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Another View of Crowding Out

By Kurt Fowler

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INSIDE THIS ISSUE

Illinois' pension and retiree health care costs will crowd out other state spending in the future more so than in any other state, according to a new analysis by the Taxpayers' Federation. Our analysis is a follow up to an article published in *Tax Facts* last September, in which Thom Walstrum demonstrated how Illinois' pension costs would continue to rise as a percentage of revenue. By 2045, these obligations would grow to account for more than 60% of the revenue from General Fund income and sales taxes based on current law, effectively "crowding out" other spending priorities, such as education, human services, and Medicaid. This crowding out effect will be more severe in Illinois than in any other state and markedly worse than neighboring states based on this new analysis.

The Taxpayers' Federation has always maintained that the State must be competitive on two fronts. Illinois must first have a responsible tax burden that is comparable to surrounding states. Illinois has the 8th highest tax burden, at more than 10% of gross state product, according to an analysis by Jim Nowlan and Ryan Aprill in March 2011's *Tax Facts*. Already, the Illinois tax burden is well above that of all surrounding states and the national

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NOTES FROM THE INSIDE. . .

By J. Thomas Johnson

This issue is again dedicated to discussing Pension reform Issues facing Illinois. In a previous issue we introduced the subject that given Illinois' significant unfunded pension liability, the servicing of this debt would be "crowding out" spending for the delivery of current government services. The bulk of the state budget provides funding for education, healthcare for the poor or aged, or for human services for the developmentally disabled. There are those that believe that additional revenues can address both, but we have argued that our current state and local tax burden, already the 8th highest in the country cannot provide the answer. Programs will have to suffer.

The first article approaches the "crowding out" issue by comparing how Illinois' retirement related debts compare to the other 50 states. What it displays is that the state will have to use a lot more of its current tax resources to service this debt while other states, including our neighbors will have more of their tax dollars available to fund the delivery of current government services. States compete on two levels, among others. How does our tax burden compare? What do we get for the taxes that we pay? Servicing debt doesn't get you many points.

average. Illinois also must remain competitive in terms of the government services offered. Thom Walstrum showed that without significant reforms, rising pension costs will limit Illinois' ability to fund other important programs unless revenue is dramatically increased, making the State even less competitive with its neighbors in the tax burden ranking.

While our previous reports on pension obligations have focused on Illinois' rising costs, our new analysis compares Illinois' situation to other states. To compare accurately between the states, we have shown the pension costs as a percentage of total state own-source revenue, excluding intergovernmental (federal) revenues. State government revenues come from the 2010 Census of State Government Finances, and pension costs were from the 2012 Pew Center on the States' *Widening Gap Update* report, which analyzes the states' liabilities for all state administered pension programs in 2010. We recently have learned that Moody's Investors Service will be publishing a report that normalizes the comparability of the states by using a uniform discount rate, the expected investment earnings rate of 5.5% instead of the varying higher rates of return assumed by the states. A lower discount rate will result in even higher liabilities. We are awaiting this report, but for this analysis we use those liabilities that are based on the states' own actuarial assumptions.

Chart 1 shows the states' unfunded liabilities for their pension systems as a percentage of each state's own source revenue in 2010. It has been well noted that Illinois, at

CHART 1

RANK	STATE	UNFUNDED PENSION LIABILITY/REVENUE*
1	Wisconsin	0%
2	New York	11%
3	North Carolina	11%
4	Delaware	12%
5	Washington	14%
6	South Dakota	14%
7	Tennessee	25%
8	Nebraska	29%
9	Vermont	30%
10	Wyoming	35%
11	North Dakota	38%
12	Texas	48%
13	Iowa	50%
14	Utah	52%
15	Minnesota	54%
16	Florida	58%
17	Arkansas	58%
18	Georgia	60%
19	Oregon	64%
20	Massachusetts	64%
21	Idaho	65%
22	Michigan	66%
23	Pennsylvania	69%
24	Indiana	70%
25	Virginia	78%
26	Alaska	82%
27	Arizona	85%
28	Kansas	87%
29	California	88%
30	Maine	88%
31	West Virginia	88%
32	Missouri	92%
33	Montana	94%
34	Alabama	95%
35	Maryland	95%
36	New Hampshire	96%
37	New Jersey	100%
38	Hawaii	102%
39	New Mexico	109%
40	South Carolina	110%
41	Kentucky	124%
42	Louisiana	128%
43	Connecticut	134%
44	Mississippi	134%
45	Oklahoma	139%
46	Colorado	149%
47	Nevada	150%
48	Ohio	165%
49	Rhode Island	166%
50	**ILLINOIS**	**210%**
	National Average	**77%**

*Total Own Source Revenue excluding Intergovernmental Revenues from the Federal Government

45%, has the nation's lowest funded pension system. Due to its low funding status, Illinois has an unfunded liability equivalent to an astounding 210% of one year's revenue, which ranks it last in the analysis. Its neighbor to the north, Wisconsin, tops the ranking, with no unfunded liability. Wisconsin is the only state in the country with a 100% funded pension program. The other border states all rank substantially ahead of Illinois.

