CTBA | Center for Tax and Budget Accountability

Understanding—and Resolving—Illinois' Pension Funding Challenges: Volume II

November 4, 2024

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Table of Contents

1. **Historical Context** 1
2. **Where the Pension Debt Stands Today** 4
3. **The Debt Service Schedule Created Under the Pension Ramp Is Straining the State's Fiscal System—Not the Cost of Funding Benefits** 6
4. **Solutions Recently Proposed by Governor Pritzker's Administration** 8
5. **Responsibly Re-Amortizing the Pension Debt Can Save Billions in Taxpayer Costs While Getting All Five Pension Systems Healthy** 9

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1. Historical Context

Illinois state government has the responsibility to fund five public pension systems: the Teachers' Retirement System ("**TRS**"); the State Employees' Retirement System ("**SERS**"); the Judges' Retirement System ("**JRS**"); the State Universities Retirement System ("**SURS**"); and the General Assembly Retirement System ("**GARS**"). But what exactly does "funding" a public pension system entail? According to the United States Government Accountability Office ("**GAO**"), to be considered financially healthy, a public pension system should have a "funded ratio" of at least 80 percent.[1] A "**funded ratio**" is determined by dividing the current monetary value of a pension system's total assets by its total liabilities.

The federal Pension Protection Act of 2006 also uses 80 percent as the threshold for large private plans to qualify as not at risk of default.[2] Similarly, Standard & Poor's gives a rating of above average to pension systems that have funded ratios of 80-90 percent, while Fitch Ratings "considers a funded ratio of 70 percent or above to be adequate," and "less than 70 percent to be weak."[3]

The American Academy of Actuaries ("**AAOA**"), however, cautions that, because of various outside economic factors, like volatile interest rates and stock market fluctuations, "no single level of funding distinguishes a healthy plan from an unhealthy plan."[4] Instead, funded ratio just gives a snapshot of where a plan stands fiscally at a given moment in time. According to the AAOA, "while funded ratio may be a useful measure, pension plans should have a strategy to reach "100 percent funded within a reasonable amount of time."[5]

As things stand today, the state's pension systems are decidedly not healthy. As of November 2023 (the most recent data available), the state's five pension systems collectively had $257 billion in liabilities, but only $115 billion in assets to cover those liabilities.[6] This results in a funded ratio across all five state systems of just 44.9 percent, or more than 35 percentage points below the lower, 80 percent standard for health set by the GAO. It also means Illinois state government faces a significant, as in $142 billion, aggregate "unfunded liability"—read that as "debt"—owed to its pension systems. Which begs the question: how did the state get in this predicament?

The answer has its roots in the state's flawed tax policy, and the "structural deficit" that flawed tax policy created in Illinois' General Fund.[7] A "**structural deficit**" exists when, even during a normal economy, under existing law future revenue is projected to grow at a rate that would not be sufficient to both: (i) continue providing the same level of public services from one fiscal year into the next, adjusting solely for inflation; and (ii) pay existing debt service obligations as they become due.

Until FY 2024, Illinois' ongoing structural deficit plagued the state's General Fund for generations. Indeed, according to the Comptroller's Office, Illinois ran a deficit in its General Fund every year for the 24 consecutive years leading up FY 2024.[8] That's problematic, because roughly 95 percent of all General Fund spending on services goes to the four core areas of Education, Healthcare, Human Services, and Public Safety.[9]

After decades of deficit spending, the General Fund budget was truly balanced in FY 2024 and is currently in the healthiest fiscal condition it has been in for decades. That's the good news. However, despite some recent tax increases enacted over the last three fiscal years which collectively generated roughly $1.5 billion in new, recurring revenue for Illinois' General Fund[10], the state's structural fiscal problems are re-emerging. And that's the bad news.

There are a number of reasons for this. For one, there is no more bailout revenue available from the federal government under relief programs like the American Rescue Plan Act ("**ARPA**") and the Coronavirus Aid, Relief, and Economic Security Act ("**CARES**"). That alone takes $6.36 billion in federal aid that subsidized the General Fund over the last few years off the table.

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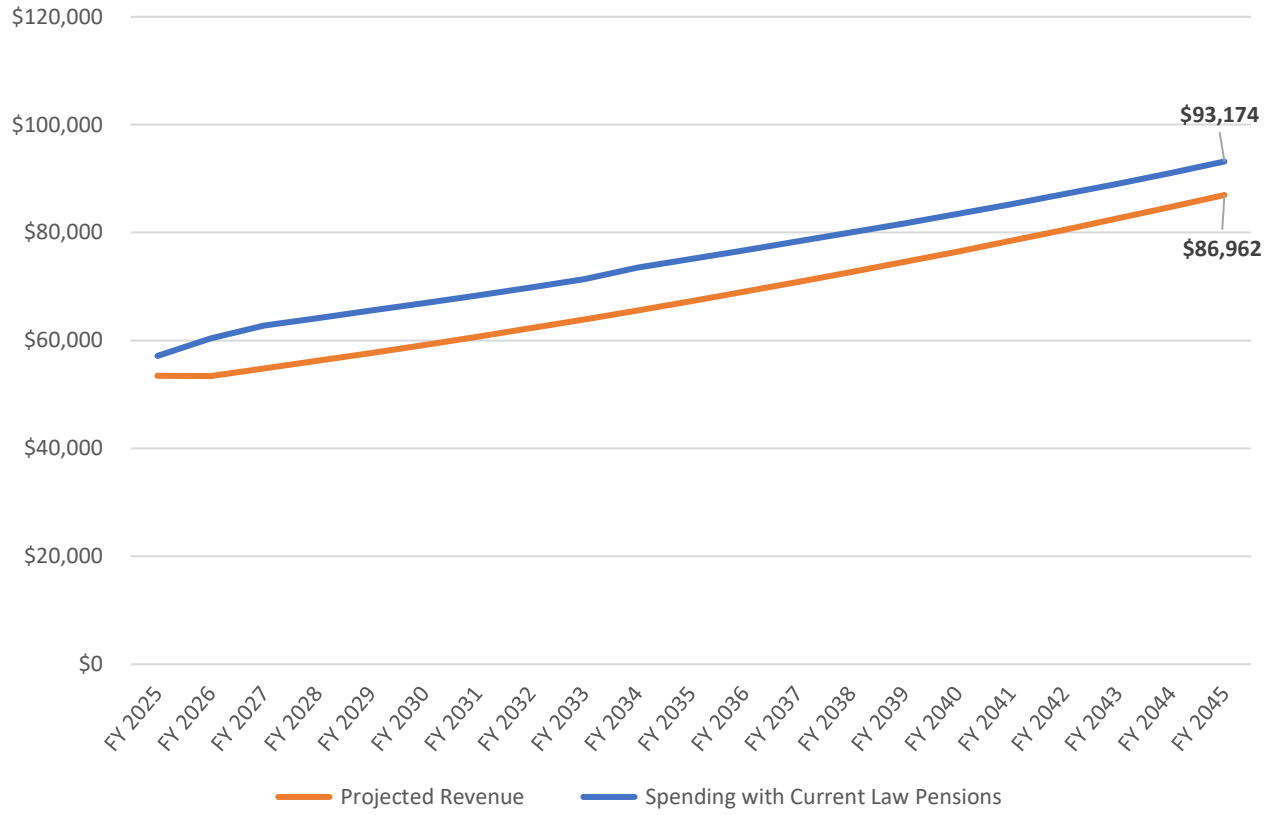
Moreover, the boom in the economy that followed the end of the pandemic has slowed. So even though the economy is still expanding, it is not generating the growth in income and record corporate profitability that transpired in the last two years.[11] **Figure 1** shows how the structural deficit in the state's General Fund is projected to grow over the next 20 years.

