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The Road to Hell is Paved With Bad Public Pensions: An Analysis of Illinois' Public Pension System

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Introduction

The state of Illinois has been in the fiscal dumps for years now. With over $200 billion in debt, the state's per capita debt exceeds $10,000. So what is driving Illinois' debt? How did the state get to the fiscal position it is in? With several different programs qualifying as an answer, we must look at the biggest part of the debt and the least solvent part: Illinois' public pension system. With roughly $130 billion in debt, the public pension system is crushing the state. Even if the state's debt were reduced just to what is owed in public pensions, Illinois taxpayers would still be on the hook for roughly $10,000. In comparison to other states, Illinois has the worst pension system in the United States. Even while being armed with this information, politicians in Illinois have ignored pension reform and have continued to use patronage politics to hold the state's fiscal health hostage by the pension system. So what are factors that have contributed to Illinois pension issues? What factors can contribute to an increasingly insolvent public pension system? What are the intersections between many of Illinois' financial issues and the public pension system? This paper will seek to analyze the public pension system of Illinois in regards to an understanding of the system itself, the actors that have played significant legislative roles with the system, and the consequences of having a poor public pension system.

Why Does This Matter?

The question of why someone would study the public pension system in Illinois is one that is incredibly relevant to a wide variety of people and it is very important to understand the fiscal health of Illinois. To start, public pension analysis is needed because Illinois has no choice but to fundamentally rethink the way it offers public pensions and it must ask the question of why pension issues have bubbled up. Governments need to always reevaluate entitlement programs and the effect they have on the fiscal health of a state. Second, Illinois' public pension crisis has permeated into other areas of the economy and it has created an environment where drags on the economy have become interconnected with one another. Illinois has over $200 billion dollars in debt, with $130 billion of that in public pensions. Illinois' debt has created a downgrade of the state's credit rating to a BBB, which is the lowest in the country (CNBC). Credit issues reflect directly on the state government's ability to pay back its debts or pay properly for entitlement programs. Additionally, poor credit would make people want higher returning government bonds to offset the risk they undertake by purchasing a more risk bond. Population issues have also been a problem in Illinois. Illinois's credit problem creates a strong incentive for people to leave the state, as faith and trust in government institutions falls and taxes rise to pay for insolvent government programs. This phenomenon can be seen in the recent budget proposal put forward by the Illinois State Senate, which would hike the state's income tax by 1.2% (Dabrowski, Klingner). When people leave, tax revenues fall in the state, further compounding the fiscal issues Illinois faces. An insolvent public pension system puts one group of people on the hook for pensions: Illinois taxpayers. As taxes rise to pay for the increased insolvency of the public pension system, the cost of living in Illinois keeps rising and rising, further creating incentives for people to leave and created high income barriers to entry for the state. This is especially tough for young people, who are towards the lower end of the income distribution and would have a harder time living in Illinois than someone who has been working for over twenty years. Figure 5 outlines the taxpayer contributions towards public pensions relevant to employee contributions.

Literature Review

Public pensions throughout the United States have become a hot topic for two groups of people: economists and legal scholars. Public pension debt has ballooned upward in recent years, leaving economists to wonder about actuarial calculations and leaving lawyers to examine the legal structures that have allowed so many state and local governments to ignore their pension promises. In her article entitled *Funding Discipline for U.S. Public Pension Plans: An Empirical Analysis of Institutional Design,* Natalya Shnitser states “even though all U.S. public pension plans can be characterized by political promises of future benefits and powerful incentives to shirk on current funding for such promises, institutions that facilitate transparency and pre-commitment to actuarially determined funding policies may mitigate the shifting of current pension costs to future taxpayers” (Shnitser 666). Shnitser emphasizes the fact that politicians have often given generous pensions out as a political tool for their own advantage, but have left the real legal and mathematical work to future actors and have put the burden of paying for these pensions on taxpayers down the road. Shnitser also states, “In stark contrast to the 401 (k)-type defined contribution plans that are pervasive in the private sector, public sector defined benefit plans allocate the management and investment risk to the employers, thus making the employers liable for the promised amounts regardless of investment performance in any given period” (Shnitser 668). This key distinction between public sector pension plans and private sector 401k plans is a key fact in distinguishing the two plans. No matter what, the state is always on the hook in a pension plan without even acknowledging that the state may never have the ability to cover the difference between the performance of the investment and the actual promised benefits. In Illinois, politicians have done this for decades now. By racking up $130 billion in public pension debt, the state has continued to kick the can down the road and failed to fundamentally rethink its pension system.

