

# What's driving Illinois' \$111 billion pension crisis: Retirement ages, COLAs and out-of-sync pension payouts



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# Executive summary

**Since the Illinois Supreme Court** ruled in its May 2015 decision on Senate Bill 1 that pensions for current government workers can't be modified, debate over pension reform has faded from view.

But ignoring the problem won't make it go away. In 2015, Illinois' state pension debt reached a record \$111 billion. Government-worker pensions already consume one-fourth of the state's budget. And every day Illinois goes without a solution to its pension crisis, the state's pension debt grows by over \$20 million.

The state's pension crisis threatens to burden taxpayers with massive, ever-escalating taxes to bail out a system that is simply not sustainable.

And while politicians' underfunding the pension systems has aggravated the crisis, that's not the main driver. The bigger problem facing Illinois' five state-run pension funds is the unaffordable pension benefits politicians have given away to government workers and government unions over the past several decades.

The generous rules on retirement ages, cost-of-living adjustments, or COLAs, and employee contributions that are out of sync with their pension benefits have caused pension benefits to grow by more than 900 percent since 1987.

Some of the biggest drivers include the following facts:

- 60 percent of state pensioners retired in their 50s, many with full pension benefits.
- Over half of state pensioners will receive \$1 million or more in pension benefits over the course of their retirements. Nearly 1 in 5 will receive over \$2 million in benefits.
- Almost 60 percent of all current state pensioners can expect to spend 25 or more years collecting benefits, based on approximate actuarial life expectancies. Due to automatic, 3 percent compounded COLA benefits, those pensioners can expect to see their annual pension benefits double in size.
- The average career pensioner – retired after Jan. 1, 2013, with 30 years of service or more – receives \$66,800 in annual pension benefits and will collect over \$2 million in total benefits over the course of retirement.
- The average career pensioner will get back his or her employee contributions after just two years in retirement. In all, pensioners' direct employee contributions will only equal 6 percent of what they will receive in benefits over the course of their retirements.

### Pension benefits of recently retired, career pensioners\* in Illinois

Pension fund	Average current pension	Average age at retirement	Average employee contribution	Average total pension payout**	Average total contribution vs. lifetime payouts
TRS	\$73,300	59	\$153,900	\$2.2 million	7%
SERS	\$50,000	59	\$63,000	\$1.6 million	4%
SURS	\$71,600	58	\$145,200	\$2.3 million	7%
JRS	\$174,600	70	\$196,700	\$2.9 million	7%
GARS	\$134,400	67	\$187,900	\$2.1 million	10%
<b>Average</b>	<b>\$66,800</b>	<b>59</b>	<b>\$128,000</b>	<b>\$2.1 million</b>	<b>6%</b>

Source: Pensioner data obtained from the 5 state-run pension systems pursuant to a 2015 FOIA request

\*Retired since Jan. 1, 2013 (GARS and JRS since Jan. 1, 2008), with 30 years' creditable service

\*\*"Average total pension payout" is based on approximate life expectancies from Social Security's available actuarial life tables. Current ages as of 2015 were used to determine pensioners' life expectancies.

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The generous retirement benefits pensioners receive are fundamentally unfair to the taxpayers who are forced to pay for them. Private-sector workers are expected to fund the pensions of state pensioners who can retire and draw benefits in their 50s, who can receive annual pension boosts that can double their pension benefits over the course of their retirements, and who get back what they contributed to pensions after only two years in retirement.

And while the teachers, state employees, university workers, judges and lawmakers of the state's five pension funds have done nothing wrong in receiving these benefits, it's clear that politicians made promises they couldn't keep – promises Illinois taxpayers could not afford to fund.

Illinois needs to begin moving away from its broken pension systems – starting by moving new government workers to 401(k)-style plans and giving existing workers the option to have their own self-managed accounts.

Doing that, in addition to enacting a constitutional amendment allowing Illinois to reform pension benefits going forward, is an important first step in fixing Illinois' government-worker pensions.

# State-worker retirement ages

## Overview

A majority of state workers in Illinois retire and begin collecting pension benefits in their 50s, well before their private-sector peers. In all, 60 percent of current state pensioners retired in their 50s, many receiving full pension benefits. Conversely, most private-sector workers retire in their early 60s, and many don't plan to retire until after they turn 65.

This early-retirement benefit is one of the reasons why Illinois' five state-run pension funds are in dire straits, with a record-high pension debt of \$111 billion in 2015.<sup>1</sup>

Within each state retirement system:

- 69 percent of Teachers' Retirement System's, or TRS's, more than 103,700 current pensioners began collecting benefits in their 50s.
- 52 percent of State Employees' Retirement System's, or SERS's, more than 55,600 current pensioners began collecting benefits in their 50s.
- 50 percent of State Universities Retirement System's, or SURS's, more than 52,600 current pensioners began collecting benefits in their 50s.
- 36 percent of Judges' Retirement System's, or JRS's, more than 800 current pensioners began collecting benefits in their 50s.
- 54 percent of the General Assembly Retirement System's, or GARS's, more than 300 current pensioners began collecting benefits in their 50s.

Due to a combination of workers retiring in their 50s, longer life expectancies, and generous cost-of-living, or COLA, increases, not only will a majority of state pensioners live to see their annual pension benefits double in size during their retirements, but they'll also spend more years in retirement than they did working for the state. The combination of retiring early and living longer results in the average state pensioner's spending 24 years working for the government but expecting to spend approximately 26 years drawing pension benefits.

In fact, nearly 1 of 5 state pensioners will receive over \$2 million dollars in lifetime pension benefits, and over half of pensioners will receive \$1 million or more – amounts far larger than what the average private-sector employee can ever hope to receive from Social Security.

These generous retirement benefits are fundamentally unfair to Illinois taxpayers. Private-sector workers – many of whom expect to delay their own retirements into their late 60s<sup>2</sup> – are expected to fund the pensions of state pensioners who can retire and draw benefits an entire decade before private-sector workers do.

And while the teachers, state employees, university workers, judges and lawmakers of the state's five pension funds have done nothing wrong in receiving such benefits, it's clear that the early-retirement benefit is no longer fair or affordable for Illinois taxpayers.

The only real solution is for Illinois to reform its state pension system – starting with enacting a constitutional amendment allowing Illinois to reform pension benefits going forward, moving new government workers to 401(k)-style plans and giving existing workers the option to have their own self-managed accounts.

## Government-worker retirement ages

Illinois provides retirement benefits to more than 213,000 government workers who participate in the five state-run pension systems.

### Illinois state pension systems' membership information

System	Included workers	Current number of retirees
Teachers' Retirement System	Local teachers and other school district administrative staff, excluding those employed by Chicago School District 299	103,700
State Employees' Retirement System	Employees of various state-level government offices and departments	55,601
State Universities Retirement System	Professors, teachers, administrators, and many service and clerical workers employed in public universities, community colleges and other higher-education-related state agencies	52,662
Judges' Retirement System	Judges and associate judges of the Illinois court system	802
General Assembly Retirement System	Members of the Illinois General Assembly and elected executive state officials.	308

Source: Comprehensive Annual Financial Reports of the five state pension systems, 2014

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According to detailed member data from all five state pension funds, 60 percent of all current state pensioners retired and began to draw benefits in their 50s.

### In Illinois, 60% of state pensioners began drawing benefits in their 50s

Approximate ages at which state workers retired

Age at retirement	All state pensioners	% of total	Cumulative % of total
<50	2,499	1%	1%
50-55	41,421	19%	21%
55-59	83,244	39%	60%
60-64	62,605	29%	89%
65-70	18,522	9%	98%
>70	4,781	2%	100%
	<b>213,072</b>		

Source: Pensioner data obtained from the 5 state-run pension systems pursuant to a 2015 FOIA request

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Despite their relatively young ages at retirement, those state pensioners also receive generous annual pensions. The average annual pension payment for a state worker who retired in his or her 50s is \$50,000 a year. In all, such state pensioners can expect to receive nearly \$1.5 million in lifetime pension benefits. However, those benefits are skewed downward by employees who did not work full careers in government.

The average pension benefits for recently retired, career state workers – defined in this report as pensioners who retired as of Jan. 1, 2013, with 30 years of service – provide a more accurate look at what Illinois' state pensioners can receive. On average, career state pensioners who retired at age 59 currently receive \$66,800 in annual pension benefits and will collect over \$2 million in total benefits over their lifetimes.

In all, 53 percent of the over 213,000 state pensioners in Illinois can expect to receive lifetime pension benefits of more than \$1 million. Almost 40,000 (18 percent of all pensioners) will receive \$2 million or more in benefits.

### **Government-worker vs. private-sector retirements**

The retirement experience for the average private-sector worker is quite different.

The average annual Social Security payment for a current private-sector retiree is only \$15,936, and the average retiree will receive approximately \$400,000 in lifetime retirement benefits from Social Security, assuming that person starts drawing benefits at 64, has a life expectancy of about 21 years, and has an average annual COLA of 1.2 percent (the average annual Social Security COLA granted over the past seven years).<sup>3</sup>

And the disparity between the retirements of public- and private-sector workers doesn't end there.

