Illinois Pension Reform – Some Sample Numbers

For several years Illinois politicians and newspaper editorial pages have complained regularly and loudly about the State's “pension problem.” Pensions for State workers have been characterized as “lucrative” and “unsustainable.” The impression has been left that Illinois workers' pay and pension benefits are the cause of the State's dire fiscal problems. Oddly, these complainers offer no verifiable evidence to support their claims – we are just supposed to “trust them.” Politicians (even though they have not proven a problem) now propose the way to solve the “unproven problem” is to “reform” – renege on promised benefits and charge workers more. Absent in these complaints is the fact that the State has not paid its required share of worker pension benefits for decades. The only “broken” part of pensions is the State not paying! A more accurate and honest description of our current situation is that Illinois has a huge **debt problem** and may, or may not, have a “pension problem.” The **debt problem** has been calculated at about $100 billion. Less factual information has been reported about the so called “pension problem.”

In order to take a closer look at the so called “pension problem”, I have created a model to give you the opportunity to see sample numbers (mathematical facts) involved in one of the State's several retirement systems. The following model emulates the State Universities Retirement System's (SURS) Traditional, Tier I plan. This is one of the plans supposedly causing Illinois’ fiscal problems. This plan, which includes the majority of SURS employees, has already been “reformed” to lower benefits for all future workers. Thus, SURS “Tier II” workers – first hired on or after 1-1-2011 – will receive lower benefits than what is shown in my model. (SURS has not approved this computer model.)

Keep in mind that Illinois law excludes all SURS workers from the nation's “standard retirement plan” – Social Security. Illinois politicians have chosen to exclude most of its workers from Social Security on the condition that the State's alternative plan will provide worker benefits at least equal to those provided under Social Security. Since the SURS plan requires workers to “contribute” 8% of their gross earnings into their retirement plan (more than they would pay under Social Security), it would seem logical that the State would also “contribute” an amount at least equal to the Social Security “employer share” of 6.2% of gross earnings. Unfortunately, unlike Social Security, there is no set amount the State must pay into its employee retirement plan. The State may fund its plans any way it wants. **However, the State must pay all retirement annuities when they are due!** This was a deliberate choice past legislators made.

John Terwilliger, December, 2012 (retired under SURS and TRS, 1992)