


Taxpayers' Federation of Illinois

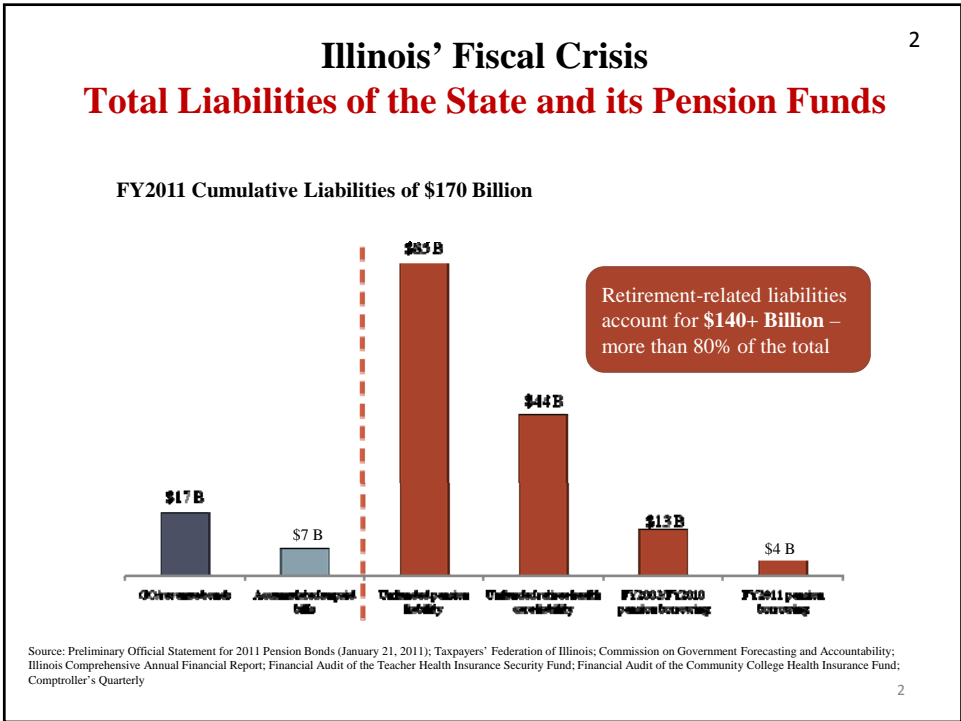
Presentation to District #64 Community Finance Committee



