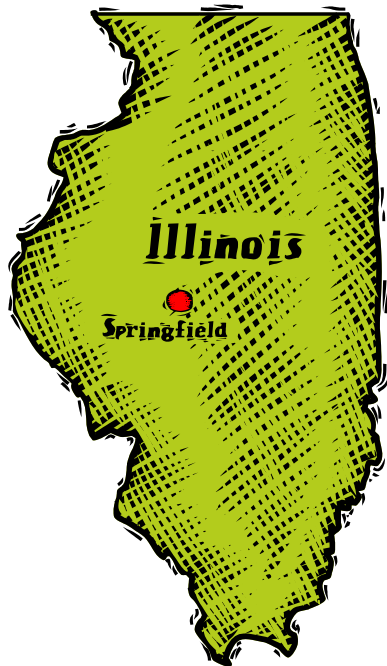


# *One Approach to Resolving the State's Unfunded Pension Liability in Context of the State's Overall Fiscal System*



For:

Wednesday, July 3, 2013, 9:00 am

Pension Conference Committee

160 N LaSalle St.

Chicago, Illinois

Presented by:

Ralph Martire, Executive Director

# CTBA's Goal – Craft a Solution That...

- Be unquestionably constitutional;
- Work in context of the state's fiscal system;
- Accommodate the state's responsibility to continue funding current services over time, adjusting at a minimum for historic rates of inflation and population growth;
- Create a repayment structure that is sufficient for the state to satisfy its retirement benefit payment obligations under the five pension systems as those obligations become due over time; and
- Continually increase the aggregate funded ratio of the five pension systems, moving them to a position of fiscal health as soon as practicable.

# DEBT is the Driver

- The five retirement systems' unfunded liabilities of \$95 billion was primarily caused by borrowing—not anything involving benefits or cost
- The normal cost is actually decreasing year-to-year

Normal Cost vs. Debt Total Pension Contributions FY2012-FY2014 (\$ (Billions))			
	FY2012	FY2013	FY2014
Total	\$4.81 B	\$5.80 B	\$6.78 B
Normal Cost	\$1.61 B	\$1.66 B	\$1.64 B
Debt Service	\$3.20 B	\$4.14 B	\$5.14 B

- The Pensions would be almost 80% funded today if the only problems were inherent to the Pension system itself

# FY2014 Enacted General Fund Appropriations As Passed By The 98<sup>th</sup> General Assembly (\$Millions)

Category	Appropriation
<b>(i) Total General Fund Appropriation for Capped Items (Net)</b>	<b>\$35,732</b>
<b>(ii) Total Hard Costs</b>	<b>\$11,159</b>
• Debt Service (Pension & Capital Bonds)	\$2,182
• Statutory Transfers Out	\$2,716
• Pension Contributions	\$6,261
<b>(iii) Repayment of Bills</b>	<b>\$50</b>
• FY13/FY14 Backlog Payment Fund	\$50
<b>(iv) General Fund Service Appropriations (Gross)</b>	<b>\$25,023</b>
• Healthcare (including Medicaid)	\$7,171
• PreK Education	\$300
• K-12 Education	\$6,386
• Higher Education	\$1,991
• Human Services	\$4,995
• Public Safety	\$1,648
• Group Health Insurance	\$1,346
• Other	\$1,185
<b>(v) Unspent Appropriations</b>	<b>\$500</b>
<b>(vi) Net General Fund Service Appropriations</b>	<b>\$24,523</b>

# FY2014 Accumulated Deficit

## (\$ Billions)

Category		GOMB Revenue	HJR-17 Revenue
(i)	Projected FY2014 Revenue	\$35.63	\$35.08
(ii)	Projected FY2014 Hard Costs	\$11.16	\$11.16
(iii)	Projected Deficit Carry Forward from FY2013	\$8.3	\$8.3
(iv)	Projected Net FY2014 General Fund Revenue Available for Services	\$16.17	\$15.62
(v)	Projected Net General Fund Service Appropriations	\$24.52	\$24.52
(vi)	Estimated Minimum FY2014 General Fund Deficit	(\$8.35)	(\$8.9)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-34.05%	-36.29%

