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430 S. Michigan Ave
AUD 874
Chicago, IL • 60605
www.ctbaonline.org

Executive Summary

Understanding—and Resolving—Illinois' Pension Funding Challenges

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1. Overview

Illinois state government has the responsibility to fund five public pension systems: the Teachers' Retirement System ("**TRS**"); the State Employees' Retirement System ("**SERS**"); the Judges' Retirement System ("**JRS**"); the State Universities Retirement System ("**SURS**"); and the General Assembly Retirement System ("**GARS**"). But what exactly does "funding" a public pension system entail?

According to the United States Government Accountability Office ("**GAO**"), to be considered financially healthy, a public pension system should have a "funded ratio" of at least 80 percent.[1] A "**funded ratio**" is determined by dividing the current monetary value of a pension system's total assets by its total liabilities.

As things stand today, the state's pension systems are decidedly not healthy. As of November 2022, the state's five pension systems collectively had $248 billion in liabilities, but only $109 billion in assets to cover those liabilities.[2] This results in a funded ratio across all five state systems of just 44 percent, or fully 36 percentage points below the standard for healthy set by the GAO. It also means Illinois state government faces a significant, as in $139 billion, aggregate "unfunded liability"—read that as "debt"—owed to its pension systems. Which begs the question: how did the state get in this predicament?

The report, "Understanding – and Resolving Illinois' Pension Funding Challenges" provides some insights into Illinois' pension crisis by:

i) Providing the historical context of how Illinois pensions became so underfunded;
ii) Explaining where the Illinois pension debt stands today;
iii) Clarifying that the debt service schedule created under the pension ramp is straining the state's fiscal system—not the cost of funding benefits; and
iv) Providing a template for re-amortizing the pension debt in a responsible manner, that would save billions in taxpayer costs while getting all five pension systems healthy.

2. Key Findings

- The 1995 Pension Ramp, or Public Act (P.A.) 88-593, was not based on any actuarial principles at all, and established a payment schedule that was so inadequate on the front end it actually increased the debt Illinois owed to its pension systems. In fact the debt service plan created under the Pension Ramp is the primary driver of the significant unfunded pension liability of $139.7 billion that existed as of the end of FY 2022, which is the most recent data available at the time this report is being published.[3]
- Since the Pension Ramp was established, the aggregate funded ratio across all five state pension systems actually declined from 52.4 percent in FY 1994, to just 39 percent in FY 2020.[4]
- At the end of FY 2022, the state's five pension systems had a total of $109 billion in assets, and $248 billion in liabilities, for a funded ratio of 43.8 percent. Even though this is less than the FY 2021 funded ratio of 46.6 percent, the funded ratio in FY 2022 still represented a significant improvement from the 39 percent funded ratio that pertained at the end of FY 2020. The primary reason for the improvement in the funded ratio over that sequence was the significant 2021 market returns that were realized on the pension systems' assets.[5]

- The back-loaded debt service repayment plan created under the Pension Ramp is what strains the state's General Fund fiscal capacity. The normal cost of funding future pension benefits being earned by current state workers, however, is clearly not. In fact, if the state had not underfunded pension contributions for decades, the normal cost contribution due for FY 2024 would be only $3.7 billion, or roughly one-third of the of the $11.06 billion total contribution due for the year, which includes the debt service payment under the Pension Ramp.[6]
- Having to deplete assets to pay benefits, coupled with the deliberate underfunding built into the Pension Ramp, are what drive the huge growth in annual pension payments scheduled through FY 2045, culminating in a $20 billion final annual payment.[7]
- Meanwhile pension benefit levels, as well as salaries paid to public sector workers, have had very little to do with either creating the unfunded liability in the first place, or the dramatically back-loaded repayment schedule under the Pension Ramp.[8]
- The primary driver of the growth in the aggregate unfunded liability since the inception of the Pension Ramp in 1996 remains insufficient employer (i.e., state) contributions into the systems. In all, underfunding contributions accounts for $58 billion—or approximately 42 percent--of the $139 billion in the aggregate unfunded liabilities owed to all five state pension systems.[9]
- CTBA has consistently found that the state can save taxpayers billions of dollars in debt service payments—and still get the state's five pension systems to a vastly improved funded ratio that satisfies the GAO standard for being healthy, by increasing pension payments over what the Pension Ramp requires in early years, and then re-amortizing the debt owed to the pension systems on a level dollar basis thereafter—much like is done in a 30-year home mortgage.[10]
- Under the current iteration of CTBA's re-amortization, the state can save 19 percent of the total debt service cost under the Pension Ramp, which reduces taxpayer costs by $62.8 billion.
- Under CTBA's model:
    - the funded ratio target for 2045 moves from its current level of 90 percent under the Pension Ramp to a target of 80 percent funded, which is the GAO standard for a public pension system to be healthy;
    - a total of $6.7 billion in pension obligations bonds are issued over the FY 2023 through FY 2030 sequence, with all the bond proceeds being used to front-load payments to the pension systems and retire existing unfunded liability debt;
    - the contributions to the pension systems are moved from the last day of the fiscal year to the first day, thereby generating an additional year of investment returns on said contributions, which has a positive, compounding effect over time; and
    - the repayment of outstanding unfunded liabilities is re-amortized on a level-dollar basis, eliminating the fiscal strain created by the back-loading of payments under the existing Pension Ramp.
- CTBA's re-amortization approach gets the state's five pension systems healthier faster than the current Pension Ramp.

To learn more, read the full report.

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Endnotes

[1] "State and Local Government Retiree Benefits," United States Government Accountability Office, January 2008, 2. https://www.gao.gov/assets/280/271576.pdf

[2] Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2022. https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf.

[3] Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2022. https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf.

[4] Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2022. https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf.

[5] i) Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2022. https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf, and ii) Commission on Government Forecasting and Accountability. "Illinois State Retirement Systems Financial Condition as of June 30, 2021," September 2022. https://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysSept2022.pdf.

[6] CTBA Analysis of 2022 Actuarial Reports for Illinois TRS, GARS, SURS, JRS, and SERS.

[7] Commission on Government Forecasting and Accountability. "Illinois State Retirement Systems Financial Condition as of June 30, 2021," September 2022. https://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysSept2022.pdf.

[8] Commission on Government Forecasting and Accountability. "Illinois State Retirement Systems Financial Condition as of June 30, 2021," September 2022. https://cgfa.ilga.gov/Upload/FinConditionILStateRetirementSysSept2022.pdf.

[9] Commission on Government Forecasting and Accountability. "Special Pension Briefing," November 2022. https://cgfa.ilga.gov/Upload/1122%20SPECIAL%20PENSION%20BRIEFING.pdf.

[10] Drazzel Feliu, "Update: Addressing Illinois' Pension Debt Crisis With Reamortization | Center for Tax and Budget Accountability" (Chicago, IL: The Center For Tax and Budget Accountability, October 16, 2019), https://www.ctbaonline.org/reports/update-addressing-illinois%E2%80%99-pension-debt-crisis-reamortization.

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