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Social Protection & Labor

The Illinois Pension System Case Study
Pensions Core Course
November 8, 2019

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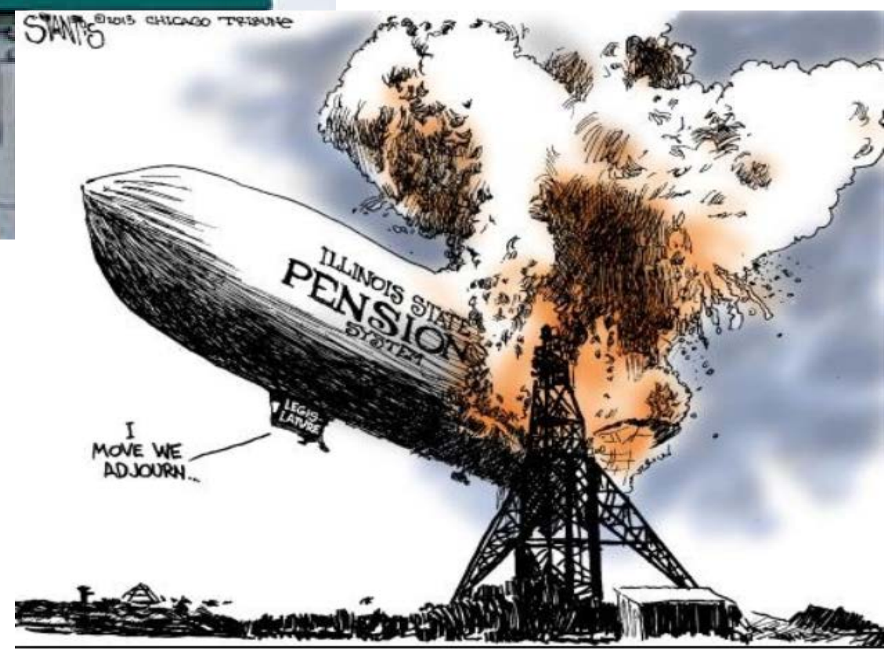
Pensions & Social Insurance
Global Solutions Group

