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$203 billion and counting:

Total debt for state and local retirement benefits in Illinois

$203B

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Contents

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Executive summary

$203 billion and counting: Total debt for state and local retirement benefits in Illinois

The problem

State government owes billions of dollars for the pensions and health insurance benefits of retired government workers. Local governments owe billions more. Illinois taxpayers are on the hook for the liabilities of both state and local government.

State government alone owes $83 billion to its pension funds. However, this figure alone presents an incomplete picture of the retirement crisis because it ignores five of the six types of debt for which Illinois taxpayers are on the hook. This figure includes only the unfunded liability of the state's five retirement systems, completely ignoring bonds issued to tide over the pension funds and the additional debt taken on to provide retired government workers with generous health insurance. It further ignores all types of local debt, despite the fact that the same people — taxpayers — are on the hook for it.

Any solution focused exclusively on the state's $83 billion in pension debt alone ignores the much larger crisis at hand.

Types of retirement debt

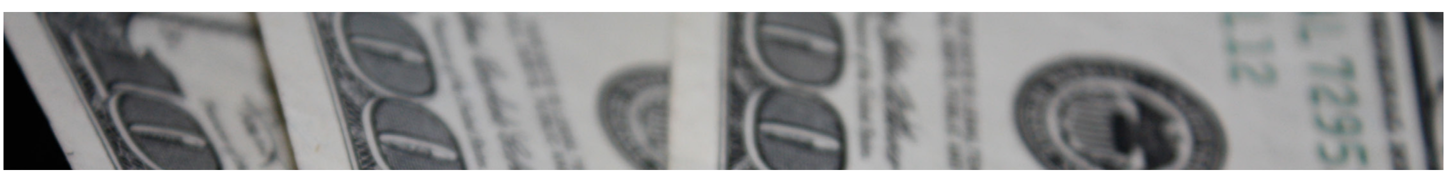
State: $152.6 billion

- State pensions: $82.9 billion -*this is the only type included in the $83 billion figure*
- State pension bonds: $15.5 billion
- State retiree health benefits: $54.2 billion

Local: $50.8 billion

- Local pensions: $38.2 billion
- Local pension and benefit bonds: $1.9 billion
- Local retiree health benefits: $10.7 billion

This is the first report to give a complete picture of Illinois' total retirement debt. All told, state and local governments in Illinois owe more than $203 billion for pensions and retiree health insurance. This is more than $41,000 in retirement debt for every Illinois household.



Our solution

There are three crucial steps that would lower the retirement debts of state and local governments:

1. **Offer more affordable retirement compensation for future work.** State and local workers should be offered a starting pension as if they left government employment today. Moving forward, retirement savings should be contributed to an employee-managed savings account, similar to 401(k) plans used in the private sector.
2. **Reduce cost-of-living, or COLA, increases for all retirees.** Lawmakers have already changed COLAs for future employees. "Tier 2" retirees will receive a COLA equal to one-half of inflation, rather than the 3 percent compounded COLA that "Tier 1" retirees receive. Lawmakers should do the same for all state and local retirees.
3. **Require government retirees to cover a majority of their health insurance premiums**. State and local governments should ask retirees to cover a majority of their health insurance costs, just as government retirees in other states do. The state should also give local governments more flexibility in designing health benefits for retired workers.

There is an additional step that state government can take to dramatically reduce its pension costs.

Stop paying the retirement costs of other governments. The state should stop paying the retirement costs for state universities, community colleges and suburban and downstate school districts. This would save more than $1.1 billion in pension costs and millions more in retiree health benefits every year, and bring accountability to local governments.

Why this works

The only way to rescue the finances of state and local governments is to dramatically reform the structure, incentives and accountability within government retirement systems.

If lawmakers and local officials act swiftly, it is possible to maintain a fair and generous system of benefits for government retirees. If they fail to act, the retirement systems could become insolvent. The longer Illinois waits to reform its $203 billion retirement debt, the more likely the government will fail to meet its obligations to retirees.

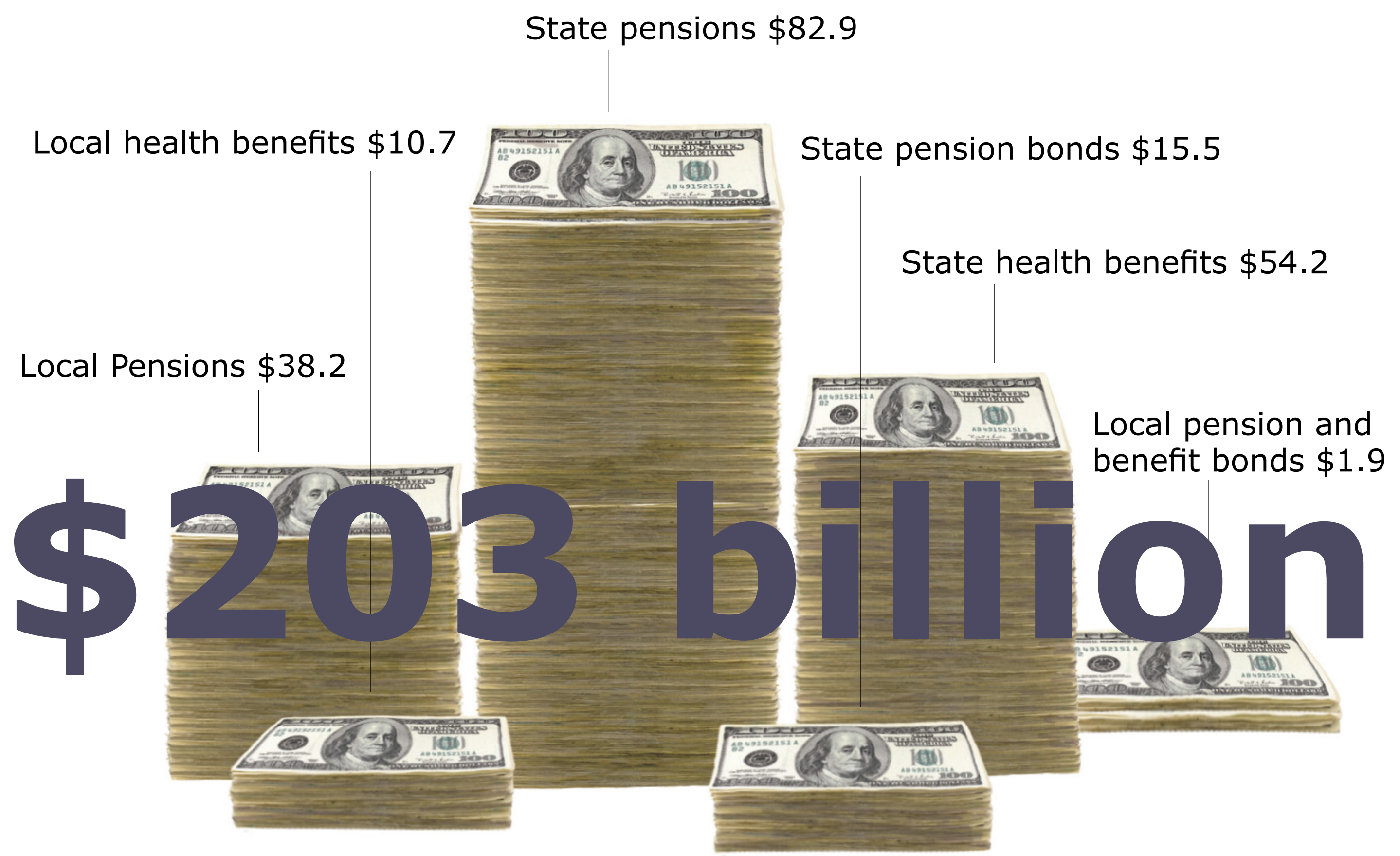
The problem: Illinois taxpayers are on the hook for more than $203 billion in government retirement debt accrued by state and local governments

State government owes billions of dollars for the pensions and health insurance benefits of retired government workers. Local governments owe billions more. The same people – Illinois taxpayers – are on the hook for the liabilities of both levels of government.

All told, state and local governments in Illinois owe more than $203 billion for pensions and retiree health insurance. This is more than $41,000 in retirement debt for every Illinois household.[1] But it's important to note that figure represents a conservative estimate. Investment and retirement experts across the country have warned that the accounting methods used by Illinois' state and local retirement funds understate the total liabilities by at least $100 billion.[2]

Illinois taxpayers are on the hook for more than $203 billion in governmentretirement costs accrued by state and local governments

($ in billions)



Source:llinois Policy Institute; Commission on Government Forecasting and Accountability; Department of Healthcare and Family Services; Department of Insurance; City of Chicago; Cook County; Cook County Forest Preserve; Metropolitan Water Reclamation District; Chicago Park District; Chicago Transit Authority; Chicago Teachers' Pension Fund; and multiple municipal and county governments (see Appendix for methodology)

State government alone owes $83 billion to its pension funds and another $54 billion for generous health insurance benefits awarded to state pensioners.[3-4] Local governments have pension debts in excess of $38 billion, and retiree health insurance liabilities in excess of $10 billion.[5-6] State and local taxpayers have been saddled with at least another $17 billion in pension and benefit bonds, whose proceeds have been used to tide over cash-strapped pension funds.[7-8]

Most news stories highlight the state's $83 billion unfunded pension liability, but that is less than half of the total retirement debt statewide. Any solution focused exclusively on the state's $83 billion in pension debt ignores the larger crisis at hand.