Most research done on public pensions generally looks at how pensions are funded and the numbers behind them. Until the last couple of years, this research has done very little work in regards to an in depth analysis of public pension systems, especially in regards to the consequences that inadequacies in pension funding has done to the fiscal condition of several states. Morningstar, a research firm specializing in pension analysis, has become the gold standard in pension research in the last few years. In its report from 2013, Morningstar found that Illinois has only about forty percent of its pension obligations funded, which is the worst funding ratio in the country by far (Morningstar 2). When taking other states into consideration, Wisconsin, Texas, and California have funding ratios as follows: 99.9%, 82%, and 76% respectively (Morningstar 2). These funding ratios are incredibly important to analyze because they give great insight into the health of these respective public pension systems. Morningstar uses an eighty percent funding ratio as the cut-off for a healthy pension system, meaning that anything under eighty percent is unhealthy and anything over that is considered healthy.

Unfortunately, very little research has been done that has delved into the consequences of a poorly operated public pension system. A lot of research has been publicized about the myriad of economic issues and phenomena that has occurred in Illinois, but not much has been done to attempt to analyze the intersection of the pension system to those issues. My paper will play a niche role in that because, without analyzing the connections, reform will cease to exist in

Illinois and the state's politicians will continue to kick the can down the road for future generations to deal with.

Let's Learn About Illinois' Public Pension System

To say that Illinois' public pension system is bad is quite an understatement. But for one to fully understand the issues the system faces, one must get a general overview of the system and how it operates. Illinois is home to 667 pension plans (Dabrowski & Klingner). These pension plans cover a litany of professions, ranging from first responders to educators. 5 of these plans cover K-12 and University educators, state employees, judges, and members of the Illinois General Assembly (Dabrowski & Klingner). 355 plans are for police officers, 296 plans are for firefighters, and one plan is for municipal workers (Dabrowski & Klingner). Finally, 7 plans encompass employees in Chicago and 3 are for employees in Cook County (Dabrowski & Klingner). By comparison, California has just 88 different plans, while Texas and Wisconsin have 142 and 4 respectively (Ballotopedia). It is unclear what the massive size of Illinois' public pension system does to its funding. I would argue that this massive size creates a situation in which accountability is hard to maintain. As the system gets larger, I can foresee it being difficult to maintain continuity of funding among the plans.

Illinois' pensions operate off of a defined benefit model. A defined benefit model creates a formula that outlines what a pension recipient will receive throughout the time of their pension (The Civic Federation 5). A defined benefit model also has one key characteristic: the employee's employer will make up for the difference between the defined benefit and what the pension returned on its investment (The Civic Federation 5). This differs drastically from a defined contribution plan, where the employer and the employee make set contributions (The Civic Federation 6). The employee's benefit from the plan is the value of the pension once the employee chooses to retire (The Civic Federation 6). This is an incredibly important characteristic of Illinois' pension plan, and a characteristic of most insolvent pension plans across the country. Illinois' problem starts here, in that the state's plans have not made enough money and the employer, which is the state, has been put on the hook to make up the difference in the defined benefit plans. Unfortunately, the state does not just have money lying around that it did not get from taxpayers. When these defined benefit pension plans do not generate enough money, residents of Illinois are forced to pay for them.

Illinois has two tiers in its public pension system. Tier One pensions are older pensions, given to people who retired before 2011. These pensions make up a large majority of the pension system. In 2011, the Illinois General Assembly made an attempt to reform public pensions in the state by creating a second tier (The Civic Federation 10). This tier reduced some of the benefits that Tier One recipients receive with the idea in mind that Illinois had, historically, been over generous with its pension benefits. Still though, Tier Two pensions are not much better than Tier One pensions. In an article discussing the issues that Tier Two pensions face, Dick Ingram, Executive Director of the Teachers' Retirement System pension program, explains that in addition to paying much more into their pension plans, Tier Two pension recipients also help subsidize the cost of Tier One pensions by having some of their income go directly towards paying for those plans (Ingram 1). Ingram, a Tier Two pension recipient himself, paints the Tier Two pension system as unjust in comparison to Tier One, mostly because of the fact that these employees wind up paying for the pensions that Tier One recipients receive (Ingram 1).

