Wrong Solution?

Governor Blagojevich has made pension "reform" the centerpiece of his FY-2006 budget proposal. Some of his proposals, such as limiting huge end-of-career pay increases for retirement calculation, is one example. If these increases are given, the employer should fund the cost to the pension system. Another is the Legislature enacting early retirement schemes on the pretext of saving taxpayer money. (I have searched for several years and have yet to find an example of an early retirement scheme that actually saved any money in the long run.) Missing from the list of proposed reforms is a provision in the General Assembly plan relating to how "final salary" is determined for retirement purposes. The use of a "last day" factor rather than an average over time, as used in other systems, practically invites abuse. This provision should be changed to bring it in line with other state plans.

Most of the Governor's recommendations relate to reducing benefits, making employees pay more or both. Missing from the list is the most obvious solution; proposing a way to pay off the bill owed its pension systems as soon as possible. With all due respect to the Governor, he just doesn't get it! Having that bill paid will result in huge savings to future Illinois taxpayers. Here's why:

First, everybody seems to agree that all current state employees and retirees are constitutionally guaranteed all past and current benefits promised them and, short of the State declaring bankruptcy, there is no way the State can renege on this bill. Just like a credit card bill we have already run up, this pension bill is stacking up compound interest charges each year it remains unpaid and all of us, current and future taxpayers, are still responsible for the payment of today's increasing debt!

Second, why would taxpayers want to cut back state-funded programs that actually earn money for them? Even while badly under-funded, the Teachers Retirement System (TRS) and the State Universities Retirement System (SURS) have earned more than $32 billion over the past 20 years. **That's $32 billion dollars to fund pensions that Illinois taxpayers did not have to pay**. (Quick, name any other state program that saves taxpayers money by producing its own earnings.) Rather than cut back on these programs, they should be fully funded so they can produce even more taxpayer savings.

Third, a change to reduce employee benefits or increase the employee cost, may have unintended, costly consequences to the State of Illinois.

Most persons are either unaware of (or ignore) the fact that all TRS and SURS employees are excluded from Social Security retirement coverage. This is not the choice of these employees but rather because Illinois law demands they be excluded. In addition to being excluded from Social Security retirement benefits, they are also forced to contribute a higher portion of their wages into their Illinois systems than they would be required to pay into Social Security. To add insult to injury, if any of these employee are ambitious enough -- or out of necessity-- take on extra employment that **is** covered by Social Security, upon retirement they will get a Rude shock. Because Illinois did not pay Social Security taxes on their Illinois job, any Social Security retirement they thought they earned may be reduced by up to two-thirds!

Keep in mind that, for the past half century, Illinois has saved money by excluding employees and avoiding the payment of Social Security taxes. Better yet, there was no legal requirement that the State make timely and full payments into its own system – and, until about 10 years ago -- it didn't. That's the problem today!

Most private sector workers are covered by Social Security and understand that the taxes (contributions) they pay are used to finance the retirement benefits of former workers now retired. They also hope that when they retire, there will be others still working who will pay taxes to fund their benefits. However, most persons do not realize that under Illinois' retirement systems, worker and employer contributions (taxes?) are invested to pay for their own future retirement. **Each generation of Illinois workers pays for its own retirement**.

Many critics of public pension systems (including some editorial pages) proclaim they are "far more costly than private sector plans." Examination of facts explains why this belief could be a myth.

These critics might want to take a look at Wal-Mart – one of the world's largest private sector employers. Wal-Mart, not usually viewed as providing generous employee benefits, states on its company web site that: *"In recent years, we have contributed up to 4 percent of an associate's eligible pay to a combined Profit Sharing/401(k) Plan."* Keep in mind this 4% **is in addition to** the mandated 6.2% of wages paid to cover the employer's required share of Social Security for a total of 10.2% of employee wages. (Note: A regular, ongoing employer contribution of 4% of employee wages would be nearly adequate to fully fund a typical SURS retirement.)

If the State's goal is to provide employees with a private sector style retirement plan, lawmakers may need to come up with much more money than they have in the past. Illinois lawmakers should look closely at the real taxpayer cost of our current employee pension systems and realize what a good deal they are for Illinois taxpayers – all made possible by requiring employees to pay higher contributions and using a plan fiduciary to produce investment earnings

At some point, Illinois employees could decide that their plan isn't worth the extra cost they must pay and that Social Security would be a better option. Disgruntled state employees could petition to have their systems transferred to Social Security. Switching Illinois employees to Social Security would probably not be good for employees and definitely would cost taxpayers considerably more money.

The solution our Governor should be seeking is "How can we best raise the needed revenue to pay off the debt to our State's retirement systems?" We can't turn back the clock and change past legislative actions, but we ought not compound those mistakes in the future. The basic philosophy and design of the State's contributory retirement systems is not broken and doesn't need to be fixed.

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