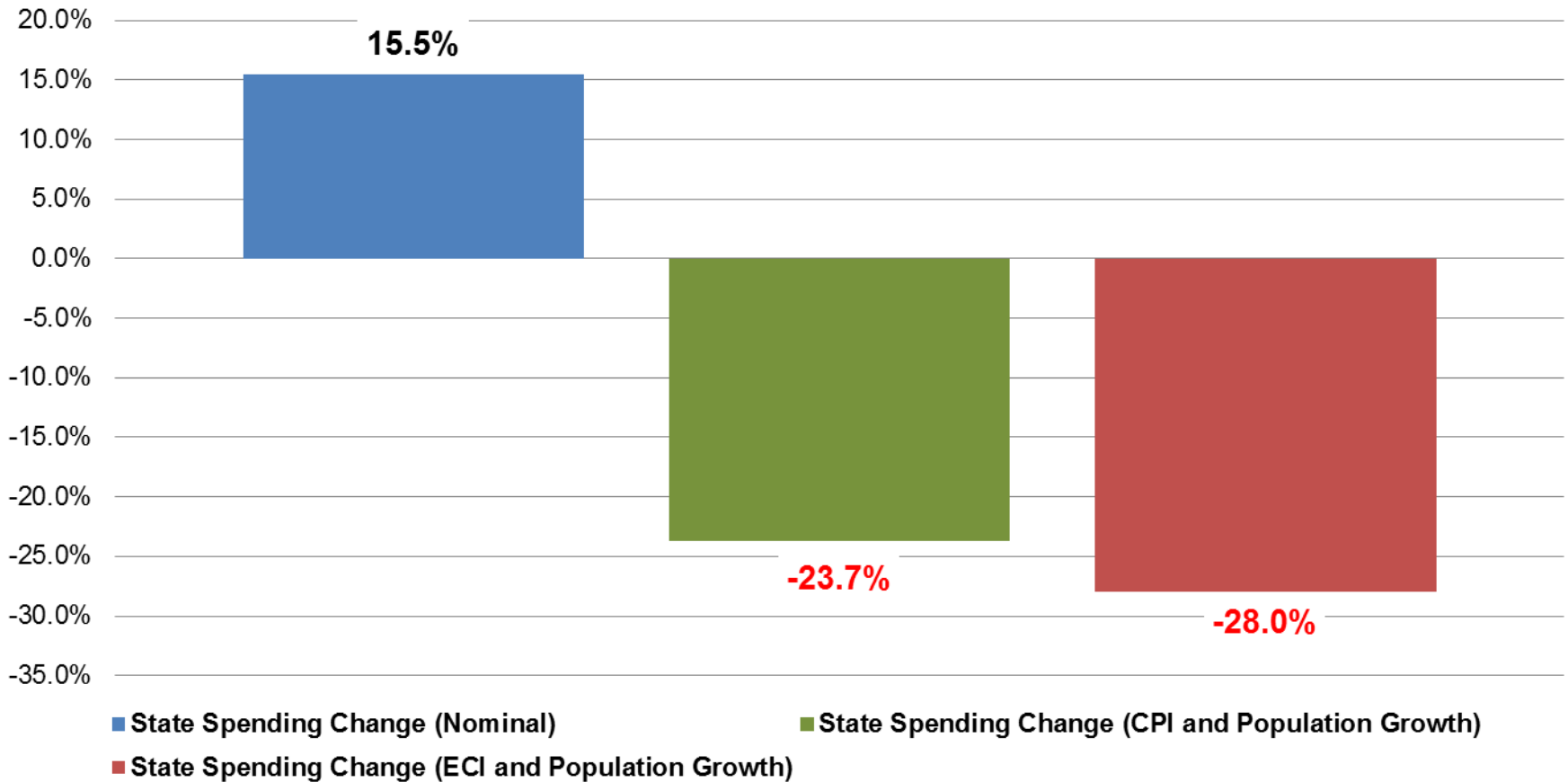
Source: Appropriations from and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98<sup>th</sup> General Assembly; and hard costs from FY2014 GOMB Budget Book.

- According to the State Comptroller, the state has run a deficit in its General Fund for the past 22 consecutive fiscal years

# Current Spending on Services is Not a Driver of The Deficits

- FY2014 Service Expenditures are **\$214** million less in nominal and **\$922** million less in real dollars than FY2013
- FY2014 is the 4<sup>th</sup> consecutive year service spending has been cut in nominal dollars
- FY2014 spending on services will be **\$4.7** billion less in nominal dollars than five years ago in FY2009

# FY2014 Enacted General Fund Services Appropriations (Excluding Group Health & Pensions) Relative to FY2000, In Nominal and Adjusted For Inflation and Population Growth



Sources: FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98<sup>th</sup> General Assembly. Inflation for healthcare inflated by Midwest Medical Care CPI; all other appropriations adjusted using ECI-C and Midwest CPI from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013

**Illinois General Fund Spending by Major Public Service Category,  
FY2014 Enacted Budget Compared to FY2000 Enacted, and FY2000  
Adjusted for Inflation and Population Growth (\$ Millions)**

