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Pick your pension poison

Borrow, skip, cut or delay? Lawmakers face bitter pill

By Monique Garcia, Tribune Reporter

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When lawmakers return to Springfield to finish the budget later this month, they'll be greeted by the same major holdup that caused them to head home in frustration last week — how to make a nearly \$4 billion state worker pension payment.

All of the options on the table remain unpalatable. They could borrow, but taxpayers would be stuck covering hundreds of millions in interest. They could skip, but the pension system would lose billions in investment. They could delay until after the election, but that only puts off the problem. Or they could cut the budget elsewhere, but that's unlikely given the size of the payment.

"The pension is a big chunk of the overall budget," said Christopher Mooney, a political studies professor at the University of Illinois at Springfield. "That's why it's so attractive to get rid of it, to borrow, to not pay it. Suddenly, 'Wow, our budget situation looks much better.' But all those are stopgap measures; nothing that has come close to passing or even really being seriously considered is going to be a long-term fix."

Here's a closer look at the General Assembly's options:

Borrowing. Gov. Pat Quinn wants to borrow to cover the pension payment. It's what lawmakers did last year. But it also carries a high price.

Last year's pension loan will cost \$330 million in interest over five years. This year, another pension loan would cost about \$1 billion in interest over eight years, according to Quinn's budget office. But that's only if the state can secure an interest rate of around 4.5 percent, which some say might be too optimistic given the state's shaky financial footing.

Still, Quinn budget director David Vaught said that's the best route to go to make sure a pension payment happens. And Quinn has made it clear he will fight for the borrowing measure he says is needed to free up money to prevent cuts to education and elsewhere.

"The governor believes that lawmakers should step up to the plate here on this one," Vaught said.



But Republicans have balked this time, a situation Quinn blames on his Republican rival for governor, Sen. Bill Brady, who says borrowing more would only add to the state's money woes. But Brady said he didn't need to convince his GOP colleagues that piling up debt is a bad idea.

"If (Quinn) wants to give me credit for killing his efforts to dig a deeper hole, I'll take it, but it's not necessary," Brady said. "Clearly, Gov. Quinn's failed policies of borrowing on the backs of our children are creating not only a record deficit of debt but also a poor job economy."

Skipping. Another option is to skip the payment altogether next year. That would result in billions in lost investment earnings for what is the most underfunded pension system in the nation. Some estimates put long-term losses as high as \$37 billion.

The retirement systems are fighting back against that idea, which they say could drain pension funds faster than anticipated, though current beneficiaries will still receive their monthly checks without interruption.

Dan Long, executive director of the nonpartisan Commission on Government Forecasting and Accountability, warns that failing to make this year's payment would undermine recent highly touted pension changes aimed at saving billions in the coming decades by increasing the retirement age and reducing benefits.

"If you skip a payment, you lose the benefits of the pension reforms just made," Long said.

Cutting. This already has been tried, and it failed. House Speaker Michael Madigan, D-Chicago, perhaps to prove the point, called for a vote on a bill to cut nearly \$4 billion. Ninety-nine of the 118 House members opposed it.

Delaying. Yet another possibility is that lawmakers delay the pension payment for six months, until after the November election. By then, voters will have picked a governor, and it would be up to the chief executive sworn in Jan. 10 to deal with the problem.

Rep. Frank Mautino, D-Spring Valley, predicts this is the path lawmakers will most likely take because there isn't enough support for borrowing. But he notes the state isn't likely to have any additional cash on hand in January, which means the pension payment problem will persist.

"It's the stark reality we have to face," Mautino said.

If Quinn is still governor, that could mean finally winning approval for the major income tax hike he's been pushing for more than a year. If Brady is governor, he said he would cut the budget and only borrow if the state's economic situation improves. But Brady would likely need support from Democratic lawmakers to make his plan stick.

"Buying time until after the election is a cynical ploy," Mooney said. "Somebody's going to have a problem."

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