So, let's take a look at the actual numbers. According to John Klingner of Illinois Policy, Illinois has a total pension debt of $130 billion in 2016 (Klingner). To put this into perspective, if every household were to pay $27,000 at a one-time fee, the state could pay off its unfunded pension liabilities (Klingner). Per capita pension debt in Illinois is roughly $10,150. The per capita figure would include all those who are not even in the labor force and would be unable to have disposable income. A more realistic and striking perspective for the debt would be to look at Illinois per capita pension debt in the labor force. The Bureau of Labor Statistics estimated that Illinois had a labor force size of 6,564,448 at the end of October of 2016 (Bureau of Labor Statistics). Per capita pension debt for the labor force in Illinois would be roughly $19,800. Illinois's public pension debt is astounding and for even greater perspective, I will imagine that this was a federal program. Taking the United States' population and multiplying it by Illinois per capita debt ($10,150), the total debt of a program like this at the federal level would be roughly $3.24 trillion. I will concede that this is not the best or an entirely accurate way of gaining some perspective here seeing as different areas of the country have differing economies, which can alter funding for pensions, but it still gives an idea of how massive the pension obligations in Illinois are relative to its population.

More striking about Illinois' pension issues is how quickly this problem has gotten completely out of hand. As Figure 1 shows, Illinois unfunded pension obligations have more than doubled since 2008 (Klingner). In that time frame, Illinois unfunded pension obligations have increased by an average amount of roughly $9 billion per year. Arguably the worst realization about this is that Illinois had seen a reduction in its pension obligations from 2003 to 2004, just 5 years before 2008.

What is it about Illinois' public pension plans that are so insolvent? How did the state rack up this much in debt and what about the plans makes them so incredibly hard to fund? First and foremost, the plans are inherently flawed from the beginning. By this, I mean that the plans have defined benefits that are far too generous for the state to be able to pay. This is clearly seen by examining the incentive structure for retirement for workers with public pensions and the percent that these workers contribute to their plans, relative to what they are estimated to receive. According to Ted Dabrowski and John Klingner of Illinois Policy, “sixty percent of state workers retire in their 50s” (Dabrowski & Klingner). Before a worker has even collected a dollar in their pension, a math problem already exists. As people begin living longer, these state workers can expect to receive a pension for longer amounts of time, draining resources from the state and making the plans more and more costly. In the private sector, most workers retire in their sixties, allowing for there to be less pressure on federal programs like Social Security, and allowing these workers to contribute more to more solvent retirement options, such as a 401(k). Looking at incentives, one should wonder why a public sector employee in Illinois would want to retire around the same time most private sector employees do. There is no incentive for public sector workers to do so simply because they are offered a scenario where the utility these workers receive from retiring outweighs the utility they receive from working. This is potentially due to the fact that Illinois workers can receive full benefits and a generous pension in their 50s, and then draw on Social Security in their 60s, creating more of a safety net for them. Illinois pension plans also have an automatic three percent cost of living adjustment (COLA), placed annually in pension benefits (Dabrowski & Klingner). This COLA creates issues in years where the COLA would be higher than average cost of living adjustments, citing yet another math problem. One of the biggest drivers of Illinois’ cost of living issues are its property taxes, which have been hiked on taxpayers to help pay for insolvent government programs. It is almost comedic that Illinois has implemented a COLA in its pension plans, which, in my opinion, are contributing to ever increasing property taxes. It also seems striking that Illinois’ pension plans would have such a COLA because Social Security does the same thing. Nothing is inhibiting these workers from drawing on Social Security, so these workers can essentially double dip the system and receive even larger benefits. Perhaps the largest reason that Illinois has such an insolvent public pension system is that employees contribute very little to their pensions, while the employer, the State of Illinois, has to contribute most of the benefits through taxpayer dollars. Dabrowski and Klingner state, “Most retirees contribute 4 to 8 percent (8 to 16 percent when interest earned on investments is included) of what they receive in retirement benefits.” (Dabrowski & Klingner). For example, a retiree in the State Universities Retirement System contributed $112,102 to their pension and are estimated to receive just over $3,013,865 (Dabrowski & Klingner). Figure 2 provides a chart of retirees and what their contributions to estimated payouts are.

Analysis: Actors and Influence- Patronage Politics or Public Good?

There are significant actors within the public pension system. First off, political leadership plays a role, regardless of whether or not they have directly contributed to the issue. In the House of Representatives, the main actor would be Speaker Michael Madigan. Madigan, who has been Speaker of the House for every year except two since 1983, has presided over the racking up of Illinois’ public pension debt. Interestingly enough, Madigan has accepted over $1.1 million from public sector unions from 2002 until 2014 (Giuliani). This money came from the state’s five largest government unions (Guiliani). In the State Senate, little changes. Senate President John Cullerton has taken $556,450 from the largest 5 unions (Guiliani). In regards to the General Assembly as a whole, eighty-six percent of the General Assembly took donations from government unions from 2002 to 2014 (Giuliani). Figure 4 shows a chart of all members of the General Assembly who did not take money from the state’s five largest public sector unions between 2002 and 2014, while Figure 6 shows the ten largest recipients of money from those same five unions.