<b>Category</b>	<b>FY2000 Enacted</b>	<b>FY2014 GOMB</b>	<b>FY2000, Enacted Adj for Infl (ECI) and Pop Growth</b>	<b>\$ Diff FY2014 –FY2000 Adj (ECI and Pop Growth)</b>	<b>% Change</b>
<b>Net General Fund (excluding Group Health)</b>	\$20,064	\$23,177	\$32,173	(\$8,996)	-28%
<b>PreK-12 Education</b>	\$4,844	\$6,686	\$7,491	(\$805)	-10.7%
<b>Higher Ed</b>	\$2,152	\$1,991	\$3,328	(\$1,337)	-40.2%
<b>Healthcare (excluding Group Health)</b>	\$5,022	\$7,171	\$8,911	(\$1,740)	-19.5%
<b>Human Services</b>	\$4,599	\$4,995	\$7,112	(\$2,118)	-29.8%
<b>Public Safety</b>	\$1,350	\$1,648	\$2,088	(\$440)	-21.1%

Sources: FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98<sup>th</sup> General Assembly. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2013, and population growth from the Census Bureau as of January 2013.



# Illinois is Low Spending Compared to Other States

- In 2012, Illinois had
  - 5<sup>th</sup> highest overall state Gross Domestic Product (GDP)
  - 17<sup>th</sup> highest state GDP per capita in the nation.
- But ranked
  - 28<sup>th</sup> in General Fund spending per capita
  - 37<sup>th</sup> in General Fund spending as a share of GDP.
- In 2011, (last year available) Illinois had the lowest number of state workers per 1,000 residents of all 50 states.

# The Ongoing Deficits Are A Real Problem Because... Over \$9 Out of Every \$10 of General Funds Are Spent On:

- Education  
(PreK-12 plus Higher Ed) 35%
  - Healthcare 30%
  - Human Services 21%
  - Public Safety 5%
- 91%

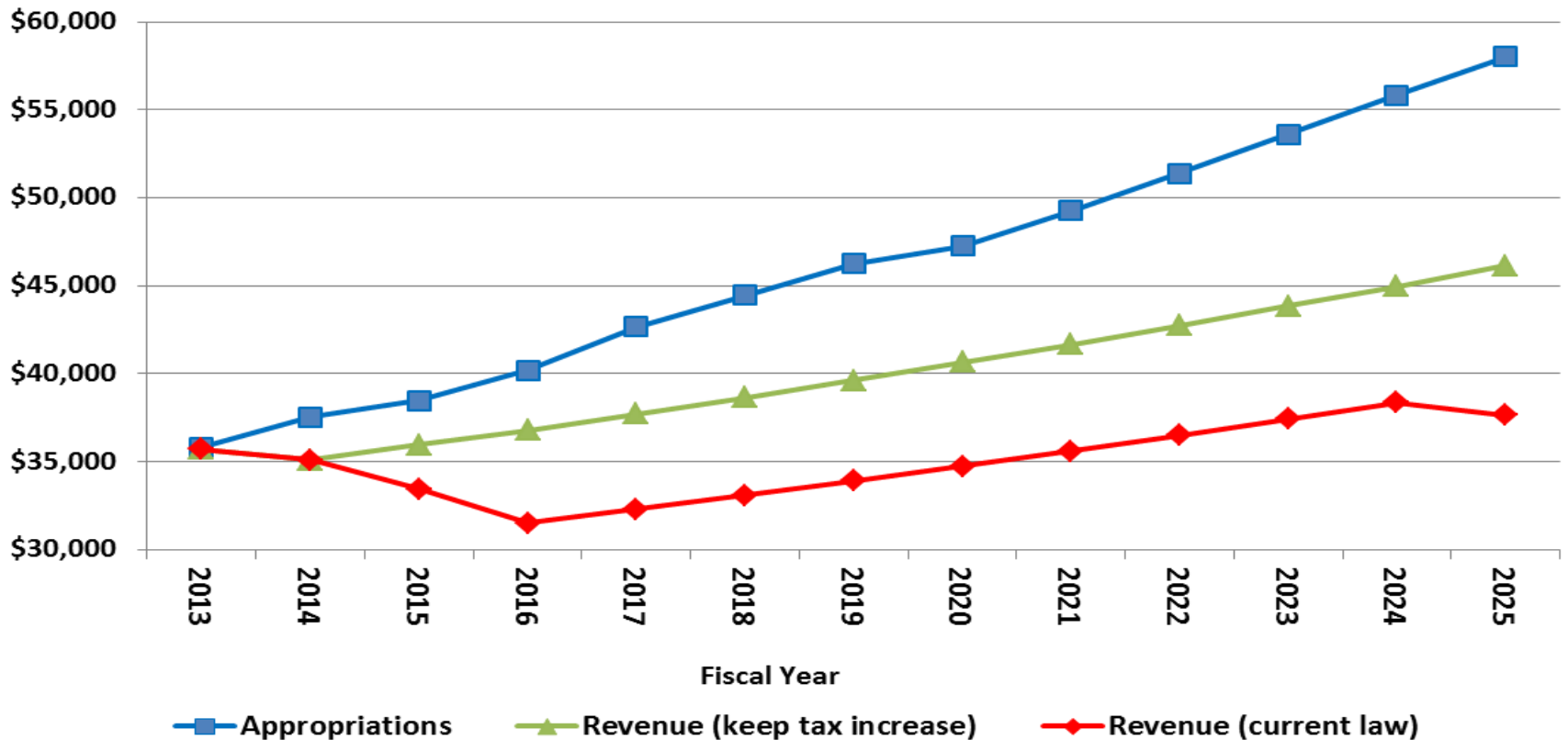
# Capitalist Tax Policy Should Be:

- FAIR → PROGRESSIVE
- RESPONSIVE → TO MODERN ECONOMY
- STABLE → DURING POOR ECONOMIES
- EFFICIENT → DOESN'T DISTORT PRIVATE MARKETS

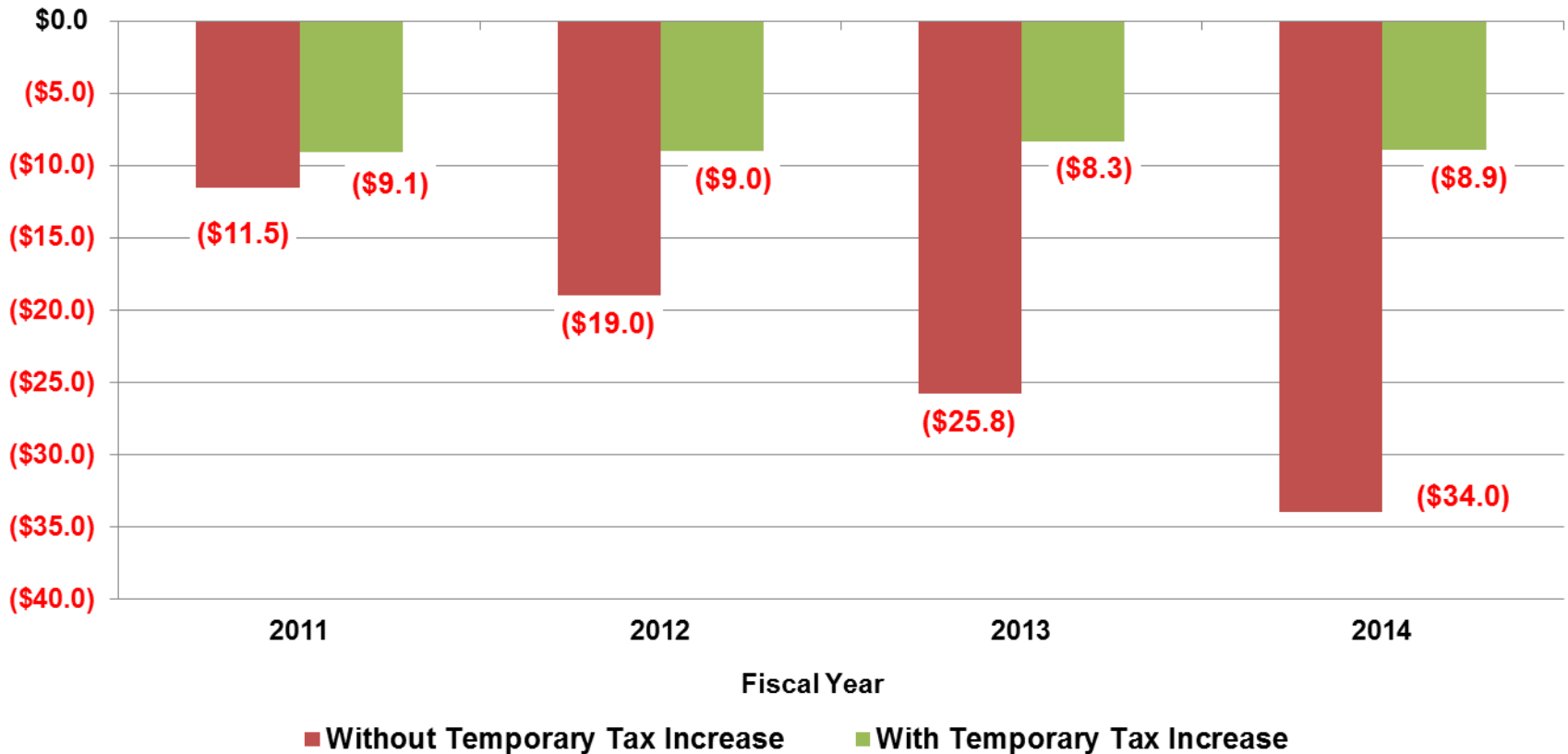
***ILLINOIS IS 0 FOR 4***

# Which Creates a Structural Deficit

## General Fund Revenue and Appropriations (\$ Millions)



# Impact of the Temporary Tax Increase on the Accumulated Deficit (\$ Billions)



Sources: CTBA calculations using total spending figures for FY2011 and FY2012 as reported in GOMB, *FY2013 Budget Book* (Springfield, IL: February 2012-2013), Ch. 2-18; total spending for FY2013 includes all supplementals; and spending for FY2014 as reported in GOMB, *FY2014 Budget Book* (Springfield, IL: March 2013) for hard costs and SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98<sup>th</sup> General Assembly; actual revenue