Figure 1
The Structural Deficit in Illinois' General Fund ($ Millions)



Source: CTBA analysis using historical revenue data from COGFA and FY 2026 estimate from GOMB

The structural deficit shown in **Figure 1** is less severe than what the state has experienced in past decades, primarily because of the aforesaid tax increases passed in the last few years. That said, there are only three ways to eliminate a structural deficit completely: (i) cut spending on current services all the way down to levels that revenue growth will support over time; (ii) raise taxes to the amount needed to maintain current service levels into the future; or (iii) pass some combination of spending cuts and tax increases needed to attain long-term fiscal balance.

Historically, raising taxes was so politically divisive that for decades elected officials in both parties chose to avoid doing so. That is until they were forced to increase taxes, when after two years of failing to pass a General Fund budget under former Governor Bruce Rauner, the deficit approached $15 billion, which meant over half of all spending on current services was in fact deficit spending.[12] But while the income tax increases the General Assembly passed over Governor Rauner's veto in FY 2018 were sorely needed, they were not sufficient to eliminate the structural deficit.[13]

Meanwhile, cutting spending all the way down to levels that existing revenue policy could support was also not a politically attractive option, given that 95 percent of all General Fund spending on services goes to the four core areas of Education, Healthcare, Human Services, and Public Safety.

So while the structural deficit has in fact forced cuts in real spending on the four core services over the last two decades—by the end of the current fiscal year, FY 2025, Illinois will be spending 9.3 percent less on Education, Healthcare, Human Services, and Public Safety in real, inflation-adjusted dollars, than at the end of FY 2000—the cuts have not been adequate to bring General Fund spending on services down to the level that would be supported by revenue growth under the state's tax policy.[14]

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Over the past few decades, decision makers relied on two irresponsible fiscal practices that allowed them to meet the politically driven goals of dealing with the structural deficit without either raising taxes or cutting General Fund spending on core services too severely. First, they chose to underfund K-12 public education at the state level. This pushed the primary obligation for funding public schools down to local property taxes. This practice was used to such a significant extent that as recently as FY 2021, Illinois ranked 50th among all states in the portion of K-12 expenses paid for with state revenue, and first in the portion paid out of local property taxes.[15]

Of course, this particular irresponsible fiscal practice had two negative consequences. On the one hand, it artificially drove up local property taxes. So much so, that from 1994 through 2022, property taxes grew at a rate that outstripped the rate of growth in median income.[16] On the other hand, it also created major inequities in school funding, by effectively tying the quality of the public education a child received, to the local property wealth of the community in which that child lived.

Second, to paper over a portion of the ongoing imbalance between revenue and service cost growth caused by the structural deficit, the state intentionally underfunded contributions owed to the pension systems. It then used revenue that should have funded pensions to instead subsidize the cost of providing current services, like education, and caring for the elderly or abused and neglected children. Every year the state did this, it grew the aggregate unfunded liability it owed to the pension systems—a debt it eventually would have to repay with interest that was compounding annually.

This practice was tantamount to borrowing to spend on services. It also is not transparent, responsible or sustainable. It's much like a family using a credit card to pay for groceries, rent and utilities. By 1994, the state had so aggressively borrowed against what it owed in pension contributions that the overall funded ratio of the five pension systems was just 52.4 percent.[17]

To address this problem, in 1995 the General Assembly passed and Governor Edgar signed into law P.A. 88-593, which is commonly referred to as the "**Pension Ramp**."[18] The Pension Ramp created a plan for repaying the debt owed to the pension systems. The Pension Ramp was intended to bring the pension systems up to a healthy funded ratio of 90 percent by 2045.

However, rather than represent a departure from the irresponsible fiscal practices that necessitated its creation, the Pension Ramp—by design—made things worse. For starters, over the first 15 years the Pension Ramp was in place, it required payments that were so low they were not covering prior unfunded liabilities that had accrued to date. These payments were also well below the "actuarially required contribution" ("**ARC**") needed to fund the new benefits being earned by then-current state workers.

In the short run, this irresponsible practice helped politicians in both parties by temporarily hiding the structural deficit from taxpayers. But over time, it became the primary reason the state developed the significant unfunded pension liability of $142 billion that existed as of the end of FY 2023, the most recent data available at the time this Report is being published.[19]

Making matters worse, the payment schedule created under P.A. 88-593 was not based on any actuarial principles at all. Instead, it created front-end annual payments that were so inadequate, it actually increased the debt Illinois owed to its pension systems. Of course, the only way the Pension Ramp could then get the pension systems 90 percent funded by 2045 was to back-load payments in out years, by making them jump annually in unaffordably high increments, as shown in **Figure 2**. The Pension Ramp imposed such an unaffordably back-loaded repayment schedule that annual increases in debt service payments in many cases exceeded both the annual growth in inflation and what the state's flawed tax policy can accommodate.