Many state lawmakers recognize this, even when focused simply on the $83 billion hole within state pension funds. This report examines the many layers of Illinois' state and local retirement debts and ends with five crucial steps that policymakers must take to save public finances in Illinois.

Taking those steps will not be easy, but the time for marginal reforms has long passed. Illinois taxpayers already are on the hook for $203 billion. Significantly reducing that debt will require policy changes unlike anything Illinois has ever attempted.

State and local taxpayers are on the hook for a combined $203 billion in government retirement costs

($ in millions)

Retirement system	Accrued liability	Value of assets	Unfunded liability	Funded ratio
State pensions	$146,459.9	$63,553.1	$82,906.8	43.4%
State pension bonds [1-2]	$15,479.6	$0.0	$15,479.6	0.0%
State health benefits	$54,208.9	($12.6)	$54,221.5	0.0%
State combined	**$216,148.4**	**$63,540.5**	**$152,607.9**	**29.4%**
Local pensions	$113,605.0	$75,405.5	$38,199.5	66.4%
Local pension and benefit bonds [1-2]	$1,936.9	$0.0	$1,936.9	0.0%
Local health benefits	$11,432.2	$706.6	$10,725.6	6.2%
Local combined	**$126,974.1**	**$76,112.1**	**$50,862.0**	**59.9%**
Combined	**$343,122.5**	**$139,652.6**	**$203,469.9**	**40.7%**

Source:llinois Policy Institute; Commission on Government Forecasting and Accountability; Department of Healthcare and Family Services; Department of Insurance; City of Chicago; Cook County; Cook County Forest Preserve; Metropolitan Water Reclamation District; Chicago Park District; Chicago Transit Authority; Chicago Teachers' Pension Fund; and multiple municipal and county governments (see Appendix for methodology)

[1] This report uses outstanding principal in place of accrued liability for pension and benefit bonds.
[2] This report uses debt defeasance in place of value of assets for pension and benefit bonds.

State retirement debt

State pensions: $82.9 billion

Over the past decade, Illinois' finances have come apart. The state is awash in red ink, even after the largest tax hike in state history. Why? Pension funds for government workers have racked up insurmountable debt. In fiscal year 2012, the state contributed $3.9 billion more to its pension funds than it did in 2000, a fourfold increase.[9] Despite increasing contributions from state taxpayers, the debt within the pension systems will likely grow.

Three major factors are to blame for this growing problem.

First, lawmakers failed to consistently appropriate enough money to the pension funds. Standard accounting principles require employers to set aside money for retirement benefits as the benefits are earned. State lawmakers ignored those principles, opting instead to spend money on expanding the payrolls and programs within government agencies.

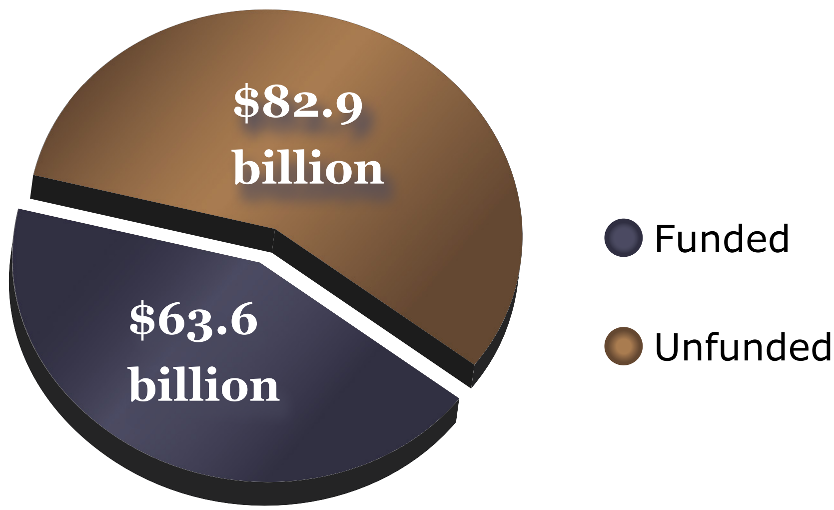
Second, lawmakers compounded their errors of underfunding pensions by, ironically, sweetening the pensions that public employees could eventually collect. Not only did they under-invest, but lawmakers then overpromised. In 2010, the starting pension of career teacher who worked 30 or more years in downstate or suburban school districts was $65,109.[10] In just 15 years, that pension will grow to $100,000 annually, thanks to a generous, automatic 3 percent cost-of-living adjustment.

Third, the pension funds have used inappropriate investment targets and cloudy accounting to hide much of the retirement debt. Over the last 15 years, state pension debt has risen by $15.3 billion as the result of actual investments returns coming in below the state's target.[11] Local governments have seen similar rises in pension debt caused by inappropriate investment targets.

The fiscal crisis is exacerbated by the fact that lawmakers have established state-financed pension funds not only for state employees, but also the employees of community colleges, public universities and downstate school districts. The decision to finance the pensions of these entities has proven enormously expensive. Retirees in the state-financed Teachers' Retirement System and State University Retirement System account for three-quarters of all state pensioners.[12] It is no surprise, then, that the vast majority of pension debt held by state government is associated with those two funds.[13]

The cost of these poor decisions has finally come due. The number of retirees collecting pensions has increased dramatically over the past decade, partially the result of a government hiring boom in previous decades.[14] The average annual pension has increased as well, largely the result of increasingly generous pensions and salaries.[15-16] By 2005, the state's pension funds were stretched dangerously thin, and exposed to a possible downturn in investment values.[17] When the economic downturn came in 2008, the pension funds lost billions.[18] The state now owes $83 billion in pension debt, an amount so high it can never be paid off through lucky investment returns or increased state taxes.[19] If this growing problem is to ever be controlled, benefit reforms are necessary.

The state's pension systems are nearly 57 percent unfunded



The state's unfunded pension liability is nearly $83 billion

($ in millions)

Retirement system	Accrued liability	Value of assets	Unfunded liability	Funded ratio
Teachers' Retirement System	$81,299.7	$37,769.8	$43,529.9	46.5%
State Employees' Retirement System	$31,395.0	$11,159.8	$20,235.2	35.5%
State Universities Retirement System	$31,514.3	$13,945.7	$17,568.6	44.3%
Judges' Retirement System	$1,952.5	$614.6	$1,337.9	31.5%
General Assembly Retirement System	$298.4	$63.2	$235.2	21.2%
Combined	**$146,459.9**	**$63,553.1**	**$82,906.8**	**43.4%**

Source: Commission on Government Forecasting and Accountability

State pension obligation bonds: $15.5 billion

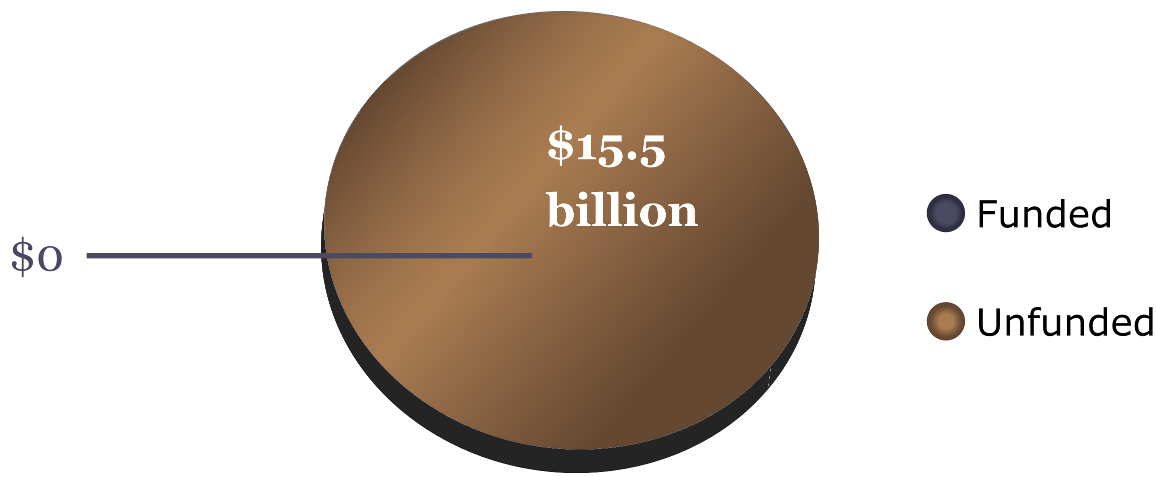
By 2003, Illinois was already $43 billion in debt to its pension funds.[20] Then-governor Rod Blagojevich convinced lawmakers to launch a debt-swap scheme that has proven disastrous. To infuse the state's pension funds with borrowed money, the state issued $10 billion in "pension obligation bonds" as a way to combat the growing unfunded liability.[21] The hope was that the pension funds could invest the bond proceeds and earn stock market returns higher than the interest due to bondholders. This is somewhat akin to using a credit card to buy stock, hoping that the stocks will one day be higher in value than your credit card bill. Ultimately, the stock market did not outperform the bond market, and the scheme failed. But the borrowed cash remained in the pension funds, so the practical impact of the bond issue was that pension-bond debt replaced some of debt that had previously appeared on the pension funds' books.