for FY2011-FY2012 as reported by COGFA; FY2013 based off of revised personal income tax, corporate income tax and federal sources updated presented during the closing week of the spring 2013 legislative session, which took into account the April 2013 revenue spike and estimated revenue for FY2013-FY2014 as reported and estimated by COGFA in *FY2014 Economic Forecast and Revenue Estimate and FY2013 Revenue Update* (Springfield, IL: March 12, 2013).

# Which Led to the Irresponsible Fiscal Practice of:

- Borrowing against the pensions to subsidize cost of delivering services
- By 1994 the Unfunded Liability was \$17 billion
- This was almost double the \$8.7 billion Unfunded Liability just five years earlier in 1989

# Which Led To:

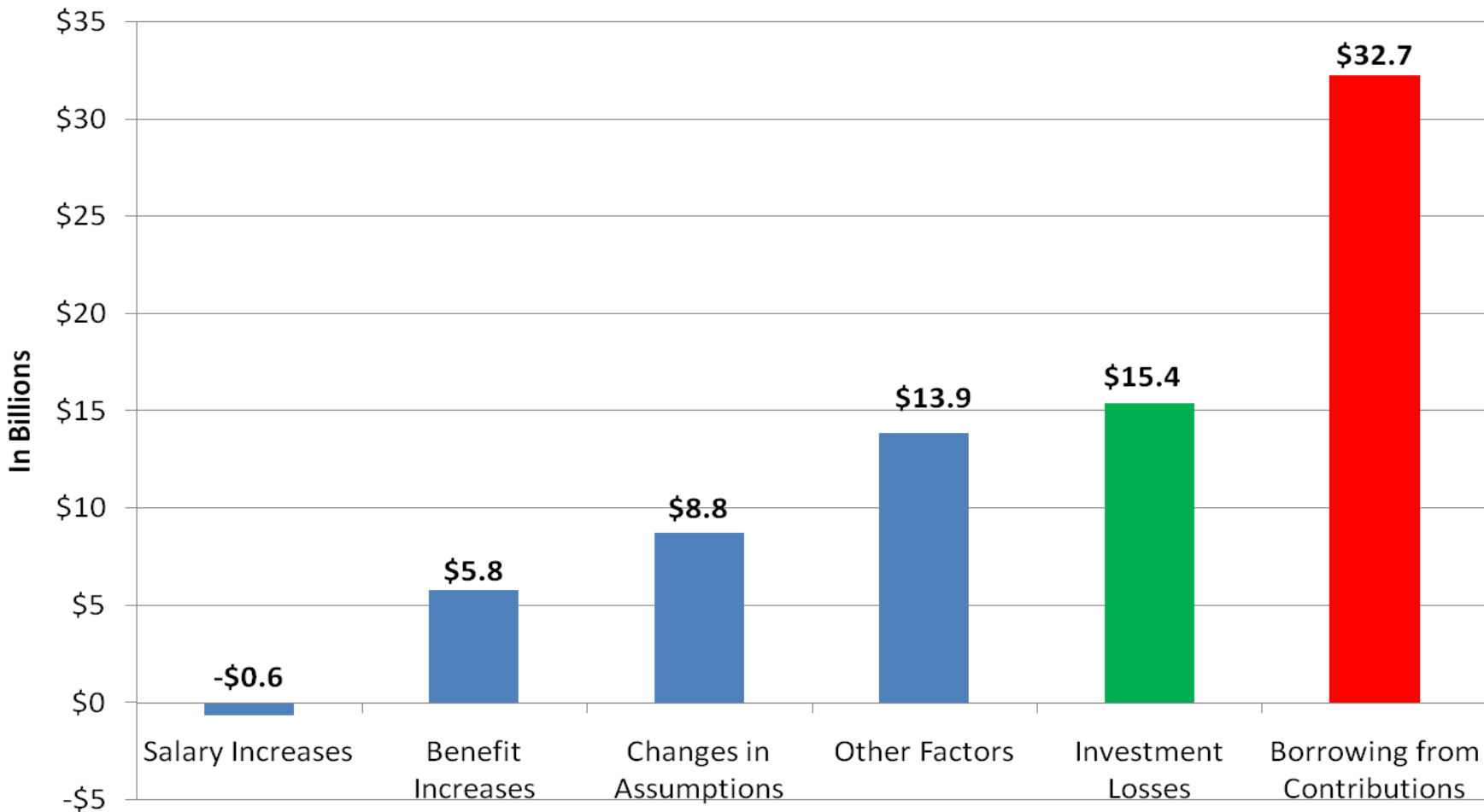
## P.A. 88-0593: the “Pension Ramp”

