

Meeting Our Pension Obligation

CURRENT LAW: Illinois is moving into the 17th year of a 50 year funding plan that was created in 1995. The funding plan called for a “ramp up” of state contributions to the 5 state funded pension funds for the first 15 years of the plan. Each year of the “ramp up” required a much larger amount than the previous year. This was crafted so that a sufficient pension contribution could be eased into the state budget. Sufficient state contributions would pay for benefits earned in the past (unfunded) and for those that are earned each day going forward.

RATIONALE: The crafters of the bipartisan 1995 funding plan knew that the state could not immediately make a sufficient pension contribution so they structured the plan to make the transition to that point easier. Until the pension payment reaches its 15th year and is finally built into the state budget, each increase will be more burdensome than the last. However, once the top of the ramp has been reached, the pension payment will only increase if wages increase. Theoretically, once the top of the ramp is reached, pension funding should be much more manageable and less of a budgetary issue. It will be built into the state budget and will only require natural increases unless there are dramatic changes in the investment markets.

RELIEF: With the FY 2011 pension payment being fully paid in March, funding should become more stable and artificial “ramp” payments have now been eliminated. Drastic annual increases in pension funding will begin to level off. However, the volatility in the markets will continue to change funding projections, but should be moderated by recent changes to the calculation of the pension payment.

OUTLOOK: Budgetary and tax revenue problems that exist will continue to plague the General Assembly into the next budget year. Pension funding will be the most difficult budgetary issue that the state will have to address. FY 2012 will require a pension payment to all pension funds in excess of \$4.5 billion (Teachers’ Retirement System [TRS], State Universities Retirement System [SURS], State Employees’ Retirement System [SERS], General Assembly Retirement System [GARS], and the Judges Retirement System [JRS]). Of the \$4.5 billion, FY2012 pension payment, \$2.4 Billion will be contributed to TRS by the state. The legislature will be under enormous pressure to underfund pensions so that other areas of state government can be funded. If there is a deviation from the current pension funding plan, the pension funding issue will continue to control the budget discussions every year, drowning out education.

ACTION: Contact your state representative and state senator and let them know pension funding is of critical importance to you as an IEA member and as a taxpayer. Pension funding must be a priority and by funding the retirement plans the General Assembly can continue to address a 30 year crisis.