1. What areas of the state budget are you interested in protecting and why are those areas important?

Illinois state government is facing a significant, multibillion dollar deficit (with published estimates of the deficit ranging from $4 billion - $9 billion), at the same time its economy is suffering through a deep and long lasting national recession that started over 14 months ago, in December, 2007. Given that confluence of difficult factors, the best economic solution for Illinois in the short term and fiscal solution for state government in the long term would be maintaining spending on essential services by raising appropriate amounts of revenue progressively. The Center for Tax and Budget Accountability ("CTBA") has attached a copy of its report "Moving Forward" as part of this testimony. That report demonstrates why raising taxes progressively to maintain essential services should both shorten the state's recession and address long term structural deficit issues.

The essential services CTBA believes should be maintained include education, health care, human services, public safety and natural resources. Collectively, these essential services in one way or another help Illinois produce a competent and competitive workforce for the global economy, while ensuring vulnerable populations receive needed care and the state offers a decent quality of life to its residents. Moreover, if the state made additional capital investments in infrastructure, it could expect to generate $1.59 of economic activity for every public dollar spent, potentially creating over 400,000 jobs, many in the high-paying construction industry.

2. What revenue enhancements would you recommend be implemented to support those areas?

Raising revenues in a progressive fashion is the best policy choice available. Given the restraints of the state constitution concerning a flat income tax rate, attaining stable, fair, responsive and efficient long term revenue growth will require: (i) an increase in the individual income tax rate from 3% to 5%, with a corresponding increase in the corporate income tax rate from 4.8% to 8%; (ii) expanding the state's sales tax base to include all consumer services (and, depending on the size of the base expansion, potentially lowering the state sales tax rate from 5% to 4.75% or 4.5%); and (iii) targeting tax relief to low and middle income families through the use of refundable tax credits like the Earned Income Tax Credit and Family Tax Credit contained in SB750 and HB855.

3. What suggestions can you provide to reduce the State’s short-term and long-term pension costs?

Under current law, the pension payment for FY2010 is scheduled to increase to about $4.2 billion, from the FY2009 level of $2.831 billion, as part of the ramp. The pension ramp approach, which backloads costs and creates continually increasing fiscal pressure, must be abandoned. In its stead, the state should front load costs by amortizing its full unfunded liability of $73.4 billion over an extended period of time, say 50-60 years, and then fund flat, annual payments to cover the cost. Note that this effectively front load costs, and since the annual payments remain the same in nominal dollars, creates a long term savings and a diminishing fiscal burden, after the impact of inflation is considered. Add on normal cost for current employees which is about $2 billion, and some combination of that normal cost figure plus a portion of the amortized payment on the unfunded liability would be the amount of new revenue needed for pensions.

The state should always bargain in good faith with public employee unions to ensure the state has designed a pension system that is both fair to taxpayers from a cost standpoint, and capable of attracting top flight workers to provide public services. Hence any thoughtful negotiations with the unions should be data based, take into account the cost savings Illinois government enjoys from not participating in Social Security (and the corresponding negative financial impacts on the state's public workers who not only do not receive Social Security benefits, but also stand to lose or have diminished the Social Security benefits they or their spouses earned in the private sector, under the GPO and WEP provisions of Social Security). With that in mind, bargaining over issues such as retirement age would make sense.

4. Are reforms of pension benefits for newly hired State employees warranted to lower the State’s long-term pension costs? Do you support such reforms?

We do not support defined contribution plans as a short or long term solution to solve the state’s $73.4 billion unfunded pension liability. Implementing a defined contribution system would cost Illinois taxpayers millions of dollars more annually in administrative costs, while doing nothing to decrease the state’s unfunded liability. In addition, research shows that under a defined contribution savings plan retirees outlive their savings and receive (lower) inadequate returns on their investments, which result in inadequate retirement benefits. In the long run a defined contribution system for new employees would not lower the state’s long term pension costs, the state would still have to maintain the current defined benefit system for active members (resulting in more costs) and those retirees who do not receive adequate returns during retirement will have to rely on the state for public assistance.

5. Are increased contributions from current pension system members warranted? Do you support increased pension contributions from current members?

Decision makers should bear in mind that contributions that Illinois teachers currently make to their own retirement benefit ranks among the highest in the nation. That said, certainly it would be appropriate for state government to raise this issue with the various public employee unions when it negotiates the next union contract with the understanding that the issue of employee contributions has not been the primary problem creating the unfunded liability in the first place. Rather, it has been the state's historic failure to fully fund its employer contribution to the pension systems despite low normal costs (27% less than national averages) and average benefit levels. Instead, state government has elected to use its pension system as a credit card by diverting employer contributions to covering the cost of providing public services.

• Members with Social Security: 3.5% of compensation (pension) + .5% (survivors') = 4.0% total
• Members without Social Security: 7.0% of compensation (pension) + 1.0% (survivors') = 8.0% total

Proposal: Increase employee contributions to each of the five retirement systems by 1%.
Savings Projected: The State would save $13.72 billion in contributions between 2006 and 2045.

http://civicfed.org/articles/civicfed_220.pdf