

Retirees Today

Illinois State Employee Association Retirees

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Winter 2024

Not a Day Late, Not a Dollar Short

By John Coady, ISEA Retirees Board President

Passion at ISEA Retirees: If we were to post a “Passion Statement” on our website, it would carry the message “Not a Day Late, Not a Dollar Short.” We at ISEA Retirees are dedicated to the proposition that no member of ISEA Retirees during retirement years ever receives his State of Illinois pension late or in a diminished amount. The following describes some of the setting and moving parts of what we deal with in the endless fight to preserve pension rights and benefits.

Solvency and Funding:

In the governmental pension sphere, the only realistic route to the goal of solvent pension funds is for the pension funds to be properly funded and properly managed. “Solvency” means the assets of the pension fund equals or exceeds the liabilities. In simplistic terms, assets are basically measured by money held and the market value of investments. Liabilities are calculated by the amount of money needed to pay timely pensions while factoring in reasonable market returns and individuals’ retirement dates and life expectancy.

The funding for Illinois state pension funds comes from three sources: employee contributions, State payments, and earnings from investment of the pension funds. No one familiar with the pensions systems of Illinois questions the five pension funds of the state-funded retirement system are underfunded and have been for many years. Per the Commission on Government Forecasting and Accountability (COGFA) in its November 2023 briefing, the total unfunded liabilities of the state systems amounted to \$141.4 billion as of June 30, 2023.

Pension Boards:

Each of our five state-funded pensions have a board that oversees activities of each retirement system. Two of the systems, TRS and SURS, manage their own pension funds. The funds of SERS, JRS and GARs are managed by the Illinois State Board of Investments (ISBI).

With (1) annual payments over \$10 billion from the State of Illinois to the state funded pension plans, (2) funds’ assets approximating \$115 billion dollars, and (3) the longstanding underfunding of the pension funds over \$141 billion dollars, it is crucial TRS, SURS, and ISBI conduct its work skillfully, efficiently, and shrewdly to maximize the profitability of the investments.

For several years, the overall the earnings from investments have trended positively. Fees paid to the pension funds’ investing partners have reportedly been reduced over those years. Both are steps in the right direction.

ISEA Retirees keeps tabs on restrictions and policies imposed by the legislature on the kinds of investments that may be made. Investing with companies domiciled in Russia is one type of prohibited investment. On the other hand, pension funds are mandated to consider certain classes of companies if

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consistent with “financial prudence.” Examples include businesses owned by minorities, women, and persons with disabilities. The fear is that too much legislative interference could evolve into significantly reduced investment yield to support political agendas.

The major challenge for the managers of the state pension funds is beyond their direct control, and that challenge is the overall market performance of the national economy. Downswings, sustained poor market performance, and recessions could threaten to reverse any recent gains with solvency and to worsen the funding problems. It is then that their best skilled efforts will be needed to minimize the impact of difficult economic times on our pension funds.

Payments by the State of Illinois to the Pension Funds:

Regardless if employees continue to make all required pension payments, regardless if the national markets perform well, and regardless if the pension funds maximize returns on investments, all is for naught if proper, timely, and consistent funding is not provided by the State of Illinois to the “state-funded pension funds.”

Payments by the State of the pension funds must be properly calculated per actuarial standards to reduce unfunded liability. Recently the assumed return on investments have fallen short of the actual investments’ returns and the pension liability increases as a result.

Payments must always be in full and never late. A familiar example for some of us was a mid-1990s alternative approach to full payments involving a “ramp” of payments over 15 years. That approach, coupled with the “pension holidays” in 2006 and 2007, lead to this assessment by the U.S. Securities and Exchange Commission in 2013:

The SEC observed that from 1996 to 2010 “the State’s unfunded liability increased by \$57 billion” with insufficient State contributions as the “primary driver of this increase.” (Illinois Public Pension Reform: What’s Past is Prologue, Eric Madiar, 2014)

Non-payment, partial payments, and late payments upend actuarial calculations and reduce investment earnings creating, or in our case, aggravating pension funding issues.

Positive Developments:

The State deserves credit for recent trends with payments to the five state-funded pension plans. Our perception is that these steps were not happenstance and were instead the result of policy changes within the Comptroller’s Office toward the importance of proper pension funding.

Payments for the last several years have always been in full. As somewhat of a surprise announcement from the Governor in 2023, an extra payment of \$300 million was made at the end of fiscal year 2022. Another extra payment of \$200 million was made in fiscal year 2023.

Payments for the last several years have not been late. Recently, some payments have been early, and just as delayed payments inflicts unexpected negativity on the funds, early payments provide opportunity for enhanced returns on investments.