- Which created a new, unaffordable, unattainable structure for repaying the pension debt

AND

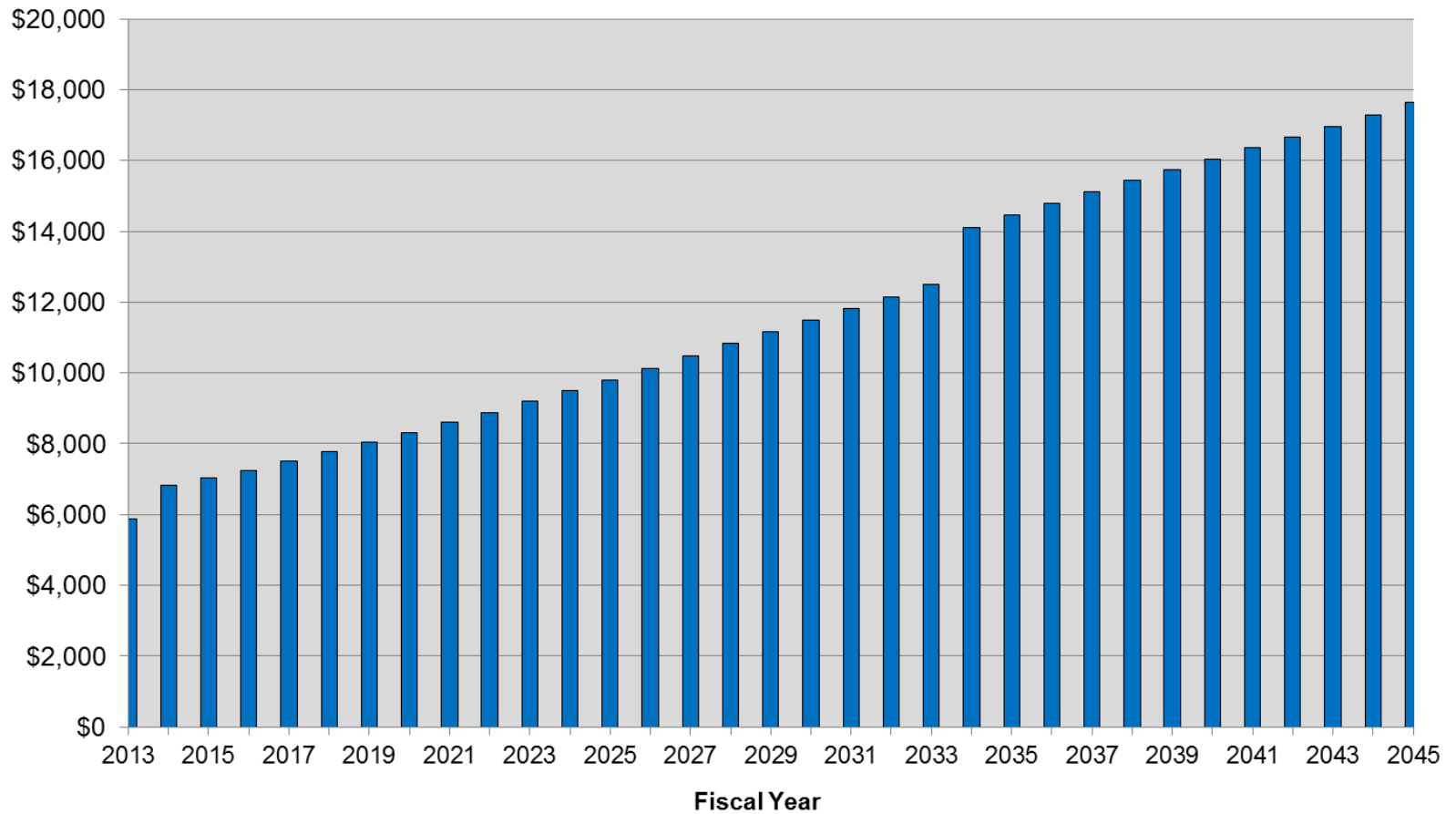
- Intentionally grew the Unfunded Liability to over \$45 billion by 2008 — when the markets crashed
- Creating the over \$95 billion hole today — just 40% funded