The combination of retiring early and living longer results in the average state pensioner's spending 24 years working for the government but expecting to spend approximately 26 years drawing pension benefits.<sup>4</sup>

And while that doesn't apply to all workers – some employees work for the state for only a few years later in their careers, for example – the fact remains that the average state pensioner will likely spend about the same number of years drawing pension benefits as he or she did working for the state.

By contrast, most private-sector workers won't get to spend equal parts of their lives working and in retirement.

Americans in the private sector have had to accept a reality in which they retire later and are not able to fully leave the workforce even while receiving benefits.

The average U.S retirement age has risen to 62 – but many private-sector workers don't see themselves retiring at that age.<sup>5</sup> According to a 2015 Gallup poll, 37 percent of current workers expect to retire after age 65. That's nearly three times more than the 14 percent of workers who said the same in 1995.<sup>6</sup>

It's important to note that just because a private-sector worker retires, that does not mean he or she will begin drawing benefits from Social Security. Some private-sector workers retire in their early 60s but rely on savings or private retirement accounts until they can begin collecting full benefits from Social Security at age 66 or 67.

And while drawing Social Security benefits, many private-sector workers have to continue working in retirement to supplement their incomes. A poll from the Associated Press found that 59 percent of working Americans age 50 or older say it is at least somewhat likely they will work during retirement.<sup>7</sup>

### The results of government workers retiring early and living longer

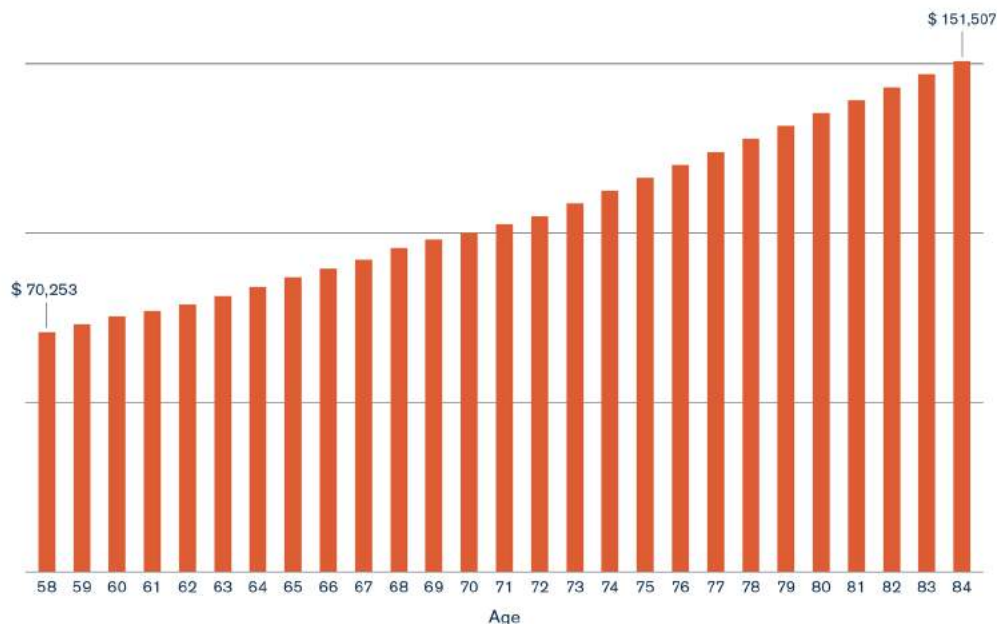
The longer time during which state workers collect pension benefits also imposes a growing financial burden on the state pension systems, in part due to the pension-boosting, annual, 3 percent compounded COLAs that all state pensioners receive automatically.

The 3 percent COLA allows a pensioner's annual pension benefits to double in just 25 years. Today, thanks to the ability to retire in their 50s and increasing life expectancies, almost 60 percent of all current state pensioners can expect to spend 25 or more years collecting benefits and will live to see their annual pension benefits double in size over the course of their retirements.

For an example of how retiring before age 60 and COLAs boost pension benefits, take a look at an average, recently retired, career university employee (retired since Jan. 1, 2013, with 30 years of service or more). Taking advantage of the state's generous retirement-age rules, the university worker began collecting benefits at age 58 and received a starting pension of \$70,253.

By the time that university worker reaches her approximate life expectancy of 84, her annual pension will have more than doubled to \$151,507 a year.

**Annual pensions of recently retired SURS members will more than double over the course of their retirement**  
With retirement in 50s, 3% compounded COLA will double annual pension benefit in 25 years



Source: Pensioner data obtained from SURS pursuant to a 2015 FOIA request. Social Security Administration actuarial data.  
Note: Life expectancy is a general approximation based on Social Security's 2011 Actuarial Life Table. Current ages as of 2015 were used to determine pensioners' life expectancies.

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In all, the average, career university-worker pensioner in this example will collect more than \$2.8 million in pension benefits over her lifetime – all due to collecting benefits in her 50s combined with her automatic, 3 percent COLA increase.

And it's not just retired university workers who become millionaire pensioners due to generous pension rules. A similar combination of early retirement and multimillion-dollar lifetime pension benefits occurs across Illinois' state-run systems.

## Teachers' Retirement System

There are more than 103,700 current pensioners in TRS – Illinois' largest state pension fund. TRS members include Illinois' local teachers and other school district administrative staff, excluding those employed by Chicago School District 299.

Almost 70 percent of TRS's current pensioners began collecting benefits in their 50s. The pensioners who retired that early currently receive average annual pension benefits of \$57,086 and will end up collecting more than \$1.5 million in average lifetime pension benefits.

### 69% of TRS pensioners began collecting benefits in their 50s

Approximate ages at which TRS members retired

Age at retirement	TRS pensioners	% of total	Cumulative % of total
< 50	325	0%	0%
50 - 55	20,540	20%	20%
55 - 59	50,805	49%	69%
60 - 64	26,276	25%	94%
65 - 70	4,958	5%	99%
> 70	796	1%	100%
	<b>103,700</b>		

Source: Pensioner data obtained from TRS pursuant to a 2015 FOIA request

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The pension benefits that career TRS pensioners – of any retirement age – receive are even larger. The average recently retired, career teacher (retired since Jan. 1, 2013, with 30 years of service or more) retired at age 59, currently receives \$73,300 in annual pension benefits, and can expect to receive over \$2.2 million in lifetime benefits.

## State Employees' Retirement System

There are more than 55,600 current retirees in SERS. SERS members include employees of various state-level government offices and departments. Most employees in SERS are also enrolled in Social Security.

Over 50 percent of SERS's current pensioners began collecting benefits in their 50s. The pensioners who retired that early currently receive average annual pension benefits of \$43,533. The average annual pension received by such members is relatively low due to the fact that a majority of SERS retirees also receive Social Security benefits. However, such members will still end up collecting almost \$1.5 million in lifetime pension benefits.

### 52% of SERS pensioners began collecting benefits in their 50s

Approximate ages at which SERS members retired

Age at retirement	SERS pensioners	% of total	Cumulative % of total
<50	1,505	3%	3%
50-55	11,789	21%	24%
55-59	15,475	28%	52%
60-64	18,505	33%	85%
65-70	6,675	12%	97%
>70	1,652	3%	100%
	<b>55,601</b>		

Source: Pensioner data obtained from SERS pursuant to a 2015 FOIA request

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The pension benefits that career SERS retirees – of any retirement age – receive are even larger. The average recently retired, career state employee (retired since Jan. 1, 2013, with 30 years of service or more) retired at age 59, currently receives \$50,000 in annual pension benefits, and can expect to receive over \$1.6 million in lifetime benefits over and above what he or she will receive from Social Security.

## State Universities Retirement System

There are more than 52,600 current retirees in SURS. SURS members include professors, teachers, administrators, and many service and clerical workers employed in public universities, community colleges and other higher-education-related state agencies.

Fifty percent of SURS's current pensioners began collecting benefits in their 50s. The pensioners who retired that early currently receive average annual pension benefits of \$39,442. The average pension received by such SURS members is relatively low due to the fewer years of service those members completed compared with SERS and TRS pensioners. The average years of service completed for a SURS member retiring in his or her 50s is only 20 years, while SERS and TRS members' years of service average closer to 30. However, SURS members who retired in their 50s will still end up collecting more than \$1.2 million in lifetime pension benefits.

### 50 % of SURS pensioners began collecting benefits in their 50s

Approximate ages at which SURS members retired

Age at retirement	SURS pensioners	% of total	Cumulative % of total
<50	669	1%	1%
50-55	9,041	17%	18%
55-59	16,563	31%	50%
60-64	17,448	33%	83%
65-70	6,707	13%	96%
>70	2,233	4%	100%
	<b>52,661</b>		

Source: Pensioner data obtained from SURS pursuant to a 2015 FOIA request

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The pension benefits that career SURS pensioners – of any retirement age – receive are far larger than the benefits of SURS workers who retired in their 50s. The average, recently retired, career university worker (retired since Jan. 1, 2013, with 30 years of service or more) retired at age 58, currently receives \$71,600 in annual pension benefits, and can expect to receive nearly \$2.3 million in lifetime benefits.

## Judges' Retirement System

There are more than 800 current pensioners in JRS. Members include judges and associate judges of the Illinois court system. Members of JRS can retire at age 60 with 10 years of service and still draw 35 percent of their final average salaries.

