
April 23, 2019

# Dealing with Illinois' Pensions

Today I will continue our series on Illinois' state budget. Helping our local communities succeed begins with putting Illinois back on sound financial footing. For too long, Illinois has muddled from emergency to emergency, finally culminating in former Governor Bruce Rauner's years-long budget crisis, which brought Illinois to the brink of junk bond status.

In the next month, passing a balanced budget on time is a priority in Springfield. As a member of the budget team, I know well that pensions are the most significant budget drain. As mentioned in my last letter, Illinois spends more tax revenue on pensions than education and social welfare. Governor Pritzker believes that a path to a balanced budget is to re-evaluate the payments to the pension plan set up two decades ago.

"No one who devised the state's pension funding schedule 25 years ago would have intentionally built a plan that required 21 percent of state general funds revenues go to pensions. It is time to re-evaluate the plan set up 25 years ago and find a way to balance the state's pension commitments with all the other demands on the state's resources," stated Deputy Gov. Dan Haynes. "The governor is proposing a sustainable approach that will keep our promises to retirees who earned their pensions while making investments in the critical priorities that make Illinois a good place to live."

The governor's approach to pension stabilization, taken collectively with the expansion of the tax revenue base and the ongoing investment in priorities that will grow our economy, will put our state on a sustainable path that keeps its promises to retirees.

The governor is proposing a multi-tiered approach to pension stabilization that takes into account the legal levers available to manage this commitment:

- Dedicate $200 million of new revenue from the Fair Tax directly to paying pensions on top of the amounts certified by the pension systems annually. Provide pension funding over and above the ramp to pay down the debt more quickly, indexed to inflation to generally increase with the growth in new revenues. Secure dedicated funding to the systems that would otherwise go into general funds. Make the pension acceleration program permanent.
- In 2018, the General Assembly authorized a plan to reduce the liabilities of the systems by allowing members to sell a portion of the value of their post-retirement cost of living adjustments. If this program is made permanent, significant liabilities of the systems can be eliminated. This program is estimated to reduce the fiscal year 2020 contributions by approximately $125 million.

- Issue $2 billion in pension funding bonds to infuse cash into the systems at lower rates than we are incurring on the unfunded liabilities. If the state enacts a new bond structure allowing for income tax revenue bonds, lower interest rates are possible.
- The state will rededicate future expiring pension debt service to retirement systems. The idea is to restructure pension debt to make payments more sustainable and balanced with critical investment needs. The current payment trajectory would lead to a $17 billion reduction in pension payments in 2046; by shifting out the target date modestly to the fiscal year 2052 and maintaining the 90 percent funding target, contributions today can be adjusted to a more manageable level. This proposed reamortization will reduce the fiscal year 2020 general funds contributions by an estimated $878 million.

Please email me at repford@lashawnford.com to let me know what you think about the governor's reamortization plan for Illinois' pensions.

Sincerely,

La Shawn K. Ford
State Representative-Eighth District