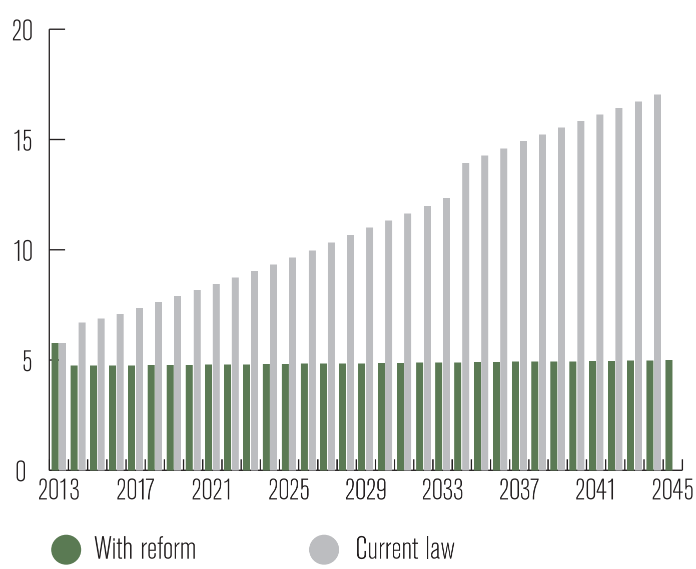
Budget Solutions 2014: Pension reform plan

Summary of the problem: Illinois has the worst-funded pension systems in the nation. The unfunded liability currently stands at more than $96 billion according to official government numbers, and that number grows by $21 million every day lawmakers fail to enact reform. The problem at the root of Illinois' pension crisis is the unmanageable, unsustainable defined benefit system.

Summary of our solution: The only way to end Illinois' pension crisis is to empower government workers by transitioning benefits for all future work to a defined contribution system. The Illinois Policy Institute's solution cuts unfunded pension debt in half and includes a defined contribution plan as the main pillar of its reforms while protecting already-earned benefits for government workers.

Illinois Policy Institute reforms cut state pension contributions by 61% during next 32 years

Contributions to TRS, SURS and SERS under current law and with reform *(in billions of dollars)*



Source: Commission on Government Forecasting and Accountability; Illinois Policy Institute.

Summary of why this works: This is the only proposal that ultimately solves Illinois' pension crisis. This plan also modernizes the state's retirement system by eliminating political control and giving government workers the secure retirement they deserve. Ultimately, these reforms restore fiscal order to the state by eliminating unsustainable pensions and unfunded liabilities. This paves the way for the economy to flourish, fostering an environment where businesses can thrive and create the jobs Illinoisans need.

Here are the plan's major outcomes:

1. Reduces fiscal year 2014 unfunded liability by $46 billion. This 46 percent reduction brings the unfunded liability down to $55 billion from $101 billion, the government's fiscal year 2014 projection.
2. Reduces fiscal year 2014 state contributions to $4.7 billion, a nearly 30 percent drop from $6.7 billion under current law.
3. Protects constitutionally guaranteed benefits already earned by retirees and current workers.
4. Empowers current workers to control their retirement savings going forward with 401(k)-style plans modeled after the existing State Universities Retirement System's 401(a) plan.
5. Reduces the state's annual pension contribution by more than $2 billion in the first year and eliminates the state's unfunded liability by 2045. Ends the irresponsible repayment ramp and instead moves to level annual payments.
6. Freezes cost-of-living adjustments until retirement systems return to healthy funding levels.
7. Aligns the retirement age with Social Security's retirement age while still protecting workers who are nearing retirement under current law.
8. Promotes accountability and fiscal responsibility by requiring local governments to pay the employer share of their employees' retirement savings plans.
9. Makes government workers' retirement savings plans portable, giving workers more flexibility and freedom to move their plan from job to job.