



Metropolitan Planning Council

May 23, 2012

Governor Quinn
President Cullerton
Speaker Madigan
Leader Radogno
Leader Cross

The General Assembly must act urgently to fix the state's pension crisis and put Illinois on the path to fiscal stability. For three decades, the state has mismanaged the five systems, making costly promises to employees while failing to make its required payments. This irresponsibility has led to an \$83 billion pension unfunded liability and the worst funded system in the country.

Pension contributions are a two way street. While employees have kept their end of the bargain, making their required pension payments, via payroll deductions, the state has not. Leaders have never adhered to the 50-year plan enacted in 1995 to make the systems whole by 2045, even taking a "pension holiday" and issuing pension obligation bonds during times of budgetary stress. This lack of fiscal discipline has led to the current situation; each time the state failed to pay its required pension contribution, the amount it ultimately must contribute has to be paid back with interest, compounded at each retirement system's target rate of return. Currently, state pension debt accounts for 70 percent of the annual payment, with only 30 percent allocated to the normal cost -- the present value of the benefits earned by members of the retirement systems in that year.

By 2014, annual pension payments will grow to encompass over a quarter of the state's general fund budget, with retiree health care costs adding another \$900 million per year. Leaders have little choice but to make structural reforms to the systems now or risk eliminating funding of basic state functions and investments that will grow our economy.

The Metropolitan Planning Council (MPC) applauds Governor Quinn's leadership on pension reform. By restructuring cost of living adjustments and health care benefits, Governor Quinn's blueprint is one that can begin to put Illinois on the road to recovery. We fully recognize the complexity of implementing pension reforms. However, after years of inaction, there is simply no way to stabilize the budget without taming the pension beast.

MPC urges state leaders not to make superficial changes, but to insist on lasting structural reforms. Because the Illinois constitution requires that state employee retiree benefits "shall not be diminished or impaired," any solution also must pass legal muster. Further, the only serious way to tackle the unfunded liability is apply reforms to current retirees. This approach must be balanced, ensuring adequate retirement security for public employees. Most participants in the state's pension systems are not eligible for Social Security and will rely solely on their pension benefits in retirement. As the debate progresses we are eager to review details including legislative language and projected state yearly pension contributions.

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After years of mishandling pensions, the state is left with no easy answers. The consequences of inaction will be far worse for all Illinois residents. Absent reforms to pensions, it will be impossible for the state to invest in vital projects that will grow our economy, such as transportation, energy, housing, economic development projects, workforce training, and education.

Sincerely,

A handwritten signature in black ink that reads "MarySue Barrett". The signature is written in a cursive, flowing style.

MarySue Barrett
President