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FW: Cullerton pension proposal could be revived

1 message

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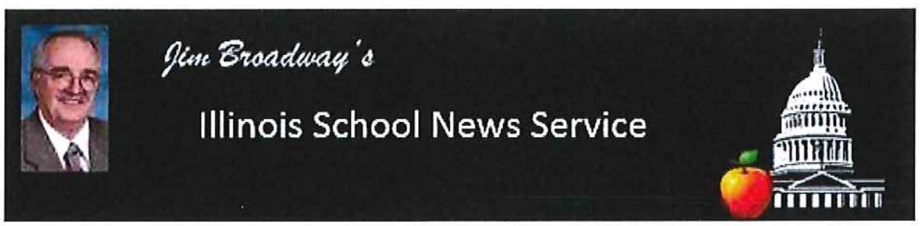

Volume 22, Number 50, July 29, 2016 (NOTE: Not yet available on the ISNS web site.)

Cullerton pension proposal could be revived

By Jim Broadway, Publisher, Illinois School News Service

A quick review. In our last missive, we considered school funding policy and discussed how difficult it's going to be for the recently established School Funding Reform Commission to come up with a workable proposal. Any reform, we concluded, is sure to cost a few billions of dollars that it doesn't currently have now.

But we also noticed that the state has a number of severe problems with huge price tags. The $10 billion in unpaid bills that will have piled up in the office of the Comptroller by the end of the year is just one of them. Bonded debt puts a drain on the state's accounts, and pension obligations are off the charts.

Truly, it will take a package of proposals - a "grand bargain" as Gov. Bruce Rauner calls it - a bundle of solutions enacted all at once to address multiple chronic issues. When could it all come down? Sometime *after* the November elections, of course. School funding reform. Big tax increases. What else? Probably pensions.

The state administers five pension systems with a total of unfunded liability - the gap between current and projected assets and payouts in benefits to annuitants and other costs in the decades to come - said to exceed $111 billion. That's quite a pile. Policy to whittle it down would surely be part of a "grand bargain."

What pension proposals are under consideration? First it's important to understand that this immense fiscal shortfall, perhaps the largest among the nation's public pension systems, did not come upon us all of a sudden. As Crain's Chicago Business relates it, four of the last five governors (at least) helped assemble it.

Big Jim Thompson (1977-1991) regularly deferred pension payments in order to fund more popular services. Jim Edgar (1991-1999) smiled as he signed a fake fix - a 50-year payback beginning with a politically expedient "ramp" - into law. George Ryan (1999-2003, now out of prison) knew the "Edgar ramp" led nowhere so he also underfunded the pensions. Rod Blagojevich (2003-2009, still in prison) borrowed heavily for debt repayment, then took a "pension holiday."

Pat Quinn (2009-2015) was the first governor in decades to oversee full funding of the actuarial obligations to the pension systems, but he did it largely on the revenue of income tax increases enacted in the lame-duck session of 2001. The hikes surely would have been made permanent if Quinn had been reelected.

But Rauner beat Quinn like a drum and much of the tax increase has been allowed to lapse. The pensions are being paid because a "continuing appropriation" now requires it, but that just means the unpaid bills are piling up at a record clip and the second half of FY 2017 appears to be headed down the road to fiscal oblivion.

Okay, who's proposing what about pensions? Your friends at the Illinois Policy Institute - the arm of the Republican Party that pretends to be a "think tank" - has recycled a few ideas. They're presented on the web site of a southern Illinois TV station that apparently has decided to let the IPI write its so-called news.

The IPI is big on 401(k) plans, just like any corporate entity. The state should offer those to new hires, the IPI proposes, which would seem quite legal. The state also should encourage current employees to "leave the pension systems and save for retirement through a self-managed plan." Good luck with that one.

The pension system for legislators should simply be abolished, the IPI says. That might wreak some revenge, but the GARS liability is a tiny fraction of the total. Teachers should not be able to "bargain" to have their employers pay the employee share of pension contribution, in the view of the IPI.

