

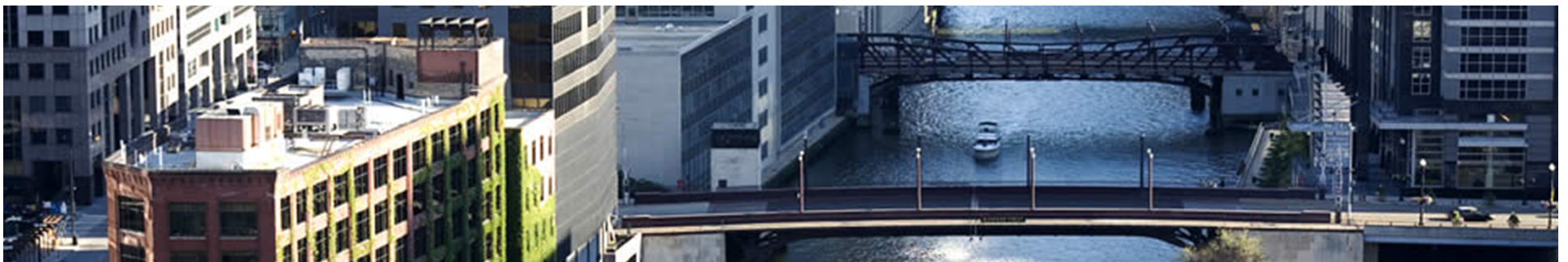


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View from the Bottom of the Pile: Illinois

Sarah Wetmore, Vice President and Research Director
The Civic Federation
August 4, 2014





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Presentation Overview

- (Very) Quick history and previous Illinois public pension reforms
- Final pension reform package and competing proposals
- Developments since passage of pension reform
 - Five lawsuits filed
 - The *Kanerva* decision in the Illinois Supreme Court and the fate of pension litigation
 - Change to fund actuarial assumptions



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Well, How Did We Get Here?

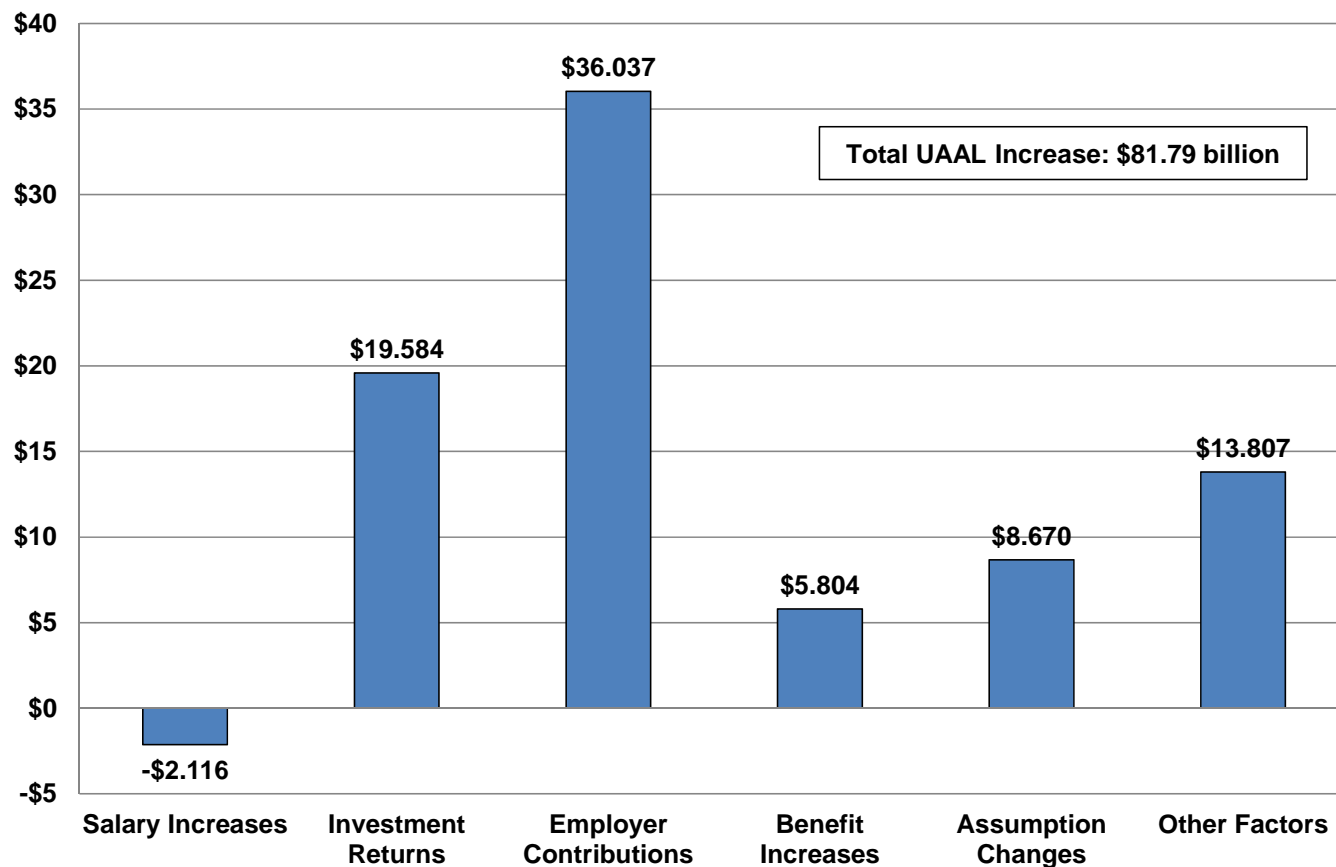
- Illinois among the worst in pension funding in the nation
- State has a history of pension underfunding exacerbated by 50-year plan to get to 90% funded passed in 1995
- Pension reforms passed in 2008 for CTA (crisis) and for new employees in 2010