Over 35 percent of JRS's current pensioners began collecting benefits in their 50s. The pensioners who retired that early currently receive average annual pension benefits of \$126,000 and will end up collecting more than \$3.5 million in lifetime pension benefits.

### 36% of JRS pensioners began collecting benefits in their 50s

Approximate ages at which JRS members retired

Age at retirement	JRS retirees	% of total	Cumulative % of total
<50	0	0%	0%
50-55	13	2%	2%
55-59	273	34%	36%
60-64	304	38%	74%
65-70	134	17%	90%
>70	78	10%	100%
	<b>802</b>		

Source: Pensioner data obtained from JRS pursuant to a 2015 FOIA request

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The pension benefits that career JRS pensioners – of any retirement age – receive are even larger. The average, recently retired, career judge (retired since Jan. 1, 2008, with 30 years of service or more) retired at age 70, currently receives \$174,600 in annual pension benefits, and can expect to receive nearly \$2.9 million in lifetime benefits.

## General Assembly Retirement System

There are more than 300 current pensioners in GARS. GARS members include members of the Illinois General Assembly and other elected executive state officials.

Over 50 percent of GARS's current pensioners began collecting benefits in their 50s. The pensioners who retired that early currently receive average annual pension benefits of \$58,639 and will end up collecting almost \$1.6 million in lifetime pension benefits.

### 54% of GARS pensioners began collecting benefits in their 50s

Approximate ages at which GARS members retired

Age at retirement	GARS pensioners	% of total	Cumulative % of total
<50	0	0%	0%
50-55	38	12%	12%
55-59	128	42%	54%
60-64	72	23%	77%
65-70	48	16%	93%
>70	22	7%	100%
	308		

Source: Pensioner data obtained from GARS pursuant to a 2015 FOIA request

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The pension benefits that career GARS retirees – of any retirement age – receive are even larger. The average, recently retired, career lawmaker (retired since Jan. 1, 2008, with 30 years of service or more) retired at age 66, currently receives \$134,400 in annual pension benefits, and can expect to receive \$2.1 million in lifetime benefits.

### Reforming benefits is a necessity

The pension benefits that politicians have granted government workers have resulted in a retirement system that is simply unfair to the taxpayers who pay for it.

Private-sector workers are expected to pay for the retirement of state pensioners who retire a decade earlier than those in the private sector and still receive million-dollar lifetime pension payouts.

Teachers, state employees, university workers, judges and lawmakers of the state's five pension funds have done nothing wrong, but it's clear that Illinois' early-retirement benefit is no longer fair or affordable for Illinois taxpayers.

Illinois needs to end those benefits going forward – starting by moving new government workers onto 401(k)-style plans and giving existing workers the option to choose their own self-managed accounts.<sup>8</sup>

Doing that, in addition to enacting a constitutional amendment allowing Illinois to reform the future pension benefits of current workers, is an important first step in fixing Illinois' government-worker pensions.<sup>9</sup>

## Appendix

**Selected list of average recently retired career workers from TRS, SURS and SERS pension systems who retired in their 50s\***

Pension system	Name	Current annual pension	Approximate age at retirement	Expected total years in retirement	Estimated total lifetime pension benefits
TRS	Wilson, Robert V.	\$73,846	56	24	\$2,220,123
TRS	Snell, Shirley V.	\$73,375	59	25	\$2,452,644
TRS	Gencev, Kosana	\$73,283	59	25	\$2,360,612
TRS	Krupka, Kamille K.	\$73,148	55	28	\$2,657,509
TRS	Torres, Diane M.	\$73,063	58	25	\$2,472,708
SURS	Barling, Connie	\$73,633	55	28	\$3,013,865
SURS	Berbert, Kirk	\$72,766	58	22	\$2,234,646
SURS	Lifonti, Eugene	\$72,708	54	25	\$2,682,477
SURS	Minor, Cindy	\$71,609	57	26	\$2,763,489
SURS	Simmons, Rosemary	\$71,546	54	29	\$3,163,247
SERS	Jansz, Michelle R.	\$73,846	53	29	\$2,331,432
SERS	Ryan, Donna S.	\$73,375	55	28	\$2,013,284
SERS	Cummins, John R.	\$73,283	55	25	\$1,792,065
SERS	Hughes, Edward E.	\$73,148	53	26	\$1,950,563
SERS	Rossiter, Jan C.	\$73,063	59	24	\$1,741,806

Source: Pensioner data obtained from state pension systems pursuant to a 2015 FOIA request, Social Security Administration actuarial data

Note: "Expected total years in retirement" is a general approximation and is based on Social Security's 2011 Actuarial Life Table. Current ages as of 2015 were used to determine pensioners' life expectancies.

\*Retired since Jan. 1, 2013, with 30 years of service or more. JRS and GARS are not included, as they do not contain enough members who meet that criteria.

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<sup>1</sup> Commission on Government Forecasting and Accountability, *Special Pension Briefing* (November 2015), <http://cgfa.ilga.gov/Upload/1115%20SPECIAL%20PENSION%20BRIEFING.pdf>.

<sup>2</sup> Rebecca Riffkin, "Americans Settling on Older Retirement Age," *Gallup*, April 29, 2015, <http://www.gallup.com/poll/182939/americans-settling-older-retirement-age.aspx>.

<sup>3</sup> Social Security Administration, "2015 Social Security Changes," <https://www.ssa.gov/news/press/factsheets/colafacts2015.html>.

<sup>4</sup> Life expectancy is a general approximation based on the Social Security Administration's 2011 Actuarial Life Table. Current ages as of 2015 were used to determine pensioners' life expectancies. <https://www.ssa.gov/oact/STATS/table4c6.html>.

<sup>5</sup> Rebecca Riffkin, "Average U.S. Retirement Age Rises to 62," *Gallup*, April 28, 2014, <http://www.gallup.com/poll/168707/average-retirement-age-rises.aspx>.

<sup>6</sup> Riffkin, <http://www.gallup.com/poll/182939/americans-settling-older-retirement-age.aspx>.

<sup>7</sup> "Working Longer: Older Americans' Attitudes on Work and Retirement," *Associated Press-NORC Center for Public Affairs Research*, [http://www.apnorc.org/PDFs/Working%20Longer/AP-NORC%202013\\_Working%20Longer%20Poll\\_Topline\\_FINAL.pdf](http://www.apnorc.org/PDFs/Working%20Longer/AP-NORC%202013_Working%20Longer%20Poll_Topline_FINAL.pdf).

<sup>8</sup> John Klingner, "Real, Reasonable Pension Reform: 401(k)-Style Plans for New Workers," *Illinois Policy Institute* (July 9, 2014), <https://www.illinoispolicy.org/real-reasonable-pension-reform-401k-style-plans-for-new-state-workers/>.

<sup>9</sup> Ted Dabrowski, "7 Pension Reforms that Illinois Can Still Enact Despite the SB1 Ruling," *Illinois Policy Institute* (November 6, 2015), <https://www.illinoispolicy.org/7-pension-reforms-that-illinois-can-still-enact-despite-the-sb1-ruling/>.

# COLAs are the biggest driver of unsustainable pension costs in Illinois

Illinois state pensioners get 3 percent, automatic cost-of-living adjustments, or COLAs, each year. That benefit allows retirees' pensions to double in just 25 years.

In all, almost 60 percent of all current state pensioners can expect to spend 25 or more years collecting benefits and to see their annual pension benefits double in size. And state pensioners' COLA benefits are not means-tested, meaning that six-figure pensioners also receive COLA increases. There are over 12,000 state pensioners who currently receive more than \$100,000 in pension benefits – three times more than the maximum allowed Social Security benefit – yet those retirees receive the same automatic COLA that all other state pensioners do.<sup>1</sup>

COLAs are imposing a growing financial burden on Illinois' state pension systems due to the fact that state workers are living longer and are collecting pension benefits for longer periods of time than in the past. This perk is the biggest cost driver behind the state's ever-growing pension crisis, which reached \$111 billion in 2015, a record high.

- Automatic COLAs end up boosting the lifetime pensions of the average, recently retired, career state worker (retired since Jan. 1, 2013, with 30 years of service) by over \$750,000.
- Almost 60 percent of state pensioners can expect to see their annual pension benefit double in size, based on approximate life expectancies.
- COLAs will cost the state pension systems approximately \$270 million (excluding the COLA costs of nonregular retirees such as disabled and survivor annuitants, etc.) in 2016 alone.

This is fundamentally unfair to Illinois taxpayers. Most private-sector retirees rely on their 401(k) retirement funds, which don't provide COLAs, and Social Security, which provides far smaller annual benefits and limited annual COLA increases based on the rate of inflation.

Despite that, private-sector workers are expected to fund the pensions of state pensioners, many of whom will live to see their annual benefits double in size over the course of their retirements thanks to COLA increases. Proponents of COLAs argue this benefit is necessary to protect pensioners who receive meager pensions. But six-figure pensioners receive COLAs, too. It's time to means-test this benefit, which will help stabilize Illinois' flailing defined-benefit pension systems.