The remaining installments of debt service, plus normal cost contributions, called for under the back-loaded repayment plan created under the Pension Ramp is shown in **Figure 2.**

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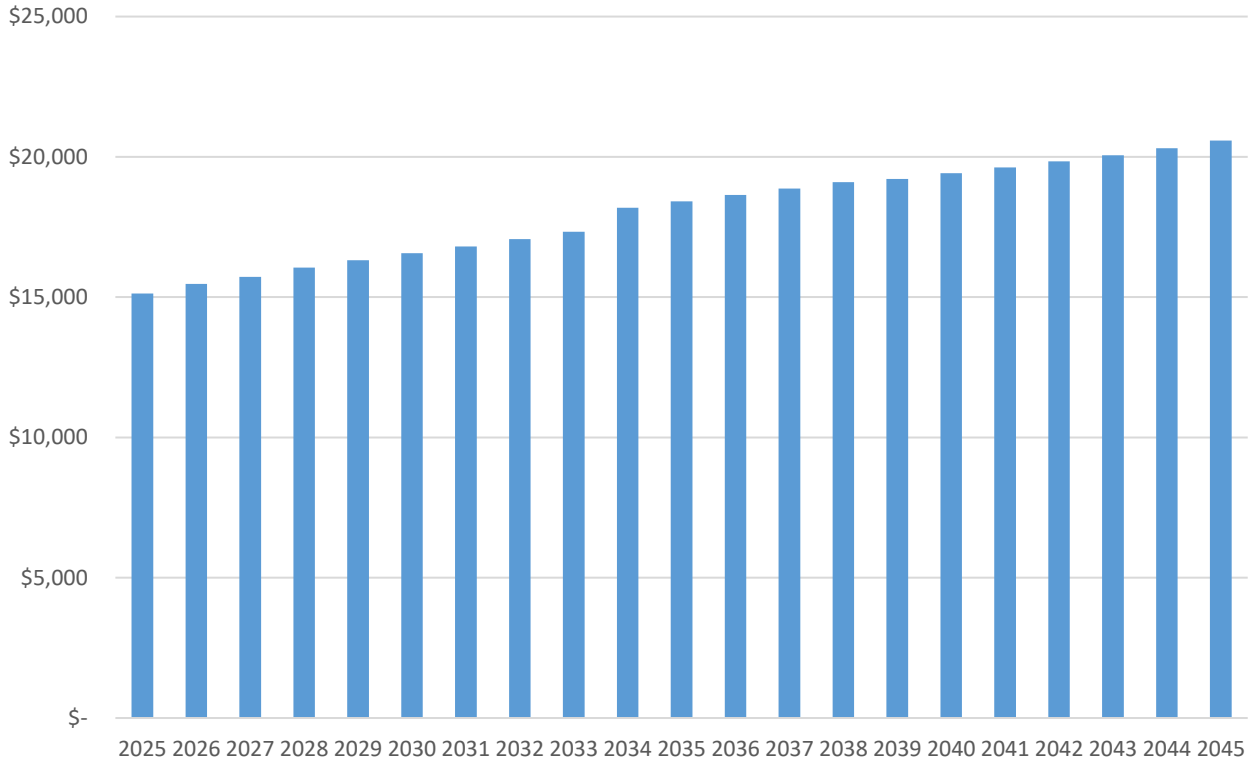
Figure 2
Actuarially Projected Future Pension Fund Contributions, FY 2025 -2045 ($ Millions)



Source: CTBA Analysis of 2023 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS

Ironically, the state initially underfunded the contributions it owed to the pension systems to try and mitigate the impact the structural deficit was having on the General Fund. It then enacted the 1995 Pension Ramp, which was disingenuously sold as a responsible approach to repaying the unfunded liability the state incurred. But the Pension Ramp created such an unaffordably back-loaded schedule for repaying pension debt that it actually worsened the structural deficit in the General Fund—which was the reason state decision makers underfunded the pensions to begin with.[20]

Given that history, the remainder of this Report:

(i) delineates the factors which have contributed to the growth in the unfunded liability between the enactment of the Pension Ramp and the current fiscal year;
(ii) reviews the Pritzker Administration's FY 2025 proposed pension reforms which were not ultimately enacted; and
(iii) identifies how to reform pension funding practices in a manner that creates a sound and responsible path for bringing the pension systems to a healthy funding level, while simultaneously saving billions of dollars in taxpayer costs.

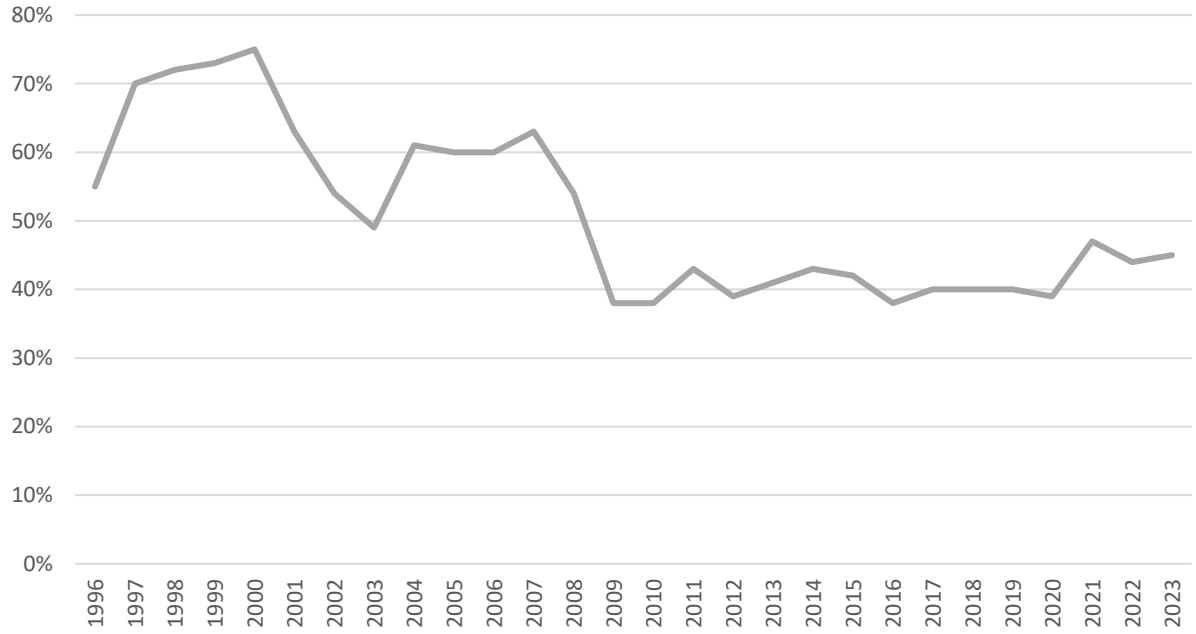
2. Where the Pension Debt Stands Today

The aggregate funded ratio across all five state pension systems declined from 52.4 percent in FY 1994, to just 44.9 percent in FY 2023.[21] When FY 2023 ended, the state's five pension systems had a total of $257 billion in liabilities and insufficient $115 billion in assets to cover those liabilities. The aggregate 44.9 percent funded ratio of Illinois' state-level pension systems is well below the 78.1 percent national average of all funded ratios for all public pension systems across the country that existed as of the end of 2022, the most recent national comparison data available.[22]