There was a secondary impact to the state's failed investment scheme, however. The state had set a dangerous precedent of using borrowed funds to make the annual, required contributions to the pension systems. When the state issued this first round of pension obligation bonds, not all of the proceeds were given to the funds for immediate investment. Instead, the Blagojevich administration kept approximately $2.7 billion for the following year's statutory payments – payments that were supposed to be covered by tax revenues.[22] This practice was even worse than the original arbitrage scheme, more akin to using a credit card to pay off the mortgage.

The move drew intense criticism from budget watchdogs. Six years later, Rod Blagojevich was out of office, but lawmakers nevertheless dusted off his pension borrowing scheme. In 2010 and 2011, the General Assembly borrowed $3.5 billion and $3.7 billion, respectively to cover the annual payments due to the pension funds.[23-24] As a result, virtually no tax revenues were used to fund pensions these years.[25]

The outstanding principal on these pension obligation bonds is $15.5 billion dollars.[26] The state must repay this debt, but has set aside no money to do so. As such, debt service on pension bonds is an unfunded liability, just like the debt to the pension funds. It is pension debt in every sense, simply due to bondholders instead of the pension funds themselves.

The state's pension obligation bond debt is completely unfunded



The state's outstanding principal on pension obligation bonds exceeds $15 billion

($ in millions)

Bond issue	Outstanding principal	Outstanding interest	Debt defeasance	Unfunded bond principal [1]	Funded Ratio
Fiscal year 2003 issue	$9,700.0	$7,497.4	$0.0	$9,700.0	0.0%
Fiscal year 2010 issue	$2,079.6	$171.4	$0.0	$2,079.6	0.0%
Fiscal year 2011 issue	$3,700.0	$1,085.3	$0.0	$3,700.0	0.0%
Combined	**$15,479.6**	**$8,754.1**	**$0.0**	**$15,479.6**	**0.0%**

Source: Commission on Government Forecasting and Accountability

[1] In lieu of calculating the present value of the outstanding principal and interest, this report uses the current value of outstanding principal.

State retiree health insurance: $54.2 billion

On top of generous defined-benefit pensions, Illinois has taken on additional obligations to provide health insurance for retired government workers at little to no cost. These retirees include K-12 teachers, college and university employees, judges, legislators and former state workers.

Retiree health insurance is virtually unheard of in the private sector. When it is offered, retirees must shoulder most, if not all, of the cost. Unlike private sector retirees, retired state and university employees pay little or nothing toward the cost of their health insurance, while retired teachers and community college employees get substantial subsidies from state and local governments. The unfunded liability for these obligations totals more than $54 billion.[27]

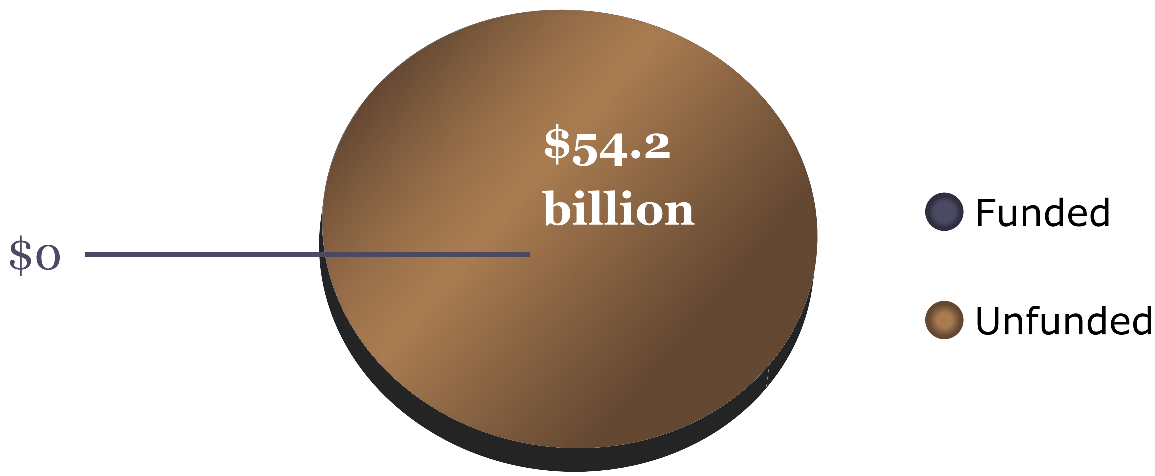
Accounting experts recommend that these benefits – like pensions – be covered by funds set aside in trust while retirees are active employees. Unfortunately, Illinois has set aside no money to fund health benefits for government retirees.[28] The full cost of these benefits remained largely unknown until recent years, when new accounting rules were enacted that require the state to report its retiree health obligations.

Illinois maintains three health insurance programs that provide coverage for retired government employees. The State Employees' Group Insurance Program, or SEGIP, is the largest of the programs, and provides health insurance benefits to retired employees of state agencies, boards, commissions and universities, as well as retired judges and elected officials. By far, SEGIP has the largest unfunded liability, largely because it provides health insurance at virtually no cost to retirees.[29] Taxpayers, on the other hand, were on the hook for more than $750 million in SEGIP retiree health care costs in fiscal year 2012.[30]

The state also operates the Teachers' Retirement Insurance Program, or TRIP, which provides significant subsidies to retired suburban and downstate teachers. At the state level, taxpayers pay more than $100 million annually for this benefit. Then at the local tax level, taxpayers pay millions more.[31] The state also contributes millions of dollars per year to the College Insurance Program, or CIP, which covers retired community college employees.[32]

It's worth noting that most of the state's retiree health insurance costs – as with pension costs – are associated with former employees who never worked for state government.[33] Within 30 years, state and local taxpayers will be paying more than $7 billion annually to provide free or subsidized insurance through the state's three retiree health insurance programs.[34]

The state's liability for retiree health insurance is completely unfunded



The state's unfunded liability for retiree health insurance is more than $54 billion

($ in millions)

Insurance program	Accrued liability	Value of assets	Unfunded liability	Funded ratio
State Employees' Group Insurance Program	$33,295.4	$0.0	$33,295.4	0.0%
Teachers' Retirement Insurance Program	$18,860.4	$7.1	$18,853.3	0.0%
College Insurance Program	$2,053.1	($19.7)	$2,072.8	-1.0%
Combined	**$54,208.9**	**($12.6)**	**$54,221.5**	**0.0%**

Source: Illinois Policy Institute; Department of Healthcare and Family Services

[1] The actuarial value of the state's retiree health assets is actually -$12.6 million, largely because the College Insurance Program is operating with a structural deficit.

Local retirement debt

Local government pensions: $38.2 billion

State government is in a disastrous financial position. This crisis, however, has largely overshadowed the financial disaster lurking within municipal budgets.

Downstate and suburban police and fire pension funds

Throughout downstate Illinois, firefighters and police officers belong to locally-managed pension funds. There are 649 such funds across the state.[35] While some are better funded than others, overall these funds are in terrible financial shape. Only 54 percent of the assets needed to pay for fire and police pensions currently are on hand.[36] The pension funds for downstate police officers have a combined $4.4 billion in unfunded liabilities, while pension funds for downstate firefighters owe a combined $3.1 billion.[37]

Illinois Municipal Retirement Fund

The Illinois Municipal Retirement Fund, or IMRF, covers municipal employees outside of Chicago. Nearly 3,000 units of local government participate in the IMRF.[38] The plan is in better shape than any other major government pension plan in the state, having set aside 86 percent of the assets needed to make future pension payments.[39] Part of the reason the IMRF is so well-funded is because the fund can compel participating governments to pay more into the fund to make up for market shortfalls. But even with 86 percent of the assets needed, given its enormous size, the IMRF still carries a $4.9 billion unfunded liability.[40-41]

Chicago pension funds

In Chicago, the mayor controls city government and several so-called “sister governments,” including the Chicago Transit Authority, Chicago Public Schools and the Chicago Park District. While separate funds exist for retired firefighters, police officers, laborers, municipal employees, teachers, park district employees and CTA employees, all seven pension funds are locally financed and controlled.

The combined pension debt within the city’s various pension systems is $20.7 billion.[42] Between 2012 and 2020, the required annual payments to these pension funds are expected to climb to more than $2 billion, up from $765 million.[43] Chicago taxpayers are on the hook for these increased costs.

