to divert tax dollars to pay for past benefits rather than spend money on current-day programs.

"When your grandchildren are here they want to pay taxes for the services they receive. They don't want to pay taxes for the government services you received 20 years earlier," said Lawrence Msall, president of the Civic Federation of Chicago, an organization increasingly active in reforming the state's pension finances.

Locally elected school boards and school employees - whether it's the suburban superintendents pulling down salaries of more than a quarter-million dollars annually or the rookie downstate teacher barely making \$22,000 a year - dutifully set aside 9.4 percent of each paycheck for the state's teacher pension system, as required.

"I don't understand how nobody seems to be culpable for underfunding my pension," said Eleanor Roberts, whose nearly two decades of teaching including a brief stint in Libertyville in the 1960s. She retired in 2002, having never made more than \$41,000 but having made all required contributions to the pension system. "If I didn't pay my part I'd be drummed out of the profession."

"I think that's a betrayal," Roberts said of the underfunding. "I pay my property taxes. I pay my state income tax. I pay my federal income tax. I paid my teacher retirement. Life is reciprocal. If I live up to my part of the bargain keeping society afloat, they should have to hold up their end of the bargain."

Unfortunately for Roberts and millions of other Illinois taxpayers, the state legislators and governors they elected for decades didn't hold up their end.

As far back as the state's 1950 budget, examples can be found of officials warning that lagging state contributions were creating unsound economics. Yet, it continued and snowballed.

Recent pension changes will require public-sector employees hired after Jan. 1 to work until age 67 to collect a full pension. They could retire at 62 but with reduced benefits.

Currently, public-sector employees can retire as early as 55 under certain circumstances and begin collecting a pension. The changes mean future teachers and other government workers will pay into the system longer and likely receive pension checks for fewer years before they die. The long-term savings for the state will be more than \$200 billion, but only about \$400 million in next year's budget.

But those changes don't reduce the past debt that's built up in the state pension systems. The debt is so massive that even the 50-year fix counts on the pensions being underfunded for decades to come. And the state has struggled recently to keep up with the payment plan.

In 2005, hard-pressed to balance a growing budget with less than stellar tax revenues, Democratic lawmakers and Democratic Gov. Rod Blagojevich temporarily set aside the 50-year plan for two years by passing a law that reduced by nearly \$2.3 billion the legally authorized pension payments to the Teachers' Retirement System and other pension systems.

Last year, lawmakers and Gov. Pat Quinn again faced a budget awash in red ink. They voted to borrow \$3.5 billion - to be paid back over five years - to make the required pension payments.

Making matters worse for the pension systems has been a tanking stock market that flushed billions in investment income. In the 2007 budget year, the teachers' pension system investments earned \$6.8 billion. The following year those investments lost \$2 billion.

The directors of the state Teachers' Retirement System recently certified that they'd need \$2.36 billion in the next state budget, a \$269 million increase, to stay the course of the 50-year fix. That increase alone gobbles up more than half the projected early savings in the new employees' pension system.

Quinn's budget director said there's no interest in skipping payments or extending the 50-year plan to lower this year's payment. Quinn has sought an income-tax increase to help cover education funding, which could free up state funds for use elsewhere. But its prospects for approval this session are dim.

Exactly how the pension payment will be covered and the rest of the budget balanced is one of the top issues lawmakers face in the remaining weeks of their spring session, scheduled to adjourn in May.