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Dick Ingram: Some truths about state pensions

THE STATE JOURNAL-REGISTER
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Throughout Illinois, public pension systems have been a central topic of discussion for months as state government grapples with an uncertain economy. State legislators and organized labor continue to discuss the future of these pension systems as well as their anticipated costs to both taxpayers and members of the pension plans (who also are taxpayers).

This discussion is vitally important for the state's future fiscal health and will be most useful if based on facts and not hyperbole. Here are some truths to remember:

Illinois' pension systems are not bankrupt. It is true that the state's pension systems together have accumulated a total debt of $140 billion, but currently only have $53 billion in assets. That leaves the systems with an unfunded liability of $87 billion.

However, that total pension debt never has to be paid off at one point in time. It is composed of money owed to retired workers as well as active public employees at some time in the future. Because public employees cannot collect until they retire, the only amount that the systems must pay each year is the amount owed to retirees.

Illinois' pension systems will not run out of money and default in 10 or 15 years. The best example is Teachers' Retirement System, the state's largest public pension plan with more than 372,000 members. In fiscal year 2010, TRS paid out $3.9 billion in pensions and benefits. Total revenues in the same year, from teachers, school districts, state government and investments, totaled $6.8 billion. TRS currently has $37 billion in assets.

With a 30-year average investment rate of return of more than 9 percent, TRS continues to exceed its long-term investment targets. These returns, along with continued member and state contributions ensure that TRS will have enough money to meet our annual obligations for decades. TRS has carried an unfunded liability since at least 1953 and has never missed a pension check.

Pension benefits locked in place by the Illinois Constitution are not the main reason the systems carry unfunded liabilities. TRS members do not participate in Social Security and their average benefit is relatively modest. They pay more than half of the cost of these benefits, and the current cost of these benefits to the state pale in comparison to the amount of money state government has failed to contribute to the pension systems — and that comprises more than two-thirds of the money budgeted for pensions.

In the case of TRS, since 1970 the state has left unpaid more than $14 billion of current pension costs. This is the main reason for the system's unfunded liability. Under actuarial "full funding" standards, the state should have contributed $33.2 billion to TRS between 1970 and 2010. Instead, TRS received only $18.6 billion.

The annual cost of pensions is not bankrupting state government but helping the Illinois economy. In fiscal year 2010, the total state budget was $56.9 billion. Of that, all social service programs cost $17.5 billion. Medicaid services alone cost $9.8 billion. Public education — from kindergarten through university — cost $13.7 billion. Salaries for state employees — who carry out all the functions of government — total $3.6 billion. By comparison, all pension benefits paid out to retirees in the same year totaled $6.9 billion. The state's contribution to fund these benefits was $4 billion.

Pension benefits paid to retired public employees are a return on an investment. Each dollar is recycled through the economy as retirees spend money exactly as they did when they were receiving a salary. Combined, state government salaries and state-administered pensions during 2010 translated into a $24.5 billion economic stimulus for the state of Illinois.

Dick Ingram is executive director of the Teachers' Retirement System of Illinois.

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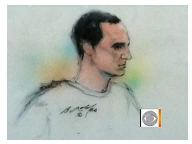
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But, but, but I know a guy whose sister knows some lady that only worked part-time for 5 years and gets a pension fully funded by only taxpayers of 122 bazillion dollars! We need reform!!!!
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few points: He said the pension system is not bankrupt because it doesn't have to pay everything at once. If a business had a negative net worth of $87 Billion I can assure him that they would not be able to continue operating. ie, they are bankrupt.

He said the state budget is $56 Billion. I believe the SJR reported it as $34 Billion. I believe it is in the $50's but you would think the number would be consistent and easy to find.

He said the pension system averaged 9% return on investment. That is nice but absolutely irrelevant to today's numbers. When doing projections one should look at present conditions, not past. I believe that I read that the pension systems averaged 1% the past ten years so why do they pretend they are going to average 8% going forward. Economic growth may be 2%, interest rates are much lower than they have been. The stock market went from 700 in 1982 to around 11,000 in 2000 (up almost 1,600%) which will not repeat itself. From 1955 to 1982 it didn't go up at all.

The highest one should project should be 5% not 8%. What happens to projections if you average 5% and have a 10% loss year every once in a while which will happen.

