

Potential Changes to the Illinois Pension Systems and Their Projected Impacts on Stakeholders

Researching pension systems in 14 other states and analyzing a number of state public pension study reports, the LWVIL Pension Study Committee compiled the following list of potential changes that would impact stakeholders in Illinois. The Committee has taken no position on any of the potential changes and the list below is in no priority order. It is merely a list of potential changes impacting stakeholders plus a list of advantages and disadvantages.

Group I Stakeholders: Current Employees in the Five State Pension Systems (Tier I – hired before Jan. 1, 2011) Note: These changes would raise potential constitutional issues under Article XIII, Section 5 of the *Illinois Constitution*.

Potential Changes 1-10:

1. Raise retirement age
2. Increase minimum years of service requirement for full retirement benefit
3. Limit application of unused sick leave to years of service for pension calculation
4. Increase required employee contribution to pension plan
5. Calculate pension only on base salary, excluding items such as overtime, summer school, extra-curricular activities, etc.
6. Strengthen anti-spiking provisions
7. Reduce pension COLA (cost of living adjustment) benefits
8. Establish maximum annual pension benefits
9. Increase early retirement penalty
10. Establish transition period for employees near retirement age to mitigate the impact of any proposed changes.

Impact On	+ or -	Why
Current Public Employees (Group I Stakeholders)	Advantage	Strengthens financial stability of pension systems
	Disadvantages	<ol style="list-style-type: none"> 1. Reduces retirement benefits 2. Raises costs to employees
State of Illinois	Advantages	<ol style="list-style-type: none"> 1. Reduces state financial burden 2. Increases financial strength of pension systems
	Disadvantages	<ol style="list-style-type: none"> 1. Increases difficulty retaining public employees 2. Increases number of public employees deciding to retire earlier than originally planned and thus increases the financial burden on pension systems; 3. Suddenly increases number of retirements resulting in weakened ability of state, public schools, public community colleges, and/or public universities to function optimally.

Group I Stakeholders, continued

Potential Change 11: Establish defined contribution plan with participation in Social Security as replacement for state defined benefit/pension.

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
Current Public Employees (Group I Stakeholders)	Advantage	Portability of money in account
	Disadvantages	<ol style="list-style-type: none"> 1. No guaranteed retirement income other than Social Security 2. Employee has total investment responsibility and risk. 3. Employee is responsible for much higher proportion of retirement income.
State of Illinois	Advantages	<ol style="list-style-type: none"> 1. May reduce financial burden of state 2. State has no investment risk 3. State’s only financial liability is its annual contribution and Social Security.
	Disadvantages	<ol style="list-style-type: none"> 1. Initially may increase unfunded pension liability because current employees would no longer contribute to defined benefit/pension systems; 2. Reduces funding flexibility because State would be required to make its Social Security payments on a timely basis.

Group II Stakeholders: Public School Districts, Public Community College Districts, and Public Universities

Potential Change: Pay more into pension system with a transition period

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantage	Reduces state funding obligation
Group II Stakeholders	Disadvantage	Increases their funding obligations with possibility of increased local property tax/tuition and/or decreased funding for classroom instruction

Stakeholder Group III. Retirees currently in the five state pension systems

Note: This change would raise potential constitutional issues under Article XIII, Section 5 of the *Illinois Constitution*.

Potential Change: Reduce pension COLA (cost of living adjustment) benefits.

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantages	1. Reduces financial burden on state 2. Increases financial strength of pension system
Public Pension System Retirees	Disadvantage	Reduces future retirement benefit increases

Stakeholder Group IV: All Retirees Who Live in Illinois

Potential Change: Apply Illinois state income tax to all retirement income (i.e., withdrawals from IRAs, 401k, 403b, Social Security, pensions, etc)

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantages	1. Broadens tax base 2. Increases state revenue
All Retirees	Disadvantages	Pay higher taxes
State & Local Governments	Disadvantage	Creates possible movement of retirees out of Illinois, taking with them both their spending power and sales tax revenue power

Stakeholder Group V: Illinois Taxpayers

Potential Change 1: Establish tax on services

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantages	1. Increases revenue 2. Broadens tax base
	Disadvantage	Makes state less competitive economically
Taxpayers	Disadvantage	Increases their taxes

Potential Change 2: Maintain current temporary 5% state income tax as permanent

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantage	Maintains state revenue
Taxpayers	Advantage/Disadvantage	Maintains their taxes at 5% level

Stakeholder Group VI. The State of Illinois

Potential Change 1: Stretch the pension funding ramp beyond 2045.

Note: A 1994 law established an annual funding requirement sufficient to bring the pension systems to 90% funding by 2045.

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
State of Illinois	Advantage	Lowers required state pension funding, thus freeing up funds for other purposes and/or reducing pressure to raise taxes
	Disadvantage	Raises total state pension expense over time
Employees/retirees in the 5 state public pensions	Advantage	Lowers pressure to reduce pension benefits
	Disadvantage	Raises risk of inadequate funds in the pension systems to meet their pension obligations.

Potential Change 2: Establish a contractual obligation of the State of Illinois to fund its five public pension systems, thus giving those five public pension employees/retirees the right to sue the state if the state is not meeting its pension funding obligations.

<u>Impact On</u>	<u>+ or -</u>	<u>Why</u>
Employees/retirees in the 5 state public pensions	Advantage	Can enforce the state’s pension funding obligation
State of Illinois	Disadvantage	Loses pension funding flexibility