

Reasons to Oppose SB 1292

ONE SIZE DOES NOT FIT ALL – WHEN IT COMES TO PENSION REFORM!

The Governor's plan to underfund pensions will cost the state an additional \$94.7 billion between now and 2045.

BACKGROUND

SB 1292 amends Articles of the Illinois Pension Code that affect each of the five State-funded retirement systems (General Assembly, State Employees, State Universities, Downstate Teachers, and Judges).

Although billed as a “reform” and “modernization” of the systems, SB 1292 drastically cuts pension benefits for members of all state pension systems hired after August 1, 2009, without implementing any real reforms and with questionable, if any, cost savings.

FACTS

It is fiscally irresponsible and bad public policy to modernize the pension structure without sufficient analysis by the state systems and no immediate plans to reduce the unfunded liability.

- During a recession, decreasing transfer payments (such as unemployment insurance, TANF benefits, food stamps, and pension benefits) to low and middle income individuals negatively affects the entire economy. That's because low and middle income families spend the vast majority of their earnings consuming goods and services, sold in local economies across the state. When they lose benefits, their spending diminishes on a dollar for dollar basis, creating a loss in sales for local businesses, and revenue for the local economy.
- According to the U.S. Department of Health and Human Services, the poverty level for a family of two is \$14,570 annually or \$1,214.17 a month. That means the average SERS retiree who is coordinated with Social Security will live on \$1,798.12 or \$583.95 more above the poverty level. Current pension benefits are far from generous, and cost less than average retirement costs to private-sector employees.
- Claims that SB 1292 will reduce long term costs are simply inaccurate and unsubstantiated rhetoric. Under P.A. 88-0593 [(Funding Plan for State-Funded Retirement Systems), also known as the “Pension Ramp”], Illinois would have to contribute \$437.6 billion through 2045. This is an average of \$12.2 billion a year – an already unattainable amount proven by the growing \$73.4 billion unfunded liability.
 - Under the Governor's proposed Stair Step Funding plan and two-tier benefit proposal, Illinois would contribute substantially more, \$532.3 billion, through 2045. **This is an average of \$14.8 billion a year** – which ironically costs more than existing law!

The Governor's plan will cost the state an additional \$94.7 billion between now and 2045. (Source: Stair Step Funding Proposal, Governor's Office, 5/8/2009)

THERE IS NO SHORT OR LONG TERM SAVINGS ASSOCIATED WITH SB 1292!

- SB 1292 fails to address the real problem – identifying a revenue source that will permit the state to pay its pension obligations. The 1995 “Pension Ramp” was supposed to address the state's unfunded liability. It failed however, due to the absence of a revenue stream to support the ramp. The Governor plans to cut scheduled pension payments by \$2.5 billion in FY 2009. Illinois cannot afford to go down this ruinous path again.
- **The Commission on Government Forecasting and Accountability's actuary has concluded that the Governor's proposal to reduce benefits for new employees is not appropriate for reducing costs.** (COGFA's Fiscal Analysis of the Governor's Pension Reform Proposal.)

→ TURN OVER

ORGANIZATIONS STRONGLY OPPOSED TO SB 1292

ILLINOIS RETIREMENT SECURITY INITIATIVE (IRSI)

IL AFL-CIO

SEIU LOCAL 73

SEIU ILLINOIS COUNCIL

AFSCME RETIREES CHAPTER 31

AFSCME COUNCIL 31

ILLINOIS EDUCATION ASSOCIATION (IEA)

ILLINOIS FEDERATION OF TEACHERS (IFT)

ILLINOIS RETIRED TEACHERS ASSOCIATION

STATE UNIVERSITY ANNUITANTS ASSOCIATION

UNIVERSITY PROFESSIONALS OF ILLINOIS/AFT LOCAL 4100

ILLINOIS STATEWIDE SCHOOL MANAGEMENT ALLIANCE

FRATERNAL ORDER OF POLICE LABOR COUNCIL

ED-RED

LARGE UNIT DISTRICT ASSOCIATION (LUDA)

LEGISLATIVE EDUCATION NETWORK OF DUPAGE COUNTY (LEND)

SOUTH COOPERATIVE ORGANIZATION FOR PUBLIC EDUCATION (SCOPE)

BILL ANALYSIS (as amended)

The legislation changes all of the state-funded pension systems including the Teachers' Retirement System, the State Universities Retirement System and the State Employees' Retirement System. The pension benefit cuts include but are not limited to the following:

1. Creation of a second tier of pension benefits for all teachers and public employees hired after August 1, 2009.
2. Lowering of the pension formula for future members from 2.2 percent to 2 percent per year of service for members who are not coordinated with Social Security. As a result, Illinois benefits would fall below the national average for non-social security systems.
3. Lowering of the pension formula for future members from 1.67 percent to 1.5 percent per year of service for members who are coordinated with Social Security.
4. The legislation increases the retirement age for members to age 67 with 10 years of service credit or age 62 with 35 years of service. This change will create serious policy implications for education and public safety personnel.
5. Lowering the formula and increasing the retirement age will result in the following scenario. A teacher who starts working at age 23 and works 35 years until age 58 will receive a 70 percent annuity. The member will work with no additional benefit and be unable to retire for four years.
6. The legislation uses the highest eight years of salary, rather than the highest four years, to calculate a member's annuity. This time frame far exceeds that used by other public pension systems and will result in reduced benefits. The national average is 3.2 years.
7. Eliminating the prefunding of survivor benefits. The legislation requires members to take a reduction in their annuity in order to provide security for one's spouse, rather than using the current arrangement that allows for prefunding these benefits during an individual's working career. The cost of living adjustment for future retirees will be 50 percent of the CPI or 3 percent, whichever is less. This greatly reduces benefits for retirees, especially older ones who do not have Social Security to protect them from financial hardships. The 50-year average for inflation in the U.S. is 3.5 percent and was the basis for determining the 3 percent benefit originally.
8. Elimination of the alternative formula for thousands of state workers in hazardous jobs, including the state police and correctional officers.