CURRENT LAW: Illinois is moving into the 16th year of a 50 year funding plan that was created in 1995. The bi-partisan funding plan called for a “ramp up” of state contributions to the 5 state funded pension funds for the first 15 years of the plan. Each year of the “ramp up” required a much larger amount than the previous year. This was crafted so that a sufficient pension contribution could be eased into the state budget. Theoretically, once the top of the ramp is reached, pension funding should be much more manageable and less of a budgetary issue. It will be built into the state budget and will only require natural increases unless there are dramatic changes in the investment markets.

RELIEF: With the FY 2010 pension payment being fully paid in January, funding should become more stable and artificial “ramp” payments will be eliminated beginning July 1, which is the start of Fiscal Year 2011. Drastic annual increases in pension funding will begin to level off. However, the volatility in the markets will continue to change funding projections.

PROPOSAL: Due to declining revenues and the unwillingness to raise revenue, it is essential that the payment to the Illinois public pension systems be made for FY 2011 by borrowing the money with the issuance of pension obligation bonds. Last year the General Assembly approved a similar plan with bi-partisan support that allowed the State of Illinois to borrow $3.5 billion in order to make its FY 2010 pension payment.

OUTLOOK: Budgetary and tax revenue problems that exist will continue to plague the General Assembly into the next budget year. Pension funding will be the most difficult budgetary issue that the state will have to address. The final ramp payment was an estimated $4 billion (current Fiscal Year 2010). This amount would be paid to all state retirement plans (Teachers’ Retirement System [TRS], State Universities Retirement System [SERS], State Employees’ Retirement System [SERS], General Assembly Retirement System [GARS], and the Judges Retirement System [JRS]). The new budget year will require a pension payment to all pension funds in excess of $4.5 billion. Of the $4.5 Billion FY2011 pension payment, $2.4 Billion will be contributed to TRS by the state. The legislature will be under enormous pressure to underfund pensions so that other areas of state government can be funded. If there is a deviation from the current pension funding plan, the pension funding issue will continue to control the budget discussions every year, drowning out education.

ANALYSIS: It is much like a household would make a decision to replace a credit card that charges 8.5% interest, with one that charges a lower rate of interest. The state will either pay 8.5% interest on the skipping or delay of a payment or as low as 4.4% interest under an 8 year amortization for a pension obligation bond plan (SB 3514). The state will save billions of dollars over the next 35 years by borrowing the amount for the pension payment instead of skipping or delaying the payment in 2011.

SOURCE: Illinois Federation of Teachers and Illinois Education Association fact sheets.