The Civic Federation

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Civic Federation Position Statement on Senate Bill 1946

March 30, 2010

The Civic Federation supports the Illinois General Assembly's first steps toward comprehensive public pension reform in Illinois and urges state leaders to implement further reforms. On Wednesday, March 24, 2010, the Illinois General Assembly took the first important steps toward comprehensive public pension reform in Illinois by approving Senate Bill 1946 as amended by the Illinois House. The bill now awaits approval by Governor Quinn. While the reforms contained in the legislation do not solve the State's or local governments' pension crises—state officials will need to consider changing current employees' non-vested benefits to make Illinois public pensions truly sustainable—they are a good-faith measure that the Civic Federation supports.

What the Bill Does

The Civic Federation has long advocated many of the reforms contained in the legislation that will reduce the future cost of most public pension programs in the state. Downstate and Chicago police and fire and IMRF sheriff pensions are exempted. SB 1946 creates a second tier of reduced pension benefits for new employees hired after January 1, 2011.

Highlights:

- Raises the retirement age to 67 with 10 years of service for full retirement. Some retirement plans currently allow full retirement at age 55 or even lower.
- Raises the early retirement age to 62 with 10 years of service for a reduced benefit.
- Limits the maximum pensionable salary to the 2010 Social Security wage base of $106,800. Previously there was no limit to the salary from which a worker could draw a pension for any of the pension plans included in the reforms.
- Final average salary will be calculated as the average of the highest eight consecutive salary years out of the previous ten years. This reform has the effect of reducing the salary from which a worker's pension is calculated and helps mitigate the practice of artificially inflating a worker's salary in her final years of service to increase her pension.
- Cost of living adjustments (COLA) to pensions for all affected pension plans *except General Assembly and Judges* will be calculated with simple interest rather than compound interest.
- COLA will be the lesser of 3% or ½ of inflation—*except for General Assembly and Judges*—and for all plans will only be applied after age 67.
- Maximum General Assembly and Judges' annuities will be 60% of the calculated final average salary, down from 85%.
- Eliminates "double-dipping" by suspending the pension of any retiree who goes to work for a government that participates in another pension system until that employment ends.

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What the Bill Does Not Do

The Civic Federation supports SB1946 as a solid step in the right direction on pension reform in Illinois. However, there is much more that the General Assembly and Governor have to do to put state and local public pensions on the path to sustainability.

- SB 1946 does **NOT** reform Chicago or downstate police and firefighters' pension funds, which are some of the worst-funded in Illinois. They are also among the most generous in the state. Chicago and other municipalities in Illinois will still face the budget-busting pressures to fund these plans.
- The legislation allows Chicago Public Schools to take a partial pension holiday totaling more than a billion dollars over the next three years. CPS faces a significant budget deficit in FY2011 due in large part to pension pressures. SB1946 also extends the District's 50-year funding schedule to 2060. *The Civic Federation strongly opposes pension holidays for any pension fund. The partial pension holiday will worsen the long-term condition of the Chicago Teachers Pension Fund.*
- The reforms do not include increases to either employer or employee contributions to the pension funds. Past underfunding of pensions on the part of employers and employees across Illinois is a key factor in the terribly underfunded state of those funds.
- The General Assembly and Judges retirement funds are exempted from many of the provisions of the reform bill that apply to every other pension fund.

Necessary Future Reforms

The General Assembly and Governor Quinn must immediately implement further critical reforms to State and local government pension funds. It is imperative that our political leaders realize that the reforms implemented in SB1946 do not *solve* Illinois' pension debacle. There is much more work to be done before public pensions in Illinois are made solvent and sustainable.

- The General Assembly should pass and Governor Quinn should sign into law reforms to Chicago and downstate Police and Fire pension funds, including the creation of a second tier of reduced pension benefits for new hires.
- The General Assembly and Governor Quinn must not allow any pension funding holidays.
- The State of Illinois' FY2011 budget must not take any of the estimated savings generated by the public pension reforms up front in the form of a reduced pension contribution. Illinois must make its full scheduled pension payment of $4.6 billion or risk making a bad situation worse.
- Funding for many local public pension funds in Illinois is not tied to the financial needs of those funds. Future pension reforms should tie contributions by both employers and employees to the funding needs of the pensions.
- The General Assembly and Governor should apply the COLA provisions of the pension reform bill to the General Assembly and Judges' pension funds.
- The State of Illinois and local governments will continue to have difficulty funding the pension promises they have made to their employees unless they move to reduce non-vested pension benefits for current employees in future pension reform legislation.

For a complete list of the Civic Federation's recommended pension reforms, see the pension reform section of our "Status of Local Pension Funding Fiscal Year 2008" report, starting on page 53.