

Dear SIU Employee:

Given the extraordinarily negative fiscal consequences that the Great Recession has had on state budgets, including those resulting from the severe investment declines suffered by state pension plans throughout the country; many states, including Illinois, are now revisiting the fundamental question as to whether they have the political will to set enough money aside to pay for the pension promises they have made to their employees.

I write this communiqué to our university community at a time when policymakers in Springfield are considering major pension changes for the fall veto session that begins October 25th. These proposed changes could impact all employees hired prior to January 1, 2011

As you know, PA96-889 created a two tier pension system in Illinois that dramatically reduced the retirement benefits for new hires effective January 1, 2011. The actuarial savings associated with the plan is estimated at \$50 billion. Those savings are mainly derived from higher retirement ages, limits on pensionable salary, and lower cost of living increases for retirees.

However; since the plan only applies to new hires, the so-called "bending" of increasing pension payouts from the State University Retirement System (SURS) doesn't occur until 2038. The legislation was constructed in a prospective manner for new employees only, seemingly acknowledging the protection provided in the Illinois Constitution regarding the diminishment of pension benefits for current state and university employees, although that issue is now being challenged in the legislative process by propositions that alter benefit and contribution terms for pension credits not yet earned.

Unfortunately, the new normal for state government finances is that large amounts of revenues are now being required to be set aside for pension obligations at precisely the same time these revenues are needed to provide critical educational, social and health care services to the many families struggling in the aftermath of the recession. And; because annual retirement system contributions are rising faster than overall general revenue fund growth, they are increasingly competing with these other important budget priorities. This is the budget reality in Springfield; notwithstanding the fact that chronic underfunding and equity market downturns have created an \$85 billion shortfall in our pension funds, despite our employees having never missed a required pension contribution from their paychecks.

The unfunded liability issue of the state's pension plans has been a long standing issue in Illinois state finances. Public Act 88-0593 (1995) implemented a funding plan for the five State retirement systems that required the State to make contributions as a level percent of payroll in fiscal years 2011 through 2045, following a 15-year phase-in which began in fiscal year 1996. The contributions are required to be sufficient, when added to employee contributions, investment income, and other income, to bring the total assets of the systems to 90% of the actuarial liabilities by Fiscal Year 2045.

While this so-called "ramp" plan does require the state to follow an annual contribution schedule that will achieve a 90% funding ratio in all five pension

systems by 2045, the law does not require the State to make payments large enough to keep its unfunded liabilities from growing until about 2034.

Over the last two weeks the House of Representatives has been holding working group sessions on various pension related items in an attempt to determine if public employers, (universities, community colleges, K-12 school districts, local governments) public employees (collective bargaining representatives), the various pension funds and the business community can find common ground on a myriad of pension issues ranging from benefit and contribution issues to new revenue streams and so on.

In my view, the issue boils down to whether the legislature has the will and wherewithal to continue making multi-billion dollar pension contributions from the state's general revenue fund in accordance with the ramp schedule. If not, then what benefit, contribution (both employer and employee) and revenue changes will be acceptable to all parties in order to ensure financial sustainability to a fringe benefit plan critical for the university to stay competitive in a national human resources marketplace.

This fiscal year the state contributed more than \$5 billion of a \$29 billion total state budget to the state's pension funds. Another \$1 billion was appropriated to fund the debt service on more than \$17 billion in bonded indebtedness the state has incurred over the last several years as it engaged in trading soft pension debt (actuarially required contributions, ARC) for hard debt in the form of pension obligation bonds (POBs).

The idea behind the POBs was to borrow at historically low interest rates and reinvest the borrowed funds into a growing equities market. At this point in time the results have been mixed with equities underperforming historical averages. However; these contributions, even with the added interest costs, are still better than making no payments at all because inaction also has a high cost that can be measured in terms of expected rates of return and the unfunded liabilities based off of these return rates.

Some will argue that the constitutional protections currently in place are sufficient to address this situation and that no other actions are necessary except for the state to fund the ARC each year. After all, courts have ruled that pensions of current employees can't be diminished and that no retiree has ever missed a pension payment; and they would be right on both those points.

However; next year we will still have an \$85 billion unfunded liability facing our pension funds and the ramp payment will be \$400 million higher than this year. It also means that for the first time ever the state's pension payment for university employees is likely to exceed the appropriations for university operations. We have all witnessed over the last several years the negative impact of fewer state funds on the operations of our university and the effect it has had on affordability. As the future unfolds, it is expected that the ramp plan, if adhered to, will result in the pension payments moving from 26% of payroll to 30.4% by 2035.

In my opinion, to suggest that this pension problem is somehow someone else's concern (presumably the next generation of university workers and taxpayers) because these payments are guaranteed and that required payments have been neglected in the past, is a failure to recognize our responsibility to this state and to our university. I feel we must be a part of the solution in order to secure pension sustainability for our employees and to make public investments to public higher education an economic priority of this state once again.

I also don't believe we should make the mistake of failing to act now simply because of the underfunding sins of the past. The blame game is not an option because the path we are on is unsustainable. We must find solutions that work and be willing to consider well researched and collaborative ideas that will necessarily require financial commitments by both individuals and institutions in public education.

To that end, I am prepared to work with the university and other higher education leaders in serious and meaningful pension financing discussions.

It is my sense that if we don't fully participate in this process an ill-conceived and blunt response will be produced in Springfield that will only exacerbate the concerns I have about the potential loss of experienced faculty and staff to retirement and mid-career employees to private and out of state universities.

As the fall veto session approaches I will continue to keep the university community apprised of pending proposals and any specific legislation that may impact our employees' retirement benefits.

Thank you for the opportunity to share this information with you.

Glenn Poshard
President
Southern Illinois University