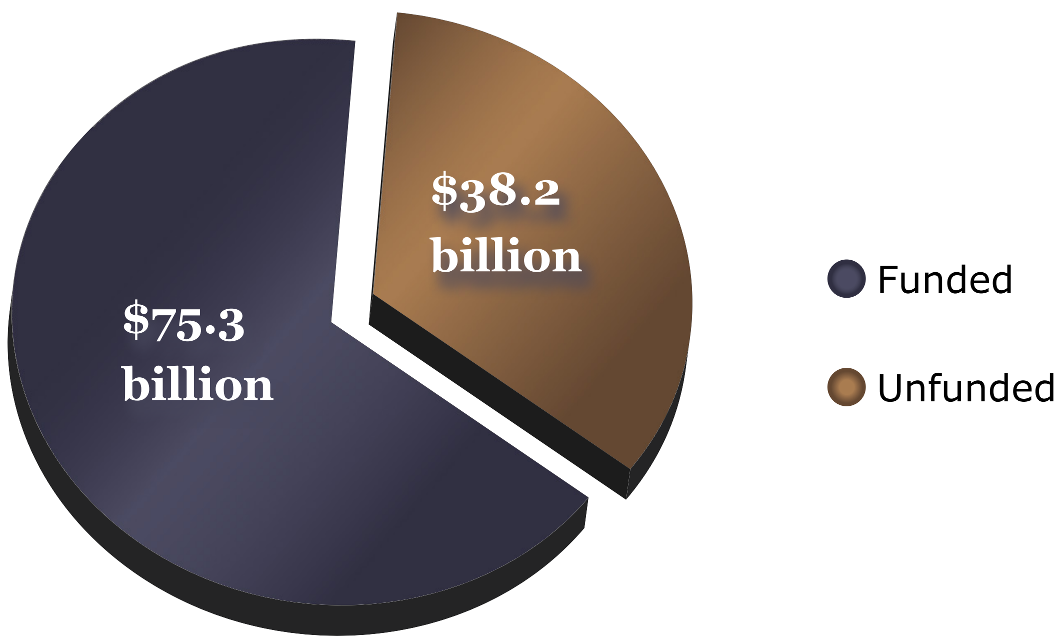
Cook County and other regional pension funds

In addition to the Chicago pension funds, separate pension funds exist for Cook County, the Cook County Forest Preserve, the Metropolitan Water Reclamation District and the Regional Transportation Authority. These funds have a combined $5 billion unfunded liability for pensions.[44] Like Chicago, these funds are locally funded and managed, leaving local residents on the hook for the spike in employer contributions owed to the plans over the next several years. All Chicago residents reside within Cook County, as well as some suburban residents.

Combined local pension debts

Across the state of Illinois, the unfunded liabilities within locally controlled pension funds total at least $38.2 billion.[45] Taxpayers are already panicked about state government's pension woes. But barring substantive changes to state laws and local personnel agreements, taxpayers at the local level will be asked to make up billions of dollars in local pension debts as well.

Local governments' combined pension liability is nearly 34 percent unfunded



Local governments' combined unfunded pension liability exceeds $38 billion

($ in millions)

Retirement system	Accrued liability	Value of assets	Unfunded liability	Funded ratio
Illinois Municipal Retirement Fund	$35,906.1	$31,028.0	$4,878.1	86.4%
Suburban and downstate fire	$6,938.7	$3,803.0	$3,135.7	54.8%
Suburban and downstate police	$9,723.2	$5,279.2	$4,444.1	54.3%
Suburban and downstate combined	**$52,568.0**	**$40,110.2**	**$12,457.8**	**76.3%**
Chicago Fire	$3,655.0	$1,198.1	$2,456.9	32.8%
Chicago Laborers	$2,030.0	$1,529.4	$500.6	75.3%
Chicago Municipal	$11,828.7	$6,003.4	$5,825.3	50.8%
Chicago Park	$833.0	$518.6	$314.4	62.3%
Chicago Police	$9,210.1	$3,719.0	$5,491.1	40.4%
Chicago Teachers	$16,319.7	$10,917.4	$5,402.3	66.9%
Chicago Transit Authority [1]	$2,681.0	$1,972.5	$708.5	73.6%
Chicago combined	$46,557.5	$25,858.4	$20,699.1	55.5%
Cook County	$12,023.2	$7,982.4	$4,040.9	66.4%
Cook County Forest Preserve	$252.9	$184.1	$68.80	72.8%
Metropolitan Water Reclamation	$2,036.7	$1,151.6	$885.1	56.5%
Regional Transportation Authority	$166.7	$118.8	$47.9	71.3%
Cook County and other regional combined	**$14,479.5**	**$9,436.9**	**$5,042.6**	**65.2%**
Combined	**$113,605.0**	**$75,405.5**	**$38,199.5**	**66.4%**

Source: Illinois Department of Insurance; City of Chicago; Cook County; Cook County Forest Preserve; Metropolitan Water Reclamation District; Chicago Park District; Chicago Transit Authority; Chicago Teachers' Pension Fund

[1] This line combines all Chicago Transit Authority pension plans.

Local government pension and benefit bonds: $1.9 billion

In 2003, the state issued $10 billion in "pension obligation bonds." In essence, the state borrowed money to infuse the pension funds with needed cash. Illinois didn't invent the practice. Local governments – mostly in California – had been doing the same thing for decades.[46] Illinois simply took the risky practice to an unprecedented scale, with disastrous results. While other local government units in Illinois have examined pension obligation bonds, only the Chicago Transit Authority, or CTA, has executed the major step of bonding out billions of dollars of future benefits.

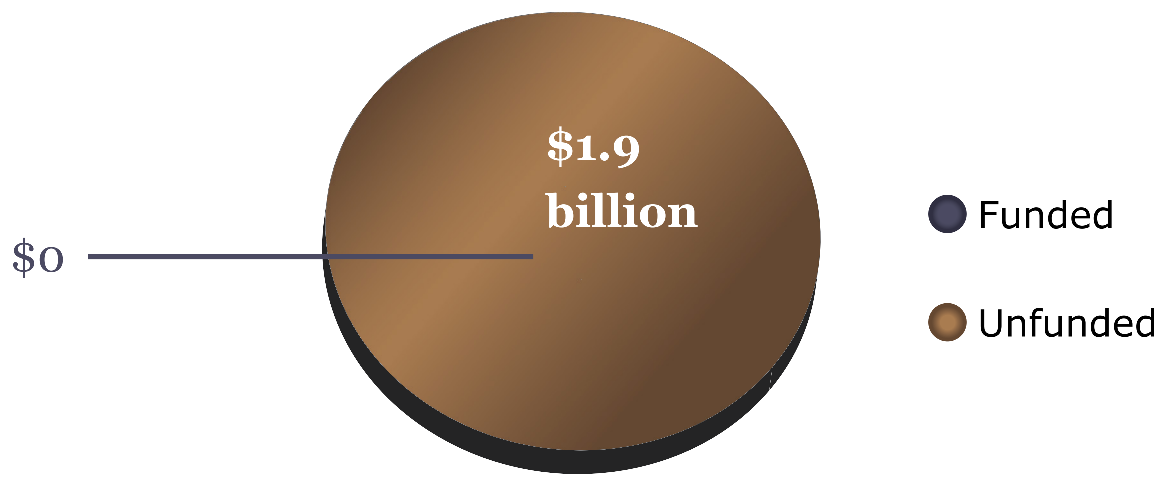
In 2006, the CTA was facing a financial crisis. State lawmakers delivered a financial rescue package that included the go-ahead for the CTA to issue $1.9 billion in pension and benefit bonds.[47] The nearly-bankrupt transportation agency was authorized to borrow $1.3 billion to fatten its pension fund balances – and it was also allowed to completely bond out the unfunded liability of its retiree health insurance debts.[48] As a result, the CTA now has $1.9 billion outstanding principal on its pension and benefit bonds – an unfunded liability that taxpayers and riders will have to pay off.[49]

This report details the liabilities faced by local governments across the state, many of which have no realistic plan to find the cash needed to pay for retiree benefits. For example, the required annual payments to Chicago pension funds will climb by $1.3 billion by the end of the decade. Local officials have no realistic means of making those payments, barring significant benefit reforms.

Over the course of the past decade, the state and the CTA have issued more debt in pension obligation bonds than the rest of the country combined.[50] As one national study of pension obligation bonds explained, most issuers are "fiscally stressed and in a poor position to shoulder the investment risk."[51] It concluded that most pension obligation bonds, like those issued by Illinois and the CTA, "appear to be issued by the wrong governments at the wrong time."[52]

The transfer of pension fund debt into pension bond debt would be a disaster for Illinois taxpayers, but that hasn't stopped lawmakers in the past from seeking the short-term budget relief that borrowed money can provide.

The CTA's pension and benefit bond debt is completely unfunded



The CTA's outstanding principal on benefit bonds exceeds $1.9 billion

($ in millions)

Bond issue	Outstanding principal	Outstanding interest	Debt defeasance	Unfunded bond principal [1]	Funded Ratio
2008 Series A	$1,297.2	$1,673.7	$0.0	$1,297.2	0.0%
2008 Series B	$639.7	$914.9	$0.0	$639.7	0.0%
Combined	**$1,936.9**	**$2,588.6**	**$0.0**	**$1,936.9**	**0.0%**

Source: Chicago Transit Authority

[1] In lieu of calculating the present value of the outstanding principal and interest, we have used the current value of outstanding principal.

Local government retiree health insurance: $10.7 billion

State and local governments largely have played from the same book when it comes to employee compensation. On top of attractive pensions given to government employees, local governments have followed the state's lead in offering generous health benefits to pensioners.

With nearly 3,000 municipal and county employers, it is difficult to quantify the total amount owed to cover health insurance costs for local government retirees.[53] To date, no universal review of local health insurance liabilities in Illinois has ever been published. This report provides the first reliable estimate of local retiree health care liabilities.

A detailed review of financial reports from more than 100 local governments shows that these health insurance benefits vary widely by employers. Retired Chicago teachers, for example, pay 40 percent of the cost of their premiums, while retired Aurora city government workers pay just 26 percent.[54-55] Retired city workers from Naperville, on the other hand, pay the full cost of their premiums.[56-57] Indeed, some local governments haven't implemented the 2004 accounting rules that require government entities to report such liabilities, so it's difficult to determine what they owe.[58] Regardless of the level of health care benefits provided to retired local government workers, one fact appears universally true: local governments have put aside virtually no money to pay for retiree health insurance benefits.