Figure 3 shows the aggregate funded ratio of the five state pension systems from 1996 until 2023. The initial increase in the pension system's funded ratio from FY 1996 – FY 2000 is due to the pension system's realizing above average

investment returns.[23] Thereafter, insufficient contributions and investment losses realized during two different recessions and the pandemic were primary factors leading to the decline in funded ratio. For example, investment losses incurred during the Great Recession played a key role in the precipitous drop in the funded ratio that occurred between FY 2007 and FY 2009.[24] Similarly, insufficient state contributions and investment loses primarily explain the decline in funded ratio between FY 2021 and FY 2022.[25]

Figure 3
Funded Ratio - State of Illinois Pension Systems
FY 1995 – FY 2023



Sources: i) Illinois State Retirement Systems Fiscal Condition as of June 30, 2021, and ii) Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2023

The increase in funded ratio that occurred between FY 2010 and FY 2011 was due to the $10 billion in pension obligation bonds the state issued under P.A. 93-0002.[26] Unfortunately, the state only used $7.3 billion of the $10 billion in total bond proceeds to retire existing unfunded liabilities owed to the pension systems.[27] Because of the state's ongoing structural deficit, Governor Blagojevich's administration irresponsibly opted to divert the other $2.7 billion to cover current operating expenses—effectively continuing the practice of borrowing against what was owed to the pension systems.

Defined benefit pension systems are funded from three sources: the employee contribution, the employer contribution, and returns generated from investing pension system assets.[28] To in part help project the employer contribution that will be needed to cover the normal cost of funding benefits and repayment of unfunded liabilities in future years, the state establishes an "actuarial (smoothed) investment" rate of return for each system, as shown in **Figure 4**. "**Asset smoothing**" is a technique that averages annual changes in investment performance over a period of five years to reduce the volatility associated with year-to-year fluctuations.[29] The state's asset smoothing law was implemented under P.A. 96-0043, which took effect in July of 2009.[30]

In essence then, the "**Actuarially Assumed Rate of Return**" of a state pension system is the percentage return which actuaries factor into projections of the future value of pension assets. Typically, the Actuarially Assumed Rate of Return is a conservative estimate of how well the market return on investment will be over time.

As revealed in **Figure 4**, over the last five years, the actual market returns the state has realized on its pension fund assets have been greater than the Actuarially Assumed Rate of Return for each of TRS, SERS, and SURS, which collectively account for 98.8 percent of the five systems total assets, and 98.7 percent of their total liabilities.[31] Taking a longer view, in 2023, the TRS 10-year actual rate of return stood at 8.09 percent, over 1 percent higher than the Actuarially Assumed Rate of Return.[32] Meanwhile, the much smaller JRS and GARS systems have underperformed their respective Actuarially Assumed Rates of Return over the last five years.

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Figure 4
Actuarial Rates of Return Compared to Actual Returns on Illinois Pension System Investments

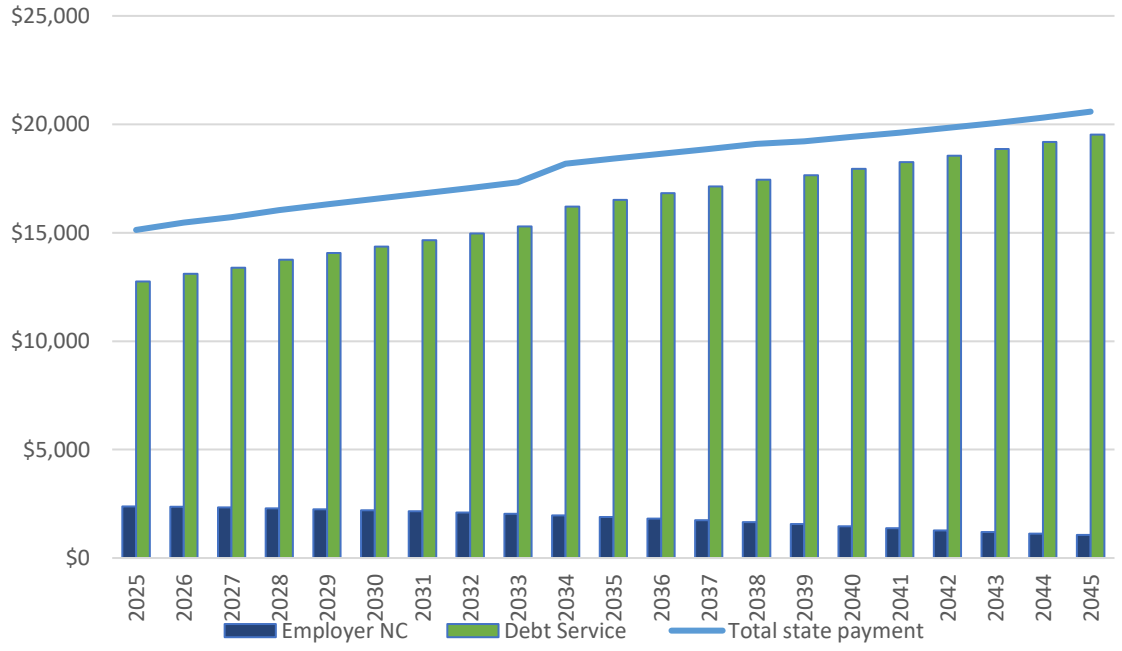
	Assumed Rate of Return	1-year Actual Rate of Return FY2023	5-year Actual Rate of Return FY2018-FY2023
TRS	7.00%	6.95%	7.09%
SERS	6.75%	6.69%	6.90%
SURS	6.50%	6.23%	6.61%
JRS	6.50%	6.33%	6.10%
GARS	6.50%	6.16%	5.67%

Source: i) CGFA Special Pension Briefing, November 2022, ii) 2023 Actuarial Valuations for Illinois TRS, GARS, SURS, JRS, and SERS

3. The Debt Service Schedule Created Under the Pension Ramp Is Straining the State's Fiscal System—Not the Cost of Funding Benefits

Figure 5 breaks down the Pension Ramp to reveal the rate of growth in both pension debt payments and "**normal cost**" scheduled over the FY 2023-FY 2045 sequence. The normal cost, or current cost, is the portion of the present value of the cost of funding the pension plan benefits being earned by current workers.

Figure 5
Actuarial Breakdown of Pension Ramp Payment Projections by Debt Service Versus Normal Cost, FY 2025-2045 ($ Millions)



Source: CTBA Analysis of 2023 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS

Figure 5 makes it clear that the back-loaded debt service repayment plan created under the Pension Ramp is what strains the state's General Fund fiscal capacity. The normal cost of funding future pension benefits being earned by current state workers, however, is clearly not. In fact, if the state had not underfunded pension contributions for decades, the normal cost contribution due for FY 2025 would be only around $2.4 billion, or roughly a quarter of the $15 billion-plus total

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actuarially calculated contribution due for the year, which includes a whopping $12.753 billion debt service payment under the Pension Ramp.[33]

As indicated previously, for at least the first 16 years of the Pension Ramp, the contributions it required failed to satisfy the Actuarial Required Contribution amount. Basically, the ARC identifies how much should be contributed to a pension system in a given year, so that over the next 30 years: (i) any debt—that is unfunded liability—owed to the system is repaid sufficiently to hit its targeted funded ratio; and (ii) the cost of benefits then being earned by current workers over said 30-year sequence is covered; all while (iii) accounting for the system's projected cash-flow obligations to pay benefits to retirees during said 30-year period.