That would save zero dollars, of course, unless it is assumed that the teachers would give up this benefit without putting one of equal value on the table.

Finally, the IPI estimated the state could save $1 billion by shifting the full "employers' share" of pension contributions down to the school districts and other employers of TRS members. That may be the only proposal the IPI has ever made that House Speaker Michael Madigan agrees with. It could be considered.

But the IPI does not yet run the state. The pension part of the grand-bargain package would be designed by others. Jim Nowlan - former legislator, one-time candidate for Lt. Governor and "aide to three unindicted governors" - recently wrote of about idea that might save the state more than $2 billion per annum.

The state now pays about $9 billion to the pension systems every year, Nowlan wrote. That's about 28% of all dollars that flow into the General Revenue Fund, Nowlan notes. The payment amounts are based on a *perceived need* for $200 billion in pension fund reserves, which is about $120 billion more than is currently on hand.

The idea Nowlan wrote about is that of his friend David Eisenman, a policy analyst in Champaign who holds degrees from Harvard and the University of Illinois and years ago was on the staff of the Illinois Bureau of the Budget. The Bureau was created by Gov. Richard B. Ogilvie, one of Nowlan's "unindicted governors."

Anyway, Eisenan believes state pension payments need to "catch up" the reserves a bit, but his view is that $100 billion would suffice. A sovereign government cannot go out of business or go bankrupt, so its pension system members do not need to have

100% of future liability covered by assets on hand today.

The state could meet its obligations and add $1 billion per year to the reserves - reaching the $100 billion target within twenty years - with an annual total contribution of $6.74 billion. It's a hefty figure, but it's a lot less than $9 billion. The difference would come in handy for stuff like, well, funding schools more equitably.

There are other proposals. The Center for Tax and Budget Accountability produced a 19-page proposal for solving all of the state's fiscal embarrassments last year. (You can download it at this link. The proposal on pensions begins on Page 12.) CTBA says its proposal leads to 72% funded ratios by 2045:

"CTBA has run the numbers, and Illinois can resolve its unfunded liability, grow its funded ratio, meet all system cash flow obligations to pay retirement benefits, and free up substantial current revenue to fund current services by utilizing a level dollar annual repayment of its pension debt of approximately $7.014 billion."

That, too, is a lot less than $9 billion.

A proposal to keep an eye on, in my view, is a revised version of the legislation passed by the Senate (but not the House) in 2013, Senate President John Cullerton's bill offering pension system members "some consideration" in return for accepting pension plan changes for significant savings to the state.

For a comprehensive discussion of this - and all other pending pension notions - I refer you to a report posted earlier this year by Eric M. Madiar, who is now an attorney in private practice but was Chief Legal Counsel to Cullerton in 2013 and was, as he says, the Senate;s "point-person on public pension reform legislation."

Beginning about one-third of the way to the end of his report you will find: "V. WHERE TO NEXT?" It is at that point that Madiar begins to describe "four permissible options" for what might be considered pension reform. One of them, he says, is the approach that was "set forth in Senate Bill 2404" in 2013.

The bill, negotiated with pension members, passed the Senate with bipartisan and union support by a vote of 40-16. But it was never even called for a vote in the House. It "saved" the state too little, Pensions Committee Chair Rep. Elaine Nekritz complained. The bill she favored was the one the Supreme Court trashed last year.

The crux of SB 2404 was a choice that was to be given to employees of the three largest state pension systems (TRS, SURS and SERS); if they accepted a reduced annual cost-of-living allowance in retirement, they would be promised that the state would never give them pay increases that were "non-pensionable."

That policy would dramatically reduce the state's pension costs but, even though it was negotiated, individual members of the affected unions still believe it to be unconstitutional. They believe having any pay increases added to their calculation of pension benefits is part of the constitutional "contract" enforced by the court.