Suburban and downstate governments

Suburban and downstate governments typically provide retiree health benefits through a single insurance plan, regardless of which pension plan the retiree belongs. For example, retired suburban and downstate police officers and firefighters generally belong to the same health insurance plan as municipal employees, even though they don't generally belong to the same pension plan.

State law requires municipalities to cap retiree premiums at the same rate charged to active employees. However, in most cases retirees are more expensive to insure than younger, active workers. So by charging retirees the same premiums as active employees, municipal governments are providing an implicit subsidy to retirees.[59]

Altogether, it is estimated that the unfunded liabilities for retiree health benefits in suburban and downstate communities are $4.5 billion.[60]

Chicago governments

The City of Chicago and its sister governments carry a massive unfunded liability for retiree health care.[61] Often, these health care benefits are provided by locally-managed pension and benefit funds. The City of Chicago itself has an additional unfunded liability, the result of a legal settlement to provide supplemental insurance subsidies to retirees who belong to the Chicago pension funds.

In many instances, health care liabilities and pension liabilities are combined in official reports. To better understand exactly what taxpayers are on the hook for, those liabilities have been disaggregated for this report. Altogether, the combined unfunded liability for Chicago governments' retiree health obligations is $3.9 billion.[62]

Cook County and other Chicago-area regional governments

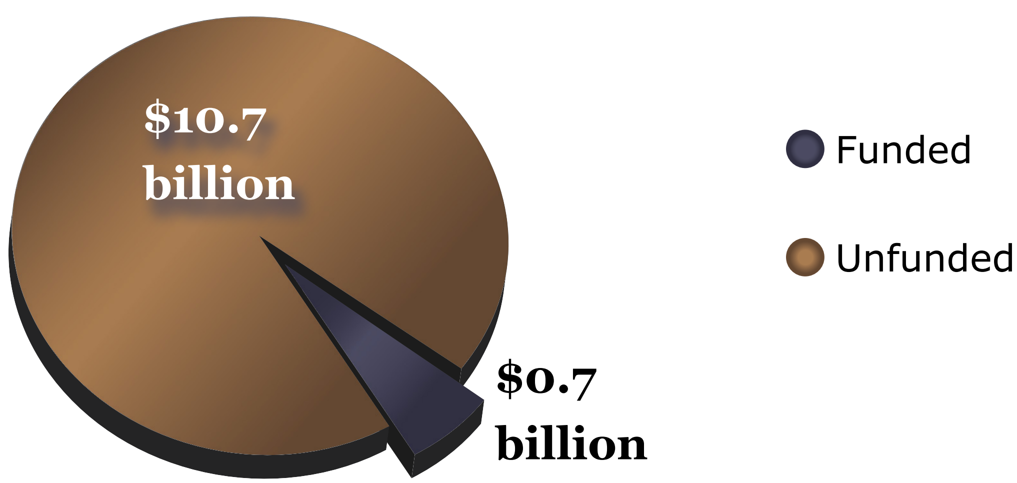
Cook County and other regional governments, such as the Metropolitan Water Reclamation District, are on the hook for billions more in retiree health insurance.[63] As with Chicago, these benefits typically are provided by locally-managed pension and benefit funds. However, the Regional Transportation Authority – which maintains its own pension and benefit fund – has not yet calculated its unfunded liability for retiree health benefits.

These regional governments owe a combined $2.4 billion for retiree health benefits.[64]

Combined local retiree health debt

Retiree health insurance obligations present a massive layer of debt on top of local pension liabilities. Often, smaller local governments fail to know or accurately account for these costs. As pension costs increase, local officials will be forced to rework other benefits. Health insurance costs will need to be trimmed, and state mandates on certain benefit levels for local government retirees should be repealed. But before these can happen, local policymakers must first and foremost accurately account for those costs. Altogether, health insurance benefits for government retirees represent at least a $10.7 billion debt at the local level.

Local governments' combined liability for retiree health insurance is nearly 94 percent unfunded



Local governments' combined unfunded liability for retiree health insurance is nearly $11 billion

($ in millions)

Retirement system	Accrued liability	Value of assets	Unfunded liability	Funded ratio
Suburban and downstate combined [1]	**$4,622.8**	**$36.9**	**$4,585.9**	**0.8%**
Chicago Transit Authority [2-3]	$476.1	$587.0	($110.9)	123.3%
Chicago Fire	$48.2	$0.0	$48.2	0.0%
Chicago Laborers	$41.4	$0.0	$41.4	0.0%
Chicago Municipal	$223.6	$0.0	$223.6	0.0%
Chicago Park	$45.8	$0.0	$45.8	0.0%
Chicago Police	$164.8	$0.0	$164.8	0.0%
Chicago Teachers	$2,864.9	$34.9	$2,830.0	1.2%
City Colleges [4]	$117.1	$0.0	$117.1	0.0%
City of Chicago [5]	$533.4	$0.0	$533.4	0.0%
Chicago combined	**$4,515.2**	**$621.8**	**$3,893.4**	**13.8%**
Cook County	$1,724.6	$0.0	$1,724.6	0.0%
Cook County Forest Preserve	$43.1	$0.0	$43.1	0.0%
Metropolitan Water Reclamation	$526.5	$47.9	$478.6	9.1%
Regional Transportation Authority [6]	N/A	N/A	N/A	N/A
Cook County and other regional combined	**$2,294.2**	**$47.9**	**$2,246.3**	**2.1%**
Combined	**$11,432.2**	**$706.6**	**$10,725.6**	**6.2%**

Source: Illinois Policy Institute; Department of Insurance; City of Chicago; Cook County; Cook County Forest Preserve; Metropolitan Water Reclamation District; Chicago Park District; Chicago Transit Authority; Chicago Teachers' Pension Fund; City Colleges of Chicago; and multiple municipal and county governments (see Appendix for methodology)

[1] The Institute reviewed the financial statements of downstate Illinois' 28 largest municipalities and 17 largest county governments. For the remaining governments, we utilized a computer-generated random sample of 60 municipalities and 8 counties to provide a reliable estimate of the health insurance finances. The combined liabilities and assets of those governments are used to estimate the overall health care debts of Illinois's mid-sized and small local governments. Further details can be found in the Appendix.
[2] This line combines all Chicago Transit Authority pension plans.
[3] The Chicago Transit Authority's surplus comes from proceeds of the other-post employment benefit bonds it issued.
[4] While employees of the City Colleges of Chicago participate in SURS, they do not receive health insurance benefits through the state-run insurance programs.
[5] The City of Chicago's unfunded liability for retiree health benefits is the result of a settlement agreement to provide supplemental insurance subsidies through fiscal year 2013.
[6] The Regional Transportation Authority has not calculated its unfunded liability for retiree health benefits. In fiscal year 2010, it spent $19,188 to provide its 24 participants with health insurance.

Our solution

The $203 billion in state and local retirement debts must be addressed. There are three crucial steps that would lower the retirement expenses of every government entity in Illinois.

Offer more affordable retirement compensation for future work.
Each year of service means additional pension benefits – but state and local governments cannot afford to keep awarding benefits as currently structured. Workers should be offered a starting pension identical to what it would be if they left government employment today, but any additional retirement savings should be structured differently.

The cleanest and most affordable plan would be an employee-managed savings account jointly vested by the employer and the employee, similar to the 401(k) plans used in the private sector. Currently, state government controls the benefit structure of state and local pension plans. This means that state legislative action is necessary to redesign local pension benefits.

Reduce cost-of-living increases for all retirees.
Most Illinois government pensioners receive a 3 percent compounded, annual increase to their pensions. This cost-of-living adjustment, or COLA, becomes an automatic raise, provided at taxpayer expense. This generous 3 percent compounded COLA doubles the annual value of a pension over 25 years, making pensions even more unaffordable.

State lawmakers recognized this fact when they enacted changes to pension COLAs for future hires, reducing them to one-half of the inflation rate. As with basic benefit design, the cost-of-living increases paid by taxpayers result from state mandates. State lawmakers must act in order to right-size COLAs.

Require government retirees to cover a majority of their health insurance costs.
In the private sector, employer-provided retiree health insurance is virtually unheard of. When it is offered, retired workers must fund their own health insurance, with relatively few exceptions. But in Illinois, state workers or university employees who currently take the generous option of retiring in their mid-50s receive full health insurance coverage at practically no charge, with state taxpayers picking up all or most of the cost. Once state retirees reach the age of eligibility for Medicare, state taxpayers continue to pick up the full cost of supplemental health insurance plans.

The amount of subsidies that government retirees receive for their health insurance varies among local governments and school districts, though taxpayers pick up a large share of the tab. Much of the cost of providing retiree health insurance are associated with workers who have retired in their 50s and early 60s, before Medicare becomes available. Retiring at this young an age is a benefit in and of itself – adding the additional perk of health insurance is a benefit that most taxpayers cannot afford for themselves and no longer can afford to provide for government retirees.

With respect to state, university and downstate teachers, the state government still controls the benefit levels for health insurance. Lawmakers recently gave the governor's office the authority to change those benefits for state and university retirees, which Illinois Gov. Pat Quinn should do immediately.[65] Additional changes should be enacted to address benefits for downstate teachers and mandates on certain benefit levels for local government retirees should be repealed.

Local employers already control their own retiree health insurance benefits; thus, the power to reduce their debts largely lies with local officials.