Our Passion:

ISEA Retirees monitors with dogged attentiveness and, when benefits are threatened, with strong advocacy and action. “Not a Day Late, Not a Dollar Short” is continually pursued with the legislature, with the governor’s office, with administrative agencies, with relevant boards, and in the courts for the welfare of our state retirees.

Capitol Update by Jessica Nardulli

January 2024

Members of the Illinois General Assembly are actively seeking to “fix” a 2010 law that sought to address Illinois’ pension crisis by cutting retirement benefits for future public employees by creating a new tier of pension benefits for state and local government employees hired after January 1, 2011. The new tier of benefits, known as Tier 2, has slowed the growth in pension liabilities as Tier 2 employees become a greater portion of the government workforce and retired population. However, despite lower benefits for Tier 2 employees, employee contributions were not lowered to compensate for reduced benefits. Tier 2 employees contribute the same percentage of their salary to their pension fund as Tier 1 employees.

Lawmakers and interest groups now believe the Tier 2 benefit structure could potentially be depriving workers of benefits they are entitled to under federal law , meaning they took the benefit reductions too far. Any fix to Tier 2, however, will cost money, potentially hundreds of millions more in pension obligations for public employees.

State. Sen. Robert Martwick, chair of the Senate Special Committee on Pensions, believes legislation to increase benefits cannot wait any longer. Critics of filed proposals, like leaders of the nonpartisan budget watchdog The Civic Federation, say Martwick and like-minded lawmakers risk repeating their predecessors’ mistakes by plowing forward with a “fix” without pension actuaries studying how the new benefit formula would hold up over time.

The problem with Tier 2 pensions is that if the payments are too small, public workers would have standing to sue their employers based on a federal rule that pension payments must exceed the income that workers would otherwise earn from Social Security payments. This is otherwise known as the federal Safe Harbor threshold. In 2010, when Tier 2 was enacted, governments would have cleared the Safe Harbor threshold, but Social Security benefits have since grown with inflation, Tier 2 benefits have not kept pace.

Specifically, the issue is the growing difference between the Social Security Wage Base (SSWB) and the Tier 2 pay cap, both of which are the upper salary limit upon which retirement benefits can be based. The two have diverged since 2011 because the Tier 2 pay cap increased at a slower rate than the SSWB. Both of these figures were \$106,800 in 2011, but as of 2023 the SSWB is \$160,200, while the Tier 2 pay cap is

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ISEA Retirees Budget Tax Year 2024

Revenue	<u>Actual</u>	Expenditures cont.	<u>Actual</u>
Dues	\$209,222.50	Office Supplies	\$1,172.00
Investment Income	\$54,802.00	Miscellaneous	\$340.00
Miscellaneous Revenue	\$9,776.00	Printing & Reproductions	\$2,660.00
Cash Reserves	\$10,000.00	Seminars/Continuing Ed/	\$461.00
Total Revenue	\$273,800.50	Travel	
Expenditures		Postage	\$3,930.00
Salaries	\$133,347.00	Telephone	\$4,408.00
Payroll Taxes	\$10,515.00	License & Fees	\$559.00
Contractual Labor	\$33,163.00	Legal & Accounting	\$450.00
Maintenance & Repairs	\$65.00	Computer/Maintenance	\$2,219.00
Utilities	\$2,917.00	Rent	\$19,251.00
Insurance	\$3,654.00	Technology	\$1,200.00
Furn, Fixt, Equip Rental	\$0.00	Contingency	\$1,000.00
Dues & Subscriptions	\$589.00	Board Meeting	\$1,778.00
		Tax Preparation	\$5,898.00
		Total Expenditures	\$229,576.00

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only \$123,489. If a pension plan's benefits fall out of compliance with IRS rules and fail to meet the Safe Harbor tests, employees would be subject to a Social Security withholding of 6.2% of their salary, matched by an employer contribution of 6.2%, in addition to pension contributions. Some employers pay as little as 1-3% for Tier 2 employees.

Recent efforts to backtrack on earlier cuts for Tier 2 employees include a law to consolidate hundreds of downstate pension funds, which included a provision that raised the salary cap (tying the Tier 2 cap to the Social Security wage base) for suburban and downstate police and fire department pension payouts and gave them more room to catch up with inflation.

House Pension Committee Chair Rep. Stephanie Kifowit conducted subject matter committee hearings during the summer months. Kifowit's goal was to have "comprehensive discussions on true solutions that must be implemented swiftly for the benefit of the state." During the Spring 2024 Session, the General Assembly is expected to continue exploring how to fix Tier 2 retirement benefits as government struggles to attract new employees to public service jobs, like teachers and department staffers, all across the state.



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ISEA Retirees Mission Statement

The Association is constituted to promote the welfare of public employees who have retired from service with the State of Illinois in all ways compatible with the public interest and to support and promote improvements in the public employee's retirement systems of Illinois.