Park Ridge, Illinois
February 7th, 2012

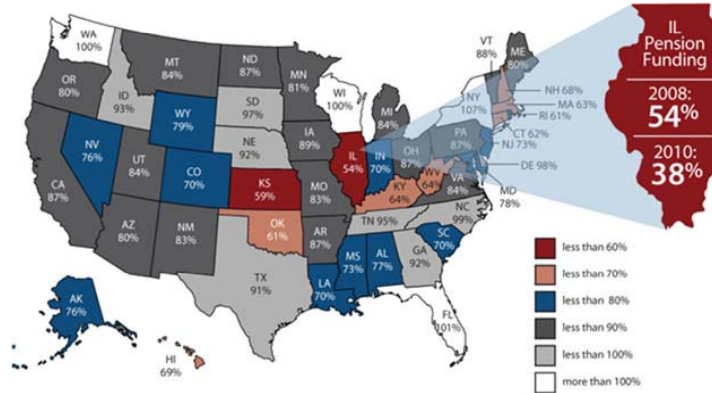
Illinois' Continuing Fiscal Challenges

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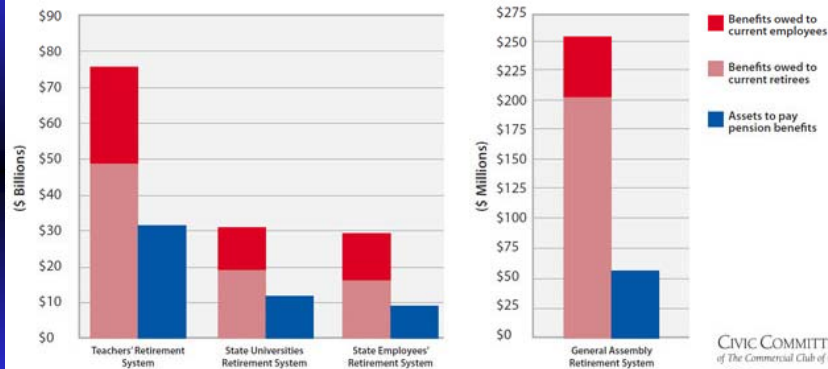
Illinois' Fiscal Crisis Worst-Funded Pensions in the Nation

Pension Funded Ratio 2008

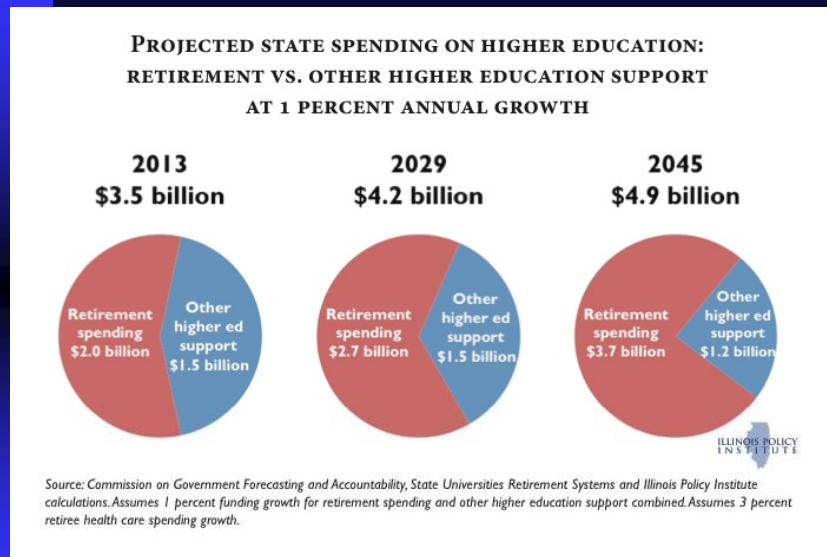
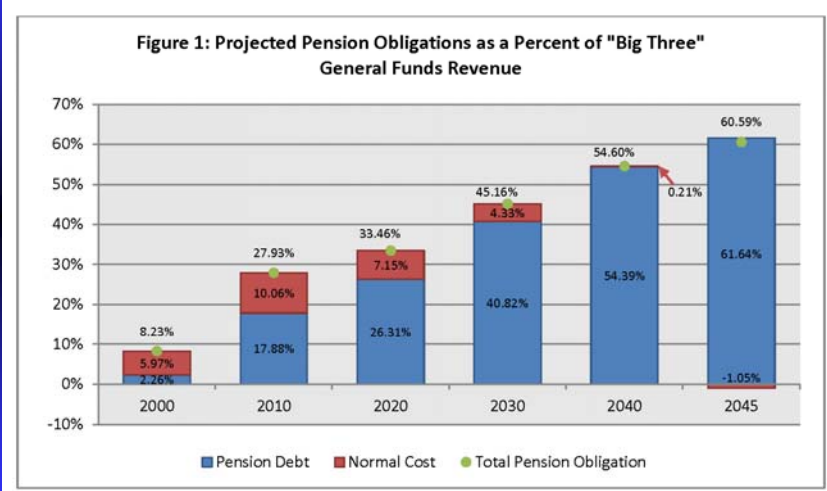


Source: "The Trillion Dollar Gap: Underfunded State Retirement Systems and the Roads to Reform," The Pew Center on the States, February 2010; Commission on Government Forecasting and Accountability