Then the writer says the almost $7 billion paid to pensioners is an investment. Wouldn't the same $7 billion left in the taxpayers hands have the same effect or higher because it doesn't go through a bureaucracy. I bet the pension funds are not charged for Mr. Ingrams salary or all the other administrative costs which also come from the taxpayers.

The basic thing is that Conservative Democrat is correct. A defined benefit plan that is based on the last years or last five years salary, with early retirement and a 3% escalator and assuming aan 8% rate of return is not sustainable. The taxpayers will never be able to fund it. Current services will have to continue to be reduced to pay for past promises.
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Point #1 - 'He said the pension system is not bankrupt . . .' Think of it this way jh1, you are able to pay the mortgage to your house because the complete balance is not all due right now. A business that owes money on its building will continue to operate.

Point #2 - 'He said the state budget is . . .' Look it up if you don't believe it.

Point #3 - 'He said the pension system averaged . . .' This is completely relevant. As a matter of fact, it may be the most relevant item in the article. The TRS (Teachers Retirement System) has averaged 9% on investing the money that goes into our retirement system from current teachers. This investment income is what is paying the pensions of retired teachers. And the facts are that TRS has managed this type of return on investment when everyone else is earning significantly less (in these economic times) should tell you just how good they are at their job. TRS has not suffered a negative return on income. If the state was run the way TRS is run, we might not be having this conversation about state financial problems.

Point #4 'The writer says the almost $7 billion. . .' This may come as a shock to you, jh1, but these pensioners are actually taxpayers. A very high percentage of TRS pension recipients still live in Illinois where they lived while teaching. They are taxpayers who buy groceries, cars, houses, and everything else you do. As for Mr. Ingrams, he is paying a portion of his salary into TRS (under the newer, more restrictive formula that was put into effect January of 2011, so he is in turn paying on the retirements of those he works for. TRS's costs are paid for through the investments of current working teachers.

Point #5 'The basic thing is that Conservative Democrat . . .' Are you serious? I though that Conservative Democrat was being sarcastic and making a joke full of the exaggeration that people like you, jh1, usually spout when you are serious. If he was serious, it's most ridiculous thing. If he was joking, what does that say about you? As for early retirement, what you are uneducated about is that those who retire early are assessed an 11% penalty for every year they do not meet the TRS requirements while the retirees' school districts are penalized 23.5% for every TRS penalty year. Is this sustainable? Yes! Would it be considerably easier had the state of Illinois met their financial obligations to TRS since 1953? Certainly!

What you and apparently many in the legislature of the state of Illinois fail to recognize is that Illinois is indeed an employer. Just as Wal-Mart, Bunn, Bank of Springfield, and every other employer in Springfield and the rest of Illinois must pay into Social Security for their employees, the state must pay into TRS for teachers. The cost of TRS pensions to the state of Illinois from 2000-2009, according to a study by the University of Wisconsin Green Bay, was no different than the cost of any private employer's pension plan to that employer. If the state had not written a law exempting them from their financial obligations for TRS and like pensions, they would have been put in jail a long time ago. Additionally, most educators drawing a TRS pension not only cannot draw Social Security, but also cannot draw much, if any, of their spouse's earned Social Security after their spouse's death.

Sometimes it is better to be quiet and be thought a fool than to open your mouth and remove all doubt.
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Freida. Point 1. If a business has and $87 Billion negative net worth how long would suppliers let it not pay cash. at what point would you agree that they are broke? on the last day before they quit paying?

Point 2: Why did the SJR and others say the budget was in the $34 Billion range. IIt looks like $52 Billion so they shouldn't have had to raise taxes.

Point #3: What is their rate of return over the last 10 years which is much more relevant? I believe all the pension funds averaged just over 1% and I believe they lost money in 2008 and they spread theitr losses instead of taking them all. With low interest rates and low projected GDP growth how can you expect a high rate of return? What you made in the 1980's is completely irrelevant as is anything from the budgets of those years when you calculate future budgets.

I would love for you to show me the study because most employers don't have defined benefit plans anymore and few if any give cost of living increases or free health care. Who paid for the study?

Point#4: You do realize that not one dime of pensions is taxable in Illinois don't you? I do a University workers tax return who at age 66 makes a $98,000 pension and rising and gets free health care and does not pay any Illinois Income tax. She retired in her 50's. If the taxpayers kept the money instead of paying higher taxes wouldn't the economy get the same bang for the buck?

