



FOR IMMEDIATE RELEASE

Contact: Valerie Chepp  
Tel. 312-332-2151  
Cell Phone: 312-391-8923  
Email: [vchepp@ctbaonline.org](mailto:vchepp@ctbaonline.org)

## Study Finds Switching Pension Systems Would Cost Taxpayers More

*Illinois' \$40.7 billion pension debt will not be solved by switching from a defined benefit to a defined contribution system.*

**Springfield, IL (Monday, May 7, 2007)** – A new study released today at the Statehouse has found that – contrary to widespread perception – switching from Illinois' current defined benefit system to a defined contribution system will do nothing to solve the state's \$40.7 billion unfunded pension liability and would likely result in much lower retirement benefits for public employees and higher costs for taxpayers.

The study, *The Illinois Public Pension Funding Crisis: Is Moving from the Current Defined Benefit System to a Defined Contribution System an Option that Makes Sense?*, was conducted by the Illinois Retirement Security Initiative, a project of the Center for Tax and Budget Accountability. The study finds that the conventional wisdom that switching to a defined contribution system will solve the state's massive unfunded public employee pension liability is provably false.

“Around Illinois there's a common misconception that switching to a defined contribution system will reduce the state's massive unfunded public employee pension liability,” said Jourlande Gabriel, a co-author of the report and director of the Illinois Retirement Security Initiative. “However, the data show this is simply not the case. Instead, following any such change, the state should expect to impose higher annual costs on taxpayers while putting less retirement money in the pockets of its public employees.”

Among the report's major findings are:

- Illinois' current average state and local government employment retirement benefit is \$17,112 per year. This annual payment is not overly generous, considering it is just 3.7 percent more than the national average of \$16,488.
- Defined contribution systems have significantly higher annual administrative costs than fully funded defined benefit systems. If Illinois were to move to a defined contribution system for all current participants in the five Illinois state pension systems, that change would cost taxpayers from \$275 million to \$610 million per year in additional administrative costs.
- If contribution rates remained the same, defined contribution systems can be expected to generate significantly lower retirement benefits. When Nebraska switched to a defined contribution system, the average benefit was only \$11,230 per year.
- Because of Illinois constitutional restraints, switching to a defined contribution system does not and cannot reduce the state's current \$40.7 billion unfunded liability. The sole way to cover this liability is to design a rational payment program that does not backload costs like current law.

**-MORE-**

“Illinois’ unmanageable unfunded pension problem is not the result of overly generous benefits or high administrative costs,” said Jourlande Gabriel. “Instead, the problem results from Illinois’ inadequate revenue system, which has historically underperformed inflation and has caused the state to find itself continually short of the revenue needed to cover both essential services and the state’s required, actuarially determined employer pension contributions.”

Chrissy Mancini, report co-author and director of budget and policy analysis at CTBA, added, “Any real fix to Illinois’ pension crisis will require modernizing the state’s revenue system, so that Illinois is able to capitalize on the growth occurring in the 21<sup>st</sup> century economy. Doing so will allow Illinois to bring in enough money to pay for critical public services and make the required pension payments from year to year.”

The Illinois Retirement Security Initiative (IRSI) is a project of the Center for Tax and Budget Accountability, a non-partisan, non-profit research and advocacy think tank that promotes fair, efficient and progressive tax, spending and economic policies ([www.ctbaonline.org](http://www.ctbaonline.org)). IRSI is supported by AFSCME Council 31, Illinois Education Association, Illinois Federation of Teachers, Service Employees International Union Local 73, AFSCME Retirees Chapter 31, Chicago Federation of Labor, Illinois AFL-CIO, Illinois Education Association Retirees, Illinois Retired State Employees Association, Illinois Retired Teachers Association, State University Annuitants Association, and University Professionals of Illinois/AFT Local 4100.

###

The press conference will be held Monday, May 7, 2007 at 1:00 pm in the Blue Room of the State Capital. For more information, contact Valerie Chepp at 312-391-8923 or [vchepp@ctbaonline.org](mailto:vchepp@ctbaonline.org) or Jourlande Gabriel at 646-541-5036 or [jgabriel@ctbaonline.org](mailto:jgabriel@ctbaonline.org).