Illinois owes more than $56 billion for retiree health insurance

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The problem

At the end of fiscal year 2013, Illinois had accumulated more than $100 billion in state pension debt.[1] Although the General Assembly enacted Senate Bill 1 in December 2013, the bill will – at best – reduce the unfunded liability to $80 billion, roughly where it was during the pension crisis in 2011.[2-3]

But pension debt is only part of the story. Although less publicized, Illinois has also taken on billions of dollars in debt to provide health insurance to government pensioners. The state now has an unfunded liability of more than $56.4 billion for these generous health insurance benefits.[4-7]

Career retirees from state government and public universities pay little toward the cost of their health insurance. These retirees receive health insurance through the State Employees' Group Insurance Program, or SEGIP, which operates as the state's largest retiree health insurance program. Although the General Assembly gave Gov. Pat Quinn the authority to increase retirees' share of premiums in this program, the governor made only minor changes.[8-9] Taxpayers still pick up most of the tab. In fiscal year 2014, the state paid nearly $900 million for this benefit.[10]

Downstate and suburban teachers and school district employees also receive generous health insurance subsidies. Although state government covers only a third of those costs, the Teachers' Retirement Insurance Program, or TRIP, still costs the state's General Fund upward of $100 million per year.[11] Taxpayers are responsible for additional contributions made by their local school districts. The state also pays more than $4 million per year to the small but insolvent College Insurance Program, or CIP, which covers higher education employees not enrolled in SEGIP.[12] Taxpayers make additional contributions to this program through their local community colleges.

These problems are only expected to grow worse in the coming years. During the next 10 years, the total taxpayer share of the cost for these three programs is expected to grow to nearly $2.6 billion, up from $1.4 billion in 2013.[13] Within the next 30 years, the employer share of these costs is expected to top $6.6 billion, nearly five times what it was in 2013.[14]

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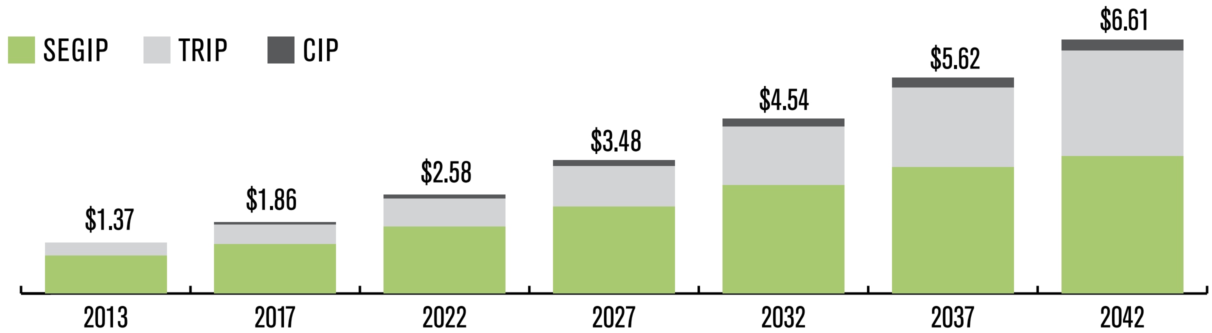
Total unfunded liability for Illinois' three retiree health insurance programs, as of June 30, 2013

	Actuarial liability	Value of assets	Unfunded liability
State Employees' Group Insurance Program	$34,488,084,739	$0	$34,488,084,739
Teachers' Retirement Insurance Program	$19,459,607,400	($80,139,000)	$19,539,746,400
College Insurance Program	$2,382,196,000	($13,238,000)	$2,395,434,000
Total	$56,329,888,139	($93,377,000)	$56,423,265,139

Source: Illinois Department of Central Management Services

Taxpayers' share of the cost for retiree health insurance expected to grow to nearly five times its current level

Expected employer claims for SEGIP, TRIP and CIP, by year (in billions $)



Source: Illinois Department of Central Management Services

The solution

In the private sector, retired workers must fund their own health insurance in retirement, with relatively few exceptions.[15] But in Illinois, state workers and university employees who currently take the generous option of retiring in their mid-50s receive full health insurance coverage at virtually no charge, with state taxpayers picking up almost the entire cost.[16]

In other states, public employees have a far different deal. On balance, government retirees pay 54 percent of their health insurance costs – still a perk far more generous than what private sector employers can afford to provide their own retired workers.[17]

Illinois could greatly reduce this growing liability if government retirees paid, on average, 54 percent of their own health insurance costs, as they do in other states. The Illinois Policy Institute has outlined a plan that would allow the state to provide means-tested health insurance benefits to public employees. Those collecting a modest retirement income would largely see their health insurance subsidies remain the same, while retired union heads or university executives collecting six-figure pensions would be required to cover their own health insurance costs.

