

# *A Sustainable Path to Resolving Illinois' Pension Crisis*

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Tuesday, June 19, 2018; 6:30 pm  
Senator Murphy's Summer 2018 Town Hall  
Schaumburg Township District Library  
Adult Classroom – 2<sup>nd</sup> Floor  
130 S. Roselle Road, Schaumburg, IL 60193

Presented by:  
Ralph Martire, Executive Director

# Significant Borrowing Against the Pensions Created the Problem

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- In 1994 the unfunded liability across all five systems (TRS, SURS, SERS, GARS, JRS) was \$17 billion
- This was almost double the \$8.7 billion unfunded liability just five years earlier in 1989

# All This Borrowing Led To...

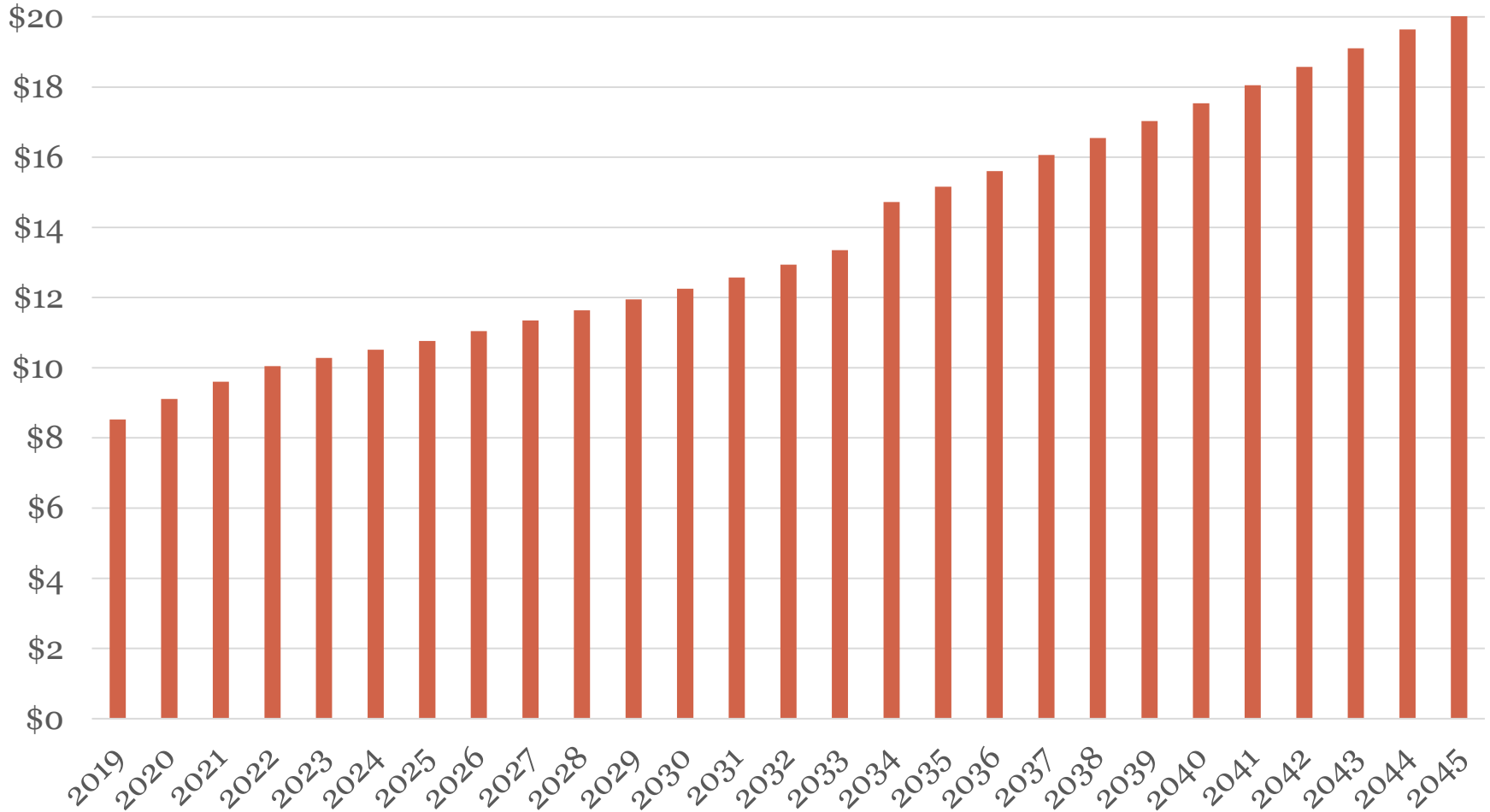
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## P.A. 88-0393: The “Pension Ramp”