The World Bank

Organization

1. Historical background and causes
2. Questions for discussion
3. The Exercise
4. Epilogues



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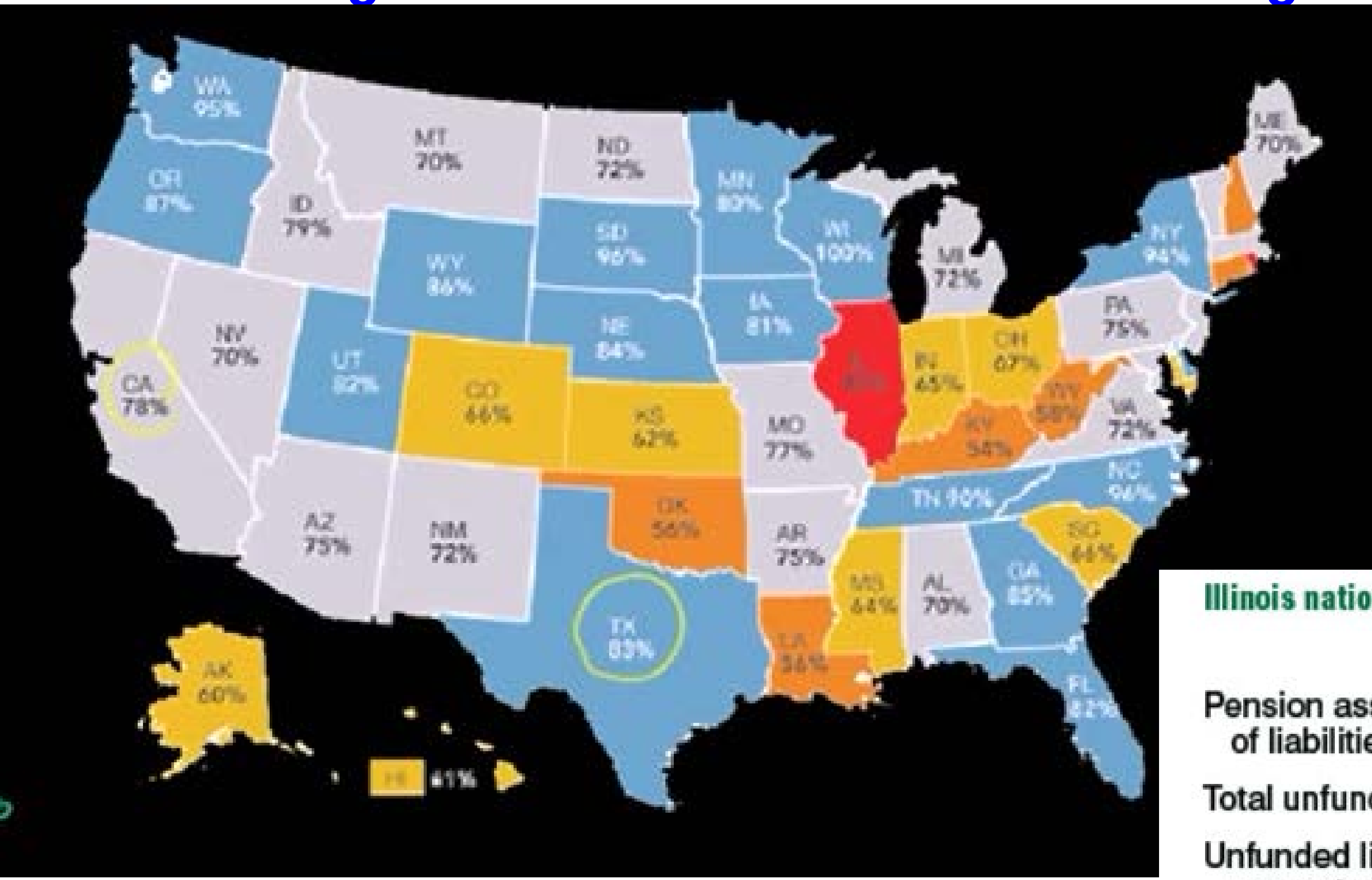
Background - US State Pension Funding Status

In 1917, the Illinois Pension Laws Commission warned State leaders in a report that the retirement systems were nearing "insolvency" and "moving toward crisis" because of the State's failure to properly fund the systems. This nearly century old report also recommended action so that the pension obligations of that generation would not be passed on to future generations.

Senator Don Harmon • *39th Senate District*

Background - US State Pension Funding Status



Illinois national pension ranking

	State ranking
Pension assets as percent of liabilities	50
Total unfunded liability	49
Unfunded liability as percent of tax revenue	48
Unfunded liability as percent of state GDP	44

Source: The Pension Bomb, *Joshua Rauh, The Milken Institute Review, First Quarter 2011*

