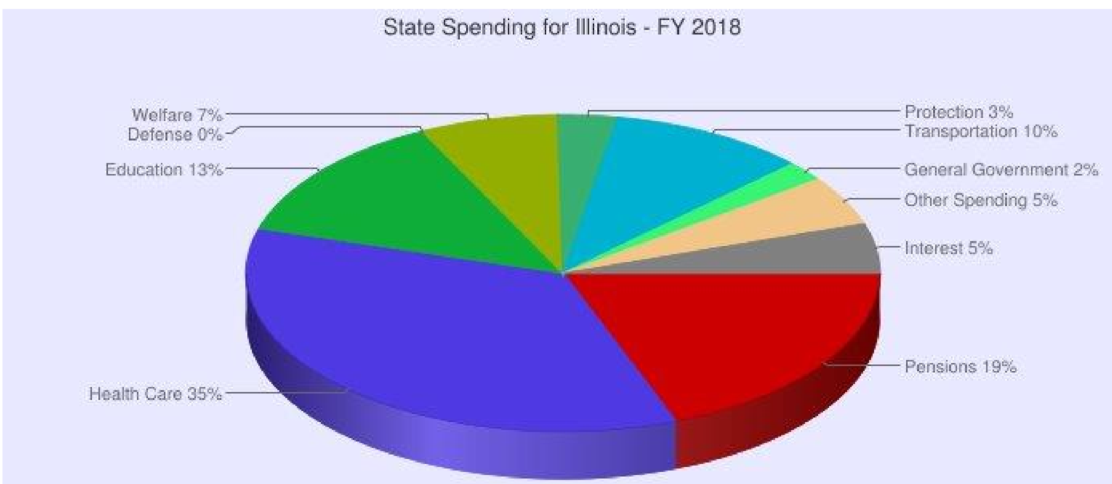
Watch Dr. Feng's interview with Terry Martin from the Illinois Channel!

SUAA Mini Briefing

February 8, 2018

Challenges Ahead . . . Calls for Fundamental Thinking

It becomes evident that as the fiscal problems of the State increase there needs to be solutions brought forward to the General Assembly Leadership regarding ways to help solve the ever-increasing debt. The pension portion of the debt is currently crushing the State budget. While it is not the only critical squeeze to the budget, pension debt is a large slice.

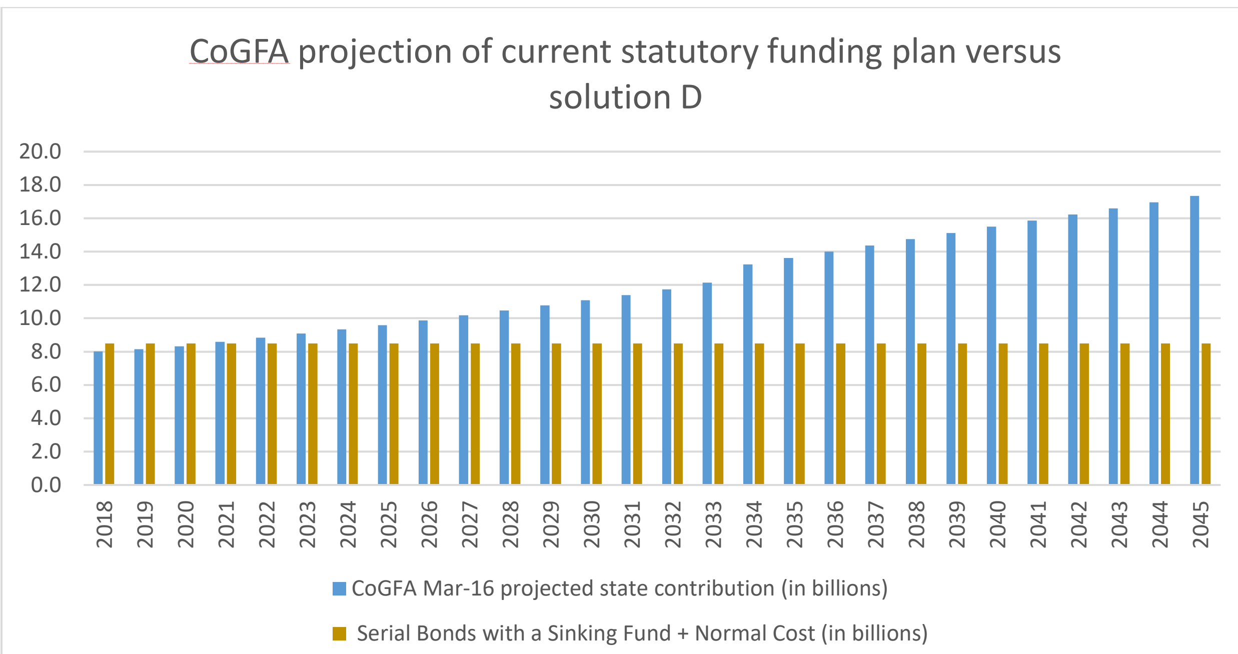


Towards the end of 2016, SUAA began working on a solution to ease the ever-growing pension ramp that was created to bring the 5-State supported pension systems up to 90% funding by 2045. While the 1994 legislation was intended to force payment to the systems, it actually caused a financial burden for the State that has become truly unsustainable. In addition, there have been pension holidays which have caused additional deficiencies to the payment plan.