There are additional steps that state government can take to dramatically reduce its pension costs.

Stop paying the retirement costs of other governments.
This step pertains mostly to state government, which has for decades elected to pay the employer share of pension costs for state universities and suburban and downstate school districts. This practice is rare in most other states. Even within Illinois, Chicago Public Schools finances its own pension fund using local resources. The state could save more than $1.1 billion annually by ending the unaffordable practice of paying these entities' pension costs.[66]

Beyond offering significant savings, this change would increase accountability in pension spending. Currently, local school districts award high salaries and pension boosts, and then hand off the bill to state government. Though taxpayers statewide have virtually no say over the staffing decisions at those institutions, they are asked to pay for these costs. Enacting similar local accountability for retiree health insurance would save the state hundreds of millions of dollars more.[67]

If state government ends the practice of paying the employer portion of normal costs on behalf of school districts and universities, those subsidiary governments will need to look to other areas of their budgets to offset those new costs. The first place they could start is with pension expenses that those employers have elected to cover on behalf of their employees.

Stop picking up the "employee share" of pensions of employees.
This step pertains mostly to downstate school districts. Teachers in most districts pay little or nothing toward their pensions because the districts pick up those costs for them. When vesting retirement benefits, employers are supposed to match an employee contribution. For example, downstate teachers are supposed to pay 9.4 percent of their pay to TRS, with the state picking up approximately 9 percent as well.

However, a 2011 report from the Illinois Policy Institute showed that a majority of downstate districts have elected to pay the employee portion as an additional benefit on top of salary.[68] If school districts ended this practice, it would save hundreds of millions of dollars per year and, in most instances, offset any new costs taken on if the state ends the practice of paying the normal cost of teacher pensions in downstate schools. Other governmental entities, obviously, could see significant savings by ending any employer subsidy of the employee share of benefits.

Why this works

Illinois cannot tax its way out of this problem. Tinkering at the margins will not solve this problem, either. The state has already tried to borrow its way out of its pension hole by issuing pension bonds, which failed with disastrous consequences. The only way to rescue the finances of state and local governments is to dramatically reform the structure, incentives and accountability within Illinois' government retirement systems.

Government employees were promised security in retirement. The financial picture of Illinois pension funds tell a difficult story: their retirements are deeply in danger and the taxes needed to keep benefits unchanged would come at too steep a price for private sector taxpayers already burdened by Illinois' skyrocketing taxes. If lawmakers act swiftly, it is possible to maintain a reasonable system of benefits for government retirees. If lawmakers fail to act, the retirement systems could become insolvent.[69] The longer the state waits to reform its $203 billion retirement debt, the more likely the state will fail to meet its obligations to government retirees.

Appendix

The Illinois Policy Institute reviewed the comprehensive annual financial reports of downstate Illinois' 28 largest municipalities and 17 largest county governments. The Institute then reviewed the financial reports of a computer-generated, stratified random sampling of an additional 60 municipalities and eight counties to provide a reliable estimate of the remaining downstate local governments. Selection and stratification were based on the most recent U.S. Census Bureau data.

The average ratio of unfunded liabilities to covered payroll for the random sample was then applied to the total covered payroll of all non-selected, non-sampled local governments, including police, fire and IMRF payroll. The result was then added to the known unfunded liabilities of the selected and sampled local governments.

Similar procedures were conducted for combined assets of local governments and total liability overall to estimate the retiree health care obligations of Illinois' mid-sized and small local governments.

The Institute did not review the reasonableness of the actuarial assumptions used to estimate local governments' other post-employment benefit obligations.

Combined unfunded retiree health benefits for suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Selected governments	$1,356.4	$29.4	$1,327.0	2.2%	$1,978.9	67.1%
Sampled governments	$369.0	$0.8	$368.2	0.2%	$684.6	53.8%
Unselected, unsampled governments	$2,897.4	$6.7	$2,890.7	0.2%	$5,375.5	53.8%
Combined	**$4,622.8**	**$36.9**	**$4,585.9**	**0.8%**	**$8,039.1**	**57.0%**

Source: Illinois Policy Institute

Combined unfunded retiree health benefits for selected suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Arlington Heights	$13.6	$0.0	$13.6	0.0%	$40.0	34.1%
Aurora	$173.0	$24.2	$148.8	14.0%	$64.7	229.9%
Berwyn	$9.6	$0.0	$9.6	0.0%	$23.9	40.2%
Bloomington	$18.2	$0.0	$18.2	0.0%	$24.9	73.3%
Bolingbrook	$19.2	$0.7	$18.5	3.4%	$20.6	90.2%
Champaign	$9.8	$0.0	$9.8	0.0%	$28.8	34.0%
Decatur	$8.5	$0.0	$8.5	0.0%	$19.2	44.5%
Des Plaines	$13.6	$0.0	$13.6	0.0%	$26.2	51.9%
Elgin	$24.4	$3.7	$20.6	15.3%	$52.8	39.1%
Evanston	$12.3	$0.0	$12.3	0.0%	$51.9	23.6%
Hoffman Estates	$10.1	$0.0	$10.1	0.0%	$26.4	38.3%
Joliet	$205.1	$0.0	$205.1	0.0%	$71.9	285.3%
Mount Prospect	$5.8	$0.0	$5.8	0.0%	$26.7	21.8%
Naperville	$7.0	$0.0	$7.0	0.0%	$89.5	7.8%
Normal	$14.5	$0.0	$14.5	0.0%	$23.2	62.4%
Oak Lawn	$31.3	$0.0	$31.3	0.0%	$29.1	107.6%
Oak Park	$5.5	$0.0	$5.5	0.0%	$28.0	19.7%
Orland Park	$7.2	$0.0	$7.2	0.0%	$20.7	34.9%
Palatine	$3.3	$0.0	$3.3	0.0%	$13.0	25.6%
Peoria	$147.4	$0.0	$147.4	0.0%	$60.0	245.7%
Rockford	$14.9	$0.0	$14.9	0.0%	$70.3	21.3%
Schaumburg	$11.5	$0.0	$11.5	0.0%	$44.0	26.2%

continued on page 24

continued from page 23

Combined unfunded retiree health benefits for selected suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Skokie	$5.7	$0.0	$5.7	0.0%	$41.2	13.9%
Springfield	$273.3	$0.0	$273.3	0.0%	$96.3	283.8%
Tinley Park	$14.3	$0.0	$14.3	0.0%	$16.3	87.8%
Waukegan	$43.2	$0.0	$43.2	0.0%	$32.9	131.5%
Wheaton	$2.2	$0.0	$2.2	0.0%	$22.0	10.1%
Champaign County	$3.9	$0.0	$3.9	0.0%	$32.6	12.1%
DeKalb County	$0.6	$0.0	$0.6	0.0%	$26.4	2.5%
DuPage County	$7.1	$0.0	$7.1	0.0%	$161.7	4.4%
Kane County	$14.8	$0.0	$14.8	0.0%	$62.1	23.7%
Kankakee County	$1.5	$0.0	$1.5	0.0%	$25.2	6.1%
Lake County	$46.2	$0.0	$46.2	0.0%	$154.0	30.0%
LaSalle County	$45.6	$0.0	$45.6	0.0%	$20.8	219.5%
Macon County	$2.7	$0.0	$2.7	0.0%	$21.1	12.8%
Madison County	$13.2	$0.0	$13.2	0.0%	$38.2	34.6%
McHenry County [1]	$12.3	$0.0	$12.3	0.0%	$59.4	20.6%
McLean County	$6.6	$0.0	$6.6	0.0%	$22.4	29.6%
Peoria County	$6.7	$0.0	$6.7	0.0%	$44.4	15.2%
Rock Island County	$13.6	$0.0	$13.6	0.0%	$25.4	53.7%
St. Clair County	$2.4	$0.9	$1.6	35.2%	$40.0	3.9%
Tazewell County	$2.9	$0.0	$2.9	0.0%	$17.4	16.5%
Will County	$64.4	$0.0	$64.4	0.0%	$115.4	55.8%
Winnebago County	$7.2	$0.0	$7.2	0.0%	$48.2	15.0%
Combined	**$1,356.4**	**$29.4**	**$1,327.0**	**2.2%**	**$1,978.9**	**67.1%**

Source: Illinois Policy Institute

[1] This line includes the McHenry County Conservation District.