- Which created a new, unaffordable, unattainable structure for repaying the pension debt

# Current Pension Ramp Projections: FY2019 - 45 (\$ Billions)

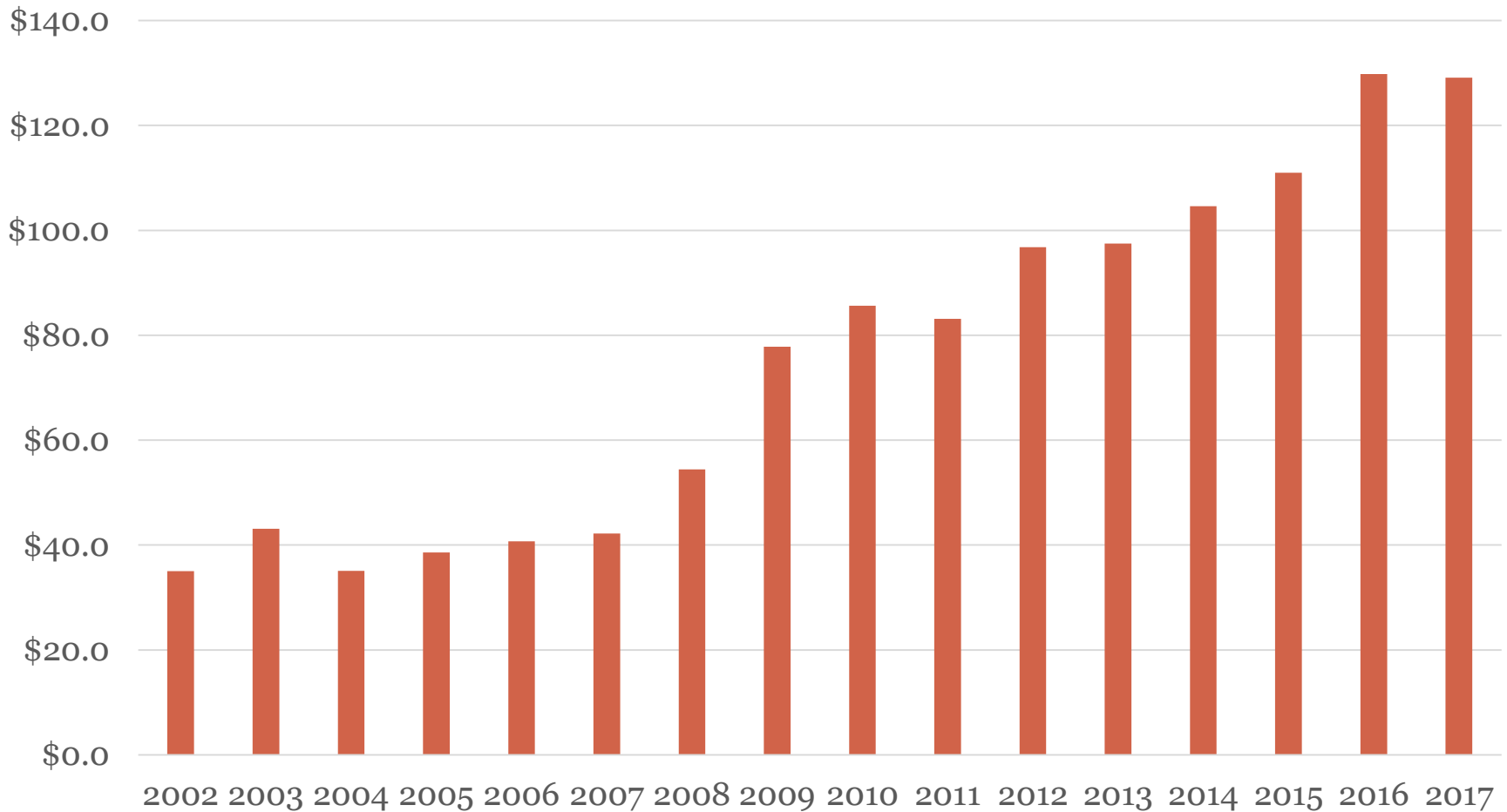
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Source: State pension funds actuarial valuations

