

www.chicagotribune.com/news/local/ct-met-pensions-20100505,0,2131601.story

chicagotribune.com

State playing hot potato with pension burden

Financial neglect dates back 40 years, professor says

By Bob Sexter, Tribune reporter

7:33 PM CDT, May 5, 2010

Debbie Lanich turned 60 in September and began to collect on what she sarcastically refers to as her "lavish state pension" — \$19,536 annual retirement compensation for 26 years as a child abuse investigator.

"We would go into public housing projects at night, walking up the stairwells past drug dealers because the elevators didn't work," said Lanich. "I've had a gun pulled on me, a knife pulled on me, been grabbed, had the headlights on my car smashed and the serpentine belt cut."

So Lanich, of Wilmette, gets rankled these days when she hears pension costs being lambasted as a prime culprit in the state's record \$13 billion deficit. "The pension funds have been used by the state as petty cash forever," she complained. "I never missed any of my payments into the fund."

That pretty much frames a fierce argument over how to rein in the state's enormous pension debt, a problem literally decades in the making as Republican and Democrats officials alike proved willful accomplices. Whichever party controlled state government has long done an abysmal job of socking away adequate cash to pay for all the retirement promises it made.

With a vengeance, the bill is now coming due. The accumulated weight of chronic funding shortfalls threatens to cripple Illinois' budget, starve education, health care and other vital services of much-needed revenue, and stoke pressure for tax hikes.

Pension costs loom large over the still unresolved budget debate in Springfield as the current legislative session heads to a climax.

The red ink is so deep that Gov. Pat Quinn and Democratic lawmakers are considering borrowing billions to cover pension obligations for next year, rather than diverting scarce tax dollars from other budget priorities. The state did the same thing last year and the cost of paying for that

Free Top Ten Retirement Product Report

Planning for Retirement can be confusing.

Let us be your Advocate.

Download your Free 2010 Report today.

RETIREMENT
ADVOCATE.ORG

Click Here

borrowing is adding more than \$800 million to the budget problem Springfield is struggling with right now.

Just weeks ago, Quinn and lawmakers agreed on a controversial new law trimming retirement benefits for future public workers. Years from now, that could slow the growth in pension spending. But it will do little to cut costs in the near term.

To accomplish that, business groups want lawmakers to go further, arguing that retirement benefits for current public workers are overly generous and need to be scaled back. The effort faces daunting legal hurdles and strong opposition from organized labor, which points to a recent bipartisan state task force report showing Illinois retirement costs to be a bargain compared with neighboring states and even much of private industry.

The dueling claims, like the pension problem itself, are layered with complexity and self-interest. Here are some data points to consider in gauging their relative merit:

- The state handles five separate pension systems for state workers, judges, lawmakers and statewide elected officials, university employees and public school teachers outside Chicago. Those funds serve 723,000 employees, retirees and survivors and as of last summer owned assets worth \$48.7 billion. At the same time, the funds were on the hook for at least \$126.4 billion in retirement benefits.
- The nearly \$78 billion mismatch means that the systems collectively held less than 40 percent of the money they needed to cover long-term obligations. Most experts consider 80 percent a minimum threshold for fiscal soundness.
- The state's pension bill for fiscal 2011 totals more than \$5 billion, according to Quinn's budget projections. But less than one-third of that is necessary to cover the actual costs of retirement benefits to be earned next year. The rest amounts to enormous surcharges tacked on because the state must play catch-up as well as repay its pension-related borrowing.
- Tales of fat pensions and abuses are legion, but lawmakers have carved out the juiciest benefits for themselves, judges and statewide officials. Rank-and-file workers get less, though they generally can retire with full pensions at a younger age than counterparts in the private sector. On the other hand, state pensioners can't supplement retirement benefits with 401(k) packages, and four out of five don't qualify for Social Security.
- State records show annual pensions now average \$43,164 for retired public school teachers and \$33,120 for retired university workers, but neither group receives Social Security. The average pension for retirees from the general state payroll — most of whom do get Social Security — is \$26,663.

At its simplest, the deep fiscal hole of the pension funds was dug by an absence of foresight and statesmanship on the part of state leaders from both parties. Time and again, tax revenue that would have been prudent to squirrel away for future pensions was diverted for more immediate and voter-friendly uses.

Political expert Charles N. Wheeler III said the financial neglect dates back at least 40 years. "For governors and legislators, there were always more pressing needs they wanted to spend money on," said Wheeler, a professor at the Springfield campus of the University of Illinois.

A big problem with that approach was that money never pumped into the funds couldn't be allowed to grow through investments. The funds would be a lot healthier today if they had been able to fully cash in on the big run-up in the financial markets over the past two decades.

With the Baby Boom generation aging and the steep recession still fresh, many states and cities — Chicago among them — are struggling to fund their public pension systems. But experts say nowhere is the problem more acute than at the five Illinois funds.

That said, not all pension funds are struggling. The Illinois Municipal Retirement Fund, which covers workers at 2,900 suburban and downstate municipalities, holds reserves that sit north of the magic 80 percent funding threshold even after the stock market crash of 2008.

The healthy bottom line is no mystery even though IMRF and state pension benefits are comparable, said IMRF executive director Louis Kosiba. The same legislature that routinely shorted commitments to state pension funds has demanded more vigilance from the IMRF and its member communities.

"Local governments are more mindful of debts," said Kosiba. "There's never been that kind of discipline at the state level."

In the mid-1990s, the General Assembly finally sketched out a long-range plan to force discipline on itself and restore the state funds to soundness. As crafted, however, the scheme was anything but bold, passing off most of the big expenses and tough funding decisions to legislatures far in the future.

That day is finally here, and it comes at a time when the state is also struggling to recover from the worst economic downturn since the Great Depression.

Business groups contend the best way to dig out of the mess is with an overhaul of the pension system itself, which they argue is expensive and archaic. Most private-sector employers long ago junked "defined-benefit" plans in favor of more flexible 401(k)-style retirement accounts filled by employee and employer contributions.

Leading the charge for such a revamp is The Civic Committee of the Commercial Club of Chicago, which claims it would save the state \$2 billion a year right off the bat.

There are many stumbling blocks to such an idea, but the biggest is Article 13 of the 1970 Illinois Constitution, which contains a clause declaring state pension benefits a contractual right that "shall not be diminished or impaired."

Commercial Club President Eden Martin agrees that the provision protects any benefits already earned by current employees covered by state pension systems. But Martin says a legal opinion commissioned by his group makes a strong case that future benefits for today's workers can be scaled back.

"The state is virtually bankrupt, so what's in our best interests?" said Martin, who expects a legal challenge if such a change ever were approved. "Pass the law and we'll find out if we're right or wrong."

Labor groups counter with their own legal opinion. It concludes that a long body of case law, as well as debate by the framers of the Constitution, make it clear that a deal should be a deal and the pension structure can't be changed prospectively for those already on state, university and school payrolls.

Anders Lindall, spokesman for the American Federation of State, County and Municipal Employees Council 31, said a pension task force appointed by Quinn last year found that Illinois pension costs were generally lower than in Indiana, Iowa, Kentucky, Michigan, Missouri and Wisconsin. What's more, the report said the Illinois costs were often lower than in the private sector, where employers must contribute to Social Security and many also kick in for 401(k) plans.

Lindall accused backers of a pension revamp of trying to make modestly paid public workers the fall guys for the irresponsibility of others. "There is a tremendous campaign driven by the corporate class to focus attention and harness public anger," Lindall said. "It doesn't give an adequate picture of the average pensioner."

bsector@tribune.com

Copyright © 2010, [Chicago Tribune](#)