Illinois' low funding level is not the only reason for its last-place ranking on the first analysis. Illinois has a comparatively high-cost system as well. **Chart 2 on page 4** provides the states' total pension liabilities as a percentage of revenue. The purpose of this new analysis is to determine whether Illinois has created a high-cost pension liability compared to other states. Illinois' total liability amounts to 382% of 2010 revenue and ranks 41st. Illinois' low standing in this ranking could be attributed to either relatively expensive benefit costs or a more comprehensive inclusion of employees in the pension program. For example, the Illinois State government has taken on the liability of university employee pensions. Other states require the universities to fund their own employer share of pension costs. Regardless of the causes of these high costs, the State still made these decisions and took on the financial responsibilities. Interestingly, Wisconsin, which has the nation's only fully funded pension program, has a total pension liability equal to 395% of 2010 revenue and ranks behind Illinois, demonstrating that expensive programs can still be fiscally sound. Illinois' border states are

CHART 2

RANK	STATE	TOTAL PENSION LIABILITY/REVENUE*
1	Vermont	119%
2	North Dakota	136%
3	Delaware	152%
4	Nebraska	182%
5	New York	186%
6	Indiana	201%
7	Alaska	206%
8	West Virginia	210%
9	Massachusetts	221%
10	Kansas	228%
11	Arkansas	233%
12	New Hampshire	233%
13	Michigan	235%
14	Wyoming	247%
15	Tennessee	249%
16	Iowa	261%
17	Hawaii	263%
18	Maryland	264%
19	Minnesota	269%
20	Kentucky	270%
21	Washington	274%
22	Pennsylvania	278%
23	Virginia	278%
24	Texas	279%
25	North Carolina	281%
26	Connecticut	286%
27	Utah	290%
28	Louisiana	292%
29	Maine	294%
30	Idaho	311%
31	Montana	315%
32	Alabama	315%
33	Oklahoma	317%
34	Florida	323%
35	South Carolina	324%
36	Rhode Island	325%
37	Arizona	338%
38	South Dakota	344%
39	New Jersey	345%
40	Mississippi	374%
41	**ILLINOIS**	**382%**
42	New Mexico	389%
43	Wisconsin	395%
44	Missouri	400%
45	Georgia	400%
46	California	401%
47	Colorado	438%
48	Oregon	489%
49	Ohio	500%
50	Nevada	501%
	National Average	**310%**

spread out in the ranking on total liability for pensions, but what is more important from a competitive standpoint is the surrounding states' ability to pay for their programs rather than the cost of their benefits.

While pension systems have been the focus of most discussions, we also must include retiree health care costs in the analysis to give a more complete picture of the states' burden in funding their pensions and other post-employment benefits compared to the funding requirements for other government priorities, including education, human services, and health care for the poor. **Chart 3** shows the states' unfunded liabilities for retiree health care as a percentage of each state's revenue. The retiree health care costs were taken from the Pew report as well. Illinois ranks 46th, with an unfunded liability equal to 121% of 2010 revenue, almost double the national average of 63%. The high costs of the system are attributable to the generous health care benefits Illinois gives its retirees. Illinois has covered 100% of health care premiums for retirees with 20 years service along with significant support for their dependents, unlike most other states and private-sector employers (Civic Federation, 2007).

When the unfunded liabilities for pensions and health care are combined, we can see the true burdens of the states' retirement programs. **Chart 4 on page 6** shows the combined unfunded liabilities as a percentage of revenue. Not surprisingly, Illinois ranks last, with an unfunded liability equal to 331% of 2010 revenue. Wisconsin is first, as its unfunded liability, which comes solely from retiree health care, amounts

