Blagojevich Pension Reform Proposal

What is the current state of Illinois' pension system?

- Thirty years of under-funding the state employee pension system, combined with passing billions worth of unfunded pension sweeteners, has created the largest state pension debt in the nation.

- Despite the reduction in liability based on the successful 2003 issuance of Pension Obligation Bonds (POB) and adoption of structural pension reforms, the state's pension liability stands at $40 billion today.

- To make matters worse, the statutorily mandated 50-year pension funding plan by design underfunds the pension system through 2033. This means that the state must pay interest (at 8.5 percent) on that debt for each of the next 26 years, which will deprive the state of resources that can be used for education, health care or economic development.

- In addition, if the current funding plan remains in place, the pension debt will continue to increase each of those years. Steps must be taken today to significantly reduce this debt, and Gov. Blagojevich's plan achieves this.

Where will the money come from to infuse the system with cash?

- The source will be proceeds from long-term lease of the Illinois Lottery, a transaction expected to provide the state with at least $10 billion in immediate cash that can be transferred to the pension systems. Leasing the lottery will allow the state to retain ultimate control over the lottery while allowing a private operator to run the lottery more efficiently and profitably.

- Issuing additional Pension Obligation Bonds (POB) – An additional issuance of approximately $15.9 billion in pension obligation bonds will allow the state to refinance its pension obligations (which grow at a high interest rate of 8.5 percent annually) with near historic low, long-term interest rates. This would build upon the very successful $10 billion POB issued during the Blagojevich administration in 2003.

What will be the results of the cash infusion?

- Immediately increase the state's current funded level to over 83 percent, nearly 34 years ahead of the 50-year funding plan's schedule.
- Dramatically reduce the interest payments the state must make on unfunded liability – or "paying interest on interest."
- The pension system will reach a 90 percent funded level five years earlier than under the current 50-year, 1995 Pension Funding Plan.

What will be the long-term effects of this plan?

- This revised funding formula is projected to save the state more than $60 billion between 2007 and 2045, net of the additional infusion of $26 billion.
- As a result of infusing the pension systems with over $26 billion in immediate cash (which is more than 60 percent of the value of the current unfunded liability), the state will be able to revise the statutorily mandated funding formula and make it more reasonable and attainable.
- This change will allow annual increases in pension contributions to grow at a level amount of approximately $300 million, restructuring the current "ramp" period from 2007 through 2010 that today threatens to compromise core state services.
- Under the current funding system, the pension debt is fully "back-loaded" with payments rising significantly every single year until the debt is paid off in 2045.
- This will also eliminate the "back-loading" of payments that exists under the current funding plan. At the same time, this will allow the pension system to reach a 90 percent funded level in 2040, five years earlier than the current statutory funding structure.