

State pension system could change

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SPRINGFIELD - A pension is one of the perks of government service, but some are saying Illinois might be better off switching to a 401(k)-style system - at least for new hires.

The Civic Committee of the Commercial Club of Chicago, a business civic group, recently recommended that Illinois consider requiring new employees to go with defined contribution programs instead of traditional pensions.

The idea has been thrown around before. Last year, the Governor's Pension Commission, said the option needed more study but it might be worth considering one day.

Under traditional public pension systems, the employee is guaranteed a pension that often comes with periodic cost of living increases. The government bears the risk and responsibility of managing the investments.

By contrast, defined contribution plans, similar to 401(k) plans, put the burden on workers, who get the freedom to control their investments but also will only collect whatever has accrued in their account at the time of retirement.

Sen. Bill Brady, R-Bloomington, long a proponent of moving away from pensions, has said he will introduce legislation this spring that would mandate all new state hires be in a defined contribution plan,

"We can no longer afford to provide a defined benefit (or pension) program," he said.

Illinois has a \$42 billion unfunded pension liability, putting it among the worst in the nation, according to the Center for Tax and Budget Accountability.

For decades, lawmakers under-funded the pension funds for the state's teachers and employees. But those pensions are protected under the state constitution and must be paid, so eventually the state must play catch-up to fulfill its obligation, which only grows larger because of interest.

Not surprisingly, the American Federation of State, County and Municipal Employees Council 31, the union representing many state employees, is opposed to phasing out pensions for future hires.

"Diminishing benefits for future employees doesn't diminish that (unfunded liability) debt by one dime," said spokesman Anders Lindall.

What it will do, however, is pit one worker against another who does the same job but has a different benefits package, he said.

Rep. Patrick Verschoore, D-Milan, says he doesn't like the idea of forcing employees into a two-tier system when it's the state's fault for the escalating pension debt.

But Sen. Brady says there are benefits to a 401(k)-style retirement plan. When funded with equal contribution levels, the returns can be the same, he said.

Unlike pensions, which are tied to a particular job, a 401(k)-style plan is portable and can be taken from job to job. The state also could avoid future unfunded liability problems, because it would be required to make its annual contributions and couldn't divert payments, Brady said.

Rep. Frank Mautino, D-Spring Valley, said budget issues will probably force the state to look at other options at some point.

"Pensions and Medicaid debt are growing at such a rate that it makes it difficult to fund the basic operations of the state," he said.

While a few states have moved away from pensions, most haven't jumped on the bandwagon in large part because it would take so long - probably 20 to 30 years as new employees near retirement - for a state to see any real savings, said Ron Snell, of the National Conference of State Legislatures.

Alaska eliminated traditional pensions for new state employees this summer and Michigan did the same thing a decade ago. It's too early to determine whether either state is seeing success, Snell said.

States such as Washington, Oregon and Indiana have hybrid programs where the state's contribution goes into a pension while the employees share is in a 401(k)-style program. Another handful of states allows employees to pick one or the other, according to Snell.

But a few of the states that offered 401(k)-style plans are now changing their minds.

West Virginia is closing its defined contribution plan for state educational employees because the traditional pension plan will cost the state less money, said Terasa Miller, deputy executive director of the West Virginia Consolidated Public Retirement Board.

Nebraska, which offered a 401(k)-style plan for decades, now requires new hires to go with a pension hybrid that guarantees a rate of return and is professionally managed, according to Randy Gerke, interim director of the Nebraska Public Employees Retirement Systems.

But David C. John, senior research fellow with the conservative think tank, The Heritage Foundation, says it's probably just a matter of time before more states follow the lead of private business and move away from pensions.

Twenty years ago, two-thirds of companies that offering retirement plans provided pensions. Now that number has shrunk to one-third as more and more companies shift to 401(k) plans instead, John said.