CHART 3

RANK	STATE	UNFUNDED HEALTHCARE LIABILITY/REVENUE
1	Nebraska[1]	0%
2	Oklahoma[1]	0%
3	Indiana	2%
4	North Dakota	3%
5	South Dakota[2]	3%
6	Idaho	3%
7	Oregon	4%
8	Utah	4%
9	Arizona	5%
10	Iowa	5%
11	Minnesota	5%
12	Kansas	6%
13	Wisconsin[2]	8%
14	Wyoming	8%
15	Mississippi	8%
16	Florida	10%
17	Tennessee	12%
18	Colorado	14%
19	Montana	15%
20	Virginia2	16%
21	Arkansas	18%
22	Rhode Island	19%
23	Missouri	22%
24	Nevada	24%
25	Washington	31%
26	Pennsylvania	41%
27	New Mexico	43%
28	Vermont	47%
29	Maine	49%
30	Kentucky	54%
31	Massachusetts	56%
32	California	60%
33	New York	67%
34	South Carolina	68%
35	Louisiana	71%
36	Alaska	77%
37	Maryland	79%
38	New Hampshire	84%
39	Ohio[2]	84%
40	Georgia	95%
41	Texas	95%
42	West Virginia	98%
43	Alabama	110%
44	Delaware	111%
45	North Carolina	116%
46	**ILLINOIS**	**121%**
47	Michigan	134%
48	Connecticut	170%
49	Hawaii	199%
50	New Jersey	200%
	National Average	**63%**

1 Nebraska and Oklahoma do not acknowledge significant obligations for Retiree Health Care

2 Retiree Health Care data for Wisconsin, South Dakota, Virginia, and Ohio are from 2009; all others from 2010

to only 8% of 2010 state revenue. All of Illinois' border states rank at least 10 levels ahead of it, and Iowa, Indiana, and Missouri all rank in the top half, with their unfunded liabilities as a percentage of revenue equaling about a third or less of Illinois'. The Map on page 7 reflects Illinois' comparative ranking to other states.

This analysis of states' unfunded liabilities can be used to show the sacrifices states will need to make as pension and retiree health care costs crowd out spending in other categories. Illinois will need to make the largest sacrifices of any state if its situation does not change, as tremendous budget cuts or uncompetitive tax increases over decades will be required to pay for an unfunded liability equal to more than three times one year's total revenue. Wisconsin and many other states, however, will be able to pay off their debts over a few years without affecting other spending priorities. Because of its large unfunded liability, Illinois will be competitively disadvantaged in offering quality government services at the same level as other states, even with a higher tax burden.

Illinois Tax Facts

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CHART 4

RANK	STATE	COMBINED UNFUNDED LIABILITY/REVENUE*
1	Wisconsin	8%
2	South Dakota	17%
3	Nebraska	29%
4	Tennessee	37%
5	North Dakota	41%
6	Wyoming	43%
7	Washington	44%
8	Iowa	55%
9	Utah	57%
10	Minnesota	59%
11	Oregon	68%
12	Florida	68%
13	Idaho	69%
14	Indiana	72%
15	Arkansas	76%
16	Vermont	77%
17	New York	79%
18	Arizona	90%
19	Kansas	92%
20	Virginia	94%
21	Montana	110%
22	Pennsylvania	110%
23	Missouri	113%
24	Massachusetts	120%
25	Delaware	123%
26	North Carolina	127%
27	Maine	137%
28	Oklahoma	139%
29	Texas	142%
30	Mississippi	143%
31	California	148%
32	New Mexico	152%
33	Georgia	155%
34	Alaska	159%
35	Colorado	162%
36	Nevada	174%
37	Maryland	174%
38	South Carolina	178%
39	Kentucky	178%
40	New Hampshire	179%
41	Rhode Island	184%
42	West Virginia	186%
43	Louisiana	199%
44	Michigan	200%
45	Alabama	204%
46	Ohio	249%
47	New Jersey	300%
48	Hawaii	302%
49	Connecticut	304%
50	**ILLINOIS**	**331%**
	National Average	**140%**