Point 5: When I said early retirment I meant age 55, 56 all the way up to age 66. I and muy employer pay large amounts into Social security. At age 66 after almost 50 years of work, I am secheduled to get the maximum at $2,400 a month which is peanuts compared to a retiree retiring at age 55 at the state who makes a medium to high salary.

I do agree that the state should have always paid their required contribution but please tell me how much they would have had to pay to fund Mayor Daleys pension at $180,000 per year and rising 3% per year. His pension will be over $300,000 at age 80. I can tell you that you can't actuarally get there. If you used average pay you could get close but not end of the year wages.

I agree, much of what you spouted was nonsense. Why don't you calculate how much a state worker would have to have in their account if they made $12,000 at the start of their career in 1973 and retired at age 60 making $80,000. Would their pension be $60,000? They tell ptrivate people that they shouldn't take more than 4% out of their account each year so that would mean they should start with $1.5 Million at age 60. What percent of their salary and what percent should the employer have contributed throughout their career to amass that $1.5 Million?
friedafred99
1 month ago
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The rate of return on investments at TRS at the end of FY 2011 was 24 percent. It follows a 13.5 percent investment return at the end of FY 2010.
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One other small point that seems to have escaped you. The Illinois Constitution protects the pensions of public employees. Pension benefits and contributions for existing teachers and government employees are guaranteed by Article XIII, Paragraph 5 of the Illinois Constitution and cannot be diminished in any way. Since 1972, at least seven court cases have affirmed the meaning of this clause. There is no language in the Constitution that remotely comes close to allowing pension benefits to be changed prospectively for service that has not yet been performed. Court decisions have held that the law that is in place at the time a public employee begins government service controls his or her pension benefits forever.
I guess you just want to ignore those facts also.
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BTW: I did not say current pensions should be reduced. I said they are unsustainable. We need major reform fast. I believe the Constitution also says that you cannot spend nor appropriate more than your revenue is (ie Balanced Budget) and borrowing is not revenue but I assume you don't care about that part of the Constitution. What happens if the pension plans run out of money someday?

What did the TRS earn the last 10 years. You ignored my question. What did they earn in 2008 and 2009 since you cherrypicked data?

Did you know that if you put $10,000 in an account on January 1st each year and earned 10% the 1st nine years and lost 20% the 10th year they would tell you that you averaged 7% per year profit which is true. Yet, a 4.5% rate of return in a CD would give you the same amount of money at the end of 10 years. Therefore 4.5%=7%.

Also, if a stock goes from 10 to 100 in 1 year you earned 900% and if the next year it dropped to 10 you only lost 90%. Therefore you averaged 405% rate of return for two years yet you have no money. Therefore 405%=0

Just remember statistics lie. Please tell me how you fund the pensions I described for you.

This was in the SJR. This is the $34 Billion budget I talked about. I believe the pensions expense comes from the operating budget.

The operations budget sent to Quinn totals about $33.2 billion, according to Senate Democrats. The current operations budget, according to Democrats, totals about $34.8 billion.

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It wasn't cherry picking. It's called trying to find the statistics in many different places. The rate of returns that I could find are as follows: 2011 -- 24%, 2010 -- 13.5%, 2008 -- -4.5%, 2007 -- 19.6%, 2006 - 12.2%, 2002 - 8.1%

Not counting FY 2011 - last 5 years-- 4.2%, last 10 years -- 5.4%, last 20 years -- 8.3%, last 25 years -- 8.8%

Perhaps you should contact TRS or Mr. Ingram to get more details. Of course, you might actually learn something, so be careful.
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Last 10 years 5.4% so why would you assume 8%. Remember interest rates are extremely low vs anything in the past 5/10 or 25 years? Didn't all the Illinois pension funds spread their losses out from 2008 instead of actually marking them to market? You also said that TRS did not suffer a negative return on income but you show they lost money in 2008. I am sure they also lost in 2000. Thanks for getting the info.

Why don't you tell me how you can fund the pensions I described?

Also, Wouldn't $7 Billion left in the private sector give the same multiplier effect as in the pensioners hands? Wouldn't businesses be able to hire more people w income taxes in contrast to the pensions that are untaxed?

I had a discussion with the MBA geniuses at Goldman Sachs in the last year and they used 30 year statistics. I asked them if they were actually meaningful and th were not. I asked them what they predict the next ten years and they are much lower.

I do believe I understand the markets and numbers extremely well.

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