Combined unfunded retiree health benefits for sampled suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Addison	$1.4	$0.0	$1.4	0.0%	$16.4	8.8%
Bartlett	$6.0	$0.0	$6.0	0.0%	$11.2	53.4%
Belleville	$10.5	$0.0	$10.5	0.0%	$16.3	64.6%
Belvidere	$5.4	$0.0	$5.4	0.0%	$7.7	70.6%
Bloomingdale	$6.5	$0.0	$6.5	0.0%	$8.3	78.8%
Broadview	$3.2	$0.0	$3.2	0.0%	$5.0	65.4%
Carbondale	$6.8	$0.0	$6.8	0.0%	$13.1	52.3%
Carol Stream	$1.6	$0.0	$1.6	0.0%	$10.5	15.1%
Carpentersville	$5.5	$0.0	$5.5	0.0%	$14.5	38.2%
Cary	$0.1	$0.0	$0.1	0.0%	$4.6	1.3%
Collinsville	$5.2	$0.0	$5.2	0.0%	$10.4	50.2%
Deerfield	$4.4	$0.0	$4.4	0.0%	$8.4	52.4%
DeKalb	$32.4	$0.0	$32.4	0.0%	$13.6	237.5%
Downers Grove	$11.4	$0.0	$11.4	0.0%	$23.4	48.5%
East Moline	$37.0	$0.0	$37.0	0.0%	$9.6	386.3%
Elmhurst	$1.5	$0.0	$1.5	0.0%	$16.0	9.1%
Fairview Heights	$4.0	$0.0	$4.0	0.0%	$5.5	72.3%
Flossmoor	$0.8	$0.0	$0.8	0.0%	$3.9	21.4%
Franklin Park	$22.5	$0.0	$22.5	0.0%	$9.2	245.9%
Freeport	$8.9	$0.0	$8.9	0.0%	$10.1	88.1%
Galesburg	$8.5	$0.0	$8.5	0.0%	$13.4	64.0%
Glen Ellyn	$0.2	$0.0	$0.2	0.0%	$9.3	2.4%
Glencoe	$1.7	$0.0	$1.7	0.0%	$9.0	18.7%
Glenview	$8.7	$0.0	$8.7	0.0%	$27.0	32.3%
Grayslake	$0.5	$0.0	$0.5	0.0%	$4.5	11.4%
Gurnee	$2.5	$0.0	$2.5	0.0%	$17.4	14.1%
Highland Park	$14.3	$0.0	$14.3	0.0%	$18.0	79.6%
Hinsdale	$4.0	$0.0	$4.0	0.0%	$8.3	47.8%
Homewood	$14.9	$0.0	$14.9	0.0%	$8.0	186.2%

continued on page 26

continued from page 25

Combined unfunded retiree health benefits for sampled suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Kankakee	$5.8	$0.0	$5.8	0.0%	$14.4	40.6%
La Grange	$0.5	$0.0	$0.5	0.0%	$7.1	7.0%
Lake Bluff	$1.7	$0.0	$1.7	0.0%	$3.0	55.7%
Lake Forest	$1.5	$0.0	$1.5	0.0%	$20.3	7.5%
Lemont	$0.8	$0.0	$0.8	0.0%	$4.3	19.0%
Libertyville	$2.5	$0.0	$2.5	0.0%	$14.5	17.5%
Lisle	$0.5	$0.0	$0.5	0.0%	$7.5	6.5%
Mattoon	$23.1	$0.0	$23.1	0.0%	$6.8	340.3%
Midlothian	$10.6	$0.0	$10.6	0.0%	$4.6	232.8%
Morrison	$0.0	$0.0	$0.0	0.0%	$1.1	3.3%
Mundelein	$0.8	$0.0	$0.8	0.0%	$13.4	6.3%
Norridge	$3.5	$0.0	$3.5	0.0%	$5.1	69.0%
North Riverside	$17.4	$0.0	$17.4	0.0%	$6.6	264.2%
Oak Brook	$3.1	$0.0	$3.1	0.0%	$12.7	31.9%
Olympia Fields	$0.9	$0.0	$0.9	0.0%	$2.8	31.9%
Oswego	$0.4	$0.0	$0.4	0.0%	$6.7	5.4%
Palos Park	$0.0	$0.0	$0.0	100.0%	$2.1	0.0%
Peru	$0.5	$0.0	$0.5	0.0%	$5.7	8.2%
Rock Island	$23.2	$0.0	$23.2	0.0%	$18.3	127.1%
Romeoville	$1.4	$0.0	$1.4	0.0%	$15.1	9.2%
Roselle	$0.3	$0.0	$0.3	0.0%	$8.4	3.7%
St. Charles	$9.2	$0.0	$9.2	0.0%	$22.7	40.7%
Streamwood	$6.4	$0.0	$6.4	0.0%	$13.4	47.6%
Streator	$5.5	$0.0	$5.5	0.0%	$3.9	143.5%
Thornton	$0.3	$0.0	$0.3	0.0%	$1.1	25.3%
Urbana	$2.2	$0.0	$2.2	0.0%	$16.3	13.6%
Vernon Hills	$0.6	$0.0	$0.6	0.0%	$8.8	6.4%
Villa Park	$4.5	$0.0	$4.5	0.0%	$11.9	38.1%
Warrenville	$0.4	$0.0	$0.4	0.0%	$5.0	8.4%

continued on page 27

continued from page 26

Combined unfunded retiree health benefits for sampled suburban and downstate governments

($ in millions)

Government	Accrued liability	Value of assets	Unfunded liability	Funded ratio	Covered payroll	Ratio of unfunded liability to payroll
Wilmette	$2.7	$0.8	$1.9	30.9%	$8.5	22.3%
Wood Dale	$0.4	$0.0	$0.4	0.0%	$8.8	4.3%
Boone County	$1.0	$0.0	$1.0	0.0%	$10.7	9.8%
Coles County	$0.2	$0.0	$0.2	0.0%	$8.2	2.9%
Grundy County	$2.1	$0.0	$2.1	0.0%	$9.6	22.0%
Jo Daviess County	$0.2	$0.0	$0.2	0.0%	$5.2	4.2%
Lee County	$2.1	$0.0	$2.1	0.0%	$6.8	30.1%
Livingston County	$0.4	$0.0	$0.4	0.0%	$9.6	4.0%
Logan County	$0.3	$0.0	$0.3	0.0%	$5.7	5.0%
Vermilion County	$1.2	$0.0	$1.2	0.0%	$16.9	7.3%
Combined	**$369.0**	**$0.8**	**$368.2**	**0.2%**	**$684.6**	**53.8%**

Source: Illinois Policy Institute

[1] *There are nearly 4.9 million households in Illinois. See, e.g., Current Population Survey, "Annual social and economic supplement," United State Census Bureau (2011), http://www.census.gov/cps/data/.*

[2] *Robert Novy-Marx and Joshua Rauh, "Public pension promises: How big are they and what are they worth?" Journal of Finance 64(4): 1207-45 (2010), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1352608.*

[3] *Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[4] *Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.*

[5] *Author's calculations based upon financial reports for Chicago area pension funds and the biennial report on public pensions for fiscal year 2010. The actual total is likely much higher, as the unfunded liabilities for pensions and retiree health insurance grew in fiscal year 2011 for those governments that have already reported these debts. In Chicago teachers' pension fund, for example, pension debt grew by $1.4 billion and retiree health debt grew by $210 million in fiscal year 2011. See, e.g., Patricia Hambrick, "116th comprehensive annual financial report," Chicago Teachers' Pension Fund (2012), http://www.ctpf.org/AnnualReports/cafr2011.pdf.*

[6] *Details on the author's calculations and methodology can be found in the appendix.*

[7] *Illinois has $15.5 billion in outstanding principal on its benefit obligation bonds. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%20 2011Mar2012.pdf.*

[8] *The CTA has $1.9 billion in outstanding principal on its benefit obligation bonds. See, e.g., Forrest Claypool, "Reform and renewal: Improving mass transit in a new economy," Chicago Transit Authority (2012), http://www.transitchicago.com/assets/1/finance_budget/2012_Budget_Book_for_Web.pdf.*

[9] *The state contributed $1.2 billion to its five retirement systems in fiscal year 2000. The regular contribution, excluding debt service for pension obligation bonds, for fiscal year 2012 was $5.1 billion. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[10] *Kristina Rasmussen, "Average $30,000 pension? Pensions may be larger than they appear," Illinois Policy Institute (2011), http://www.illinoispolicy.org/uploads/files/FactFinderPensions.pdf.*

[11] *Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[12] *Approximately 133,649 of the state's 181,662 retirees belonged to TRS or SURS. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%20 2011Mar2012.pdf.*

[13] *Approximately $61.1 billion of the state's $82.9 billion unfunded liability is associated with TRS or SURS. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[14] *The number of retirees increased by 28 percent between 2004 and 2011. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[15] *The average annuity increased by 38 percent between 2004 and 2011. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[16] *The average salary increased by 28 percent between 2004 and 2011. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[17] *The state's unfunded pension liability was just $14.3 billion in 1998. By 2005, it had reached $38.6 billion. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[18] *The pension funds lost a combined $17.5 billion in fiscal years 2008 and 2009. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%20 2011Mar2012.pdf.*

[19] *The state's unfunded pension liability was $82.9 billion in fiscal year 2011. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[20] *The state's unfunded pension liability was $43.1 billion in fiscal year 2003. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[21] *A 2003 law authorized the state to issue $10 billion in pension obligation bonds. See, e.g., Public Act 93-0002 (2003), http://ilga.gov/legislation/publicacts/93/PDF/093-0002.pdf.*

[22] *Approximately $7.3 billion of the proceeds were used to reduce the state's unfunded liability. The remaining $2.7 billion was used to pay a portion of the statutory contribution for fiscal year 2003 and all of the statutory contribution for fiscal year 2004. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[23] *A 2009 law mandated the state to issue $3.5 billion. See, e.g., Public Act 96-0043 (2009), http://ilga.gov/legislation/publicacts/96/PDF/096-0043.pdf.*

[24] *A 2011 law authorized the state to issue $4.1 billion in pension obligation bonds. The actual proceeds, net of expenses, totaled $3.7 billion. See, e.g., Public Act 96-1497 (2011), http://ilga.gov/legislation/publicacts/96/PDF/096-1497.pdf.*

[25] *All but $573 million of the state's $4 billion pension payment was made with bond proceeds in fiscal year 2010. All but $541 million of the state's $4.2 billion pension payment was made with bond proceeds in fiscal year 2011. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[26] *Gregg Scott, "A report on the financial condition of the IL state retirement systems," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.*

[27] *Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012),*

http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[28] While the Teachers' Health Insurance Security Fund had $7.1 million in assets at the end of fiscal year 2011, the Community College Health Insurance Security Fund had -$19.7 million. No assets have been set aside for the State Employees' Group Insurance Program. Altogether, the actuarial value of the state's assets is -$12.6 million. See, e.g., Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[29] The average state or university retiree contributes less than 10 percent of the cost of their premiums. See, e.g., Jonathan Ingram, "Diagnosis disaster: The $44 billion price tag of state retiree health insurance," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/ILretireehealthinsurance.pdf.