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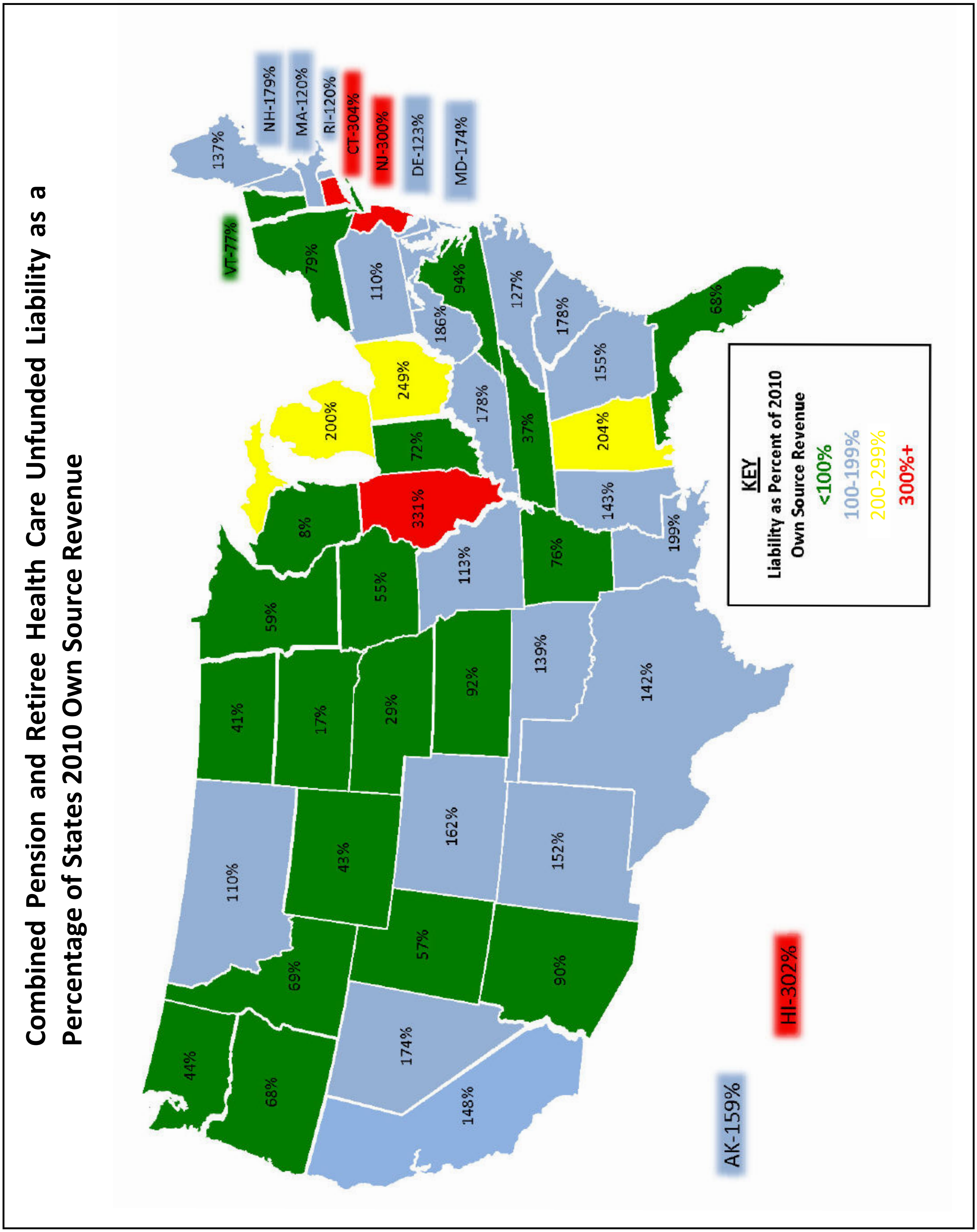

Combined Pension and Retiree Health Care Unfunded Liability as a Percentage of States 2010 Own Source Revenue
44%
68%
110%
69%
43%
174%
148%
57%
162%
90%
152%
41%
17%
29%
92%
139%
142%
59%
55%
113%
76%
8%
331%
143%
199%
200%
72%
37%
204%
249%
178%
155%
110%
186%
94%
127%
178%
68%
79%
137%
VT-77%
NH-179%
MA-120%
RI-120%
CT-304%
NJ-300%
DE-123%
MD-174%
AK-159%
HI-302%
KEY
Liability as Percent of 2010
Own Source Revenue
<100%
100-199%
200-299%
300%+

State Examples: What Illinois Can Learn from Other States' Pension Reform

By Miranda Cherkas

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As the worst-funded state in the nation, Illinois had an aggregate unfunded pension liability of $83 billion at the end of FY2011. Considering our position is dead last, we thought it would be beneficial to examine the examples of pension changes that other states have implemented over the past few years.

Illinois policymakers have been searching for a package of reforms to effectively and efficiently address the state's pension problem while treating both pension participants and taxpayers fairly. Based on the National Conference of State Legislatures' annual review of enacted state pension legislation, as well as state level data on pension funding compiled by the Pew Center on the States, this analysis of the pension changes that other states have implemented highlights some important lessons for Illinois' own pension reform efforts.

IMPROVED FUNDING

Some believe that Illinois could solve its pension problems by implementing a plan that made no changes to benefits but would fully fund the Annual Required Contribution (ARC) each year. Unfortunately, given the significant unfunded liabilities of Illinois' pension systems, improved state funding alone may be insufficient to return the state's pension funds to financial health in the short-term.