Beyond means-testing the COLA benefits, Illinois must also fundamentally reform the pension systems themselves. The state should start by enacting a constitutional amendment allowing pension benefits to be reformed going forward, moving new government workers onto 401(k)-style plans, and giving existing workers the option to have their own self-managed accounts.



## PUBLIC VS. PRIVATE-SECTOR COLAS

### Illinois state pensions

Illinois provides retirement benefits to more than 213,000 government pensioners participating in the five state-run pension systems. As a benefit, the systems provide pensioners with an automatic COLA that increases their annual pension benefits every year. Illinois' COLAs are:

- Annual – Retiree pensions increase each year by 3 percent.
- Automatic – Pensions grow automatically each year regardless of the size of a retiree's pension or the actual rate of inflation.
- Compounded – Each year the 3 percent increase is applied to the previous year's pension total, meaning the pension builds upon itself every year.

As an additional rule, pensioners in the Teachers' Retirement System, or TRS, and General Assembly Retirement System, or GARS, cannot receive COLA increases to their annual pension benefits until they reach ages 61 and 60, respectively. However, pensioners in the State Employees' Retirement System, or SERS, State Universities Retirement System, or SURS, and Judges' Retirement System, or JRS, receive annual COLA increases regardless of their ages.<sup>2</sup>

#### Illinois state pension systems' membership information

Approximate ages at which state workers retired

System	Included workers	Current number of retirees	Cost-of-living adjustment rules for Tier 1 retirees
Teachers' Retirement System	Local teachers and other school district administrative staff, excluding those employed by Chicago School District 299	103,700	3% compounded annually,* begins at age 61
State Employees' Retirement System	Employees of various state-level government offices and departments	55,601	3% compounded annually, begins at retirement
State Universities Retirement System	Professors, teachers, administrators, and many service and clerical workers employed in public universities, community colleges and other higher-education-related state agencies	52,662	3% compounded annually, begins at retirement
Judges' Retirement System	Judges and associate judges of the Illinois court system	802	3% compounded annually, begins at retirement
General Assembly Retirement System	Members of the Illinois General Assembly and elected executive state officials	308	3% compounded annually,* begins at age 60

\*Special COLA rules apply for benefits received before 1990 in TRS and for pensioners who joined GARS before 2003. These rules affect only a small number of pensioners.

Source: 2014 Comprehensive Annual Financial Reports of the 5 state pension systems

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COLAs are imposing a growing financial burden on the state pension systems due to the fact that state workers are living longer and are collecting pension benefits for longer periods of time than in the past.

The 3 percent COLA benefit allows a pensioner's annual pension benefits to double in just 25 years. Today, thanks to the ability to retire in their 50s and increasing life expectancies, almost 60 percent of all current state pensioners can expect to spend 25 or more years collecting benefits and will live to see their annual pension benefits double in size over the course of their retirements.

That doubling of annual pension benefits due to COLAs will result in many state pensioners receiving million- or multimillion-dollar pension payouts over their retirements. The average state pensioner (including pensioners who only worked a few years for the state) currently receives \$44,600 in annual pension benefits and will collect \$1.2 million in lifetime benefits.

COLAs have an even bigger impact on the average pension benefits of recently retired, career state workers (retired since Jan. 1, 2013, with 30 years of service). On average, the career state pensioner currently receives \$66,800 in annual pension benefits and will collect over \$2 million in total benefits over his or her lifetime.

In all, 53 percent of the over 213,000 state pensioners in Illinois can expect to receive lifetime pension benefits of more than \$1 million. Almost 40,000 (18 percent of all pensioners) will receive \$2 million or more in benefits.

### **COLAs in the private sector**

The COLA benefits granted to the average private-sector worker are quite different compared with those of Illinois' state pensioners.

Private-sector workers with private retirement accounts don't receive automatic COLAs – their annual retirement benefits are entirely based on what was contributed to their accounts and what they earned on investments over the course of their careers. Other private-sector retirees rely on Social Security to provide, in whole or in part, for their retirement.

The average annual Social Security payment for current private-sector retirees in 2015 was only \$15,936,<sup>3</sup> and the average retiree will receive approximately only \$400,000 in lifetime retirement benefits from Social Security.<sup>4</sup> Social Security's COLA increases are based on the rate of inflation. That means that in years of low or negative inflation – such as in 2009, 2010, 2015 and now in 2016 – Social Security beneficiaries receive no annual increases to their retirement benefits.<sup>5</sup>

By contrast, Illinois' state pensioners receive their 3 percent COLAs every year, regardless of the rate of inflation or the desperate financial state of Illinois' pension systems.



## HOW COLAS BOOST PENSIONS UNSUSTAINABLY

The 3 percent COLA boosted the average Illinois state pensioner's \$44,600 pension benefit by \$1,338 in 2015. The average, recently retired career worker's boost was even higher, increasing his or her \$66,800 annual pension by almost \$2,000. And for the state's biggest pensioners, COLAs can increase pension benefits by \$10,000 a year or more.

For example, take a look at the most highly compensated pensioner in the state, Leslie Heffez. Heffez, a retired SURS employee, received \$548,000 in annual pension benefits in 2015. Assuming a current life expectancy of 81 years, he'll draw nearly \$18 million in pension benefits over the course of retirement.

Moreover, Heffez received a COLA of \$16,436 in 2015, more than the average annual benefit a retiree receives from Social Security. That means Heffez's pension *increase* was larger than an average American's annual payment from Social Security.

**COLA benefits of the top 10 state pensioners in Illinois**

Name	Current annual pension	Annual COLA benefit
Heffez, Leslie	\$547,862	\$16,436
Das Gupta, Tapas	\$466,409	\$13,992
Abraham, Edward	\$453,164	\$13,595
Guenther, Ronald	\$445,937	\$13,378
Maggs, Peter	\$414,871	\$12,446
Flaherty, Joseph	\$408,417	\$12,253
Mafee, Mahmood	\$404,463	\$12,134
Stukel, James	\$379,213	\$11,376
Abcarian, Herand	\$370,140	\$11,104
Albrecht, Ronald	\$368,742	\$11,062

Source: Pensioner data obtained from the 5 state pension funds pursuant to a FOIA request  
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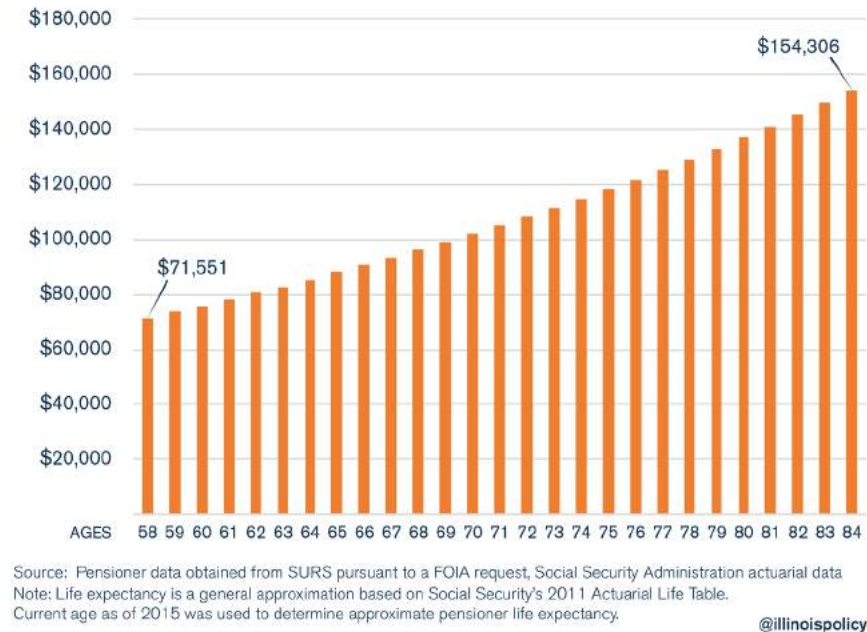
And while Leslie Heffez is by far the top pensioner in the state, he's not the only state pensioner who receives five- and high-four-figure COLA increases. In all, over 11,465 current state pensioners received COLA increases worth over \$3,000 in 2015.

Examining the lifetime benefits of a recently retired, career university pensioner (retired since Jan. 1, 2013, with 30 years of service or more) can help convey exactly how COLAs drive up pensions.

Betty Pilchard, who retired from Heartland Community College in 2014, is a good example of such a pensioner. She retired at age 58 and received a starting annual pension benefit of \$71,551.

By the time Pilchard reaches her approximate life expectancy of 84, her annual pension will have increased to \$154,306 a year. This is because the 3 percent COLA she receives every year causes her original \$71,551 annual benefit to build upon itself, doubling her benefit in 25 years, to \$145,448 by the time she reaches age 82.

