April 10, 2019

Illinois' State Pension Debt

As indicated in my last As I See It column, our Illinois state budget will be the focus in this next series of letters. Pension payments are a big part of the state's budget. Our state's pension debt is out of control and continues to build. Illinois spends more on pension obligations than on education or on social welfare programs for struggling families. Illinois spends 24% of tax revenue on pensions, 13% on education funding and 8% on social welfare. Our state must find a way to protect retirees' pensions, while also having a budget that protects the health and safety of all of the people of Illinois.

There have been attempts to change the pension system in Illinois to reduce the liability on taxpayers. In December 2013, a state law signed by then-Democratic Gov. Pat Quinn stopped the automatic, compounded yearly cost-of-living increases for retirees, extended retirement ages for current state workers, and limited the amount of salary used to calculate pension benefits.

In May of 2015, the Illinois Supreme Court unanimously ruled unconstitutional the landmark state pension law that aimed to scale back government worker benefits to erase a massive $105 billion retirement system debt, sending lawmakers, the new governor, and the General Assembly back to the negotiating table to try to solve the pressing pension financial issue.

Illinois' pension debt has grown to $134 billion. Gov. J.B. Pritzker released his first proposed budget Feb. 20, 2019. While the governor presented his plan for the fiscal year 2020 as balanced, he failed to convince Standard & Poor's Global Ratings, one of the largest credit rating agencies. One fundamental problem with the governor's proposal? The lack of meaningful pension reform, according to S&P. "If the state fails to redeem its longer pension amortization schedule through a practical reduction in liabilities," the report says, "its credit trajectory could slip."

Illinois already holds the distinction has having the worst state credit rating in the nation, standing just one notch above "junk" status. A further decline could mean severe challenges in terms of the state's ability to borrow money. That should be of particular concern to Pritzker; whose proposed budget includes $2 billion in bonds to reduce the state's pension liability.

Gov. J.B. Pritzker's administration has confirmed that its new public pension plan will slash $800 million from the state's scheduled pension payment next fiscal year, which begins July 1. That reduction is a direct result of Pritzker's proposal unveiled last week by Deputy Gov. Dan Hynes, which would extend the state's pension payment "ramp" by seven years, from 2045 to 2052. But the administration won't yet say how much more money will be "saved" during the coming fiscal years by extending the payment ramp, except to suggest that the near-term cost reductions might be somewhere around $800 million a year. As a member of the House

Pension committee, I will continue to work with the governor and all interested parties to find a fair solution to the pension crisis.

Sincerely,

La Shawn K. Ford
State Representative-Eighth District