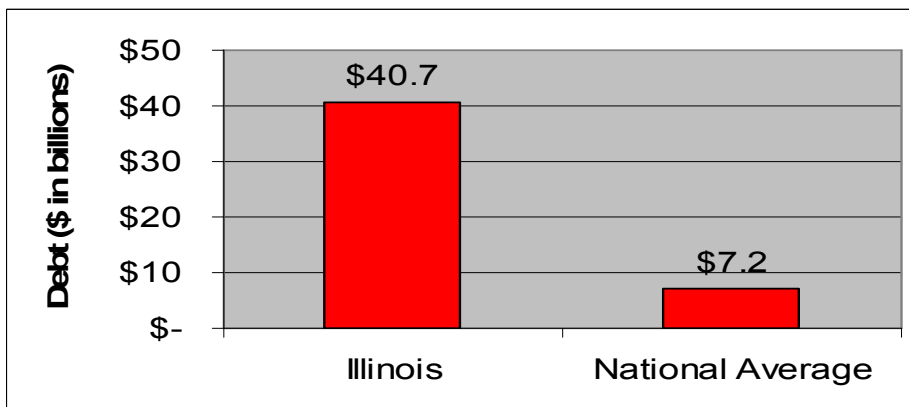


The Source of Illinois Unfunded Liability

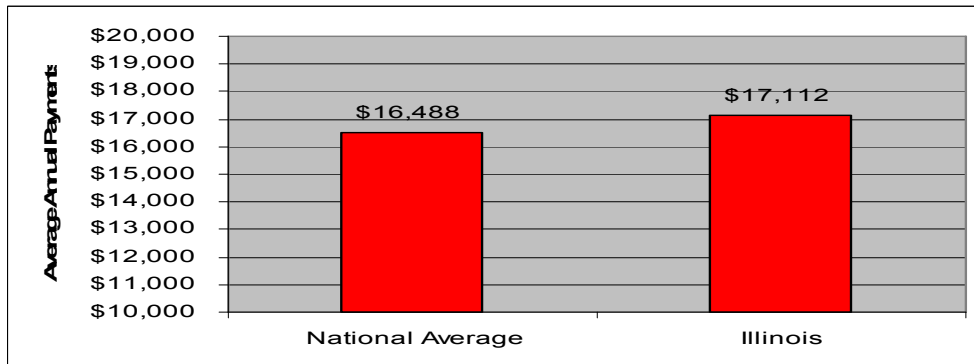
At more than five times the national average,
 Illinois has the largest unfunded pension liability in the nation.
Why?

Figure 1
 Illinois Retirement Debt



Not due to overly generous benefits.
 Illinois benefits are just 3.7 percent more than the national average.

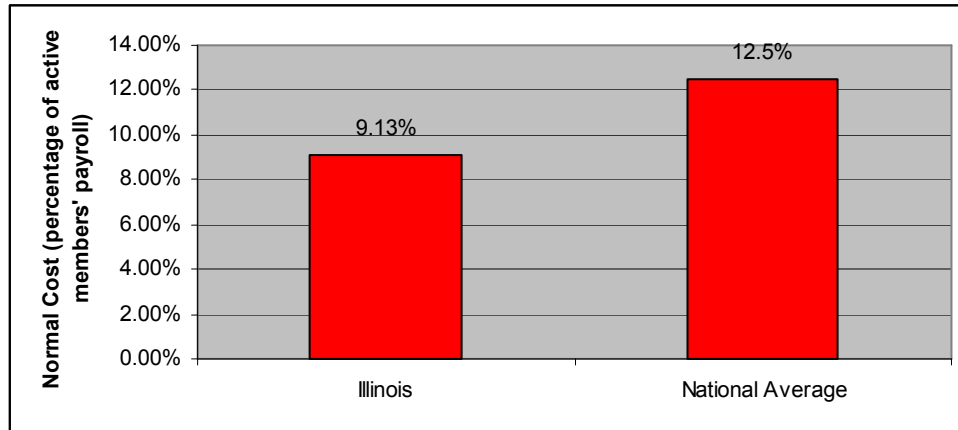
Figure 2
 Average State & Local Government Employee Annual Retirement Benefits



Not due to costs.

Illinois costs are far below national averages.

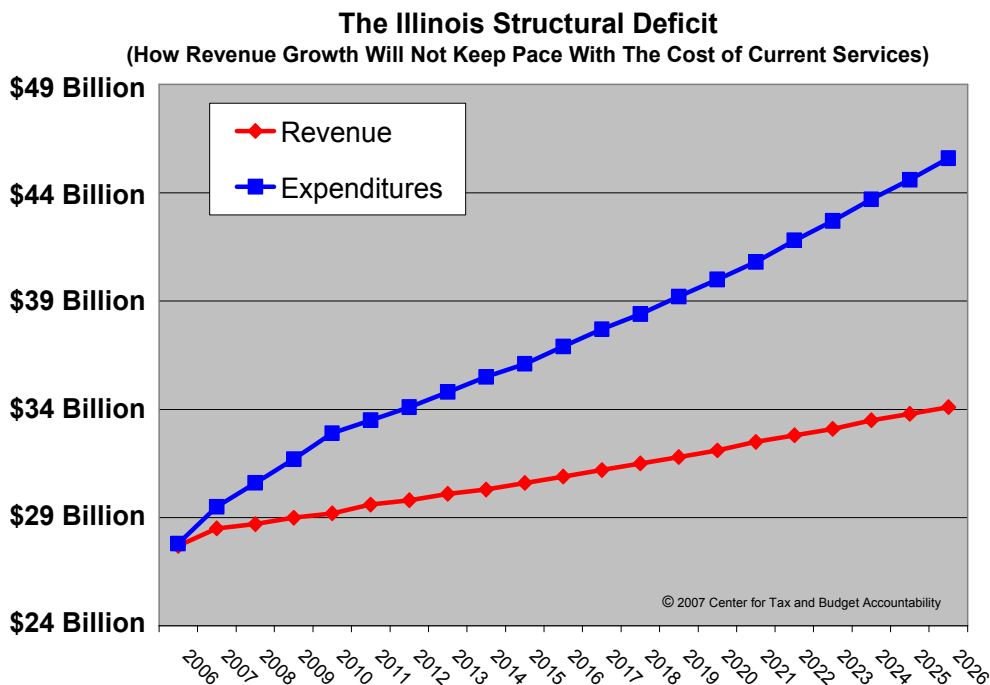
Figure 3
Comparison of Pension Systems Normal Costs



Why then? Illinois' fiscal problems can be traced to one very simple phenomenon: while the cost of providing public services grows normally with the economy over time, the state's poorly designed tax system does not grow with the economy, and hence generates less revenue than needed to maintain current public service levels and make the required pension payments from year to year, adjusting solely for inflation. Because Illinois tax revenues haven't grown with the economy for decades, Illinois has repeatedly underfunded its retirement systems, just to maintain basic services.

The harsh reality is the state has not gone into debt to fund public employee benefits. Quite the opposite. Illinois has borrowed against the pension contributions it owes to maintain public services. What Illinois suffers from is a structural deficit, the inability of a tax system to generate enough revenue to maintain funding the same level of public services from year to year.

Figure 4



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