Moving forward, the state could reduce this liability further and help remove the disincentive for workers to retire early by capping subsidies for new retirees at the supplement level and phasing out the subsidies for new hires altogether.

Additionally, the state should not be paying the employer share of insurance coverage for retirees of local school districts, universities or community colleges. By transitioning the remaining employer costs back to the local level, the state could save hundreds of millions of dollars per year.

Why this works

Although the state's $56 billion debt for retiree health insurance is little known, it is growing rapidly and crowding out resources for other state priorities. The state can greatly reduce this burden by bringing benefits more in line with those of governmental employees in other states. Moreover, legal analyses suggest that such changes are entirely permissible under state law.

It's possible to establish a new, more affordable system that's fair and still provides health insurance assistance to current and future retirees. Such steps must be taken. Illinois must reduce its retirement costs if state government hopes to remain solvent and avoid further tax hikes.

Appendix 1

The state of Illinois has been required to report the unfunded liabilities within its insurance plans since 2007. Those bi-annual estimates of health insurance liabilities continue to grow. At the end of 2007, the state estimated that its retiree health insurance debt was just under $40 billion. By the end of 2013, that debt had grown to a whopping $56 billion.

SEGIP's unfunded liability has increased by more than 44 percent since 2007

SEGIP funding status, by year

	Actuarial liability	Value of assets	Unfunded liability
2007	$23,890,383,000	$0	$23,890,383,000
2009	$27,124,060,700	$0	$27,124,060,700
2011	$33,295,353,500	$0	$33,295,353,500
2013	$34,488,084,739	$0	$34,488,084,739

Source: Illinois Department of Central Management Services

TRIP's unfunded liability has increased by more than 37 percent since 2007

TRIP funding status, by year

	Actuarial liability	Value of assets	Unfunded liability
2007	$14,284,678,100	$65,790,000	$14,218,888,100
2009	$14,931,395,700	$54,603,000	$14,876,792,700
2011	$18,860,374,900	$7,125,000	$18,853,249,900
2013	$19,459,607,400	($80,139,000)	$19,539,746,400

Source: Illinois Department of Central Management Services

CIP's unfunded liability has increased by more than 30 percent since 2007

CIP funding status, by year

	Actuarial liability	Value of assets	Unfunded liability
2007	$1,846,969,000	$9,562,000	$1,837,407,000
2009	$1,894,271,800	$1,446,000	$1,892,825,800
2011	$2,053,133,000	($19,657,000)	$2,072,790,000
2013	$2,382,196,000	($13,238,000)	$2,395,434,000

Source: Illinois Department of Central Management Services

Appendix 2

Members of five retirement systems receive retiree health insurance through SEGIP. Members of the State Employees' Retirement System, SERS, make up the largest share of those costs, with an unfunded liability of $19.8 billion. Perhaps the least-known fact about retiree health insurance, however, is that retired university employees participate in SEGIP, despite the fact that they are not state employees. Retired university employees account for $13.4 billion, or nearly 39 percent, of the program's unfunded liability.

SEGIP's unfunded liability has grown for every retirement system

Unfunded liability in SEGIP distributed by retirement system, by year

	SERS	SURS	TRS	GARS	JRS
2009	$16,495,520,700	$9,866,672,800	$414,358,000	$81,641,100	$265,868,100
2011	$19,434,472,100	$12,859,602,200	$603,084,200	$84,167,100	$314,027,900
2013	$19,807,113,900	$13,355,612,900	$904,679,039	$99,108,800	$321,570,100

Source: Illinois Department of Central Management Services; Illinois Department of Healthcare and Family Services

Another little-known fact about retiree health insurance is that the majority of the state's liabilities come from retirees that were not state employees at all. Retired teachers and university employees account for $36.2 billion, or more than 64 percent, of the state's entire unfunded liability for retiree health insurance.

Majority of state's unfunded liabilities for retiree health insurance comes from non-state employees

Unfunded liability in SEGIP, TRIP and CIP distributed by retirement system, by year

	SERS	SURS	TRS	GARS	JRS
2009	$16,495,520,700	$11,759,498,600	$15,291,150,700	$81,641,100	$265,868,100
2011	$19,434,472,100	$14,932,392,200	$19,456,334,100	$84,167,100	$314,027,900
2013	$19,807,113,900	$15,751,046,900	$20,444,425,439	$99,108,800	$321,570,100

Source: Illinois Department of Central Management Services; Illinois Department of Healthcare and Family Services

Endnotes

[1] Dan Hankiewicz, "Special pension briefing: State Retirement Systems overview," Commission on Government Forecasting and Accountability (2013), *http://cgfa.ilga.gov/Upload/1113%20SPECIAL%20PENSION%20BRIEFING.pdf*.