In terms of Illinois' executive branch, several governors have played some sort of a substantial role on how the state has dealt with pensions. Former Republican Governor Jim Edgar played a major role with really beginning to "kick the can down the road". Governor Edgar signed legislation in the early 1990s that pushed pension obligations back fifty years. Essentially, this legislation allowed lawmakers to ignore funding the pension system properly for decades. Dubbed the "Edgar Ramp" by some, the 1994 bill did nothing about reforming the pension system and how its benefits are determined, but altered the structures of when payments to state employees would occur (Dabrowski). Since Edgar, Illinois governors have mostly done one thing in order to handle pension obligations: borrow money. Governor Rod Blagojevich borrowed $10 billion (Dabrowski). Governor Pat Quinn borrowed $7.2 billion for pension payments and followed up the borrowing with a large income tax hike (Dabrowski).

What is clear is that these actors have one thing in common and that is a real lack of desire to do anything truly meaningful about the public pension system. In fact, my belief is that many actors, especially members of the General Assembly, have more invested in patronage politics that they do about doing what is necessary for the fiscal health of Illinois. By this, I mean that some politicians, especially rather powerful ones, have more to win by cozying up to large unions, as seen by their donations, than they do to fix the structure of the pension system, which is something that would directly impact the people that these unions represent. I will go into larger analysis of this later in my paper as I draw the connection between political corruption, but this notion of patronage politics is worth mentioning here.

Consequences of Ignorance

Illinois' public pension system has created humongous financial issues across many areas of the economy. Illinois has several economic issues mostly centered in migration, budgetary issues, and political corruption. I would contest that most of these issues are either driven by the public pension issues in the state, or have very strong connections to the public pension system. Illinois' migration issues are mostly centered around the fact that Illinois is experiencing an exodus of people. A recent report put out by Illinois Policy's Michael Lucci details Illinois' massive migration issues, especially in comparison to other states. On average, Illinois loses one resident every 5 minutes (Lucci). That means that Illinois loses, on average, 288 people per day, which would then equate to 105,120 people in one year. Using the population from the United States Census Bureau, this means that Illinois could lose the just short of the entire population of the state's capitol, Springfield, in just one year (United States Census Bureau). Over the last decade, this pace has been slower, with Illinois losing just over 300,000 in the past ten years (Lucci). Looking at these numbers, it is clear that most of Illinois' migration issues have been far more recent and that they pace of out migration has ramped up rapidly over the past couple of years. Figure 3 shows Midwest outmigration statistics.

Why is this occurring in Illinois? First off, Illinois has become an expensive place to live. With the highest property taxes in the country, Illinois has made it hard on their own residents to thrive in the state. I attribute most of the property tax hikes to the public pension system. As pension obligations grow and grow, politicians find it generally easier to hike property taxes than other tax forms in order to pay for public pensions. The ironic part about the migration issue in Illinois is that the reactions from politicians will continue to make the public pension system worse. As more and more people leave Illinois, tax revenue in the state will fall. As this falls, politicians are apt to hike taxes to cover the difference, but this will likely lead to more people leaving Illinois and creating a vicious cycle. Second, I would attribute my next two points, budgetary issues and political corruption, as two central reasons that would also drive people out of the state. These will be elaborated on in coming paragraphs, but it is worth analyzing people's incentives in Illinois in regards to these two topics. Why would people want to live in a state that rarely even passes a budget, let alone a balanced one? Why would people want to live in a state where construction projects halt at budget impasses, where taxes are generally high, and where general financial incompetence seems to rain supreme in the government? Many Illinoisans could much more easily live in other states and receive much similar incomes and not deal with high property taxes and such governmental dysfunction. Combine this with the history of political corruption that Illinois has, it is clear to understand why many people would want to leave Illinois.