# The Unfunded Liability Actually Grew Under the Pension Ramp: 2002-2017 (\$ Billions)

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Source: COGFA

# The Unfunded Liability Actually Grew Under the Pension Ramp

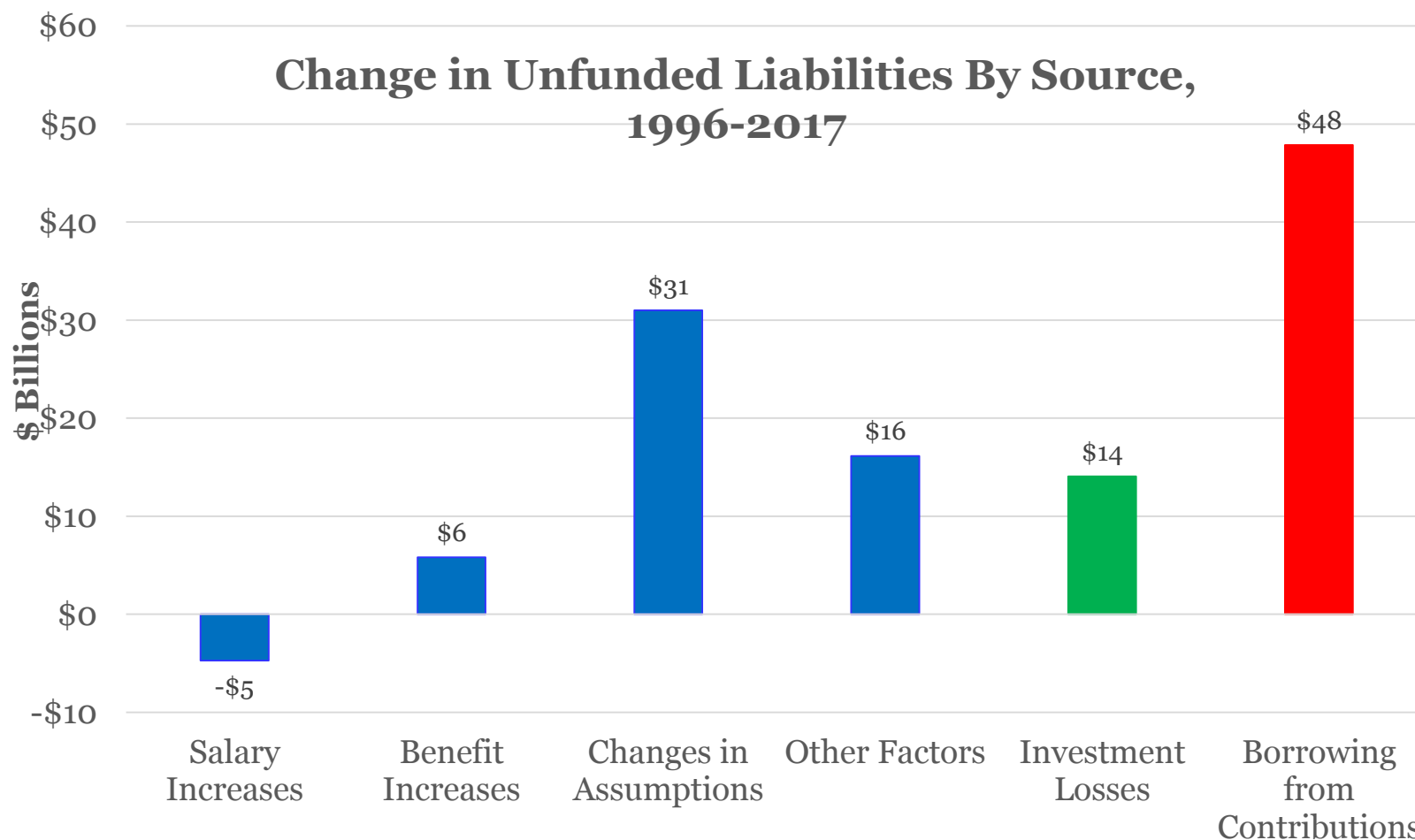
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- So much so that by FY2017, the unfunded liability had reached \$128.9 billion, and collectively the five state pension systems are just 39.8% funded.
- According to the Congressional Budget Office, to be considered “healthy” public pension systems should be at least 80% funded.