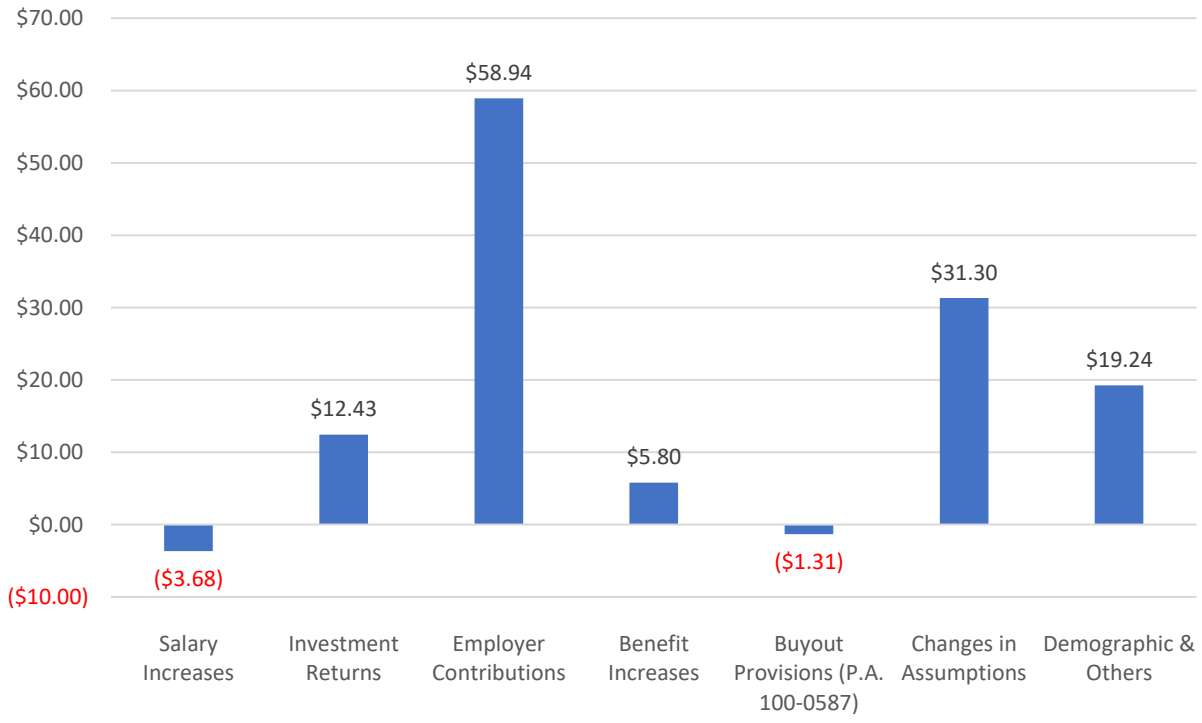
A key component of the ARC is the normal cost of the state's pension systems. Overtime, the failure to cover normal cost can lead to serious solvency concerns for a pension system. This is because assets that the systems should have available to invest, and thereby produce returns, instead have to be depleted to cover benefit payments due to pensioners.

Having to deplete assets to pay benefits, coupled with the deliberate underfunding built into the Pension Ramp, are what drive the huge growth in annual pension payments scheduled through FY 2045, culminating in a final payment of over $20 billion.[34]

Meanwhile pension benefit levels, as well as salaries paid to public sector workers, have had very little to do with either creating the unfunded liability in the first place, or the dramatically back-loaded repayment schedule under the Pension Ramp.[35] One reason for this is the state created a second level of pension benefits dubbed "Tier II," that provide such an inadequate retirement benefit to workers in the TRS, SURS, and SERS systems, that they fall below the Social Security safe harbor.[36] (*See CTBA's report, Illinois Teachers' Retirement System and Tier II Pension Law: An Overview, to learn more about many of the problems with Tier II.)*

Between the inception of the Pension Ramp in 1996 and FY 2023, the aggregate unfunded liability of the five public pension systems has grown by $122.7 billion.[37] Indeed, as shown in **Figure 6**, the primary driver of this increase remains insufficient employer (i.e., state) contributions into the systems. In all, underfunding contributions account for nearly $59 billion—or approximately 48 percent of the $122.7 billion—of the growth of the aggregate unfunded liability currently owed to all five state pension systems.[38]

Figure 6
Factors Contributing to the Change in Unfunded Liabilities for All Five Systems Combined
FY 1996-FY 2023 ($ Billions)



Source: CGFA Special Pension Briefing, November 2023

4. Recent Re-Amortization of Pension Debt Proposed by Governor Pritzker's Administration

In the FY 2025 proposed budget, Governor Pritzker suggested modifying the Pension Ramp to get the systems 100 percent funded by FY 2048, in lieu of the current statutorily mandated 90 percent target funded ration established under the Pension Ramp for 2045.[39] This proposal was not passed into law, but its four primary elements were as follows:

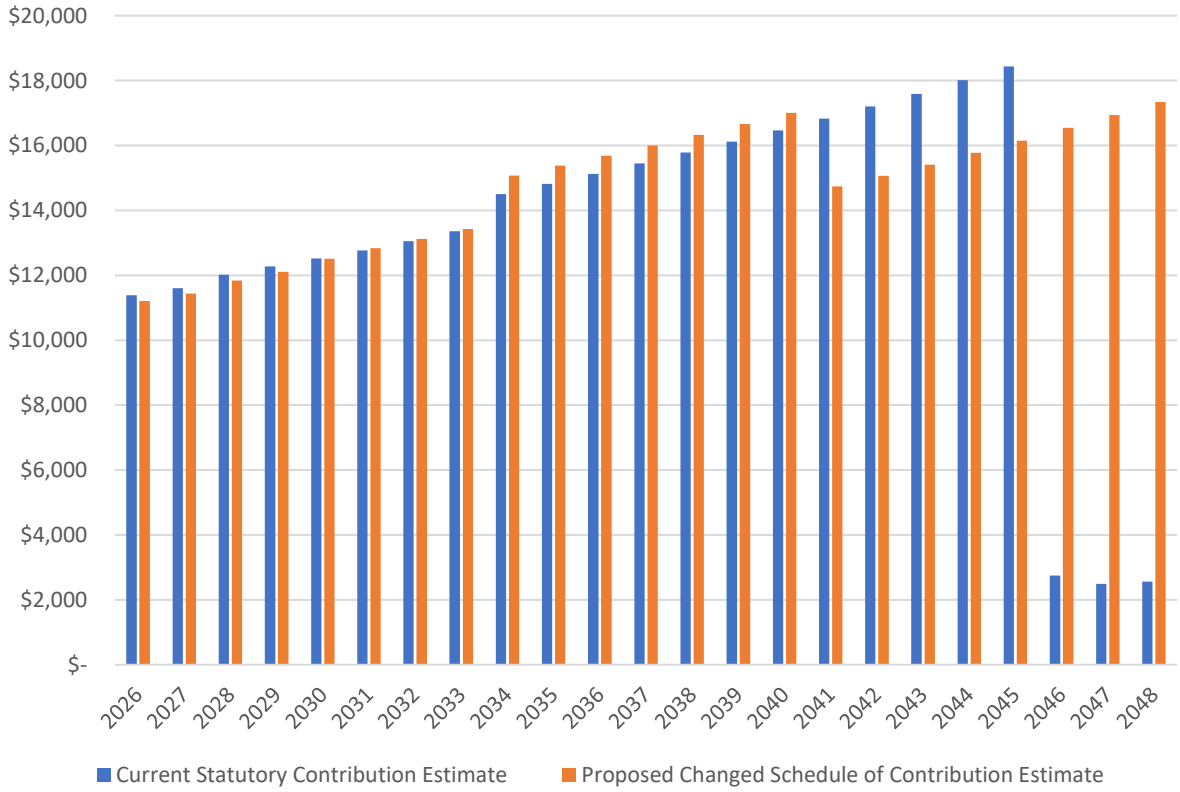
(i) First, increase the statutory funding goal to 100 percent.

Illinois is an outlier in setting the pension funded ratio goal at 90 percent instead of 100 percent.[40] The governor's office notes that credit rating agencies and bond investors have consistently pointed to this 90 percent target as inadequate, so the governor's office proposed creating a target funded ratio of 100 percent, and extending the current ramp period by three years, from 2045 to 2048, to get there.[41] In those three extra years, the governor's proposal called for contributions ranging from $16 billion-$18 billion per year, whereas under the Pension Ramp, those payments are scheduled to drop to $2 billion, as shown in **Figure 7** below. [42]

(ii) Second, increase annual contributions into the pension systems after certain existing debt is repaid.

The governor also proposed to use half of the projected savings from bonds that will be repaid in fiscal year 2033 to shore up the state's pension systems.[43] GOMB projected that doing so would have saved $5.1 billion in aggregate contributions by FY 2045.[44] Under the governor's proposal, the payment schedule under the current Pension Ramp would have remained unaltered until 2033, and thereafter the governor's proposed new ramp would have begun utilizing savings from the aforesaid retired debt to slightly increase annual payments into the systems through FY 2041.[45]

Figure 7
Current Pension Ramp Statutory Contribution Estimate vs. Governor Pritzker's Proposed Changed Contribution Schedule Estimate ($ Millions)



Source: Data provided by the Governor's Office of Management and Budget

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(iii) Third, the governor's proposal addresses the challenge of the shortening "runway" through utilization of shorter, layered, fixed length amortization strips within the overall ramp period.

The governor's proposal also incorporates a "layered" approach to re-amortizing changes to the unfunded liability owed to the state's five pension systems. That differs from the current Pension Ramp in Illinois, which utilizes a closed, single layer amortization schedule designed to reach a 90 percent funded ratio by 2045.[46] The statutory contributions were calculated to meet that 90 percent funded ratio by 2045 based on the initial unfunded liability that existed when the legislation was passed, and do not factor in any changes to the unfunded liability that occur over the course of what was at the time a 50-year amortization schedule. This results in greater payment volatility, as changes in the unfunded liability occur over time.

The governor's proposal to mitigate ongoing volatility in payment amounts by creating a series of shorter, fixed length amortization strips within the longer, statutorily established full payment term, is an effective practice recommended by the Conference of Consulting Actuaries Public Plans Community ("**CCA PPC**").[47] Using this "layered" approach to re-amortizing deltas in the overall unfunded liability caused by various factors, such as changes in actuarial assumptions, changes in benefit levels, changes in methodology, and market performance realized on the investment of pension system assets, smooths the volatility in payment obligations—both positive and negative—over a shorter period of time.[48] Every year, the pension funds publish an actuarial valuation that accounts for shifts in the unfunded liability caused by these and other factors, and the governor's proposal uses shorter amortization ramps based on the factor causing the delta in unfunded liability and hence the associated payment therefor, which helps stabilize payments from year-to-year.[49]

(iv) Fourth, the governor's proposal recognized that the Tier II pensionable earnings cap had to be reviewed, and if necessary adjusted, to conform with the Social Security Wage Base for employees not coordinated with Social Security.

Analysis commissioned by CGFA already demonstrates that the Tier II Pensionable earnings cap is in violation of federal safe harbor standards for TRS, SURS, and SERS.[50] (*See CTBA's report, Illinois Teachers' Retirement System and Tier II Pension Law: An Overview, to learn more about Tier II.)* Solving that problem requires increasing the Tier II benefit, which obviously would cost more money than what is now being allocated under the Pension Ramp and/or Pritzker's re-amortization proposal for paying the normal costs of funding benefits currently being earned by public sector workers. That in turn means the projected savings in the governor's proposal are overstated, with the exact amount thereof depending on the cost of the Tier II modification legislators implement.

5. Responsibly Re-Amortizing the Pension Debt Can Save Billions in Taxpayer Costs While Getting All Five Pension Systems Healthy

Over the years, CTBA has consistently found utilization of a well-designed re-amortization schedule for the aggregate unfunded pension liability debt owed to the state's five pension systems that increases annual payments over what the Pension Ramp requires in early years, and then re-amortizes the unfunded liability on a level dollar basis thereafter—much like is done in a 30-year home mortgage—can effectively save taxpayers billions of dollars in debt service payments—and still get the state's five pension systems to a vastly improved funded ratio that satisfies either the GAO standard for being financially healthy by having an 80 percent funded ratio, or getting all five systems 100 percent funded as recommended by the American Academy of Actuaries.[51]

Under the current iteration of CTBA's re-amortization, which is shown in Figure 8, the state can save 12.1 percent of its total debt service cost under the Pension Ramp, or $46.6 billion through the end of the current Pension Ramp and get the five state systems 90 percent funded, or by adding an additional three years to the Pension Ramp, save 6.2 percent of the state's total debt service cost, or $23.8 billion and get the five pension systems 100 percent funded.