**Average career SURS member Betty Pilchard's annual pension benefit will more than double over the course of her retirement**

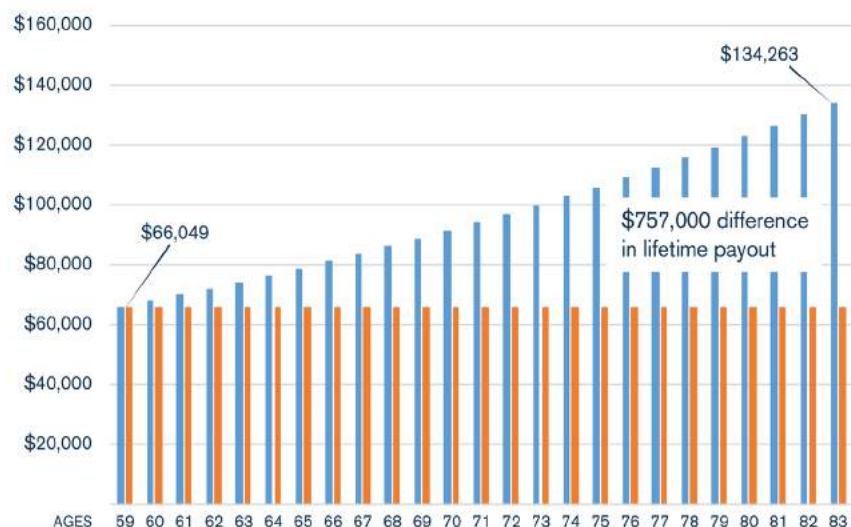


In all, Betty Pilchard will collect more than \$2.9 million in pension benefits over her lifetime – largely due to the automatic, 3 percent COLA increase and being able to retire in her 50s. Without an annual COLA increase, Pilchard would receive \$1.9 million in lifetime benefits, so COLAs end up boosting her lifetime pension benefits by \$1 million.

Overall, automatic COLAs end up raising the lifetime pensions of the average, recently retired, career state worker (retired since Jan. 1, 2013, with 30 years of service) by over \$750,000. Instead of receiving \$1.65 million in lifetime benefits, the average career state worker who spends 25 years in retirement will receive over \$2.4 million in overall benefits due to the boost COLAs provide.

**COLAs boost the total lifetime benefits of a career state worker by over \$750,000**

Annual projected pension benefits for the average, recently retired, career state worker who spends 25 years in retirement, with and without 3 percent compounded COLA benefit



## REFORMING BENEFITS IS A NECESSITY

The pension benefits that politicians have granted government workers have resulted in a retirement system that is simply unfair and unaffordable for the taxpayers who pay for those workers' retirements.

The 3 percent, automatic compounded COLAs are a particularly expensive benefit. This allows the pensions of retirees to double in just 25 years, causing Illinois pension costs to grow unsustainably. Overall, the COLA benefit costs the state pension systems approximately \$270 million (excluding the COLA costs of nonregular retirees such as disabled and survivor annuitants, etc.) in 2016 alone – the approximate amount it took to boost current pensioners' 2015 benefits by 3 percent.

Even those in charge of the pension systems – Dick Ingram, the head of TRS, for example – have recognized the financial damage that overgenerous benefits such as COLAs have done to the state pension funds: “What we’re saying is that [the unfunded liability] is so bad ... that you have to start having those conversations,” Ingram told the Springfield State Journal-Register. “The reality is that if you look at the pension math, the single biggest cost is the COLA.”<sup>6</sup>

This is fundamentally unfair to Illinois taxpayers, many of whom rely solely on Social Security – which provides far smaller annual benefits and limited annual COLA increases.

While the teachers, state employees, university workers, judges and lawmakers of the state's five pension funds have done nothing wrong in receiving such benefits, it's clear that those benefits cannot be provided by Illinois taxpayers to new state workers.

Suspending COLAs until Illinois' pension systems return to full health would allow the state to reduce its pension debt by nearly one-third. But if COLAs must remain part of the pension system in some form, they should be means-tested. That means restricting COLA benefits to pensioners who need it, such as state pensioners who spent a career in public service and have limited annual pensions.

Beyond means-testing the COLA benefits, Illinois needs to begin a transition away from its broken pension systems – starting by moving new government workers to 401(k)-style plans and giving existing workers the option to have their own self-managed accounts.<sup>7</sup>

Making these changes, in addition to adopting a constitutional amendment allowing Illinois to reform pension benefits going forward, is an important first step in fixing Illinois' government-worker pensions.<sup>8</sup>

## APPENDIX A

Top 10 pensioners from each of the 5 state pension systems and their annual COLA benefits

Pension system	Name	Current annual pension	2015 COLA benefit
TRS	Wyllie, Lawrence A.	\$302,991	\$9,090
TRS	Bangser, Henry S.	\$294,524	\$8,836
TRS	Catalani, Gary T.	\$293,214	\$8,796
TRS	Murray, Laura L.	\$288,472	\$8,654
TRS	Curley, Mary M.	\$280,172	\$8,405
TRS	Gmitro, Henry A.	\$273,573	\$8,207
TRS	Weaver, Reginald L.	\$273,113	\$8,193
TRS	Hager, Maureen L.	\$271,653	\$8,150
TRS	May, Loren D.	\$267,838	\$8,035
TRS	Hintz, James S.	\$264,280	\$7,928
SURS	Hefez, Leslie	\$547,862	\$16,436
SURS	Das Gupta, Tapas	\$466,409	\$13,992
SURS	Abraham, Edward	\$453,164	\$13,595
SURS	Guenther, Ronald	\$445,937	\$13,378
SURS	Maggs, Peter	\$414,871	\$12,446
SURS	Flaherty, Joseph	\$408,417	\$12,253
SURS	Mafee, Mahmood	\$404,463	\$12,134
SURS	Stukel, James	\$379,213	\$11,376
SURS	Abcarian, Herand	\$370,140	\$11,104
SURS	Albrecht, Ronald	\$368,742	\$11,062
SERS	Parwatikar, Sadashiv D.	\$201,575	\$6,047
SERS	Modir, Kamal	\$182,193	\$5,466
SERS	Vallabhaneni, Nageswararao	\$155,418	\$4,663
SERS	Baig, Mirza S.	\$152,467	\$4,574
SERS	Kadkhodaian, Hooshmand	\$149,024	\$4,471
SERS	Hartman, Edith D.	\$148,451	\$4,454
SERS	Lofton, John H.	\$146,454	\$4,394
SERS	Lee, Choong H.	\$142,873	\$4,286
SERS	Patwari, Rajani G.	\$142,841	\$4,285
SERS	Marlin, Gene P.	\$141,255	\$4,238
JRS	Barry, Tobias G.	\$204,083	\$6,122
JRS	Cook, Robert W.	\$200,568	\$6,017
JRS	Fitzgerald, Thomas R.	\$198,097	\$5,943
JRS	Rarick III, Philip J.	\$197,921	\$5,938
JRS	Heiple, James D.	\$196,779	\$5,903
JRS	Miller, Benjamin K.	\$196,779	\$5,903
JRS	Scott, Richard E.	\$195,000	\$5,850
JRS	Lucas, Richard A.	\$192,666	\$5,780
JRS	Byrne, Robert E.	\$187,537	\$5,626
JRS	Callum, Thomas E.	\$187,537	\$5,626
GARS	Berman, Arthur L.	\$228,960	\$6,869
GARS	Petka, Edward F.	\$181,523	\$5,446
GARS	Erwin, Judith	\$159,233	\$4,777
GARS	Friedland, John	\$158,302	\$4,749
GARS	Edgar, James R.	\$151,778	\$4,553
GARS	Thompson, James R.	\$147,477	\$4,424
GARS	Philip, James P.	\$146,782	\$4,403
GARS	Hannig, Gary	\$146,570	\$4,397
GARS	Burris, Roland W.	\$145,373	\$4,361
GARS	Jones Jr., Emil	\$141,819	\$4,255

Source: Pensioner data obtained from the 5 state pension funds pursuant to a 2015 FOIA request

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## APPENDIX B

List of average, recently retired career workers from TRS, SURS and SERS pension systems and their annual COLA benefits\*

Pension system	Name	Current annual pension	2015 COLA benefit
TRS	Kendzora, Nancy A.	\$73,965	\$2,219
TRS	Wilson, Robert V.	\$73,846	\$2,215
TRS	Breitenstein, Marie L.	\$73,496	\$2,205
TRS	Snell, Shirley V.	\$73,375	\$2,201
TRS	Gencev, Kosana	\$73,283	\$2,198
TRS	Knapp, Richard L.	\$73,228	\$2,197
TRS	Krupka, Kamille K.	\$73,148	\$2,194
TRS	Johnson, Carol L.	\$73,085	\$2,193
TRS	Torres, Diane M.	\$73,063	\$2,192
TRS	McLuckie, Renee L.	\$72,966	\$2,189
SURS	Barling, Connie	\$73,633	\$2,209
SURS	Pilchard, Betty	\$72,803	\$2,184
SURS	Berbert, Kirk	\$72,766	\$2,183
SURS	Lifonti, Eugene	\$72,708	\$2,181
SURS	Minor, Cindy	\$71,609	\$2,148
SURS	Simmons, Rosemary	\$71,546	\$2,146
SURS	Patton, Brent	\$71,448	\$2,143
SURS	Finucane, William	\$70,799	\$2,124
SURS	Simpson, Aquanette	\$70,529	\$2,116
SURS	Harris, Frances	\$70,010	\$2,100
SERS	Petersen, Gail S.	\$50,933	\$1,528
SERS	Coonrod, Roberta S.	\$50,745	\$1,522
SERS	Jansz, Michelle R.	\$50,618	\$1,519
SERS	Ryan, Donna S.	\$50,417	\$1,513
SERS	Cummins, John R.	\$50,200	\$1,506
SERS	Hughes, Edward E.	\$50,112	\$1,503
SERS	Rossiter, Jan C.	\$49,968	\$1,499
SERS	Nutt, David L.	\$49,911	\$1,497
SERS	Gobelman, Steven L.	\$49,876	\$1,496
SERS	Posey, Lisa L.	\$49,808	\$1,494

Source: Pensioner data obtained from state pension systems pursuant to a 2015 FOIA request

\*Retired since Jan. 1, 2013, with 30 years of service or more. JRS and GARS are not included as they do not contain enough members who meet that criteria.