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Change in State Pension System Unfunded Liability, FY1996-FY2013
(in \$ billions)



Source: Commission on Government Forecasting and Accountability, *Illinois State Retirement Systems: Financial Condition as of June 30, 2012*, February 2013, p. 31.



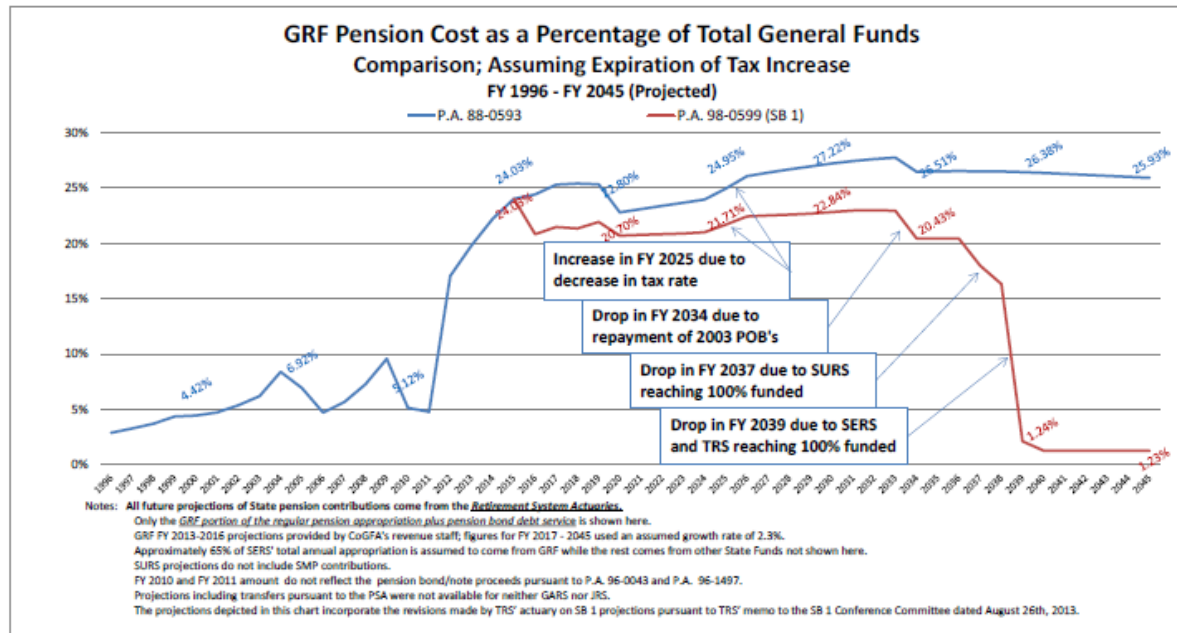
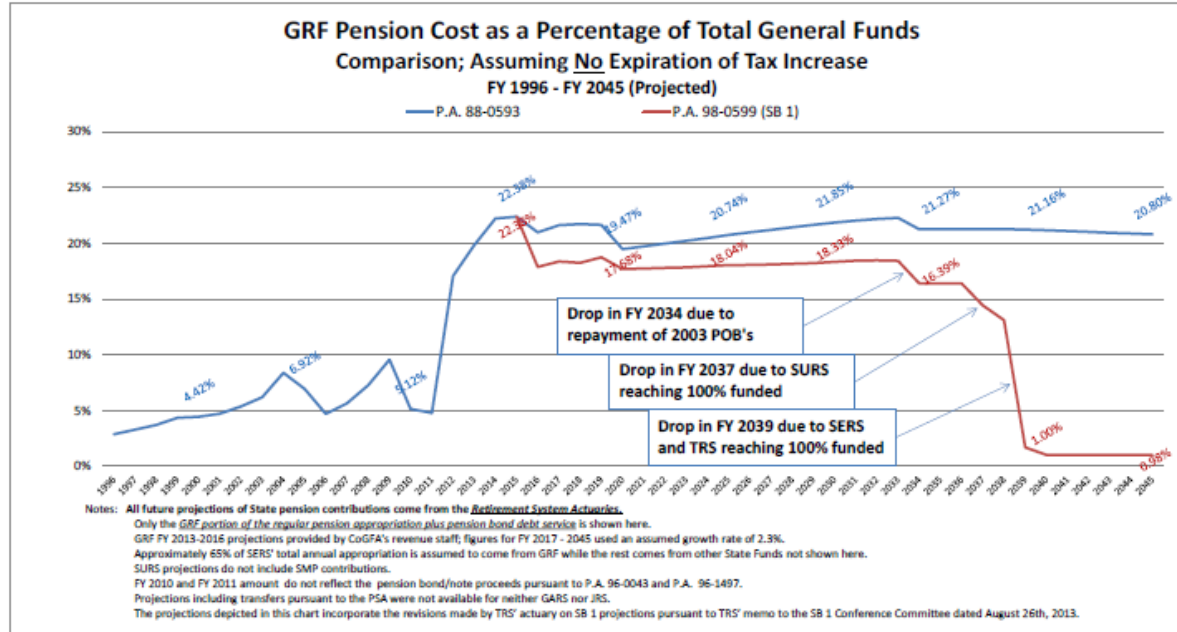
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Public Act 98-0599

- After years of warnings from the Civic Federation and other groups, reform package passed in December 2013
- Was the culmination of two years of discussions in the legislature
- Focus of reforms is on reducing automatic annual increase from 3% compounded to a simple interest increase related to years of service
- Goal is 100% funding in 30 years
- Relies on a police powers argument to override Illinois Constitution's pension protection clause

State Contributions Under Reforms





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Alternative Reform Approach

- Senate President's General Counsel held that pension reform could only pass constitutional muster if something was offered to employees and retirees in exchange for reducing benefits, known as “consideration”
- Consideration offered in alternative proposal was a guarantee of access to retiree healthcare for retirees and a complicated set of choices for current employees involving the COLA and their future salary increases
- Legislation containing this compromise saved much less, but had support of some labor groups.



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Recent Developments

- Retiree groups filed five different lawsuits against pension reforms; cases were consolidated in Sangamon County and a ruling is not expected until next year
- A judge delayed implementation of P.A. 98-0599 pending outcome of the litigation
- The three largest state pension funds reduced their expected rates of investment return, which will increase the state's required contributions and offset some of the projected pension savings
- Illinois Supreme Court *Kanerva* decision on changes made to state retiree healthcare subsidies in 2012