Source: State pension funds actuarial valuations

# But Pension Benefits Have Not Driven the Problem

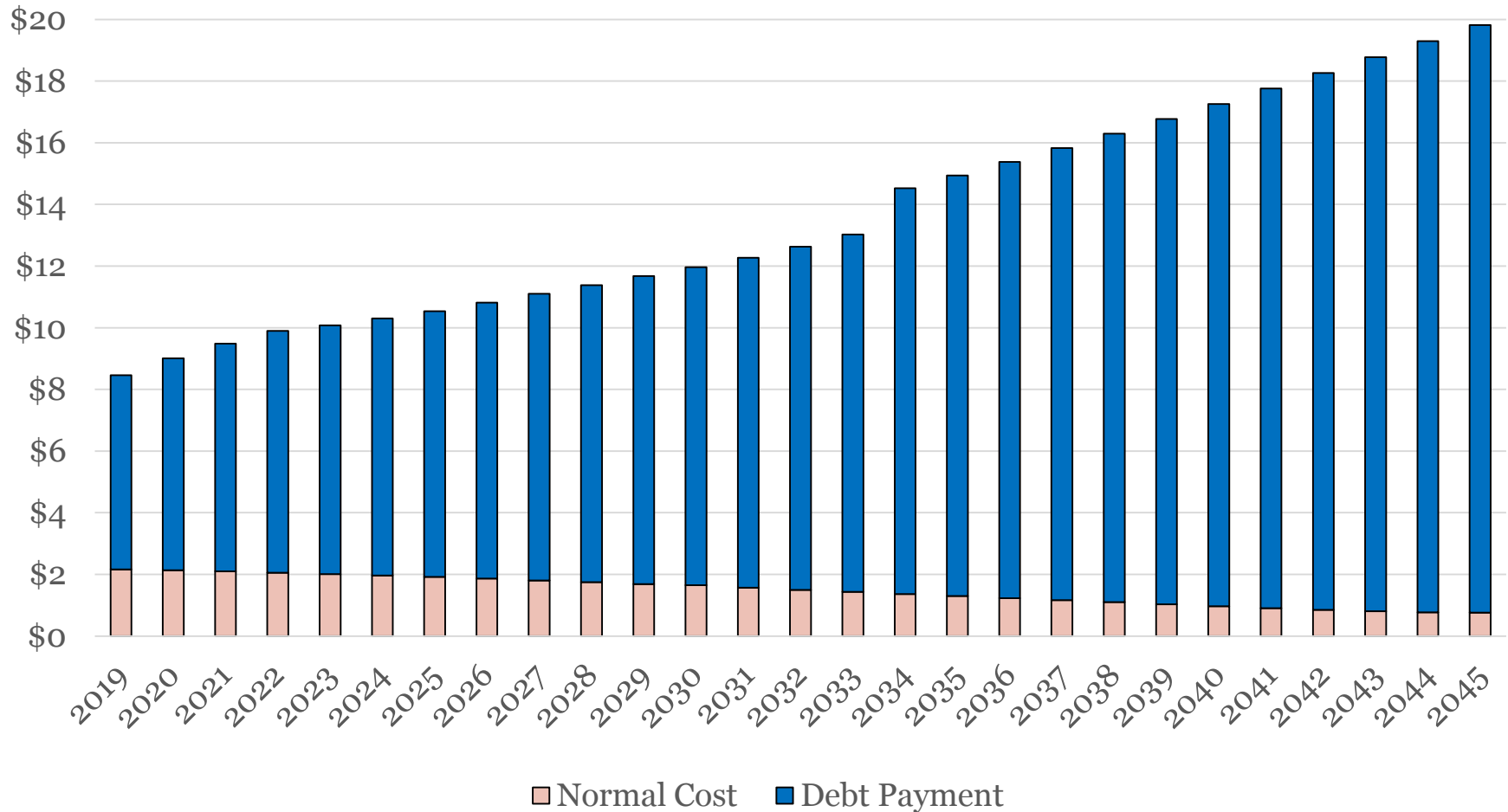
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Source: COGFA