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<sup>1</sup> Social Security Administration, "Cost of Living Adjustment," <https://www.ssa.gov/news/press/factsheets/colafacts2015.html>.

<sup>2</sup> Teachers' Retirement System, *June 30, 2015 Actuarial Valuation of Pension Benefits*, <http://trs.illinois.gov/pubs/actuarial/2015ValuationRept.pdf>; State Universities Retirement System, *Actuarial Valuation Report as of June 30, 2015*, <http://www.surs.com/pdfs/invinfo/avr15.pdf>; State Employees' Retirement System of Illinois, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnals/sers2015.pdf>; Judges' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnals/jrs2015.pdf>; General Assembly Retirement System, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnals/gars%202015.pdf>.

<sup>3</sup> Social Security Administration, "Cost of Living Adjustment," <https://www.ssa.gov/news/press/factsheets/colafacts2015.html>.

<sup>4</sup> Assuming they start drawing benefits at 64, a life expectancy of about 21 years and an average annual cost-of-living adjustment of 1.2 percent (the average annual COLA granted over the past seven years).

<sup>5</sup> Social Security Administration, "Cost of Living Adjustment," <https://www.ssa.gov/news/press/factsheets/colafacts2015.html>.

<sup>6</sup> Chris Wetterich, "TRS Director: Retirees Might Have to Take Pension Cut," *Springfield State Journal-Register*, April 1, 2012, <http://www.sj-r.com/article/20120401/NEWS/304019982>.

<sup>7</sup> John Klingner, "Real, Reasonable Pension Reform: 401(k)-Style Plans for New State Workers," *Illinois Policy Institute*, July 9, 2014, <https://www.illinoispolicy.org/real-reasonable-pension-reform-401k-style-plans-for-new-state-workers/>.

<sup>8</sup> Ted Dabrowski and John Klingner, "7 Pension Reforms that Illinois Can Still Enact Despite the SB1 Ruling," *Illinois Policy Institute*, November 6, 2015, <https://www.illinoispolicy.org/7-pension-reforms-that-illinois-can-still-enact-despite-the-sb1-ruling/>.

# Out of sync: Employee contributions vs. benefit payouts

The amount Illinois state workers contribute to their pensions is out of line with the generous payouts these workers receive in retirement.

Just consider: Recently retired, career state pensioners – defined in this report as members who retired as of Jan. 1, 2013, with 30 years of service or more<sup>1</sup> – directly contributed an average of \$130,000 to the state pension systems over the course of their careers. On average, those same workers receive approximately \$2.1 million in pension benefits over the course of their retirements. That means the average career state worker only directly contributed 6 percent of what he or she will get back in pension benefits over the course of retirement.

Though members of Illinois' state-run pension systems have paid what was legally required of them under mutually agreed-upon contracts with the government, these pensioners have not truly paid their fair share.

Because of generous pension rules – workers receive pension benefits based on their last years of service (and not on what they contributed), employees can retire in their 50s with full benefits, and pensioners receive 3 percent compounded boosts to their benefits every year – the annual benefits that state pensioners receive quickly outstrip what they contributed over the course of their careers. In fact, the average career state pensioner makes back what he or she directly contributed after less than two years in retirement.

For the recently retired, career state workers in each pension system:

- In the Teachers' Retirement System, or TRS, direct employee contributions equal only 7 percent of the \$2.2 million in total benefits pensioners receive.
- In the State Employees' Retirement System, or SERS, direct employee contributions equal only 4 percent of the \$1.6 million in total benefits pensioners receive.
- In the State Universities Retirement System, or SURS, direct employee contributions equal only 7 percent of the \$2.3 million in total benefits pensioners receive.
- In the Judges' Retirement System, or JRS, direct employee contributions equal only 7 percent of the \$2.9 million in total benefits pensioners receive.
- In the General Assembly Retirement System, or GARS, direct employee contributions equal only 10 percent of the \$2.1 million in total benefits pensioners receive.

This disparity between contributions and payouts is fundamentally unfair to the Illinois taxpayers who must pay for them. Private-sector workers are expected to fund the pensions of government workers who will earn back what they contributed to the pension funds just two years into retirement.

And while the teachers, state workers, university workers, judges and lawmakers of the state's five pension funds have done nothing wrong, it's clear that politicians have made promises they can't keep and that are no longer fair or affordable for Illinois taxpayers.

The only real solution is for Illinois to reform its state pension system – starting with enacting a constitutional amendment allowing Illinois to reform pension benefits going forward. In addition, the state should move new government workers onto 401(k)-style plans and give existing workers the option to have their own self-managed retirement accounts.

## HOW STATE WORKER CONTRIBUTIONS AND PAYOUTS BECOME OUT OF SYNC

Illinois provides retirement benefits to more than 213,000 government pensioners through five state-run pension systems.

Government-worker pensions in Illinois are defined-benefit retirement plans under which employees are supposed to receive annual benefits during retirement.

To fund the state systems, each employee and employer contribute a set percentage of the employee's annual salary to a pension fund over the course of the employee's career.

The employee contributes a fixed percentage of his or her salary (8 to 11.5 percent, depending on the fund)<sup>2</sup> to the pension system from every paycheck. Because employees contribute to the pension funds over the course of their careers, their total contributions are based on their average salaries. But according to the state's pension rules, the employees' benefits aren't based on those contributions.

Instead, pension benefits are based on an employee's end-of-career salary, when a worker's income is likely at its highest.

In the case of TRS, SERS and SURS, an employee's initial annual pension benefit is based on the average of his or her four highest annual salaries in the employee's last 10 years before retirement. For JRS and GARS pensioners, their starting pension benefits are determined by their salaries on their last day of service.<sup>3</sup>

Illinois state pension systems' membership data and salary and employee contribution rules

System	Included workers	Current number of retirees	Final average salary: How workers' final average salaries are calculated	Employee contribution: How much of their salaries workers must contribute to their pension fund each year
Teachers' Retirement System	Local teachers and other school district administrative staff, excluding those employed by Chicago School District 299	103,700	Based on highest average salary during 4 out of the last 10 years of service	9.4% of salary
State Employees' Retirement System (Regular plan)	Employees of various state-level government offices and departments	55,601	Average of the 4 highest consecutive annual salary rates within the last 10 years of service	8% of salary
State Universities Retirement System	Professors, teachers, administrators, and many service and clerical workers employed in public universities, community colleges and other higher-education-related state agencies	52,662	Highest 48 consecutive months of service within the last 120 months of service	4% of salary for members with Social Security 8% of salary for members without Social Security
Judges' Retirement System	Judges and associate judges of the Illinois court system	802	Salary on last day of service	11% of salary
General Assembly Retirement System	Members of the Illinois General Assembly and other elected executive state officials	308	Salary on last day of service	11.5% of salary

Source: Pensioner data obtained from the 5 state pension systems pursuant to a 2015 FOIA request

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Because state pensioners' contributions are based on their average salaries even though their starting pension benefits are based on their end-of-career salaries, the system faces a disturbing disconnect: Employee contributions have no relation to the pension benefits former employees receive during their retirements.

The average, recently retired, career state worker contributed nearly \$130,000 to the pension system over the course of his or her career but receives a starting annual pension of \$66,800. That means an average career pensioner will make back in annual benefits what he or she contributed to the pension funds after spending less than two years in retirement.



In total, the average career worker's direct employee contributions only pay for 6 percent of the over \$2 million in pension benefits that pensioner can expect to receive in retirement.

Even after giving workers credit for the interest they earn on their employee contributions (which approximately doubles the total amount of a pensioner's employee contribution), career state pensioners make back what they contributed after only four years of retirement. And they still end up only contributing an estimated 12 to 15 percent of what they will earn in annual benefits during their retirements.

The generous rules that govern workers' pension benefits also fuel the massive difference between state workers' contributions and their benefit payouts. The fact that over 60 percent of state pensioners retire in their 50s, that a majority of state pensioners will spend more time in retirement than they spent working for the state, and that pensioners receive automatic, 3 percent boosts to their pensions every year causes many state workers to become millionaire pensioners.

In all, 53 percent of the over 213,000 state retirees in Illinois can expect to receive pension benefits of more than \$1 million over the course of their retirements. Almost 40,000 (18 percent of all retirees) will receive \$2 million or more in benefits.

## CASE STUDY: HOW EMPLOYEE CONTRIBUTIONS AND PAYOUTS BECOME OUT OF SYNC

To see just how an employee's contributions and payouts end up so out of sync, take a look at the salary history of a typical, retired member of TRS.