CTBA's re-amortization of the Pension Ramp shifts away from using the back-loaded, balloon payment approach created under the 1995 Pension Ramp, to a more rational level dollar amortization starting in 2033. Prior to that year, the CTBA re-amortization calls for front-loading payments into the pension systems by among other things, utilizing all the proceeds from pension obligation bonds issued over the 2025 through 2029 sequence. These aspects of CTBA's proposed re-

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amortization generate significant savings, while getting the pension systems healthier sooner, and flattening the payment curve, resulting in a more realistic, and affordable, payment schedule.

The CTBA re-amortization also changes the timing of when the pension contribution is made. That is because under the Illinois State Pension Code, contributions are made on the last day of the fiscal year – June 30.[52] As a result, investment returns for each year are capitalized without accounting for the current year's contribution. By shifting contributions to the beginning of the fiscal year, significant additional investment returns become available that compound annually, reducing long-term costs materially.[53] Additionally, CTBA has factored into its proposed re-amortization certain reforms contained in Governor Pritzker's FY2024 pension re-amortization detailed above in this Report, including extending the Pension Ramp through 2048 and increasing the target funded ratio from the current 90 percent to 100 percent.

Under CTBA's model:

(i) the funded ratio target for 2045 moves from 90 percent under the Pension Ramp to a target of 100 percent funded by 2048;

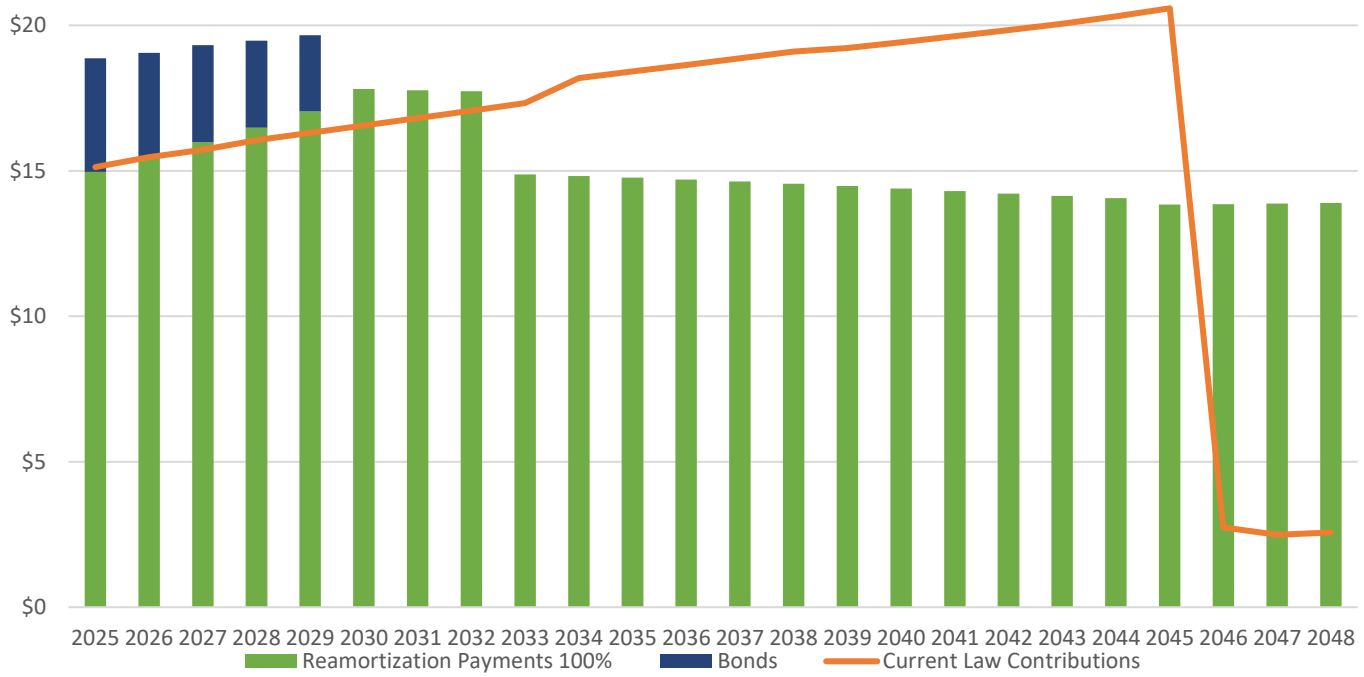
(ii) a total of $9.6 billion in pension obligations bonds are issued over the FY 2025 through FY 2029 sequence, with all the bond proceeds being used to front-load payments to the pension systems and retire existing unfunded liability debt, by paying down principal;

(iii) the contributions to the pension systems are moved from the last day of the fiscal year to the first day, thereby generating an additional year of investment returns on said contributions, which has a positive, compounding effect over time that helps save taxpayer costs;

(iv) the repayment of outstanding unfunded liabilities is re-amortized on a level-dollar basis starting in 2033, eliminating the fiscal strain created by the back-loading of payments under the existing Pension Ramp; and

(v) calls for a minor additional frontloading of state payments for the FY2027-FY2032 sequence to pay down the principal owed on extant unfunded liability debt.

Figure 8
CTBA Re-Amortization Payment Schedule Compared to Current Pension Ramp, FY 2025-FY 2048
($ Billions)



Sources: i) CTBA Analysis of 2023 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS, ii) CTBA Analysis of data provided by GOMB, iii) current law actuarial projections do not go beyond 2045, GOMB statutory assumptions are factored into this model for the post 2045 estimated state contribution

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In **Figure 8,** the green bars indicate the total amount of the new state payments after re-amortization—inclusive of paying off unfunded liabilities over time, covering the full normal cost, and covering the debt service owed on the pension obligation bonds used to prepay unfunded liabilities to the pension systems. Interest on the aforesaid pension obligation bonds is factored into the model at 5 percent, a rate which tracks with the Treasury I-Bond rate published at the writing of this Report.[54] Additionally, a 3 percent investment fee is assumed and factored into the payment structure of the model.[55]

Instead of back-loading payments, CTBA employs a level-dollar amortization of unfunded liability debt. Prior to the implementation of the level-dollar repayment plan in 2033, the state makes greater annual payments in early years than what is currently required under the Pension Ramp, primarily with the proceeds from the pension obligation bonds. Those enhanced front-end payments help save billions in taxpayer dollars over the full term of the re-amortization. Beginning in 2033, the state's repayment of pension debt is made in level, nominal dollar increments annually. Over the long term, this means in real, inflation-adjusted terms, the cost to the state declines.