[30] Illinois spent $767 million on retiree health benefits for SEGIP participants in fiscal year 2012. See, e.g., Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[31] Only $209 million was paid to TRIP by retirees in fiscal year 2012, while the cost of health benefits was $522 million, leaving state and local taxpayers on the hook for hundreds of millions of dollars. See, e.g., Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[32] Only $16 million was paid to CIP by retirees in fiscal year 2012, while the cost of health benefits was $42 million, leaving state and local taxpayers on the hook for several million dollars. See, e.g., Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[33] Approximately $34.4 billion of the state's $54.2 billion unfunded liability for retiree health benefits are associated with retired teachers and retired university employees. See, e.g., Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[34] Jonathan Ingram and Collin Hitt, "Another $54 billion?! In addition to pensions, the state owes billions more in retiree health benefits," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/54Billion-SEGIP-TRIP-CIP.pdf.

[35] Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012), http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[36] Downstate police pension funds are 54.3 percent funded, while downstate firefighter pensions are 54.8 percent funded. See, e.g., Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012), http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[37] Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012), http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[38] There are 2,968 employers participating in Illinois Municipal Retirement Fund.39 The Illinois Municipal Retirement Fund is 86.4 percent funded. See, e.g., Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012),

http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[40] IMRF carries a total pension liability of $35.9 billion. This is larger than the total pension liability of both SERS and SURS. See, e.g., Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012), http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[41] IMRF carries an unfunded pension liability of $4.9 billion. See, e.g., Andrew Boron, "Public Pension Report (2009-2010)," Illinois Department of Insurance (2012), http://insurance.illinois.gov/Reports/Pension/pension_biennial_report_2011.pdf.

[42] Author's calculations based upon financial reports for the Chicago Transit Authority, City of Chicago, Chicago Teachers' Pension Fund and Chicago Park District for fiscal year 2010.

[43] In fiscal year 2012, the employer contribution to the Chicago pension funds was $765 million. By 2020, the employer contribution will be more than $2 billion. See, e.g., Gregg Scott, "A report on the financial condition of the Chicago, Cook County and Illinois Municipal Retirement Fund systems of Illinois," Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FY2011SmallSystemsReport.pdf.

[44] Author's calculations based upon financial reports for the Cook County Forest Preserve, Metropolitan Water Reclamation District and Cook County for fiscal year 2010.

[45] Author's calculations based upon financial reports for Chicago area pension funds and the biennial report on public pensions for fiscal year 2010.

[46] The first pension obligation bond was issued by the City of Oakland in 1985. Since then, 38 local governments in California have issued 90 pension obligation bonds, worth approximately $11 billion in all. See, e.g., Roger L. Davis, "An introduction to pension obligation bonds and other post-employment benefits," Orrick, Herrington & Sutcliffe LLP (2006), http://www.orrick.com/fileupload/247.pdf.

[47] The CTA issued "sales and transfer tax receipts revenue bonds" totaling $1.9 billion to fund its employee retirement plan and create a special trust for retiree health obligations. See, e.g., Crowe Horwath LLP, "Financial statements and supplementary information," Chicago Transit Authority (2011), http://www.transitchicago.com/assets/1/finance_budget/CTA_Final_Financial_Statements_2010-2009.pdf.

[48] The CTA issued two series of bonds. The first, a $1.3 billion issue, was used to inject needed cash into the CTA's pension plan. The second, a $640 million series, was used to fund a special trust to pay for retiree health benefits. See, e.g., Crowe Horwath LLP, "Financial statements and supplementary information," Chicago Transit Authority (2011), http://www.transitchicago.com/assets/1/finance_budget/CTA_Final_Financial_Statements_2010-2009.pdf.

[49] The CTA owes $1.9 billion in principal for its benefit bonds. It is expected to spend an additional $4.5 billion in interest payments over the course of repaying the bonds. See, e.g., Forrest Claypool, "Reform and renewal: Improving mass transit in a new economy," Chicago Transit Authority (2012), http://www.transitchicago.com/assets/1/finance_budget/2012_Budget_Book_for_Web.pdf.

[50] Since 2006, 95 pension obligation bonds have been issued by state and local governments, totaling $14.4 billion. Approximately $8.5 billion of this amount was issued by Illinois and the CTA. This does not include the additional bonds issued by CTA for retiree health benefits. See, e.g.,

Barbara D. Bovbjerg et al., "State and local government pension plans: Economic downturn spurs efforts to address costs and sustainability," Government Accountability Office (2012), http://www.gao.gov/assets/590/589043.pdf.

[51] *Barbara D. Bovbjerg et al., "State and local government pension plans: Economic downturn spurs efforts to address costs and sustainability," Government Accountability Office (2012), http://www.gao.gov/assets/590/589043.pdf.*

[52] *Barbara D. Bovbjerg et al., "State and local government pension plans: Economic downturn spurs efforts to address costs and sustainability," Government Accountability Office (2012), http://www.gao.gov/assets/590/589043.pdf.*

[53] *There are 2,968 employers participating in Illinois Municipal Retirement Fund.*

[54] *Prior to 2011, retired Chicago teachers paid only 30 percent of the cost of their premiums. See, e.g., Kevin B. Huber et al., "Comprehensive Annual Financial Report for fiscal year 2010," Public School Teachers' Pension and Retirement Fund of Chicago (2011), http://www.ctpf.org/AnnualReports/cafr2010.pdf.*

[55] *Brian W. Caputo et al., "Comprehensive Annual Financial Report for fiscal year 2010," City of Aurora (2011), http://www.aurora-il.org/documents/finance/cafr_2010.pdf.*

[56] *Douglas A. Krieger et al., "Comprehensive Annual Financial Report for fiscal year 2011," City of Naperville (2011), http://www.naperville.il.us/emplibrary/FY11CAFR.pdf.*

[57] *Although Naperville retirees pay 100 percent of the cost of their premiums, Naperville carries an unfunded liability for retiree health benefits due to an "implicit rate subsidy." Because retirees remain in the active employees' risk pool, their costs are combined with active employees to get an average premium, which is charged to both groups. The average premium is generally lower than the actual cost to provide benefits to retirees because younger, healthier active employees bring the average down. As a result, the plan creates an implicit subsidy, which Naperville must report as an unfunded liability.*

[58] *Stephenson County refused to adopt the new standards. See, e.g., Lindgren, Callihan, Van Osdol & Co., Comprehensive Annual Financial Report for fiscal year 2009," Stephenson County (2010), http://www.co.stephenson.il.us/administrator/data/2009-AUDIT.pdf.*

[59] *See, e.g., 215 ILCS 5/367j.*

[60] *Details on the author's calculations and methodology can be found in the appendix.*

[61] *The total unfunded liability for the City of Chicago and its sister governments is approximately $3.9 billion.*

[62] *Author's calculations based upon financial reports for the Chicago Transit Authority, City of Chicago, Chicago Teachers' Pension Fund, City Colleges and Chicago Park District for fiscal year 2010.*

[63] *The total unfunded liability for Cook County and other regional governments is approximately $2.2 billion.*

[64] *Author's calculations based upon financial reports for the Cook County Forest Preserve, Metropolitan Water Reclamation District and Cook County for fiscal year 2010.*

[65] *A 2012 bill authorized the governor to set retiree contribution rates for their health insurance premiums. The bill is awaiting the governor's signature. See, e.g., Senate Bill 1313 (2012), http://ilga.gov/legislation/97/SB/PDF/09700SB1313enr.pdf.*

[66] *The total employer normal cost for TRS will be $861.8 million in fiscal year 2013. The total employer normal cost for SURS will be $346.3 million in fiscal year 2013. See, e.g., Gregg Scott, "A report on the financial condition of the IL state retirement systems,"*

Commission on Government Forecasting and Accountability (2012), http://www.ilga.gov/commission/cgfa2006/Upload/FinCondILStateRetirementSysFY%202011Mar2012.pdf.

[67] *The state's cost of providing health insurance to SURS and TRS pensioners through SEGIP, TRIP and CIP was more than $420 million in fiscal year 2012.*

[68] *Amanda Griffin-Johnson et al., "Playing favorites: Education pension spending favors wealthy, suburban schools," Illinois Policy Institute (2012), http://illinoispolicy.org/uploads/files/Playing_Favorites_Full_Report_050312.pdf.*

[69] *Chris Wetterich "TRS director: Retirees might have to take pension cut," State Journal Register (2012), http://www.sj-r.com/top-stories/x1440921815/TRS-director-Retirees-might-have-to-take-COLA-cut.*