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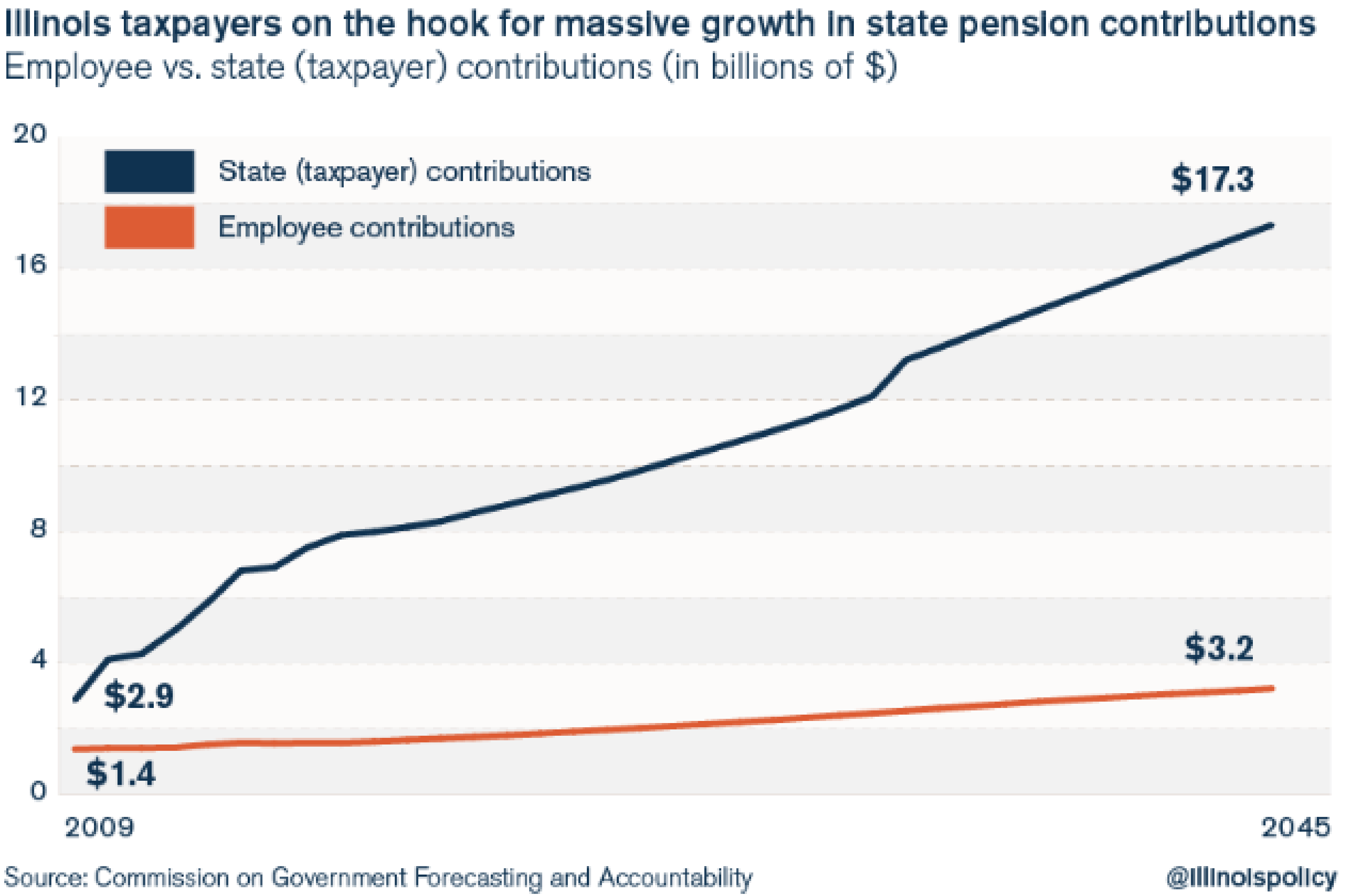
Historical Background

	1950	1960	1970	1980	1990	2000	2010
Total Liabilities	$731.0	$2,224.2	$4,862.7	$8,969.2	$24,883.7	$61,518.9	$138,794.3
Unfunded Liability	$481.3	$1,360.5	$2,737.7	$4,474.8	$10,507.9	$15,569.3	$85,569.2
FUNDED RATIO	34.2%	38.8%	43.7%	50.1%	57.8%	74.7%	38.3%