Michael Cox spent over 33 years working as a teacher, retiring in 2005 at the age of 60. His final average pensionable salary (the average of this last four consecutive highest salaries: \$87,465, \$95,124, \$98,022, \$104,293) equaled \$96,226.

Because he earned 35 years of service credit (33 years worked plus two years of sick-leave credit),<sup>4</sup> Cox received 75 percent of his final average salary as his starting annual pension of \$72,169. (The TRS pension formula provides 2.2 percent for every year of service credit, up to a maximum of 75 percent of a pensioner's final average salary.)

Career salary and contributions

Year	Annual salary	Annual contribution to pension fund
1973	\$8,692	\$695
1974	\$9,219	\$737
1975	\$9,600	\$768
1976	\$10,350	\$828
1977	\$11,153	\$892
1978	\$12,200	\$976
1979	\$12,900	\$1,032
1980	\$15,145	\$1,212
1981	\$15,925	\$1,274
1982	\$18,064	\$1,445
1983	\$22,704	\$1,816
1984	\$27,000	\$2,160
1985	\$28,708	\$2,297
1986	\$29,750	\$2,380
1987	\$32,050	\$2,564
1988	\$34,133	\$2,731
1989	\$36,500	\$2,920
1990	\$41,500	\$3,320
1991	\$42,270	\$3,382
1992	\$39,270	\$3,142
1993	\$41,580	\$3,326
1994	\$43,705	\$3,496
1995	\$44,654	\$3,572
1996	\$47,826	\$3,826
1997	\$51,630	\$4,130
1998	\$65,217	\$5,217
1999	\$68,291	\$6,146
2000	\$77,450	\$6,970
2001	\$83,124	\$7,481
2002	\$87,465	\$7,872
2003	\$95,124	\$8,561
2004	\$98,022	\$8,822
2005	\$104,293	\$9,386
Total direct employee contributions*		\$121,042
Final average pensionable salary		\$96,226

Annual pension benefits

Age	Year	Annual pension benefit
61	2006	\$72,169
62	2007	\$74,335
63	2008	\$76,565
64	2009	\$78,861
65	2010	\$81,227
66	2011	\$83,664
67	2012	\$86,174
68	2013	\$88,759
69	2014	\$91,422
70	2015	\$94,165
71	2016	\$96,990
72	2017	\$99,899
73	2018	\$102,896
74	2019	\$105,983
75	2020	\$109,163
76	2021	\$112,438
77	2022	\$115,811
78	2023	\$119,285
79	2024	\$122,864
80	2025	\$126,550
81	2026	\$130,346
82	2027	\$134,256
83	2028	\$138,284
84	2029	\$142,433
Total estimated lifetime benefits		\$2,484,539
Direct contributions vs. lifetime benefits		4.9%

Source: Retiree data obtained from a 2014 FOIA request to TRS; Social Security Administration actuarial data  
 \*Note: Total direct employee contribution is a calculation of the Teachers' Retirement System.

By the time Cox reaches his approximate life expectancy of 84,<sup>5</sup> his annual pension will have doubled to over \$140,000 a year.

This is because the 3 percent COLA he receives every year causes his original \$72,169 annual benefit to build upon itself, essentially doubling his benefit over the 24-year expected length of his retirement.

In all, Michael Cox can expect to collect more than \$2.4 million in pension benefits over the course of his retirement.

In comparison, Cox only gave the pension system \$121,042 in employee contributions during his teaching career. That equals only 5 percent of what he will receive from the pension fund over the course of his retirement. Put another way, having earned a starting pension of \$72,000, Cox gained back what he contributed to the pension fund after spending less than two years in retirement.

In summary, Cox's pension contributions are out of sync with his lifetime payout because:

- His pension contributions are based on the paychecks he received over the course of his teaching career. Thus, the amount he contributed to the pension system, \$121,042, is based on his average career salary.
- His starting pension is not based on his average salary but on his end-of-career salary, which was at its highest point.
- Due to the rules of TRS's pension formula, Cox received 75 percent of his final average salary, \$96,226, as his starting annual pension: \$72,169.
- Cox's starting pension will grow by 3 percent every year due to the automatic, 3 percent COLA state pensioners receive annually.
- Over the course of his retirement, assuming an approximate life expectancy of 84, Cox can expect to receive more than \$2.4 million in total pension benefits.
- In all, Cox will earn back what he gave in employee contributions in just two years of retirement. His direct employee contributions will only equal 5 percent of the benefits he can expect to receive over the course of his retirement.
- Even when given credit for the interest his contributions earned while invested by the pension fund, Cox still earned back what he contributed in just three years of retirement, and his contributions only equal 8 percent of what he will receive in total pension benefits.

Michael Cox and other state pensioners like him did nothing wrong in receiving such benefits. He paid – in the form of his employee contributions – what was legally required of him under mutually agreed-upon contracts and the rules of the pension system.

However, it certainly cannot be said that Cox and the rest of Illinois' state pensioners have contributed their fair share to the pension funds. The average career state pensioner only directly contributed 6 percent of what he or she will get back over the course of retirement.

The state's pension debt reached a record high of \$111 billion in 2015. A significant portion of that debt is due to growing pension benefits. And, as Illinois' Tier 1 workers (workers hired before Jan. 1, 2011) continue to retire in their 50s with generous salaries and live longer and longer in retirement, the burden on taxpayers is only going to worsen.

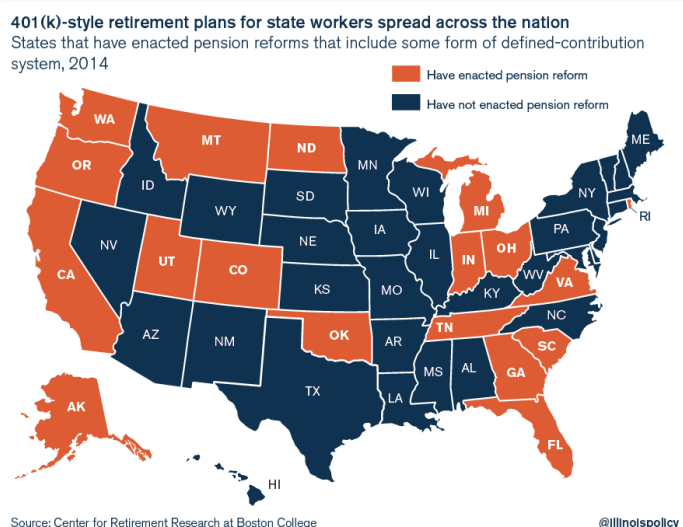
It's clear the current system is unsustainable for Illinois taxpayers. To protect both state workers and taxpayers, Illinois should follow the example of the private sector and reform-minded states and move to a defined-contribution retirement system.

## REFORMING BENEFITS IS A NECESSITY

In contrast to Illinois' state-run pension plans, in a defined-contribution, or DC, plan such as a 401(k), both the employer and the employee contribute directly to a portable retirement account owned and controlled by the employee. The amount the employee accumulates during his entire career becomes the pool of funds he will have available for retirement. Once the employee retires, neither the employer nor taxpayers have any future obligation to fund the worker's retirement.

Today, nearly 85 percent of private-sector employees are enrolled in some form of DC plan. The public sector, by contrast, continues to rely largely on defined-benefit plans.<sup>6</sup>

That said, more and more states, most recently Oklahoma, have moved their workers to some form of DC plan in an attempt to get state budgets under control and give workers more ownership over their retirements. Kentucky Gov. Matt Bevin has also set his sights on 401(k)-style plans for new government workers.<sup>7</sup>



But Illinois doesn't have to look beyond its borders for a model 401(k)-style plan – one already exists right here. Today, almost 20,000 active and inactive members of SURS participate in a 401(k)-style plan. These state-university workers control their own retirement accounts, which aren't part of Illinois' increasingly insolvent state pension systems.

## CONCLUSION

The benefits that politicians have granted government workers have resulted in a retirement system that is simply unfair to the taxpayers who pay for pensions.

Employee contributions are out of sync with payouts – the average state pensioner receives pension benefits equal to what he contributed after only two years in retirement (four years if investment returns are included).

That's due to costly practices such as pension spiking, as well as pension rules that base starting pensions on the salaries earned in workers' last years of service, allow 60 percent of pensioners to retire in their 50s, and grant automatic, 3 percent benefit boosts annually. As a result, many state workers become millionaire pensioners, and the average career state worker ends up contributing only 6 percent of what he or she receives in total pension benefits.

While the teachers, state employees, university workers, judges and lawmakers of the state's five pension systems have done nothing wrong in receiving such benefits, it's clear that politicians have made promises they can't keep – and that Illinois taxpayers cannot afford to fund.