The Annual Required Contribution is an actuarial technique that identifies how much a state should contribute toward its pension fund each year to pay off its unfunded pension liability over a specified timeframe. Because the calculation of a given state's ARC involves an accepted range of assumptions, not all ARCs are created equal. Generally, the ARC includes paying the annual cost of pension benefits (the Normal Cost) as well as contributing toward the outstanding debt (the unfunded pension liability) and the annual "interest" on that liability.

Unfortunately, the more "in the hole" a state is (the greater its unfunded pension liability), then the harder it will be to climb out. Paying the ARC each year will bring a pension system to 100% funding eventually, but this long-term strategy may take decades to pan out (depending on the assumptions of the ARC), and the pension funds may remain financially unstable for years. In addition, the ARC includes annual payments of "interest" on any outstanding unfunded liability, similar to paying interest on a credit card balance. In Illinois' case, a strategy of simply funding the ARC will push today's $83 billion bill onto tomorrow's taxpayers for decades.

The following analysis of state funding levels shows that most states with well-funded pension plans have paid their ARCs consistently. However, many states with poorly-funded pension plans have also paid their ARCs over time, suggesting that simply paying the ARC may not be sufficient for a state to have a well-funded pension plan.

Listed in the chart below are the 16 states with well-funded pension plans in 2010. According to the Pew Center on the States, pension funds with funded ratios 80% and above are well-funded. Most of those states have fully funded or come close to fully funding their ARCs from 2000 to 2010 (2007 data is not included in the charts because it was not reported by the Pew Center on the States).

The remaining states listed on page 10 had funding levels below 80% in 2010[1], and many more states in this table have not fully funded their ARCs from 2000 to 2010. However, many states fully funded or came close to fully funding their ARCS (including Arizona, Arkansas, Idaho, Mississippi, and South Carolina) yet still had poor funding levels in 2010. Three of those states – Alabama, Hawaii, and Rhode Island – are discussed in detail below. Based on a comparison of these two charts, it appears that full funding of the ARC is necessary but may not be sufficient for the financial health of state pension funds in the short term.

Considering Illinois' low funded ratio, it does not appear that simply funding the ARC going forward will be sufficient to help the state's pension funds to recover in the near future. Fully funding the ARC is still necessary to improve the financial health of the pension funds, but additional reform will be required, both to improve the pen-

States with Above 80% Funded Ratios

	% ARC Paid										
States	2000	2001	2002	2003	2004	2005	2006	2008	2009	2010	2010 Funded Ratio
Delaware	84	80	80	88	91	93	97	96	97	97	92
Florida	111	110	97	98	92	102	96	104	108	107	82
Georgia	101	100	100	100	100	100	100	100	100	100	85
Iowa	101	100	100	99	91	86	84	85	87	89	81
Minnesota	162	156	172	148	114	115	99	74	78	65	80
Nebraska	X	100	100	99	100	91	100	100	100	100	84
New York	100	100	100	100	100	100	100	100	100	100	94
North Carolina	100	82	100	100	100	100	100	99	100	100	96
Oregon	95	95	97	100	100	101	X	100	100	100	87
South Dakota	100	100	100	100	100	100	100	100	100	98	96
Tennessee	100	100	100	100	100	100	100	98	100	100	90
Texas	102	138	104	86	83	83	84	99	99	82	83
Utah	100	100	100	100	100	100	100	100	100	100	82
Washington	104	164	57	27	22	20	28	62	73	53	95
Wisconsin	96	100	100	100	100	100	100	100	100	108	100
Wyoming	189	469	127	69	75	113	150	65	63	82	86

Color Code:	below 50	All decimals were rounded down. "X" represents where the data was not recorded by the Pew Center on the States.
50 to 59	60 to 69	
70 to 79	80 to 89	
90 to 99	100 & above	

[1] California is not included in either list due to the unavailability of accurate state data before 2008.

sion funds' health more quickly and to prevent future generations of taxpayers from paying off the debts accrued today.

State Example: *Alabama* has fully funded its ARC every year since 1997, but despite responsible funding, the state's pension funds have been declining. In 2010 Alabama pension plans had a funding level of only 70%. In 1997 the state pension system was 111% funded. According to Alabamapolicy.org:

"Since 2003, employer costs to the Retirement System of Alabama have risen from $296 million to $999 million per year. These skyrocketing costs are largely the result of three causes: (1) RSA employees can retire with full benefits at any age with only 25 years of service, or at age 60 with 10 service years; (2) current retirees have received generous cost of living adjustments (COLAs) that have often exceeded inflation rates; and (3) the introduction of the (now repealed) Deferred Retirement Option Plan (DROP) in 2002, which cost the RSA almost $60 million per year."

