

COVID-19 Fiscal Pressures in Illinois: State Pension Funds

Paula R. Worthington

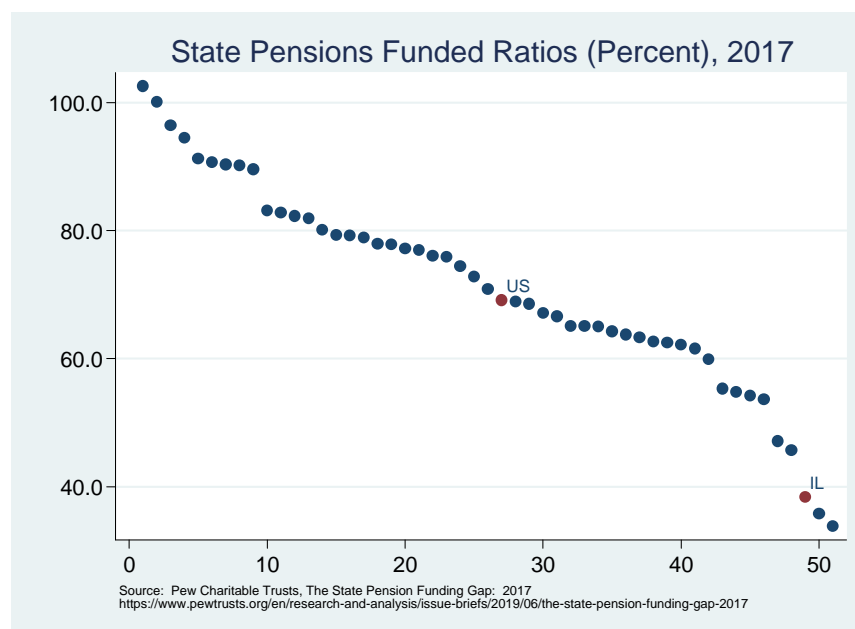
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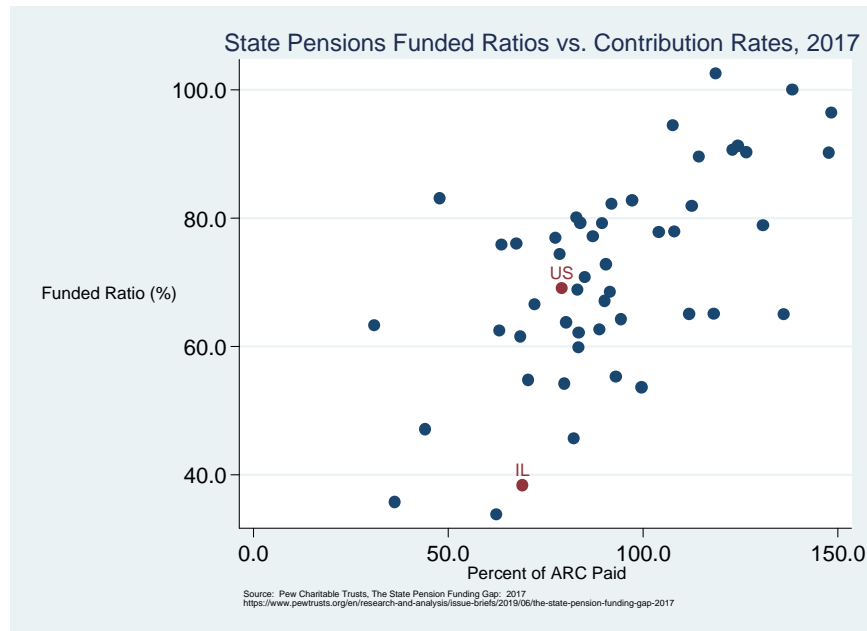
Overview

- Illinois has consistently underfunded its state employee pensions system, leaving it with an estimated \$137.2 billion in unfunded pension liabilities and one of the lowest funded ratios in the country.
- Unfunded other post-employment benefits (OPEBs) are estimated at an additional \$64.3 billion.
- Illinois's contributions to its pension funds have risen considerably in absolute and relative terms in recent years, and COVID-19-driven declines in general tax revenues combined with significant declines in funds' asset values will put increasing pressure on the state's budget for years to come.