# The Ramp Is a Debt Structure Problem: Normal Cost of Benefits Not the Driver (\$ Billions)

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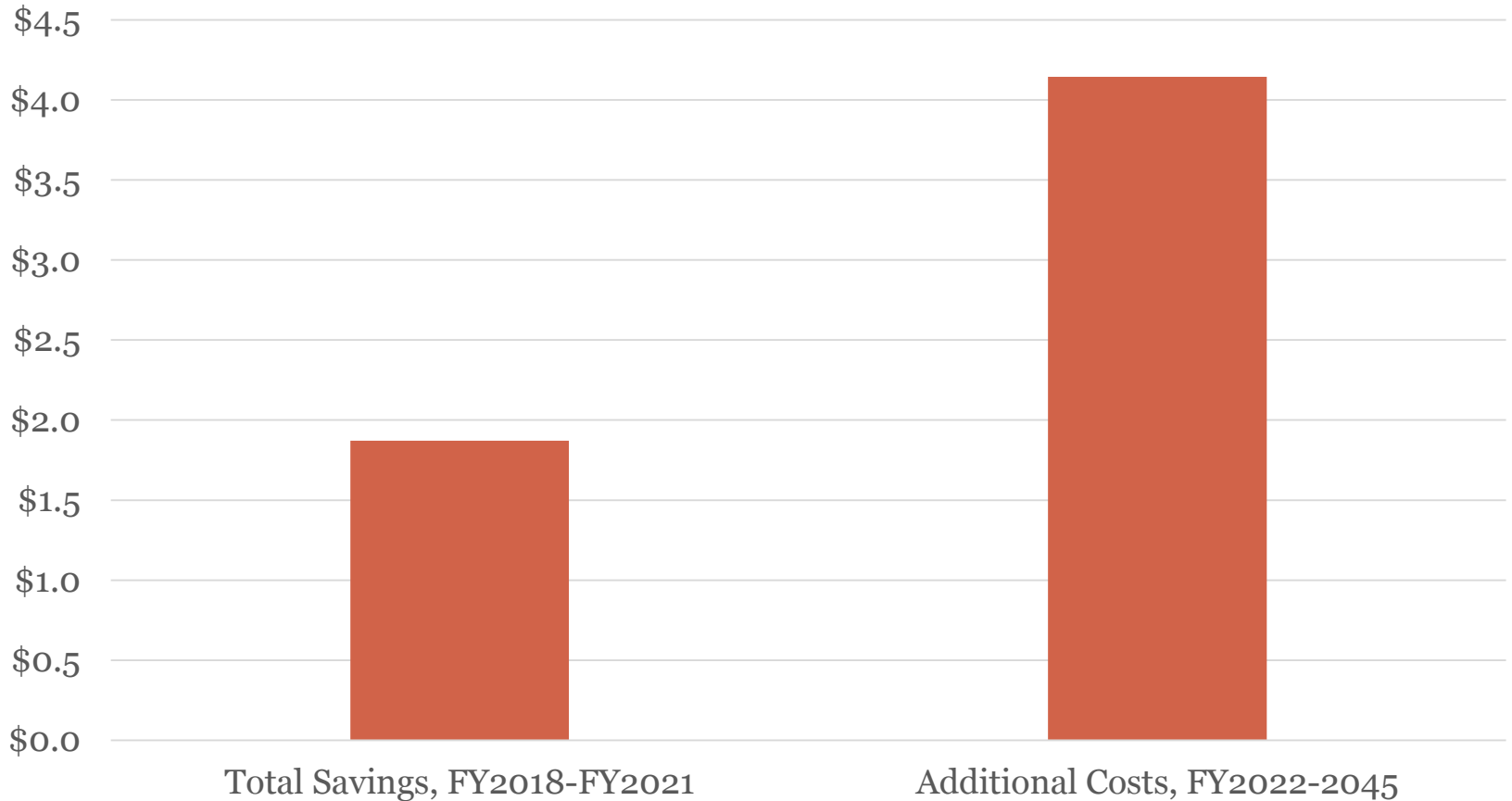
Source: State pension funds actuarial valuations



