WE ARE ONE ILLINOIS

# Leaders' Extreme Pension Plan – Oppose Unfair, Unconstitutional Pension Cuts

Pensions for teachers, police, child protective workers, nurses, and other public employees in state-funded pension plans are modest and fair, allowing dignity and security in their retirement years. Public employees did not create the current pension funding crisis, but they are willing to do their part to help solve it. The We Are One Illinois union coalition worked collaboratively to develop real pension system funding solutions that are fair and constitutional—and significantly reduce the pension debt over time. The coalition supports a true, negotiated compromise bill—Senate Bill 2404. SB 2404, unchanged, deserves a full House vote. In contrast, the leaders' extreme pension plan is the same failed, illegal, and unfair approach as SB 1, slashing pensions of current employees and retirees—and jeopardizing hard-won retirement security.

***The Leaders' Plan Is No Compromise at All – It's a Repackaged SB 1***

SB 1 featured almost the exact same COLA formula, COLA holidays, retirement age increases, and pensionable salary cap. **Based on reports, the leaders' plan is virtually the same bill as SB 1. It contains all of these cuts, plus expanded reliance on inefficient 401(k)'s that undermine defined-benefit plans.**

***The Leaders' Plan Is Unconstitutional and Illegally Cuts Benefits***

The leaders' plan illegally cuts benefits, even though the Illinois Constitution specifically states that pension benefits are a contractual right that cannot be diminished or impaired. A legal challenge will lead to years of budget uncertainty, doing little to address credit rating agencies' concerns. Further, if litigation overturns this plan, Illinois will have kicked the can down the road and further jeopardized its fiscal situation and the solvency of its pension systems. It may even owe back-payments to the pension systems.

***The Leaders' Plan Cuts Cost of Living Adjustments (COLAs) Essentially as Deeply as SB 1***

The leaders' plan makes it impossible for retirees to keep up with the rising cost-of-living in retirement. It unconstitutionally slashes COLAs by using the destructive SB 1 formula and imposing COLA holidays of up to five years. Combined, these two COLA cuts erode the value of a person's pension by nearly one-third after 20 years in retirement—and deprive retirees of thousands of dollars in income just in the next five years. **This is an extremely deep COLA cut – just as bad as SB 1.** Consider the following examples based on 30 years of service:

Over the next five years, a retired teacher who has a pension benefit of $48,000 would lose over $8,000. A teacher, age 49, who retires with a $48,000 pension will lose over $14,000 in the first five years of retirement. Using the same scenarios and looking at the long run, a retired teacher would lose over $225,000 after 25 years in retirement under the leaders' COLA cut. The 49-year-old teacher would lose over $313,000 after 25 years.

A state nurse who retired from state service with a pension of $40,000 would lose over $7,500. A nurse, age 49, who retires with a pension of $40,000 would lose over $12,000. Using the same scenarios and looking at the long run, a retired nurse would lose over $226,000 after 25 years in retirement under the leaders' COLA cut. The 49-year-old nurse would lose over $270,000 after 25 years.

*(over – see page two)*

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***The Leaders' Funding Guarantee is Not Ironclad – It's So Weak It Could Lead to State Underfunding All Over Again***

The funding guarantee has wiggle room. The legislature could simply vote with a simple majority to change the state's required payment and totally circumvent the guarantee. This does not correct the systemic problem of state underfunding – and could lead to chronic underfunding all over again.

***The Leaders' Bill May Trigger Social Security and Lead to Property Tax Hikes and/or Layoffs***

The bill breaches federal law by cutting pensions so steeply that TRS (and likely SURS) would fail to qualify as alternatives to Social Security. This would eventually force school districts, universities, and community colleges -- as well as employees -- to begin paying Social Security payroll taxes, leading to a combination of property tax hikes, higher tuition, and layoffs or program cuts at schools and universities.

***The Leaders' Plan Hikes Retirement Ages***

The leaders propose hiking retirement ages by up to five years. There's no consideration for employees with physically-demanding or high-risk professions, such as police, first responders, corrections officers, nurses, and others. Retirement age increases effectively produce a benefit loss of 6% for each year increased. For example, younger workers lose 30% of their pension value without accounting for other cuts.

***The Leaders' Plan Would Be Exempt from Collective Bargaining, Denying Rights to Workers***

The collective bargaining exemption denies democratic, representational rights to hundreds of thousands of workers.

***The Leaders' Pensionable Salary Cap May Not Be Cost-Effective and Devalues Service***

The leaders' plan caps pensionable salary, creating a disincentive for hiring and recruiting in critical public professions, particularly those that require advanced degrees, which is often a more cost effective practice than contracting out for expensive, specialized services. Lastly, the cap ignores the mandatory overtime required of many employees, especially those in physically-demanding, high-risk jobs.

**How Does SB 1 Compare to the Leaders' Plan? They are essentially the same bill.**

| *Component* | *SB 1* | *Leaders' Plan* |
|---|---|---|
| COLA Formula | 3% x years of service x $1,000 or $800 ($1,000 if not aligned with Social Security; $800 if aligned with Social Security) | 3% x years of service x $1,000 or $800 ($1,000 if not aligned with Social Security; $800 if aligned with Social Security) |
| COLA Holidays | up to 5 years, based on age | up to 5 years, based on age |
| COLA Cut Impact* (annual loss after 20 years in retirement) | loss of around one-third | loss of around one-third |
| Retirement Age Increases | up to 5 years, based on age | up to 5 years, based on age |
| Caps on Pensionable Salary | Tier 2 | Tier 2 |
| Weak Funding Guarantee Language | Funding guarantee can be circumvented and lead to state underfunding again | Funding guarantee can be circumvented and lead to state underfunding again |
| Collective Bargaining Exemption | Language denying democratic, representational rights to workers | Based on reports, anticipated language will be similar to SB 1 |
| Breach of Social Security Exemption | The cuts are so deep that TRS (and likely SURS) would need to be covered by Social Security, potentially causing property tax hikes, tuition hikes, and/or layoffs | The cuts are so deep that TRS (and likely SURS) would need to be covered by Social Security, potentially causing property tax hikes, tuition hikes, and/or layoffs |
| "Savings" to State, Taken from Public Employees and Retirees Life-Savings | $163 billion | $160 billion |

**The slight tweaks in the leaders' COLA plan vs. SB 1 barely make a difference to the cut's size because the basic SB 1 formula structure prevails.*

**It gets worse.** The leaders' plan expands reliance on defined-contribution/401(k) plans across the state's retirement systems.

- The expansion of 401(k)-style plans undermines defined-benefit (DB) plans' solvency and their offer of retirement security.
- 80% of individuals in state funded retirement systems do not receive Social Security. If those not eligible for Social Security choose 401(k)'s, their entire retirement will be at the whim of the market – with no other protection afforded to them.
- DB plans simply work better than 401(k)'s. They provide retirement income more efficiently and operate with less overhead and fewer fees.
- DB plans generally generate better investment returns than 401(k)'s because they are better equipped to diversify investment holdings, spread risk, and are run by trained professionals.
- Switching to 401(k)-style plans will make it more difficult to attract new quality personnel and may discourage long-term career seekers.