The level-dollar payments in **Figure 8** do get slightly smaller over time, but that is because of current projections of the decline in normal costs associated with Tier II. Tier II, which was enacted under P.A. 96-0889 in 2010, was an attempt to save the state money in its five pension systems by providing retirees with substantially lesser pension benefits than are applicable under the state's Tier I plan.[56] This was a questionable strategy to begin with, given that all the data show pension benefits were not the primary driver of the unfunded liability.

Worse, the estimated decline in normal costs will not in actuality materialize, because the benefits provided under Tier II are so inadequate that they will fail to continue satisfying the safe harbor provisions established under the Social Security Act, which exempt public sector employers which maintain qualified defined benefit plans from having to enroll their employees in Social Security.[57] Almost 851,000 of the state's workers—including all teachers—are not enrolled in Social Security because of this safe harbor provision.[58] It would be prohibitively expensive for Illinois to enroll all those workers in Social Security, so the benefits provided under Tier II at some point will have to be increased. (*For more information on the problems created by Tier II, see CTBA's report "Illinois Teachers' Retirement System and Tier II Pension Law: An Overview".)*

CTBA found that front-loading all the proceeds obtained from issuing $9.6 billion in pension obligation bonds over the FY 2025-FY 2029 sequence will save taxpayers significant costs. The front-loaded bond proceeds, combined with moving payments to the beginning of the year, and some incrementally greater additional state payments, work together to generate additional returns on investment for the systems and pay down the principle on existing debt, which generate the double bonus of both accumulating enhanced returns over the remainder of the full payment cycle, and slowing the compounding of interest on remaining unfunded liability.

The re-amortization depicted in **Figure 9** also changes the final funded ratio target from 90 percent, which is a purely made-up goal not predicated on any actuarial based standard, to 100 percent, which is the funded ratio for most public pension funds and the ratio proposed by Governor Pritzker's Administration.

Figure 9
Proposed CTBA Re-Amortization Scenario Targeting 100 Percent Funded by 2045
Compared to Current Law Targeting 90 Percent by 2045

Current Law Cost	Total CTBA Re-Am cost	Total Bond Issue Amount	Cost Savings Over Current Law
$386.5B	$362.6B	$9.7B	$23.8B

Sources: i) CTBA Analysis, ii) CTBA Analysis of 2023 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS
Note: Total Bond Issue Amount has been included within the Total CTBA Re-Am Cost

Figure 10 shows the actuarially assumed rates of return for each system versus the returns actually realized therein over the last year, and last five years.

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Figure 10
Actuarial Rates of Return Compared to Actual Returns on Illinois Pension System Investments

	Assumed Rate of Return	1-year Actual Rate of Return FY2023	5-year Actual Rate of Return FY2018-FY2023
TRS	7.00%	6.95%	7.09%
SERS	6.75%	6.69%	6.90%
SURS	6.50%	6.23%	6.61%
JRS	6.50%	6.33%	6.10%
GARS	6.50%	6.16%	5.67%

Source: i) CGFA Special Pension Briefing, November 2022, ii) 2023 Actuarial Valuations for Illinois TRS, GARS, SURS, JRS, and SERS

It is possible to keep the 90 percent funded ratio target used under the current Pension Ramp and not raise the target to 100 percent, and save $46.6 billion, as shown in **Figure 11.**

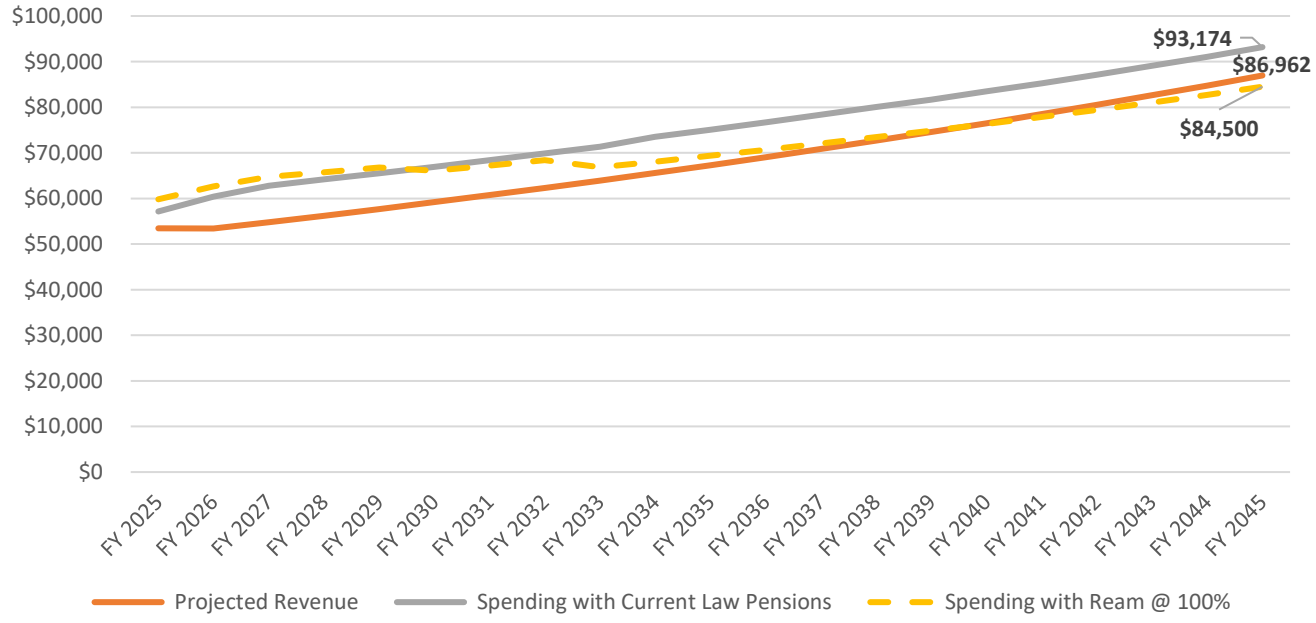
Figure 11
Impact of Various Re-Amortization Scenarios

Funded Ratio in FY 2048	Total CTBA Re-Am cost	Bond Issue Amount	Cost Savings Over Current Law
90% Funded	$339.9B	$5.2B	$46.6B
100% Funded	$362.6B	$9.7B	$23.8B

Sources: i) CTBA Analysis, ii) CTBA Analysis of 2023 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS, ii) bond interest and investment fees are factored into cost savings projection

Finally, CTBA's re-amortization generates the additional benefit of eliminating the state's structural deficit going forward, obviating the need for significant tax hikes or spending cuts, as shown in **Figure 12**.

Figure 12
How Re-Amortizing the Debt payment Schedule Created under the Pension Ramp Reduces the Structural Deficit in Illinois' General Fund ($ Millions)



Sources: i) CTBA Analysis, ii) CTBA Analysis of 2024 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS

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