Therefore, creating a plan to solve the fiscal burden became a real focus for SUAA; a focus that has provided quite a bit of insight as to how this problem can be fixed permanently, rather than to tolerate the false thinking that nothing can be done other than ignore the "elephant" growing within the State spending.

SUAA continues to be extremely fortunate to be able to work with Professor Runhuan Feng, PhD, FSA, CERA, from the University of Illinois. Dr. Feng has been able to put together several solutions that could work in this low interest environment. In addition, SUAA was able to engage Chairman Representative Robert Martwick of the House Personnel and Pensions Committee to take a look at the Plans. Representative Martwick is a forward thinker and understands our goal. Making changes to Tier I could not solve the State's fiscal problems. It is time consuming to rehash the already known as this type of thinking goes nowhere, and because PA-98-0599 was previously overturned. Luckily, Chairman Martwick understands the law and is willing to push to solve this part of the fiscal problem.

It was determined fairly quickly that Solution D would be the plan to put forward. Within this Plan, the following slide became the most important motivation. Representative Martwick believes, as SUAA does, that the payments have to be leveled out or the original Ramp will implode leaving the pension systems to remain at low to lower funding levels. Currently, SURS is at a 43% funding level. Pension systems that continue to limp along during strong financial environments are not prepared to further weather fiscal storms.



House Bill 4371 became the Pension Obligation Bond legislation. In accordance, the Subject Matter hearing was presented on Tuesday, January 30th, 2018. While Representative Martwick is the sponsor of the bill, he is not taking a position at this time. Those who testified were Representative Martwick; Linda Brookhart, Executive Director of SUAA; and, Dr. Runhuan Feng.

Representative Martwick made it clear that there were various questions that would need to be addressed. However, due to the potential savings this bill is worthy of consideration by the Committee. Linda Brookhart confirmed that the point of holding the Subject Matter Hearing was to begin the conversation to address the pension funding debt problem. "We are now more than 20 years into a 50-year payment plan, with the goal of 90 percent funding by 2045 . . . But we are paying too much for too long – and back-ending the payments only adds to the pain that grows every year."

It is SUAA's hope that the plan that was outlined by Dr. Feng will change how we think about managing our debt.

SUAA believes that Bonding done properly can manage the State's unfunded pension liability.

SUAA wants to provide security and stability to the pension systems.

SUAA wants to give our State budget a much-needed break from the pension crunch.

SUAA views Plan D – Pension Obligation Bonding as a start to a very important conversation concerning pension debt. How do we keep the promises that have been made and not ruin our State's finances to do it?

SUAA is open to work with the Personnel and Pensions Committee to find a better way to fund the pension debt in Illinois.

$107.42 Billion Bond Sale would be the largest in the history of the United States, but it could be done. Or, the possibility of using bonds to fund the re-amortization of the 1994 Ramp is another option. Doing nothing will cause further harm. Being proactive before further problems prevail is a must.

Leveling payments of $8.5 billion per year was presented because of a desire to keep bond and pension obligation payments constant over the next 27 years – approximately equal to current annual pension payments. If the State takes no action the pension payments will balloon to around $18 billion per year, an amount that grows by $13 million for every year the State delays addressing this issue.

SUAA is confident, with Representative Martwick's leadership, the conversation will not fade. It will continue. SUAA is also confident that grassroots activity is a must from its membership. We are quite aware that the Plan is not easy to explain in layman's language. In addition, it is not easy for legislative leadership to understand either. Using visuals is quite helpful. Getting to level payments is the goal as is shown in the above projection slide.

From the hearing:

1. What is the likelihood the bond market would be receptive to Illinois having a bond sale that large? At this time, the bonding companies have not been favorable, but the response came before the hearing and before the presentation had been released. We have to admit that we are meeting with resistance, but again, SUAA has started the

conversation. Future hearings will be held in order to address whether Plan D can be combined with other possible solutions as is intended.

2. There is interest within the Personnel and Pension Committee about buying back pensions at a discount for individuals that are no longer employed – paying into a pension system, but they are not eligible to retire. This would reduce the pension debt which would cause Plan D to be modified.
3. What is the risk to the State by issuing these bonds? Such risks would be based on the assumed rate of return of 7% (from the historical records of SURS investments). The interest rate the State would have to pay for the bond sale is not known but believed to be low. And lastly, is the "worst case scenario of an average return of 5.5% conservative enough? It is believed so.
4. Are there alternative solutions to the pension problems that would reduce pension benefits? Any proposed solutions would likely run afoul of the Illinois Constitution Protection Clause.

There are definitely challenges ahead. More work. More conversations. But SUAA is off to a good start in spite of negative headlines from bonding companies.

More information will be coming. There will be opportunities for negotiations going forward.

The Governor's Budget Address is Wednesday, February 14th. You can access it through the General Assembly's website. It will begin at Noon!

If you would like to view the slides that were presented at the House Personnel and Pensions hearing on Tuesday, January 30th, you can access here! (Click on the word here.)