[2] The unfunded liability was approximately $83 billion at the end of fiscal year 2011. See, e.g., Dan Hankiewicz, "Special pension briefing: State Retirement Systems overview," Commission on Government Forecasting and Accountability (2013), *http://cgfa.ilga.gov/Upload/1113%20SPECIAL%20PENSION%20BRIEFING.pdf*.

[3] Segal Company, "Baseline projections using July 1, 2013 actuarial valuations and cost projections under PA 98-0599," Commission on Government Forecasting and Accountability (2014), *http://cgfa.ilga.gov/Upload/SEGAL_Actuarial_Analysis_PA98-0599(SB1).pdf*.

[4] Authors' calculations based upon the most recent GASB No. 43 and No. 45 actuarial valuations of the State Employees' Group Insurance Program, the Teachers' Retirement Insurance Program and the College Insurance Program.

[5] As of June 30, 2013, the unfunded liability for the State Employees' Group Insurance Program was $34.5 billion. See, e.g., Gabriel Roeder Smith & Company, "GASB No. 45 Actuarial Valuation as of June 30, 2013, for Illinois SEGIP," Illinois Department of Central Management Services (2013), *http://cgfa.ilga.gov/Upload/SEGIP_GASB45_2013_Final.pdf*.

[6] As of June 30, 2013, the unfunded liability for the Teachers' Retirement Insurance Program was $19.5 billion. See, e.g., Gabriel Roeder Smith & Company, "GASB No. 43 Actuarial Valuation as of June 30, 2013, for Illinois TRIP," Illinois Department of Central Management Services (2013), *http://cgfa.ilga.gov/Upload/TRIP_GASB45_2013_Final.pdf*.

[7] As of June 30, 2013, the unfunded liability for the College Insurance Program was $2.4 billion. See, e.g., Gabriel Roeder Smith & Company, "GASB No. 43 Actuarial Valuation as of June 30, 2013, for Illinois CIP," Illinois Department of Central Management Services (2013), *http://cgfa.ilga.gov/Upload/CIP_GASB45_2013_Final.pdf*.

[8] Public Act 97-695 (2012), *http://ilga.gov/legislation/publicacts/97/PDF/097-0695.pdf*.

[9] Jonathan Ingram, "Under Quinn's deal with AFSCME, taxpayers still pay 95 percent of retirees' health insurance costs," Illinois Policy Institute (2013), *http://illinoispolicy.org/under-quinns-deal-with-afscme-taxpayers-still-pay-95-percent-of-retirees-health-insurance-costs*.

[10] Anthony Bolton, "Fiscal year 2014 liabilities of the State Employees' Group Health Insurance Program," Commission on Government Forecasting and Accountability (2013), *http://cgfa.ilga.gov/Upload/FY2014GroupInsuranceReport.pdf*.

[11] Pat Quinn, "State of Illinois: State budget, fiscal year 2015," Governor's Office of Management and Budget (2014), *http://www2.illinois.gov/gov/budget/Documents/Budget%20Book/FY%202015%20Budget%20Book/FY%202015%20Illinois%20Operating%20Budget%20Book.pdf*.

[12] Ibid.

[13] Authors' calculations based upon the most recent GASB No. 43 and No. 45 actuarial valuations of the State Employees' Group Insurance Program, the Teachers' Retirement Insurance Program and the College Insurance Program.

[14] Ibid.

[15] Mercer, "Retiree healthcare contributions," Commission on Government Forecasting and Accountability (2011), *http://www.ilga.gov/commission/cgfa2006/Upload/2011-MAY-17MercerRetireeHealthcareContributions.pdf*.

[16] Anthony Bolton, "Fiscal year 2014 liabilities of the State Employees' Group Health Insurance Program," Commission on Government Forecasting and Accountability (2013), *http://cgfa.ilga.gov/Upload/FY2014GroupInsuranceReport.pdf*.

[17] Few small businesses offer retiree health insurance at all and many firms that do offer health insurance require employees to pay all or more of the costs. See, e.g., Mercer, "Retiree healthcare contributions," Commission on Government Forecasting and Accountability (2011), *http://www.ilga.gov/commission/cgfa2006/Upload/2011-MAY-17MercerRetireeHealthcareContributions.pdf*.