Low investment returns also hurt

States with Below 80% Funded Ratios

	% ARC Paid										
States	2000	2001	2002	2003	2004	2005	2006	2008	2009	2010	2010 Funded Ratio
Alabama	100	100	100	100	100	100	100	100	100	100	70
Alaska	99	109	120	118	92	47	61	106	110	83	60
Arizona	100	100	100	100	100	100	100	101	101	101	75
Arkansas	102	101	102	102	101	110	108	100	103	106	75
Colorado	100	100	100	69	52	49	62	68	66	66	66
Connecticut	94	94	99	94	89	88	100	259	96	87	53
Hawaii	13	5	100	100	100	100	100	104	104	102	61
Idaho	117	131	131	110	98	102	107	111	132	113	79
Illinois	114	80	78	67	111	44	33	57	71	87	45
Indiana	125	123	108	103	78	85	101	103	103	94	65
Kansas	77	78	80	79	69	69	63	65	68	72	62
Kentucky	101	101	104	100	94	93	86	66	58	58	54
Louisiana	105	107	102	97	93	101	101	115	97	84	56
Maine	102	100	165	109	112	105	106	100	100	103	70
Maryland	100	100	100	92	89	83	82	89	84	87	64
Massachusetts	99	116	101	67	63	101	94	111	66	65	71
Michigan	111	126	89	78	65	78	83	111	100	86	72
Mississippi	100	101	101	100	100	100	100	97	100	100	64
Missouri	100	100	100	96	84	77	81	87	90	89	77
Montana	129	130	100	99	94	91	153	104	92	81	70
Nevada	97	100	96	90	99	100	96	93	90	92	70
New Hampshire	100	100	100	100	100	100	100	75	75	100	59
New Jersey	29	17	3	4	8	15	27	57	36	32	71
New Mexico	99	99	100	100	100	96	91	88	93	88	72
North Dakota	101	101	101	97	81	67	66	74	80	66	72
Ohio	100	100	100	100	97	98	93	89	94	67	67
Oklahoma	71	77	71	64	60	58	73	79	77	70	56
Pennsylvania	100	112	219	117	100	46	35	40	31	29	75
Rhode Island	100	100	100	100	100	100	100	100	100	100	49
South Carolina	100	100	100	100	100	100	100	100	100	100	66
Vermont	96	96	96	86	67	75	76	94	93	94	75
Virginia	93	100	71	64	85	83	87	92	82	67	72
West Virginia	104	106	108	105	104	147	182	105	96	93	58

the state's pension funding level. Given the expense of Alabama's pension plans and low investment returns, even paying the ARC at 100% for many consecutive years has not been sufficient to increase the state's funding ratio in the short-term.

State Example: *Hawaii* has also fully funded its ARC in the most recent nine years but has had trouble recovering from the results of poor funding policies from the past. From 2002-2010, Hawaii paid its ARC at a minimum of 100%, although, according to the Pew Center on the States, the state reduced its annual contributions in 2000 and 2001, taking what is called a "pension holiday". Hawaii funded its ARC at 13% in 2000 and at 5% in 2001. Before taking the pension holiday, Hawaii's pension systems were funded at 94% in 1999. After the pension holiday, state funding levels dropped 10 percentage points to 84% funded in 2002. Even after funding 100% of the ARC for the next nine years, Hawaii's plans did not recover and were only 61% funded in 2010. In addition, according to the Pew Center on the States, Hawaii experienced "dismal" investment returns in 2001-2002, causing another reason for the state pension funding level to decline despite responsible funding of the ARC after taking a pension holiday.

Furthermore, Hawaii legislated pension benefit changes for new employees in 2004, which required new employees to contribute 6% of their salaries, retire at a later age, and accrue benefits at a lower rate starting in 2006. Hawaii's state funding level actually increased from 65% to 69% from 2006-2008 (despite continuing low investment returns), after new employees were hired under the reformed plan. Unfortunately, in 2009 the state fund's net assets decreased $2 billion because of the recession in 2008.

State Example: *Rhode Island* also has a history of responsibly funding its ARC but still had a poorly-funded pension fund in 2010 due to outside factors, such as benefit expense and low investment returns. Rhode Island did not begin to fully fund its ARC until 1986, but since then, the state has funded its pension system every year at 100% of its ARC. However, the state's pension funding level does not reflect its responsible funding; Rhode Island state pensions were funded at 61% in 2008 and 49% in 2010 (making it the only state with less than 50% funding in 2010 other than Illinois).

In an effort to improve the fiscal health of its pension funds, in 2011 Rhode Island overhauled its Defined Benefit plan for both current and new employees and created a new hybrid plan, which went into effect in 2012. The new plan suspended COLAs for current as well as for new employees, but allowed for intermittent COLAs every five years until the system is 80% funded. The new plan also increased the minimum retirement age, decreased the accrual rate for service years worked after the legislation's enactment, and decreased the assumed rate of return from 8.25% to 7.5%.