As I mentioned above, another major issue has been a budget. Illinois has a history of not even passing a budget. The most recent "budget" was not even a complete twelve-month budget, but rather a stop gap bill that funded what they General Assembly found to be the most important. Most of the provisions of that bill expired on December 31 of 2016, so the state is back at it again with no budget. This, though, is not something strange to residents of the state. Illinois has not even passed a balanced budget since 2001 (Rasmussen). Since 1970, Illinois has only had a balanced budget fifteen times (Rasmussen). Perhaps the worst part about this reality is that Illinois is constitutionally mandated to have a balanced budget. So, how does this tie in to public pension obligations? First off, public pension obligations are being paid by the state, so these are something that need to be covered in a budget. By not passing a budget, Illinois is going to have two options. One option is that things simply will not be paid, or the courts can force the state to pay. Neither option is good and it has been the second option that has occurred. Currently, the state has several court decrees that force certain payments to be made. These court decrees have put the state in somewhat of a peculiar situation, as most people would think that the state would not spend as much as thought of because of this. Surprisingly, Illinois is actually set to spend a record amount of money in Fiscal Year 2017, of almost $40 billion (Berg). Almost $10 billion of that is tied up in public pension payments (Berg). Regardless of a budget, it appears that Illinois will continue to spend incredible amounts of money and refuse to reform its ever increasing pension obligations.

Finally, Illinois' history of political corruption has a strong mark on Illinois's public pension system. Six Illinois governors have been arrested or indicted on a crime (Suddath). Recent governors George Ryan and Rod Blagojevich are two of these examples. Chicago has a long history of corruption, with almost too many examples to count. The current Speaker of House, Michael Madigan, has been repeatedly tied to corruption throughout his career. What does this corruption have to do with public pensions? First off, I find it hard to believe that Illinois' politicians can handle a massive pension program when they cannot even be trusted to do their jobs honestly and legally. Illinoisans have a real skepticism of politicians and it is clear to see why. Second, this political corruption is a sign that politicians are willing to do things that would not make sense, such as racking up as much pension debt as the state has. When analyzing incentives, one would not find that it would be in the best interests of politicians to do things that would create a lack of trust in the government. A lack of trust would make most people believe that Illinois' voters would not re-elect politicians if they are doing their jobs poorly. This, though, leads to my third point that some politicians in Illinois, especially some more powerful ones, stand to profit off of the state's issues. As pointed out in his article about politicians profiting from property tax hikes, Austin Berg points out that both House Speaker Michael Madigan and Senate President John Cullerton are members of law firms that specialize in property tax appeals (Berg). The more property taxes rise, the more these politicians can make by saving their clients' money on their property taxes. One way to hike property taxes is to have some sort of unsustainable program, like public pensions. This profit motive might help explain why there has been a real lack of reform with the public pension system, as well as a real lack of a willingness to reform it by many career politicians. It is not possible to definitively point to this and say that it is the main reason for reform, nor am I willing to make that accusation. These ties, though, are important to mention and they are important in the understanding of where Illinois has stood from a reform standpoint.

What Can Be Done?

Throughout my paper, I have laid out quite a bleak image of Illinois' public pension system. I concede that I have made the system seem entirely broken and hopeless. The system is very broken, but it is not one that I think is entirely hopeless. If people want to sit on their hands and avoid confronting these issues, then Illinois will suffer and the state will never reach the levels of economic prosperity that the state should be at. There are several options that Illinois policy makers can do to fix the system, or to help alleviate issues that the public pension crisis will create and or exacerbate. Let's start with how to fix the system flaws. As I have laid out above, Illinois has a defined benefit pension system. The problem with this system is that the state winds up having to make up the difference between the value of the pension investment and the defined amount an employee will receive. The most practical solution here, in my opinion, is to move all new public pensions into defined contribution, 401(k) style plans. This eliminates the gap that the state must dish out if the investment does not reach the amounts that an employee has been guaranteed. At the time of retirement, a state employee would receive only the value of the fund. Furthermore, I would propose that the pensions be run not by the state, but run by employees themselves. I believe that this is the best option because it shifts choice and risk onto the employee and it takes away any possible legal trouble that the state could conceivably find itself in. By making the employee in charge of their own 401(k), the state is not responsible for the value of the pension at the employee's retirement. Though it may be difficult from a legal standpoint, the state removes any liability it could have towards the pension plan, thus preventing any legal consequences. With this plan, a state employee has two major advantages. One is that they are in charge of their own retirement. They could hire an outside source to manage their money, as well. It allows them the freedom and autonomy to make their own financial decisions. Because the employee is not guaranteed a fixed income at retirement, this forces state employees to live within their means financially, and reduces any incentive that they may have for risky financial decisions. The second advantage is that it creates a major incentive for state employees to become more money and market conscious. Financial literacy is key in our country, and by making employees in charge of their own retirement, this can force employees to understand markets and how to properly make financial decisions. I will concede though, that having employees directly in charge of their retirement is a risky move. Reality tells us that a true understanding of our financial system and how to invest your own money is something not known by many people. This puts a bit of a limitation on some parts of this option for reform, but those choices would ultimately need to be made by policy makers.