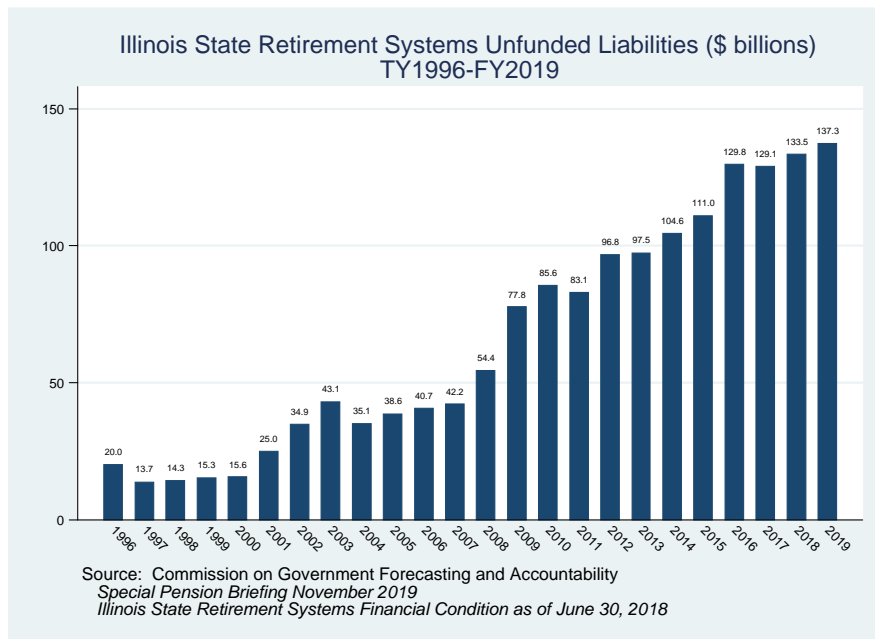
The Details

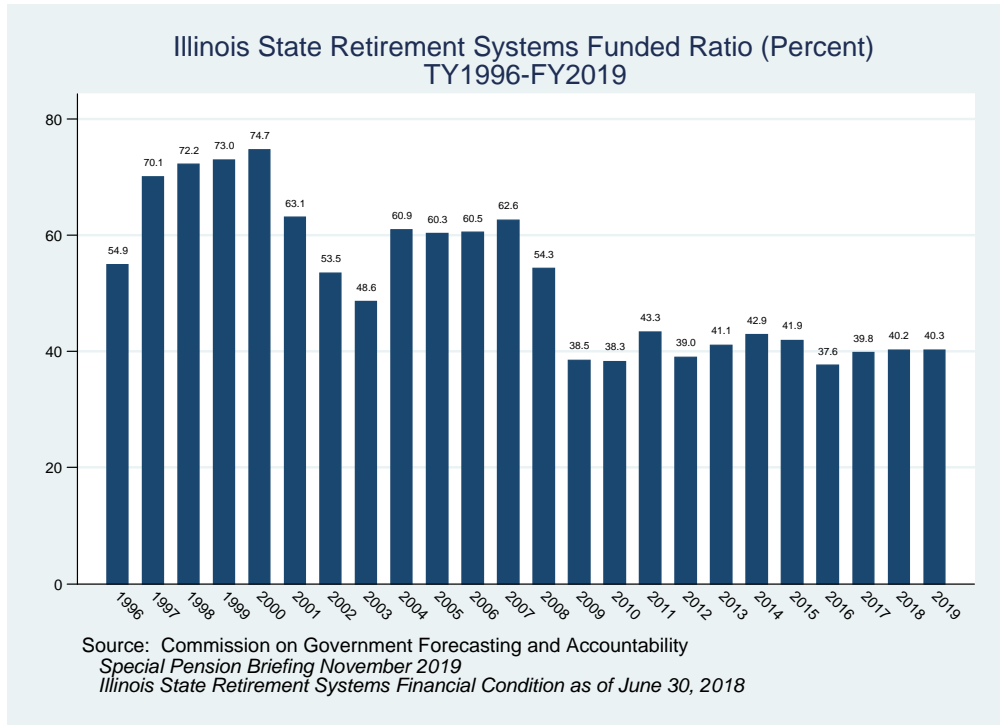
- Analysis by the Pew Charitable Trusts indicate that in 2017, only two states, New Jersey and Kentucky, had lower state pension system funded ratios than Illinois (Pew Charitable Trusts 2017). In that year, states that contributed a greater share of their actuarially required contributions had higher funded ratios. In fact, shortfalls in employer contributions accounted for an estimated \$53.8 billion of the \$118.5 billion increase in Illinois's unfunded liabilities between FY 1996 and FY 2019 (Bae and Mueller 2019, 7).