# FY2018 Budget Adjustments Will Make This Worse

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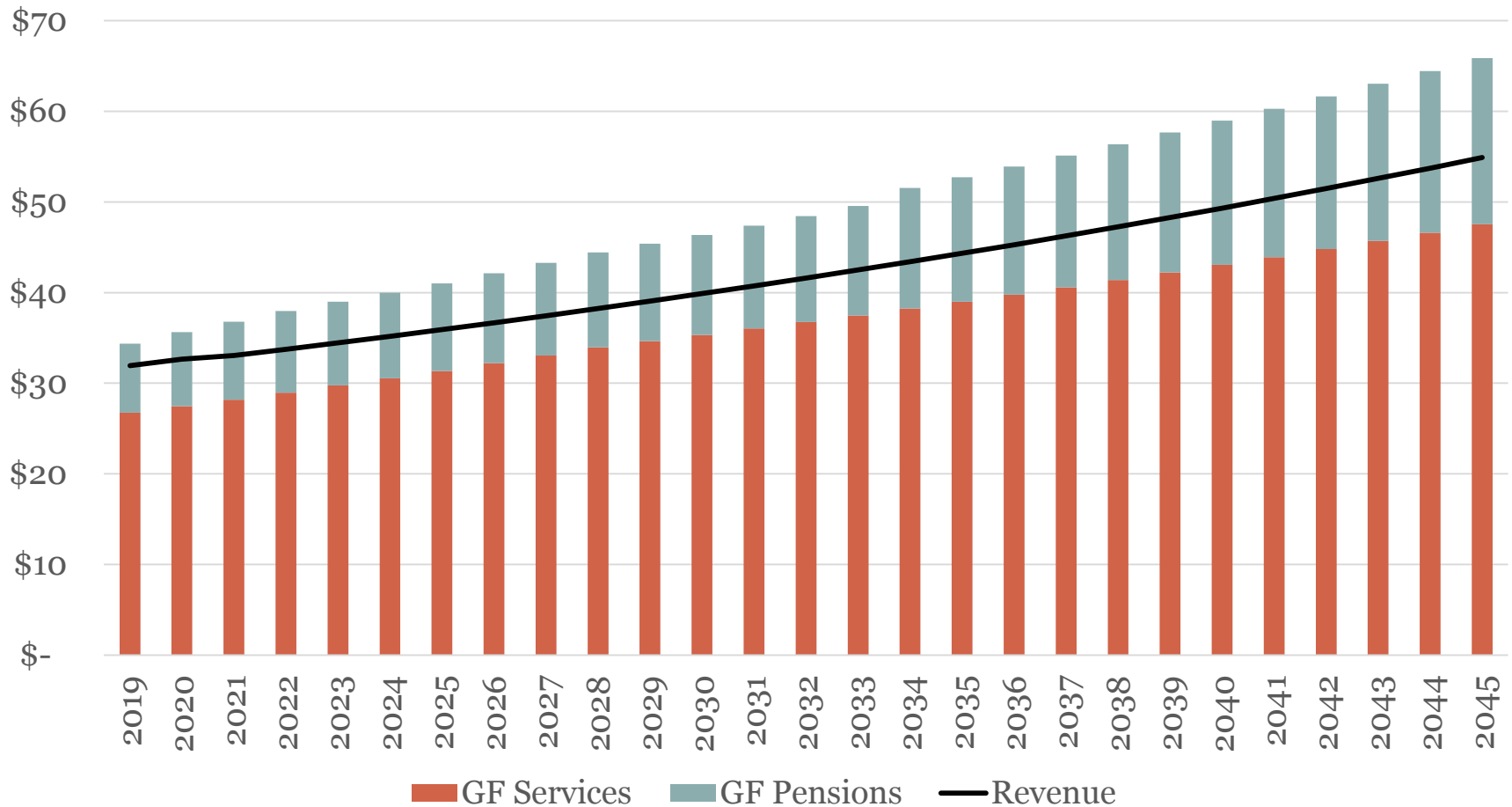
## Changes to Pension Contributions After FY2018 BIMP