In regards to removing the defined benefit plan for new state employees, this is a very broad reform measure. The reality is that there are a lot of ways in which this could be done. It ranges from proposals in the Illinois State Senate that would limit this reform to only five percent of new state employees to ideas that would place all new state employees into 401(K) plans. With this idea, there is not one single plan about how to do it and there is not a consensus around how far to do it. Also, there remains a large legal question that would need to be answered. There exists some possibility that this may not even be constitutional by the State Constitution, but that would need to be addressed through legal means before any major substantive reform would take place.

Unfortunately, moving to a 401(k) plan only fixes the system for new state employees. This plan would do nothing about the fact that most of the pension debt in the state is tied up in the pensions owed to Tier 1 pensioners who retired previously to 2011. Reforming these plans could come in a few ways, but these are plans that would be hard to accomplish, nor would all of them be constitutional in Illinois. The first plan would be to cut the pension payouts to retirees by reforming the Illinois Constitution. This plan would save the state billions of dollars, but it is potentially unconstitutional by the Illinois State Constitution. Article 8, Section 5 of the Illinois Constitution states, “Membership in any pension or retirement system of the State, any unit of local government or school district, or any agency or instrumentality thereof, shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired.” (State of Illinois). State officials could make a move to amend this part of the constitution, but it is highly unlikely and could potentially be political suicide for some people. Illinois has a process for this, but it was tried 2 years ago and wound up being unsuccessful. Personally, this is a plan that I am very much in support of, but it is one that is very unlikely. I believe this mostly because I believe that most people are not familiar enough with how bad of a condition the state is in. Voters would ultimately vote on this measure and I feel that it would not generate enough attention, unless voters come to the realization that they must pick between a total overhaul of the pension system or crushing tax hikes. The power of Illinois' unions I think would make this such a nasty political fight, excluding the power that the courts could even have on a proposal like this. If this plan were to ever come to light, I would support a measure that would get an estimate of what many retirees are likely to receive in their pensions. From there, I would advocate that lawmakers dish out a percentage of that estimation to retirees in either a one-time fashion, or over the span of a few years. Retirees would receive less than they were anticipating to receive, but they will have the option to re-invest some of that money and potentially make up some of the difference. This payment may make Illinois go through some time of financial hardship depending on how much would have to be given to retirees, but it would be better than the alternative of doing nothing about the existing payments that will have to be given out to retirees.

The final option that the state could do is to continue on with the status quo. The state can continue to disregard its pension crisis and wait until the bubble bursts. A debt bubble like this would likely put Illinois in some sort of Apocalypse-like financial situation. It is hard to pinpoint exactly what would trigger the bubble to burst or exactly when it could happen, but it is an inevitable thing if Illinois stays on the path it is on. In order to pay for these pension obligations, the state would likely need incredible tax hikes, which is likely to drive a mass of people out of the state before these were to set in place. Illinois would likely see a huge resource crisis, as almost all of the state's resources would have to be put towards pensions. I admit that this is an event that is hard to speculate on. Many people would say that Illinois would never hit this kind of point, but Illinois has gotten to this point with little done to prevent it. Looking at the lack of political will to handle legitimate pension reform and the legal hurdles that would go into overhauling the pension system, I think it is fair to assess that Illinois could reach a point of no return and fly off the fiscal cliff.

Overall, I am of the belief that the state needs to do two things, jointly, to save itself from complete and utter fiscal implosion. The first is to shift its new employees into 401(K) plans. This would remove the issues stemming from the defined benefit plan and reduce the stress placed on taxpayers, likely keeping them from leaving the state and create an avenue for property taxes to fall in the state. Without removing the defined benefit system, I think that Illinois will always suffer from politicians using pensions as a political tool, allowing them to dish out nice benefits and suffer no consequences from it. Removing this allows for individuals to be in charge of their retirement and prevents taxpayers from paying for people to retire. The second change that I would advocate for is to amend the constitution that would remove Article 8, Section 5's wording and replace it with something that recognizes the new pension system and allows for the state to change existing benefits. I do not have specific wording to solve this legal problem, but that is because I am not an attorney. Both of these issues would clear up Illinois' largest debt issue and work to get Illinois to a place of prosperity instead of the dry rot it has been in.