# To Be Clear: Growth in Unfunded Liabilities for the Five State Systems (FY1996-FY2012)

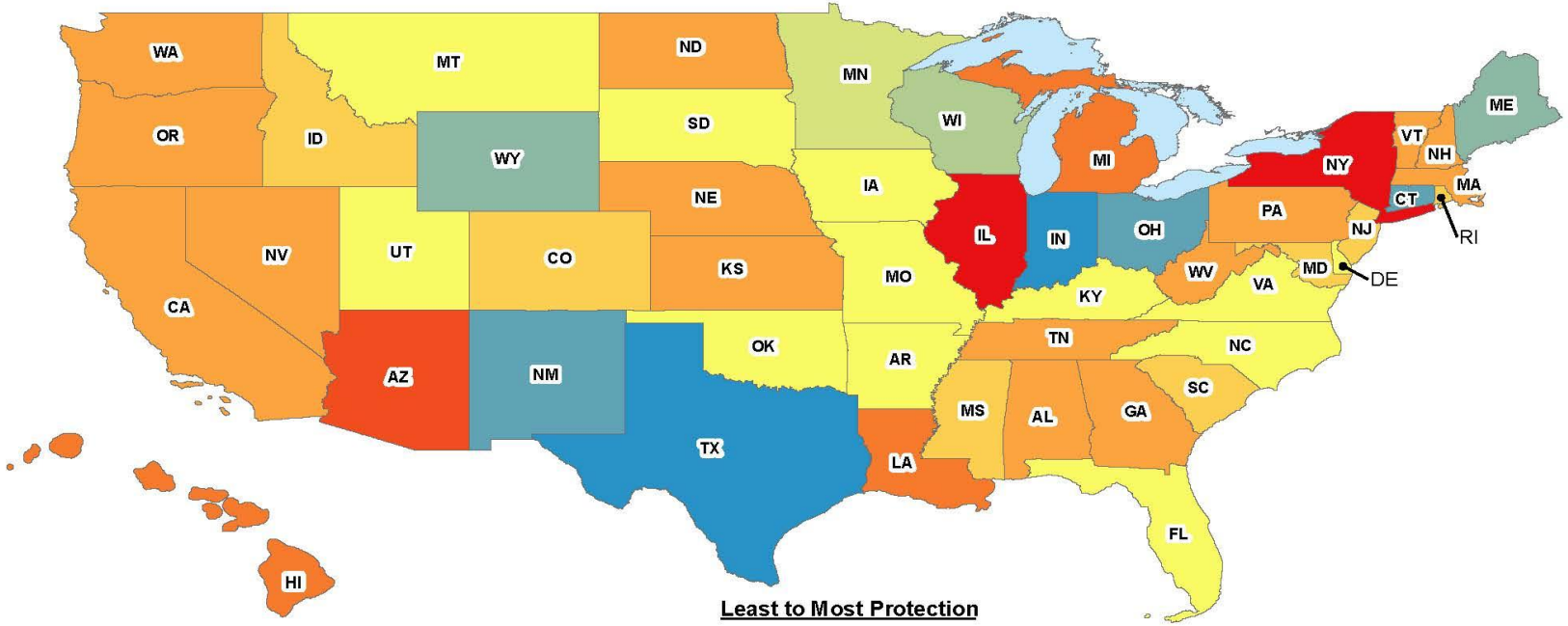















# Required State Pension Contributions FY2013-FY2045 (\$ Millions)



# Pension Benefit Protection: Legal Basis; What's Protected



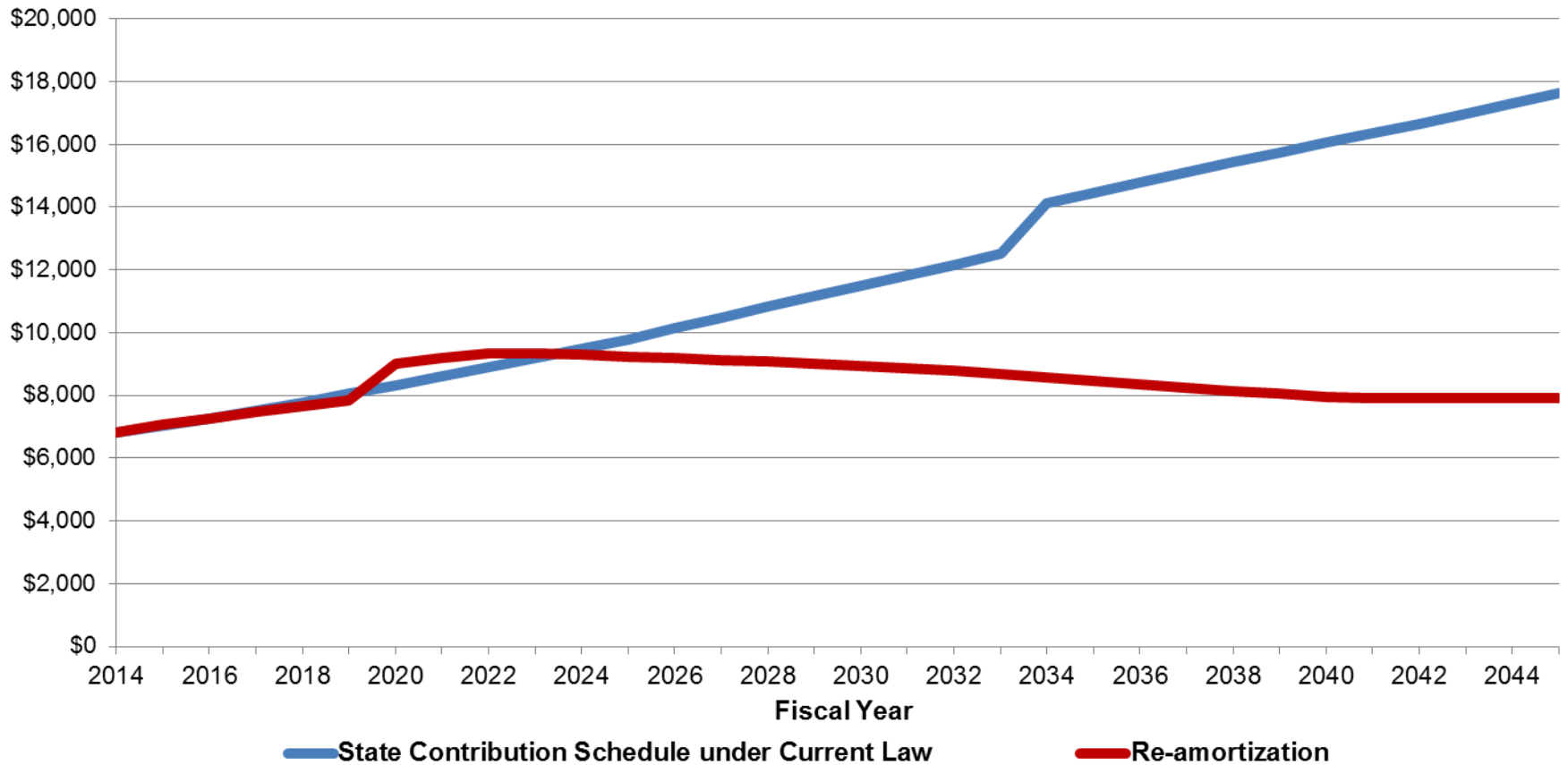
Least to Most Protection

 Gratuity; None	 Contract; Past & Maybe Future
 Property; Past & Maybe Future	 Contract; Past & Future
 Property; Past & Future	 State Constitution; Past
 Promissory Estoppel; Past	 State Constitution; Past & Maybe Future
 Promissory estoppel; Past & Future	 State Constitution; Past & Future
 Contract; Past	

Source: A.Kass © 2013 by the Center for Tax and Budget Accountability. Data used from the Center for Retirement Research



# FY2014 – FY2045 Total Contributions to Retirement Systems (\$ millions)



Notes: (i) contributions include amortization and normal cost; (ii) re-amortization contribution schedule is an estimate of contributions so that systems are 80% funded by FY2059; and (iii) re-amortization contribution includes in-flow contributions from debt service of retired pension obligation bonds, which is why the re-amortization line spikes in FY2020.

# CTBA's Approach

- Does not eliminate the problem in 30 years – But
- Is constitutional
- Works in conjunction with other proposals
- Eliminates the pressure on the fiscal system created by the unfunded liability
- Frees up current revenue to fund current services
- Provides for payment of all retirement benefits as they become due
- Enhances the funded ratio to 72% in FY2045
- Saves \$111.5 billion through FY2045
- Overall, costs less than current law—even after extending repayment schedule through FY2059

# For More Information:

## **Center for Tax and Budget Accountability**

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