Source: State pension funds actuarial valuations

# The Pension Ramp Plays a Key Role In Illinois' Structural Deficit (\$ Billions)

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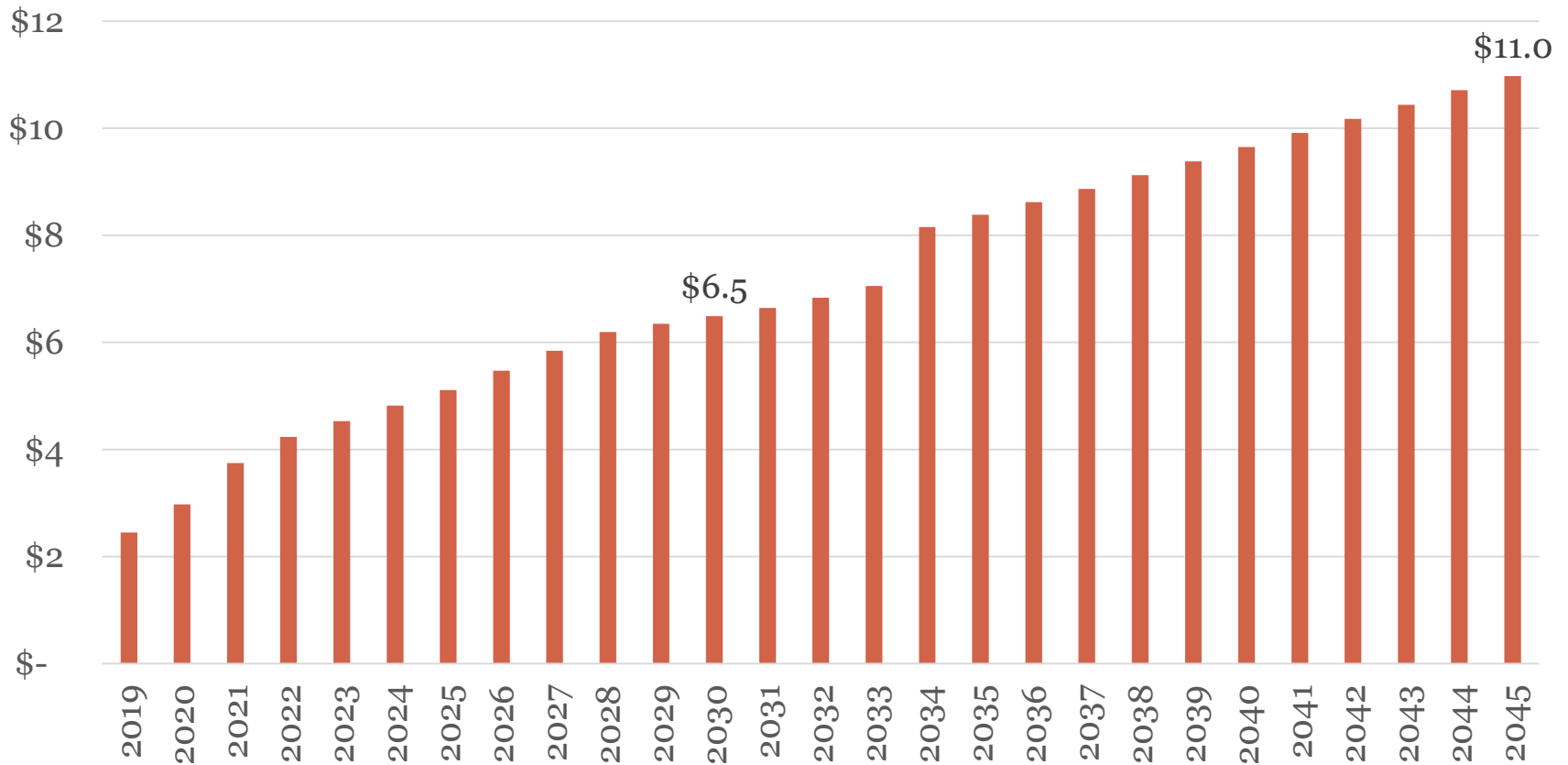


Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.

# Pensions Play a Key Role In Illinois' Structural Deficit (\$ Billions)

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## Cuts to General Fund Services Required to Fund Pension Ramp



Source: CTBA projections based on FY2018 COGFA data. Includes funding for EBM.

# Real Spending on State Services has Greatly Lagged Real GDP Growth

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<b>Δ Over FY2000 &amp; FY2018 Time Period</b>	<b>State GDP</b>	<b>General Fund Spending</b>	<b>General Fund Services</b>
<b>FY2000 (Adjusted for Inflation &amp; Population)</b>	\$702.7	\$35.76	\$33.70
<b>FY2018</b>	\$824.0	\$37.07	\$26.04
<b>Increase/Decrease</b>	\$121.3	\$1.3	-\$7.7
<b>% Change</b>	17.3%	3.7%	-22.7%

Source: CTBA analysis of Illinois General Fund data, BEA, BLS, and U.S. Census data.

Note: Inflation adjustment for State GDP using CPI; for the General Fund using ECI.

# Compared to the Rest of the Nation, Illinois is a Very Low Spending and Small Government State

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## Consider that:

- In calendar year 2016, Illinois had the fifth largest population (Census data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 12<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2016 Illinois ranked 31<sup>st</sup> in General Fund spending on services per capita, and 39<sup>th</sup> in General Fund spending on services as a share of GDP.
- In 2014, (the most recent year for which there is data) Illinois ranked 46<sup>th</sup> among all 50 states in number of state workers per 1,000 residents.

\*Data for preceding analysis comes from U.S. Census, U.S. Bureau of Economic Analysis, National Association of State Budget Officers, and the final, enacted General Fund Budgets of all 50 states.