Limitations and Acknowledgements

Fortunately, I feel that I do not have a large amount of serious limitations for my project. I have been blessed to have a plethora of information to work with and I have been fortunate enough to have real time updates for my paper as the political battle for a budget in Illinois has gone on. Still though, I have a few limitations that I would like to discuss. A major one would be the numbers and actuarial side of public pensions. The amount that someone can be owed can vary with several factors including but not limited to retirement age, time in the workforce, and their employment sector. I will be honest with all of my readers by saying that the total amount of pension obligations that Illinois would be owed can be a bit of a murky number. If a mass amount of public sector employees were to retire before they were projected to, this could have some significant repercussions in terms of total obligations owed by the state. The same could be said in a scenario where employees were to retire, in mass, at a date past when they were anticipated to retire. Even with this potential reality though, I think the pension obligations could realistically only be worse than projections and are more likely to paint a worse picture for Illinois than a better one. Another limitation would be some of my political factors, particularly in regards to the few politicians I discuss in detail. I would like to do a more-full scale analysis of their voting records on public policy related to pensions, but that would likely be a separate project in itself. That is the type of work that is of immense importance to this topic, but one that would stray away from the goals of my paper. I am intending this paper to be a public policy analysis and a paper designed to inform the public that the public pension system is one that they are liable for. If anyone would like to elaborate on my paper or criticize it, I recommend examining the voting records of prominent Illinois politicians. My last limitation would be to do a larger examination of the funding formula system for the public pension system. I have a hard time doing this mostly because the pension system in Illinois is so massive. There are so many pension administrators for different professions that I simply do not have the time to gather all the information in terms of understanding every little factor that goes into determining what someone will receive upon retirement. Again, this is recommended research I would have for someone if they wanted to elaborate or criticize my paper.

I have several acknowledgements for my paper. First, I would like to thank Illinois Policy for the work that they have done. I cite a lot of their research throughout my paper. My goal for the paper was to draw the connections between the financial issues that Illinois has to the public pension system. I must thank them for the great work they have done on the litany of financial issues that Illinois faces and I only hope that I adequately drew the lines from those issues to the public pension system. Additionally, I would like to thank all of the authors for the rest of my sources for all the work that they have done trying to advocate for better public policy in Illinois. Next, I would like to extend my deepest appreciations to Dr. Mariano Magalhaes for being my advisor on this project. Thank you for pushing me as hard as you have and thank you for all of the feedback you have given me throughout the process of crafting this paper. In addition to Dr. Magalhaes, I would like to thank my classmates in my Senior Inquiry class for all the feedback they have given me. I appreciate all of the feedback and have tried my hardest to incorporate all of it into my paper. Finally, I would like to thank my brothers in the Delta Omega Nu fraternity for attending my presentation and being willing to listen to me when I get on my public policy soapbox. You all push me to be better at everything that I do and I cannot thank you all enough for that.

Figures

Figure 1

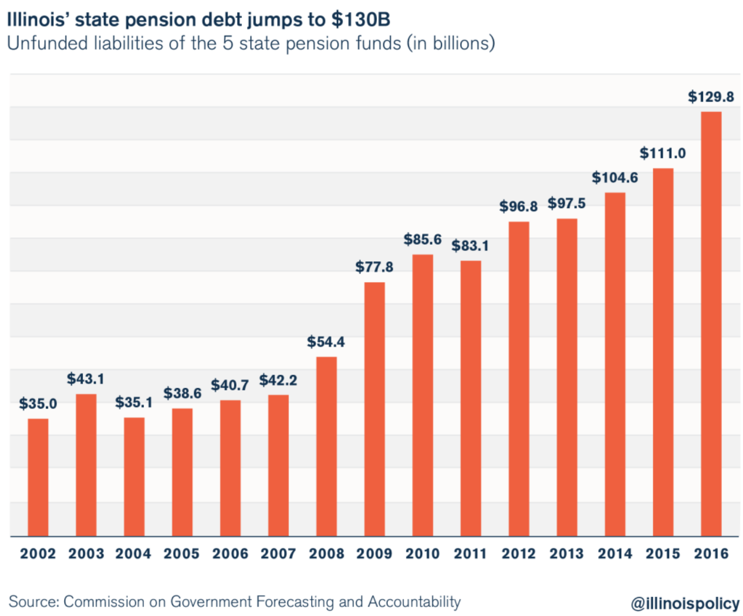

Figure 2

Career state retirees on average only contribute 4-8% of their lifetime payout*
Pension benefits of selected recently retired career employees in State Universities Retirement System