Historical Background



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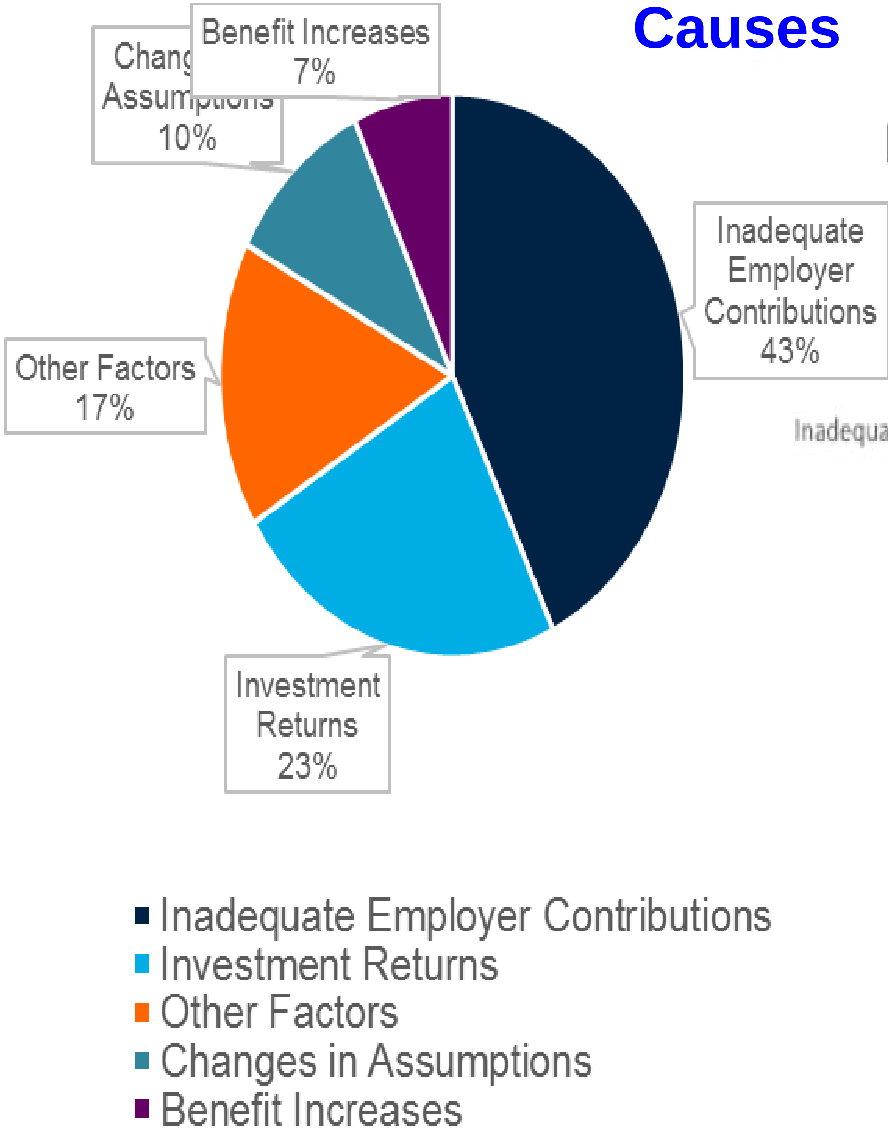
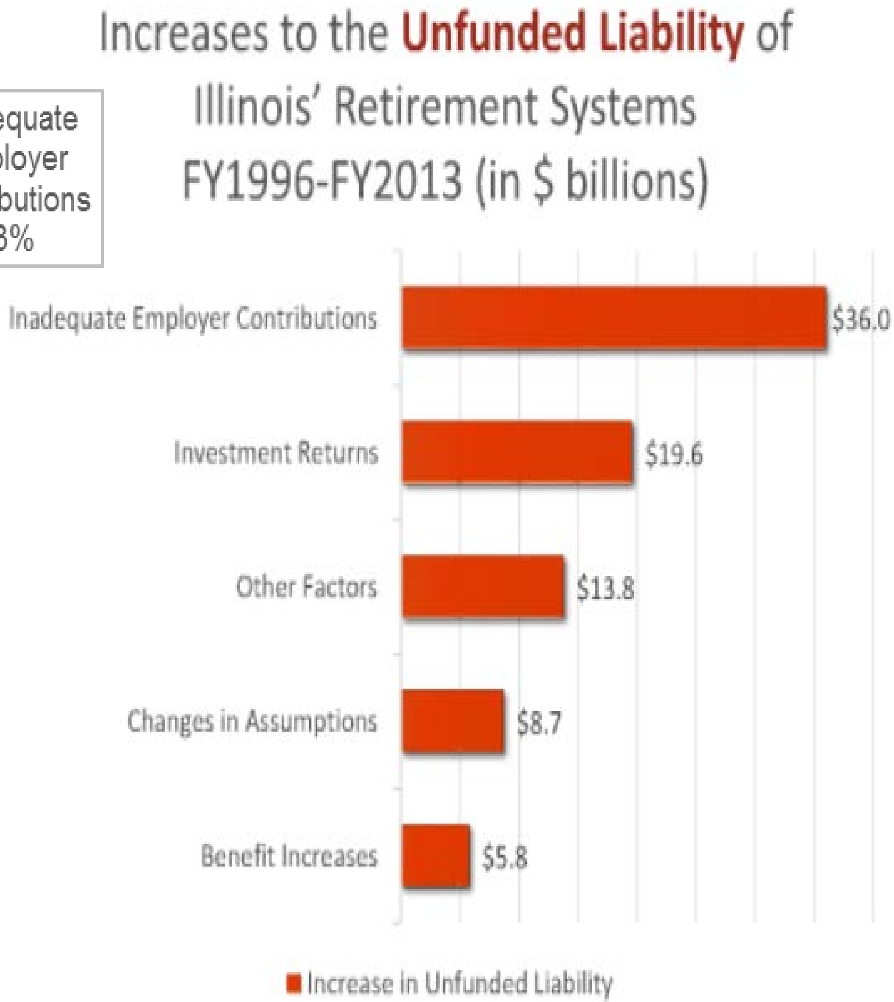
Causes