Illinois needs to begin moving away from its broken pension systems – starting by moving new government workers to 401(k)-style plans and giving existing workers the option to have their own self-managed accounts.<sup>8</sup>

Doing that, in addition to enacting a constitutional amendment allowing Illinois to reform pension benefits going forward, is an important first step in fixing Illinois' government-worker pensions.<sup>9</sup>



## APPENDIX

Top pensioners in each of the 5 state pension funds by total estimated lifetime benefit

System	Name	Current annual pension	2015 COLA	Total direct employee contributions*	Estimated total lifetime pension benefits	Total contributions vs. estimated lifetime payout*
TRS	Curley, Mary M.	\$280,172	\$8,405	\$293,062	\$8,690,644	3.4%
TRS	Murray, Laura L.	\$288,472	\$8,654	\$314,415	\$8,618,414	3.6%
TRS	Hager, Maureen L.	\$271,653	\$8,150	\$316,638	\$8,269,057	3.8%
TRS	McTague, Frances J.	\$243,160	\$7,295	\$357,682	\$8,113,251	4.4%
TRS	Fleming, Larry K.	\$258,163	\$7,745	\$378,683	\$8,018,917	4.7%
TRS	Vieth, Linda J.	\$213,174	\$6,395	\$312,740	\$7,791,368	4.0%
TRS	Catalani, Gary T.	\$293,214	\$8,796	\$321,043	\$7,722,901	4.2%
TRS	Renner, Sandra.	\$210,480	\$6,314	\$359,085	\$7,692,917	4.7%
TRS	Lamberson, Jonathan E.	\$262,516	\$7,875	\$501,607	\$7,591,835	6.6%
TRS	Doebert, Sandra L.	\$204,304	\$6,129	\$303,118	\$7,516,660	4.0%
SURS	Heffez, Leslie	\$547,862	\$16,436	\$768,611	\$17,982,542	4.3%
SURS	Bowman, Clarence	\$364,055	\$10,922	\$410,284	\$10,008,735	4.1%
SURS	Guenther, Ronald	\$445,937	\$13,378	\$614,647	\$9,383,642	6.6%
SURS	Granados, Patricia	\$200,954	\$6,029	\$320,049	\$9,193,617	3.5%
SURS	Wilbur, Andrew	\$326,640	\$9,799	\$599,074	\$9,153,367	6.5%
SURS	Abraham, Edward	\$453,164	\$13,595	\$535,165	\$9,067,334	5.9%
SURS	Flaherty, Joseph	\$408,417	\$12,253	\$635,127	\$8,654,854	7.3%
SURS	Mafee, Mahmood	\$404,463	\$12,134	\$562,570	\$8,621,374	6.5%
SURS	Owens, Charles	\$238,689	\$7,161	\$534,345	\$8,524,616	6.3%
SURS	Bazzani, Craig	\$290,220	\$8,707	\$298,686	\$8,485,497	3.5%
SERS	Bertrand, Bridget M.	\$125,539	\$3,766	\$248,007	\$6,474,376	3.8%
SERS	Diamond, Delia C.	\$119,184	\$3,576	\$201,501	\$6,455,904	3.1%
SERS	Jordan, Patricia M.	\$120,672	\$3,620	\$232,470	\$6,446,423	3.6%
SERS	Culp, Susan K.	\$119,184	\$3,576	\$196,131	\$6,429,756	3.1%
SERS	Jansky, Suzanne C.	\$120,672	\$3,620	\$226,377	\$6,329,910	3.6%
SERS	Rubin, Kay L.	\$120,672	\$3,620	\$219,905	\$6,329,910	3.5%
SERS	Segura, Anna M.	\$120,672	\$3,620	\$216,735	\$6,319,185	3.4%
SERS	Kindred Johnson, Agnes A.	\$118,167	\$3,545	\$225,802	\$6,200,499	3.6%
SERS	Degrassie, Kathleen M.	\$117,341	\$3,520	\$241,701	\$6,199,494	3.9%
SERS	Garde, Deborah	\$115,459	\$3,464	\$195,163	\$6,154,824	3.2%
JRS	O'Brien, Sheila M.	\$186,446	\$5,593	\$270,497	\$7,126,559	3.8%
JRS	Brim, Cynthia Y.	\$152,438	\$4,573	\$352,701	\$6,278,659	5.6%
JRS	Omara Frossard, Marget	\$186,446	\$5,593	\$244,716	\$5,975,556	4.1%
JRS	Myerscough, Sue	\$181,016	\$5,430	\$258,951	\$5,883,746	4.4%
JRS	McDonald, Barbara	\$164,508	\$4,935	\$324,543	\$5,881,949	5.5%
JRS	Santiago, Leida J.	\$147,250	\$4,418	\$276,050	\$5,713,486	4.8%
JRS	Zwick, Susan	\$158,965	\$4,769	\$263,369	\$5,581,766	4.7%
JRS	Webster, Hollis L.	\$152,644	\$4,579	\$244,844	\$5,561,731	4.4%
JRS	Gilleran Johnson, Barbara	\$155,141	\$4,654	\$212,405	\$5,561,631	3.8%
JRS	Karahalios, Pamela G.	\$162,534	\$4,876	\$218,482	\$5,501,750	4.0%
GARS	Erwin, Judith	\$159,233	\$4,777	\$238,038	\$4,735,123	5.0%
GARS	Edgar, James R.	\$151,778	\$4,553	\$164,657	\$4,187,118	3.9%
GARS	Homer, Thomas J.	\$137,276	\$4,118	\$78,093	\$3,714,715	2.1%
GARS	Hannig, Gary	\$146,570	\$4,397	\$176,273	\$3,681,002	4.8%
GARS	Granberg, Kurt	\$122,075	\$3,662	\$121,757	\$3,670,301	3.3%
GARS	Thompson, James R.	\$147,477	\$4,424	\$84,996	\$3,591,131	2.4%
GARS	Friedland, John	\$158,302	\$4,749	\$66,716	\$3,529,864	1.9%
GARS	Ryder, William T.	\$123,930	\$3,718	\$138,330	\$3,475,200	4.0%
GARS	Burris, Roland W.	\$145,373	\$4,361	\$134,680	\$3,451,358	3.3%
GARS	McGrew, Samuel M.	\$127,992	\$3,840	\$76,963	\$3,400,045	2.3%

Source: Pensioner data obtained from state pension systems pursuant to a 2015 FOIA request, Social Security Administration actuarial data  
 Note: "Estimated total lifetime pension benefits" are based on approximate life expectancy from Social Security's 2011 Actuarial Life Table.  
 Current ages as of 2015 were used to determine pensioners' life expectancies.

\*Does not include investment returns earned on contributions

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<sup>1</sup> Recently retired, career members of the smaller funds, the Judges' Retirement System and the General Assembly Retirement System, are defined as having retired since Jan. 1, 2008, with 30 years of service or more.

<sup>2</sup> Over two-thirds of Illinois school districts report paying, as a benefit, some or all of their teachers' required employee contributions. This practice, called a "pickup," costs local school districts over \$1 billion annually. The Teachers' Retirement System counts a pickup as the employee contribution. So, for the purposes of this report, even teachers who receive pension pickups as a benefit are assumed to have made their employee contributions.

<sup>3</sup> Teachers' Retirement System, *June 30, 2015 Actuarial Valuation of Pension Benefits*, <http://trs.illinois.gov/pubs/actuarial/2015ValuationRept.pdf>; State Universities Retirement System, *Actuarial Valuation Report as of June 30, 2015*, <http://www.surs.com/pdfs/invinfo/avr15.pdf>; State Employees' Retirement System of Illinois, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnuals/sers2015.pdf>; Judges' Retirement System, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnuals/jrs2015.pdf>; General Assembly Retirement System, *Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2015 and 2014*, <https://www.srs.illinois.gov/PDFILES/oldAnnuals/gars%202015.pdf>.

<sup>4</sup> Under TRS rules, retiring teachers may receive a maximum of two years (340 days) of service credit for unused, uncompensated sick leave. For more information, see Teachers' Retirement System, *Tier 1 Member Guide* (December 2015), <https://trs.illinois.gov/members/pubs/tier1guide/guide.pdf>.

<sup>5</sup> Life expectancy is a general approximation based on Social Security's 2011 Actuarial Life Table. Current age as of 2015 was used to determine approximate pensioner life expectancy. Social Security Administration, "Statistical Tables," <https://www.ssa.gov/oact/STATS/>.

<sup>6</sup> Ben VanMetre, "7 in 10 Fortune 100 Companies Provide Only Defined Contribution, 401(k)-Style Retirement Plans," *Illinois Policy Institute*, July 25, 2013, <https://www.illinoispolicy.org/seven-in-10-fortune-100-companies-provide-only-defined-contribution-401k-style-retirement-plans/>.

<sup>7</sup> Jack Brammer, "Matt Bevin Seeks Pension Changes for New State Hires," *Lexington Herald-Leader*, November 20, 2015, <http://www.kentucky.com/news/politics-government/article45670251.html>.

<sup>8</sup> John Klingner, "Real, Reasonable Pension Reform: 401(k)-Style Plans for New State Workers," *Illinois Policy Institute*, July 9, 2014, <https://www.illinoispolicy.org/real-reasonable-pension-reform-401k-style-plans-for-new-state-workers/>.

<sup>9</sup> Ted Dabrowski, "7 Pension Reforms that Illinois Can Still Enact Despite the SB1 Ruling," *Illinois Policy Institute*, November 6, 2015, <https://www.illinoispolicy.org/7-pension-reforms-that-illinois-can-still-enact-despite-the-sb1-ruling/>.

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