Name	Current annual pension	Total employee contributions*	Estimated total payout	Total employee contributions vs. expected lifetime payout*
Barling, Connie	$73,633	$112,102	$3,013,865	4%
Pilchard, Betty	$72,803	$131,549	$2,680,684	5%
Berbert, Kirk	$72,766	$135,080	$2,234,646	6%
Lifonti, Eugene	$72,708	$203,633	$2,682,477	8%
Minor, Cindy	$71,609	$131,872	$2,763,489	5%
Simmons, Rosemary	$71,546	$175,480	$3,163,247	6%
Patton, Brent	$71,448	$162,209	$2,411,582	7%
Finucane, William	$70,799	$115,610	$1,848,978	6%
Simpson, Aquanette	$70,529	$142,387	$2,202,885	6%
Harris, Frances	$70,010	$178,832	$2,222,647	8%

*does not include assumed investment returns earned

Source: 2015 FOIA request for member data from the 5 state pension funds

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Figure 3

Illinois' out-migration is much faster than other states, measured as a percentage of population

Five-year net migration rate for Illinois and surrounding states, April 2010–July 2015

State	5-year out-migration loss
Illinois	-3.3%
Michigan	-1.9%
Kansas	-1.8%
Regional Average	-1.4%
Ohio	-1.3%
Wisconsin	-0.9%
Missouri	-0.9%
Indiana	-0.7%
Minnesota	-0.7%
Nebraska	-0.4%
Kentucky	-0.3%
Iowa	-0.2%
South Dakota	1.3%
North Dakota	7.8%

Source: United States Census Bureau

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Figure 4

IL lawmakers who received no money from big government unions

Lawmakers receiving no donations from five biggest government unions, 2002 - 2014

Rep. Steven Andersson	R
Rep. Mark Batinick	R
Rep. Thomas Bennett	R
Rep. Peter Breen	R
Rep. Terri Bryant	R
Rep. Jeanne Ives	R
Rep. Sheri Jesiel	R
Rep. Dwight Kay	R
Rep. Margo McDermed	R
Rep. David McSweeney	R
Rep. Thomas Morrison	R
Rep. Reginald Phillips	R
Rep. Brian Stewart	R
Rep. Grant Wehrli	R
Rep. Keith Wheeler	R
Rep. Christine Winger	R
Sen. Neil Anderson	R
Sen. Scott Bennett	D
Sen. Michael Connelly	R
Sen. Dan Duffy	R
Sen. Darin LaHood	R
Sen. Sen. Karen McConnaughay	R
Sen. Matt Murphy	R
Sen. Jim Oberweis	R

Source: Illinois State Board of Elections

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Figure 5

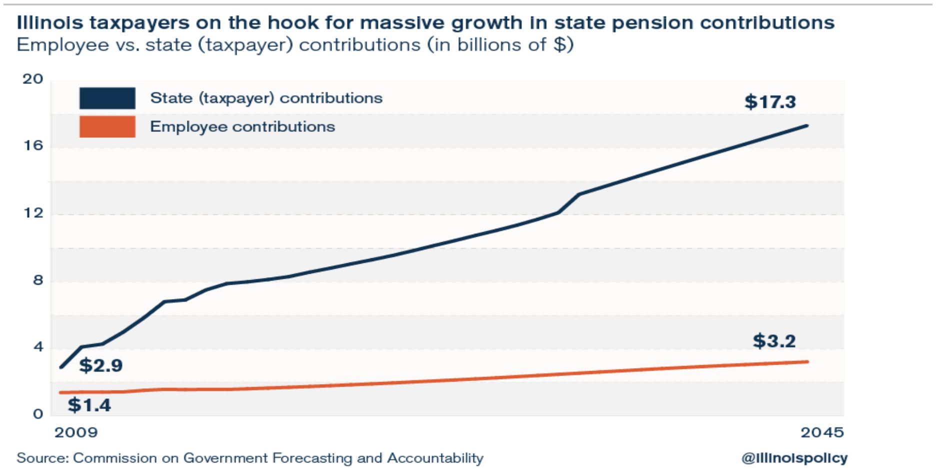

Figure 6

Lawmaker	Amount
Rep. Michael Madigan, D	$1,125,645
Rep. Mike Smiddy, D	$650,939
Sen. Gary Forby, D	$620,423
Sen. John Cullerton, D	$556,450
Sen. Andy Manar, D	$481,699
Sen. James Clayborne, D	$343,830
Sen. Dan Kotowski, D	$295,358
Sen. John Sullivan, D	$271,449
Sen. Don Harmon, D	$271,272
Rep. Will Guzzardi, D	$265,393

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