"This contention is wrong as a matter of law," Madiar asserts. "The relevant provisions of SERS, SURS, and TRS defining pensionable compensation all refer to compensation that has already been earned and does not expressly foreclose the public employer's right to offer future salary increases on a nonpensionable basis."

Madiar gives pension members something else to think about: "If the critics' contention were true, then a public employer could only avoid the actuarial impact of salary increases *by giving no increases at all*." [Emphasis by ISNS.] Madiar gives the legal foundation and case-law support of Cullerton's 2013 proposal.

Madiar also describes other ideas that have been floated to reduce the cost of public employees' pensions. Some seem far-fetched (amending the pension-protection clause out the Constitution; allowing municipal bankruptcy). He concluded that a "viable path" to pension "reform" was revealed by the Supreme Court.

If there is a "grand bargain" - and that's a big "if" - pension policy surely will be included. The politics of the issue seem likely to require it.

Rauner signed an important School Code bill Monday. If he had vetoed HB 5729, he would have disappointed just about every organization with even the slightest interest in a high school student's readiness for college or a career. Not a vote was cast against in committee or on the floor of the House and Senate.

Advance Illinois congratulated Rauner for putting his signature on the bill and listed the following organizations has having worked in recent years to see the effects expected to be achieved by HB 5729 supported in statutes:

- Illinois P-20 Council
- Chicagoland Chamber of Commerce
- ED-RED
- Illinois Education Association
- Illinois Association of Vocational Agriculture Teachers
- Illinois Community College Board
- Illinois Manufacturers Association Education Foundation
- Illinois PTA
- Illinois State Board of Education
- Illinois Student Assistance Commission
- Education Systems Center at Northern Illinois University
- Large Unit District Association
- Ready Nation
- School Management Alliance
- Stand for Children
- Vision 20/20

HB 5729 was sponsored in the House by Rep. Kelly Burke (D-Oak Lawn) and in the Senate by Sen. Daniel Biss (D-Skokie). Briefly, in a multitude of ways the bill seeks to improve high school graduates' ability to enter the work force or to avoid remedial coursework when they enroll in a community college or university.

Like any dramatic departure from the educational status quo, HB 5729 (now Public Act 99-0674) is somewhat lengthy and loaded with findings, definitions of terms and some new school policy jargon. The term "competency-based" is sprinkled liberally throughout the bill's 55 pages of statutory text.

Referred to as the "Postsecondary and Workforce Readiness" Act," the legislation establishes, Advance Illinois said in a new release, "a detailed framework for aligning the needs of colleges and employers with high school instruction in Illinois.... Advance Illinois will be working with the Illinois State Board of Education and stakeholder advisory committees to implement the new law. Most provisions of the law will be implemented by 2020."

Here is how Advance Illinois describes the bill's four initiatives:

"It helps students avoid remedial education in community college with a jointly-designed fourth year of high school math instruction. It establishes new career and college endorsements on high school diplomas to demonstrate that students have fulfilled specific requirements for that career path.

"To help students plan for life after high school, the bill establishes benchmarks from 8th through 12th grade for what students should know about college and career. Finally, it allows districts to pilot updated high school graduation requirements based on what students know and can do rather than what courses they have taken."

I've referred you in the past to the work of Dusty Rhodes, the talented education reporter for WUIS, the public radio station hosted by the University of Illinois Springfield. If you clicked the link, you saw that Dusty has added to her page a link to the "Education Desk: Conversation with Jim Broadway."

We talked on the phone for a while one morning. She got me to respond to some excellent questions and then she edited the discussion down to the allotted eleven minutes in which I seemed, in my opinion, fairly astute. The key point is my prediction of a likely "grand bargain" after the elections. But you knew that.

The ISNS Archives link is at this URL. The secret **password has been changed to:** relief. Please keep it a secret, just between us school policy insiders. The Archives page links you to every ISNS newsletter distributed this year and in 2015.

Your inputs - questions, comments, suggestions - are valued. For twenty years ISNS has been guided by wisdom "from the field." To contribute in this way, just click this link to our contact form.