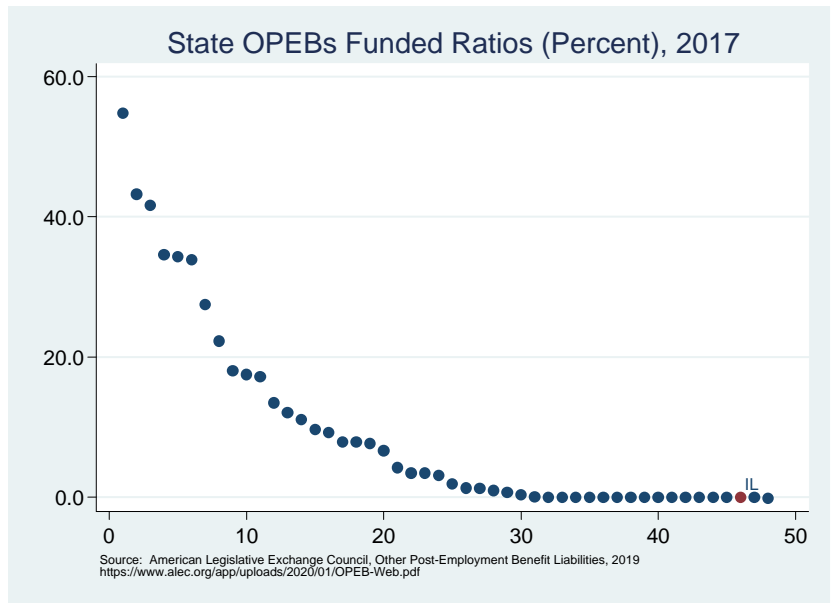


- Illinois's weak position is not new; unfunded liabilities have grown persistently since 1996, and funded ratios have hovered in the neighborhood of 40 percent since 2008 (Commission on Government Forecasting and Accountability 2019; Bae and Mueller 2019).





- OPEBs, which many states fund on a pay-as-you-go basis, constitute another significant unfunded liability for the state. Estimates suggest that the state owes \$64.3 billion in OPEBs, implying over \$5,000 liability per capita (Williams et al. 2020).





- FY 2020 appropriations for the state’s contributions to its pension systems were \$9.2 billion, compared with pre-COVID-19 estimates of \$35.4 billion in revenues from the state’s personal income, corporate income, and sales taxes (Commission on Government Forecasting and Accountability 2020). Illinois will be squeezed in the short and medium run by sharp revenue declines, and in the medium and long run by potentially depressed pension fund asset valuations which will increase actuarially required contributions. Subsequent notes will explore this issue in greater detail.

References

- Bae, Julie, and Ryan Mueller. 2019. “SPECIAL PENSION BRIEFING.” Commission on Government Forecasting and Accountability. <http://cgfa.ilga.gov/Upload/1119SpecialPensionBriefing.pdf>.
- Commission on Government Forecasting and Accountability. 2020. “3-Year Budget Forecast FY 2021-FY 2023.” <http://cgfa.ilga.gov/Upload/3YearBudgetForecastFY2021-2023.pdf>.
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- Pew Charitable Trusts. 2017. “The State Pension Funding Gap: 2017.” 2017. <https://pew.org/2KFZWFl>.
- Williams, Jonathan, Lee Schalk, Thomas Savidge, and Skip Estes. 2020. “Other Post-Employment Benefit Liabilities: The Continuing Need for OPEB Reform.” American Legislative Exchange Council. <https://www.alec.org/app/uploads/2020/01/OPEB-Web.pdf>.

About the Author

Paula R. Worthington is a Senior Lecturer at the Harris School of Public Policy at the University of Chicago, where she is affiliated with the Center on Municipal Finance and serves as academic director of the School’s Policy Labs program and faculty lead on its MPP program. At Harris, Worthington teaches courses in state and local government and cost-benefit analysis and advises students completing applied projects for public and nonprofit sector clients. She is consistently recognized for excellence in teaching, having received nine teaching awards since joining Harris in 2004. She may be reached at pworthington@uchicago.edu.