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Final Edition

**Can state find a fix for pension crisis?; Suggestions: Give new hires less, end automatic 3% boost, raise retirement age**

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A CHICAGO SUN-TIMES INVESTIGATION: LAST OF FOUR PARTS

For years, pensions have been the multibillion-dollar problem that Illinois lawmakers just can't fix.

Legislators thought they'd solved it in 1995. But they failed to follow through on their own 50-year plan to fund state pension systems long-term, skipping pension payments and concocting pension borrowing schemes that only worsened the state's financial condition.

At the same time, pension plans for government workers continued to provide lucrative benefits -- from the ability to retire at 50 to yearly pension increases of 3 percent for most retirees 60 and older.

In a first-of-its-kind analysis, the Chicago Sun-Times reported in the four-part series that wraps up today that 3,958 government retirees in the 17 largest pension systems in Illinois now get pensions that pay them $100,000 a year or more. In all, the systems pay 374,041 retirees a total of $800 million every month.

The reports have drawn the attention of top lawmakers, including Gov. Quinn and his expected challengers in next year's election.

"I don't want to leave the impression I don't believe teachers and public servants shouldn't get a reasonable pension, but some of these provisions end up with the abuses you've outlined in the paper the last three days, and we have to do something about it," said Quinn, who is awaiting a report from a state pension-reform task force that's due by Nov. 1. "We have to have fundamental reform."

Getting that won't be easy. Union members -- a key voting bloc for the Democratic governor -- say that government pension plans provide reasonable benefits to retirees. They also note that the nearly 4,000 people getting six-figure, taxpayer-subsidized pensions represent only a fraction of government workers in Illinois.

"Those individuals represent just 1 percent of all public pension earners," said Anders Lindall, a spokesman for the American Federation of State, County and Municipal Employees. "It paints an utterly false picture of the modest retirement security earned by the real working people in the public service."

Lindall's argument that lucrative benefits granted by legislators in the past aren't to blame for the pension crisis today is open to debate. An analysis by the Civic Federation, for example, found that early-retirement programs have contributed to the mountain of government pension debt in Illinois.

But key players in the debate over public pensions generally agree that pension debt -- worsened by the recession's toll on pension investments -- is taking a toll on taxpayers. Consider: The state of Illinois plans to borrow $3.4 billion this year to cover contributions to five pension plans, covering university employees, state workers, judges, legislators and suburban and downstate teachers. And Mayor Daley has given Chicago school officials permission to raise property taxes -- in part to fund the pension plan for Chicago teachers.

So what needs to be done to fix the public pension mess? We asked an array of lawmakers and civic leaders. Here are six ideas:

-Create a two-tier pension system. Quinn and others have advocated creating a less-generous pension system for new state hires. That idea was shot down in the spring, under fire from unions. Others have advocated offering only 401(k) retirement plans for new hires.

"The only way to bring credibility back to the system is an earned-retirement-benefit 401(k)," said Sen. Bill Brady (R-Bloomington), a gubernatorial candidate.

A two-tier system would save the state money eventually but wouldn't address the current pension debt.

Still, you have to start somewhere, said Sen. Matt Murphy (R-Palatine), another Republican hopeful for governor. And, in his opinion, reforms need to be more along the lines of Social Security. "The further you get away from Social Security as a model, the more likely you are to have a system that has no credibility with the people of this state," Murphy said.

-End the current guaranteed 3 percent annual increases. Most government retirees 60 and older get automatic yearly boosts in their pensions, ostensibly to cover rises in the cost-of-living.

Quinn has proposed that retirees instead get increases of half of the Consumer Price Index -- the annual federal benchmark for inflation -- or 3 percent, whichever is less. In 2005, a pension task force impaneled by then-Gov. Rod Blagojevich estimated that lowering the 3 percent cost-of-living allowance could save the state nearly $4.7 billion by 2045.

-Raise minimum retirement ages. City of Chicago and Cook County workers can start collecting pension checks at 50. State workers can retire at 55 with full benefits if they have at least 30 years of service.

"Pension benefits originally were created to provide economic security where people were no longer able to perform their jobs," said Laurence Msall, president of the Civic Federation.

But now middle-aged people -- who might well live decades longer -- are cashing in. "From a financial standpoint, it's enormously costly," Msall said.

-End double-dipping. It's perfectly legal to begin collecting a government pension and then go work in another government job.

That's something that needs to end, said state Sen. Kirk Dillard (R-Hinsdale), another gubernatorial hopeful. "We would not let that happen when I was Gov. Edgar's chief of staff. That was self-imposed," said Dillard, who described himself as being "aghast when I saw some of the payouts and loopholes" reported by the Sun-Times.

-Tax pension earnings. Unlike the federal government, Illinois doesn't tax retirement income. The Civic Federation has estimated that taxing all retirement income -- including Social Security -- at 3 percent would bring the state $1.3 billion a year.

But doing that would certainly draw the ire of senior citizens and unions.

Quinn ruled out targeting Social Security payments. But he left open the possibility of taxing government retirees who have scored six-figure pensions.

"I'm not ready to sign onto it yet, but I think it deserves to be studied," said Quinn, who added that it would be "important to maybe have a certain amount of money exempted" from any taxation.

-End the current union-perk loophole. State pension laws now contain several provisions that allow former government employees who've moved on to work for unions and other nongovernmental agencies to get a taxpayer-subsidized pension based not on their government pay, but instead on their higher-paying private jobs.

Quinn said he was unaware, until seeing Monday's Sun-Times, that Chicago Federation of Labor boss Dennis J. Gannon now gets a $153,649 yearly pension -- not based on his pay as a city steamroller operator but instead on his higher-paying post heading one of Illinois' most powerful labor groups. The governor said he favors eliminating that perk in state pension laws.

"That one is one that's front-and-center," Quinn said. "It should only be based on your public service, actually where you're serving the taxpayers in a public position."