Therefore, an analysis of the data from all of the states in the nation suggests that fully funding the ARC has helped many state pension systems remain healthy. However, once a system has gotten off-track and developed a significant unfunded pension liability, fully funding the ARC appears to be insufficient to return the system to a healthy funding level in the short term. To improve pension funding more quickly and to limit the burden left for future generations, many states have turned to additional benefit reform.

BENEFIT CHANGES

According to the National Conference of State Legislatures, major pension changes have occurred in most[2] states since 2000 and most state pension modifications were enacted after 2008.

The majority of changes have been for new employees, and the most common changes for new employees are increases in retirement eligibility and employee contributions. However, only current employee/retiree pension reform has the potential to reduce a state's unfunded pension liability. The most common change for current employees/retirees is changing COLAs and increasing employee contributions.

- 8 states changed retirement eligibility for current employees; 34 states changed retirement eligibility for new employees.
- 13 states changed COLAs for current employees and/or current retirees, and another 5 states changed COLAs for current employees only and not for current retirees; 24 states changed COLAs for new employees.
- 24 states changed employee contributions for current employees; 35 states changed employee contributions for new employees.
- 15 states changed accrual rates and/or FAS (Final Average Salary) calculations for current employees; 35 states changed accrual rates and/or FAS calculations for new employees.

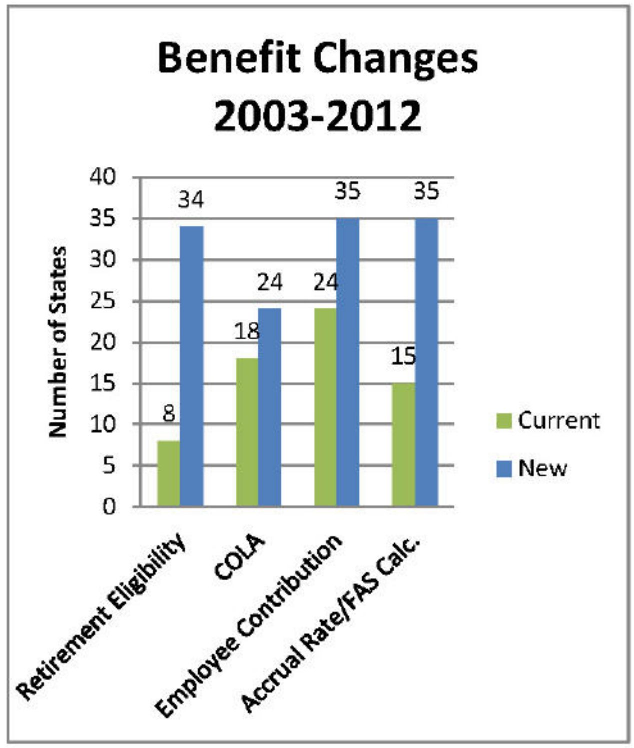
Enacting pension changes for new employees is more common and seems less challenging

Pension changes in this article include alterations to:

- retirement eligibility (age and service requirements)
- cost-of-living adjustments (COLAs)
- employee contributions
- accrual rates
- FAS (Final Average Salary) calculations, which include the number of years that are calculated into an employee's final pension

This article reports major pension legislation that impacted state employee and teacher pension systems. Changes specifically targeted at groups such as legislators or judges are not included.

While the majority of these changes reduced pension benefits, a few, generally enacted before 2008, were benefit enhancements.



[2] Except in Idaho, North Carolina and Tennessee

than enacting pension benefit changes for current employees/retirees because new employee benefit changes do not impact those that currently hold jobs and already have expectations of the nature of their final benefit packages. However, while changes to current employee/retiree pensions seem more likely to lead to legal challenges, such pension changes are the only kinds of changes with the potential to restore underfunded pension systems because they can decrease the already-accrued unfunded pension liability. Changes for new employees will only slow the rate of increase of the unfunded liability and lower annual state contributions in the future as new employees are hired.

Of the 33 states that changed pension benefits for current employees/retirees, 21 states (or 63%) had funding levels below 80% in the same year that the state enacted pension changes. Another 8 states had funded ratios between 80% and 86% in the same year as their current employee pension legislation. Low funding ratios appear to be associated with the willingness of a state to take the more difficult step of changing pension benefits for current employees and/or retirees.