# Because the Problem Is Not Driven by Benefits, Switching From DB to DC Won't Help

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- **Michigan**

- In 1997, all new hires in Michigan State Employee Retirement System (MSERS) to DC
- In 1997, MSERS was 109% funded
- By 2016, dropped to 64.3% funded



# Because the Problem Is Not Driven by Benefits, Switching From DB to DC Won't Help

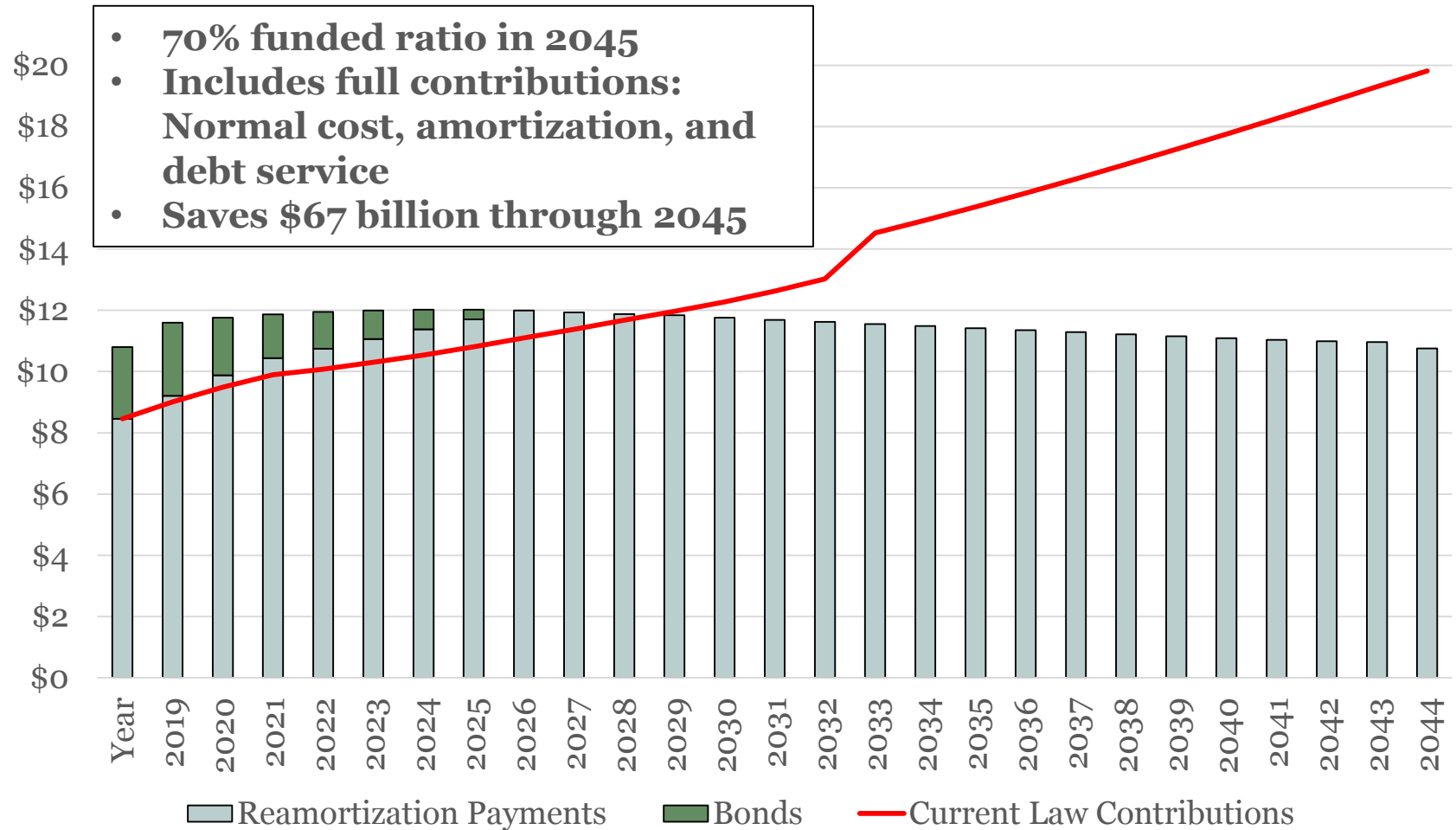
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- West Virginia
  - Moved all new teacher hires to DC in 1991
  - Caused funded ratio to drop to 25%
  - In 2003, found its DB was 1/2 the cost of its DC
  - In 2008, allowed teachers to switch to DB
  - Funded ratio up to 67% in 2015



# The Rational Way to Solve Problems is to Re-Amortize Pension Debt (\$ Billions)

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# For More Information

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