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State Constitutional Constraint

According to the Illinois Constitution:

> Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, *the benefits of which shall not be diminished or impaired*.

Questions for Consideration

1. Why has the Funded Ratio fallen so precipitously? Is the Funded Ratio of concern to workers, taxpayers and the State Treasury?
2. What are the options to remedy it?

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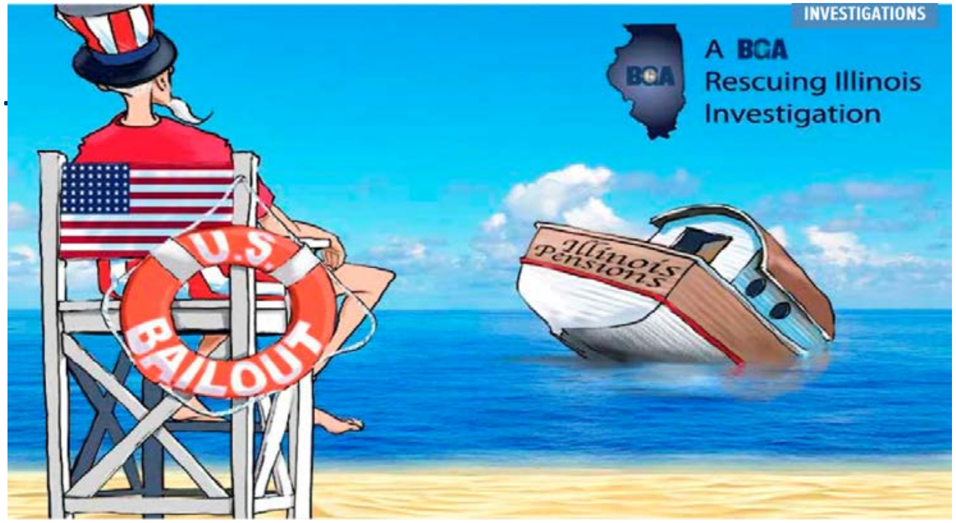
Reform Options

1. Pension Bonds
   a. Implicit debt => explicit & payable
   b. State highly indebted - effect on debt service costs
2. Change in Asset Allocation
   a. Increase allocation (already 30%) to private equity and hedge funds?
   b. Invest in other assets (exceed hurdle rate 8.5%)
3. Raise Corporate & Personal Income Taxes
4. Increase Employee Contributions
5. Decrease Plan Liabilities
   a. Increase normal retirement age for new employees to 67.
   b. Reduce the accrual rate
   c. Increase the years in the wage base from 5 to 8.
   d. Limit COLA to 3% or ½ of CPI whichever is less.
6. DC plan - new employees
7. US government bailout?



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Group Exercise

- Divide into 3 groups:

  (i) **Public service employees' confederation**;

  (ii) **Illinois State Treasurer**; and

  (iii) **Association of Illinois taxpayers**.

- Evaluate the choices and formulate a reform program.

Group Exercise

- Key questions:

1. **What are the changes in parameters and qualifying conditions that you propose?**
2. **How will the proposed changes improve contribution affordability, benefit adequacy and/or Illinois fiscal sustainability (including quantifying the results)?**
3. **What are the tradeoffs you see in achieving these goals?**
4. **How do the proposed changes meet the needs of your constituents?**