CONCLUSION

While improved funding of Illinois' pension systems is a necessary part of the solution to our current pension crisis, the examples of other states suggest that better funding alone will not be sufficient to return our pension systems to fiscal health in the short term. If Illinois were to enact pension benefit changes for current employees as a part of a comprehensive package to address the financial crisis, we would join the majority of states that have changed benefits for current employees in response to poor pension funding levels. The ultimate goal of reform is to save pensions for employees so that they can have a secure retirement and to save the state so that Illinois can provide needed public services and economic prosperity to its hard-working citizens.

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Rhode Island State Example
http://www.treasury.ri.gov/documents/SPRI/TIN-WEB-06-1-11.pdf
http://www.treasury.ri.gov/secure-path-ri/legis/RetirementSecurityAnalysisAmendNov11Final.pdf

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8:00 -8:30 REGISTRATION

8:30 - 8:45 WELCOME

8:45 - 10:25 GENERAL SESSION

ILLINOIS - THE CHANGES HAD TO COME...AGAIN
Paul Bogdanski, *Senior Manager, State & Local Tax,* Grant Thornton LLP - Chicago
Brian Walsh, *Director,* Deloitte Tax LLP - Chicago

MULTISTATE MUSINGS
Messrs. Marcus and Mayster will mull over myriad of multistate developments, from federal legislation impacting state taxes to local issues that should be of concern to every state tax professional
Fred Marcus, *Partner,* Horwood Marcus & Berk Chartered - Chicago
Bryan Mayster, *Managing Director, PricewaterhouseCoopers LLP* - Chicago

10:25 - 10:45 NETWORKING

10:45 - 12:00 GENERAL SESSION

ILLINOIS DEPARTMENT OF REVENUE: DEVELOPMENTS AND PRIORITIES

Senior Staff at Illinois Department of Revenue

MODERATORS:
Tom Johnson, TFI
Mike Lovett, *Director,* PricewaterhouseCoopers LLP - Chicago

12:00 - 1:30 LUNCH
Scott Hodge, President, Tax Foundation, Washington DC

1:30 - 2:30

A. TIF - WHAT TO DO WHEN INCREMENT DISAPPEARS EZ - PROVING THEY WORK
Craig Coil, *President,* Economic Development Corporation of Decatur and Macon - Decatur
Mark Denzler, *Vice President & COO,* Illinois Manufacturers Association - Oak Brook
Tom Henderson, *Executive Director,* Illinois Tax Increment Association - Springfield
Jim Kane, *Executive Managing Director,* True Partners Consulting LLC - Chicago

B. TO COMBINE OR NOT TO COMBINE - DOES THE "LIKE APPORTIONMENT" RULE STILL MAKE SENSE FOR PURPOSES OF DETERMINING ILLINOIS UNITARY BUSINESS GROUPS?
Ted Bots, Baker & McKenzie LLP - Chicago
Dean Bruno, *Exec. Dir.,* Ernst & Young LLP - Chicago

C. BOUNTY HUNTERS & THE ILLINOIS FALSE CLAIMS ACT - IF YOU CHARGE FOR SHIPPING, YOU MAY BE NEXT
Cate Battin, *Partner,* McDermott Will & Emery LLP - Chicago
Dave Kupiec, *Attorney at Law, Kupiec & Martin LLC* - Chicago

2:30 - 2:50 NETWORKING

2:50 - 3:50

A. TAX COMPLIANCE AND AUDIT MANAGEMENT - THE VALUE PROPOSITION

SALES AND USE TAX
Mike Gamboa, *Senior Manager & Illinois Transaction Tax Leader,* Crowe Horwath LLP - Oak Brook
Mike Rubino, *Director, State Tax,* Deere & Company - Moline
Jim Tauber, *Managing Director,* WTAS LLC - Chicago

INCOME TAX
Karen Boyaris, *Senior Manager,* KPMG LLP - Chicago
Denise Obrochta, *Director, State & Local Taxes,* Navistar Inc. - Lisle
Carol Portman, *Assistant General Counsel,* Sears Holdings - Hoffman Estates

B. 2013 ILLINOIS TAX TRIBUNAL - INDEPENDENT REVIEW OF DEPARTMENT ACTIONS
Connie Beard, *Attorney at Law,* Illinois State Chamber of Commerce - Springfield
Mary Kay Martire, *Partner,* McDermott Will & Emery LLP - Chicago
Mike Wynne, *Partner,* Reed Smith LLP - Chicago

3:50 - 4:50

ETHICS FOR TAX PROFESSIONALS - AN INTERACTIVE SESSION
Scott Heyman, *Partner*, Sidley Austin LLP - Chicago
Kristopher Keys, *VP & Deputy General Counsel, Compliance & Ethics*, Exelon Corporation - Chicago

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