

The following figures provide some facts about Illinois which will allow you to place these numbers into perspective; (May 1, 2009)

- According to the Illinois State Comptroller, pension benefits paid to regular state employees in Illinois are low relative to benefits provided by other states. Illinois ranks in the bottom one fifth of all states for retirement benefits paid to an average state worker.<sup>1</sup>
- The total of all participants in the state's pension plans represent only 5.3% of Illinois' total population. In fact, Illinois ranks dead last in the nation, in number of employees per capita.<sup>2</sup> At the end of the fiscal year 2007 there were 72,312 state employees. This was 11,275, or 13.5% less than at the end of fiscal year 1998.<sup>3</sup>
- Funded ratio is the ratio of the assets of a pension plan to its liabilities.<sup>4</sup> The ratio is determined by dividing the market value of assets by the actuarial accrued liability.<sup>5</sup> In June 2008, Illinois' funded ratio was 54.3%, far below the 2008 national state retirement systems average funded ratio of 84% found by Wilshire Associates.<sup>6</sup>
- After decades of underfunding its employer contribution to each of the five state retirement systems, Illinois now has the greatest unfunded liability in the nation, an astounding \$73.4 billion. That means the funded ratio for the entire state retirement system has dropped to 40%.<sup>7</sup>
- Adopting a statutory payment plan for the state pension systems was deemed necessary by lawmakers in 1995. However, the 50-year funding plan they adopted known as the "Pension Ramp," was structurally unaffordable from the moment it was enacted. It did not reduce principle until 2034 or pay the full annual interest cost; in addition, it incorporated a ramp-up period of 15 years that increased contributions over an arbitrary starting level and significantly shortchanged the pensions system.<sup>8</sup> This resulted in deferring the entire 1995 unfunded liability of \$19.5 billion almost 40 years, while allowing this deferral to grow at a set rate of 8.5% annually.<sup>9</sup>
- Unfortunately, under state law, any funding shortfall must be paid back with interest, compounded at each retirement system's target rate of return, currently pegged at 8.0% to 8.5% per year.<sup>10</sup>
- Normal cost is the current total contribution required to fund the promised benefit upon retirement, based on actuarial tables.<sup>11</sup> It is typically expressed as the percentage of current payroll needed to fund future benefits. The normal cost across all five Illinois' pension systems, as a percentage of active members' payroll averages 9.13%.<sup>12</sup> The national average for state and local government is 12.5%, placing the normal cost of Illinois' current defined benefit program far below the national average.<sup>13</sup>
- Actuaries have reported that in order to keep the unfunded pension liability from growing, the funding should cover "Normal Cost plus Interest." Meaning, the actuarially – determined amount to cover the growth in liability during this year, plus interest on the unfunded balance. That amount in FY2009 is approximately \$5.9 billion.<sup>14</sup>
- In fact, for Fiscal Year 2006, the normal cost was just \$1.33 billion. However, the FY06 required pension payment was \$2.1 billion, meaning if Illinois had no unfunded pension liability, it would have had an additional \$770 million for public services like education, public safety and transportation.<sup>15</sup>
- A common misconception is that taxpayers shoulder most of the cost of funding public pension systems. To the contrary, investment income accounts for the majority of Illinois state retirement funding. Unfortunately, the ongoing struggles in financial and capital markets continue to have a negative impact on investment returns for the state's five retirement systems. In the current fiscal year 2009, investment returns of the Teachers' Retirement System are down 25.5%, and those of the State Universities Retirement System have declined 26.7%. The remaining three systems' investment returns have dropped by 20.9%.<sup>16</sup>
- Compared to the rest of the country, Chicago (zip 60615)'s cost of living is 58.63% higher than the U.S. average. The unemployment rate in Chicago (zip 60615) is 9.20 percent (U.S. avg. is 4.60%).<sup>17</sup> Chicago's overall cost of living is about 66% above the national average, as the typical Chicago apartment rents for just over \$1,000 a month, with utilities costing an average of \$86.<sup>18</sup>

Figure1 State Universities Retirement System Financial Report for Fiscal Year ended June 30, 2008

Figure2 Teachers' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2008

Figure3 State Employees' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended June 30, 2008

Figure4 General Assembly Retirement System Comprehensive Annual Financial Report for Fiscal Year ended on June 30, 2008

Figure5 Judges' Retirement System Comprehensive Annual Financial Report for Fiscal Year ended on June 30, 2008

<sup>1</sup> Illinois State Comptroller, *Fiscal Focus*, January/February 2007 Issue

<sup>2</sup> Id

<sup>3</sup> Illinois State Comptroller, *Fiscal Focus*, January 2008 Issue

<sup>4</sup> Source: Public Pensions and You: *Glossary of Key Investment Terms and Acronyms*. National Conference on Public Employee Retirement Systems (NCPERS) 2006

<sup>5</sup> Id

<sup>6</sup> 2009 Wilshire Report on State Government Retirement Systems: Funding Levels and Asset Allocation

<sup>7</sup> Illinois Commission on Government Forecasting and Accountability February Monthly Revenue Update 2009

<sup>8</sup> Illinois State Budget Fiscal Year 2010

<sup>9</sup> Id

<sup>10</sup> Each system's Comprehensive Annual Financial Report lists their actuarial interest rate in the Actuarial Section.

<sup>11</sup> Analysis of the Governor's Fiscal Year 2010 Illinois General Fund Budget Proposal, Center for Tax and Budget Accountability, March 2009

<sup>12</sup> Based on 2006 U.S. Census Data

<sup>13</sup> Norman Jones and Paul Zorn, Harvard Law School, Pensions and Capital Stewardship Project Conference, October 2005

<sup>14</sup> The "Normal Cost Plus Interest" amount is determined by adding the estimated FY2009 Normal Cost (\$1.4 billion) to the "Interest" on the Unfunded Liability at the end of FY2008 (.085 X \$54 billion).

<sup>15</sup> Calculations based on the Commission on Government Forecasting and Accountability Monthly Briefing, November 2006 and Retirement Systems 2006 Annual Reports.

<sup>16</sup> Analysis of the Governor's Fiscal Year 2010 Illinois General Fund Budget Proposal, Center for Tax and Budget Accountability, March 2009

<sup>17</sup> Citing Websites. Chicago 60615 Zip Code Overview. *Sperling's Best Places*. Retrieved April 16, 2009, from <http://www.bestplaces.net/zip-code/Chicago-Illinois-60615.aspx>

<sup>18</sup> Citing Websites. *Chicago Apartments and Homes for Rent*. Retrieved April 16, 2009, from <http://www.rent.com/rentals/illinois/chicago-and-vicinity/chicago/>