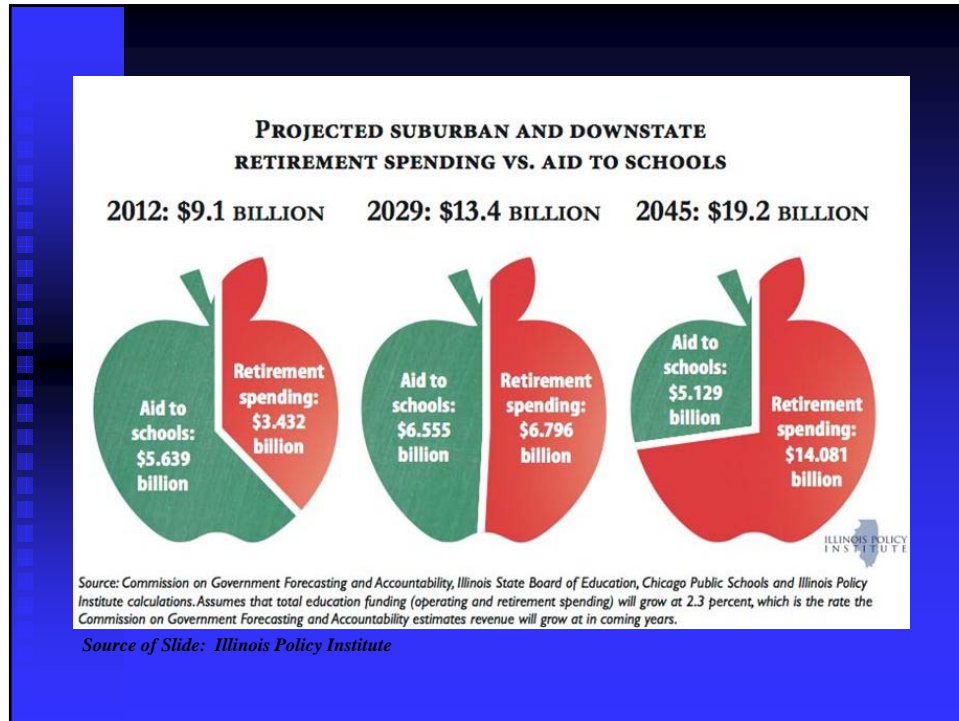
ASSETS AND LIABILITIES AS OF JUNE 30, 2010



CIVIC COMMITTEE
of The Commercial Club of Chicago



Source of Slide: Illinois Policy Institute



Reform Pensions to **SAVE** the Pensions and the State

SB512 Guiding Principles

- Protect the benefits that current retirees depend on;
- Protect the benefits that current employees have earned to-date, while providing a more sustainable plan going forward;
- **Improve the benefit/contribution package offered to new employees and ensure compliance with regulations regarding Social Security exemption (“fix” Tier 2 plan);**
- Reduce the disparity between what new and current employees are offered;
- Protect Illinois’ citizens today and in the future by stopping the practice of deferring retirement-related costs to the future and thereby preventing the massive crowding out of other State programs over the next three decades;
- Improve the State’s credit-worthiness and attractiveness for job creation and retention.

Reform Pensions to SAVE the Pensions and the State

Senate Bill 512 Provisions

- Restructuring applies to new and current employees, NOT to current retirees.
- Current employees given choice of 3 pension plans:
 - Current defined benefit plan (employee contribution of 13.77%);
 - Reformed defined benefit plan (employee contribution of 6%); or
 - Self-managed plan (employee contribution of 6%).
- New employees given choice of 2 pension plans:
 - Reformed defined benefit plan (employee contribution of 6%); or
 - Self-managed plan (employee contribution of 6%).
- State makes same contribution – 6% of payroll – toward Normal Cost of pension plan regardless of plan chosen by employee; employee is responsible for any additional costs associated with future accruals.
- State also amortizes the 80+ Billion unfunded pension liability attributable to previous service of State workers using a level percent of “Big Three” tax revenue to a 90% funding level by 2045. State payment in the early years is *higher* than is required under current law.

Amendment # 2:
Technical Changes

- Fixes Money Purchase calculations so there is no benefit enhancement;
- Fixes Tier 2 covered wage base so that it grows with Social Security;
- Allows one recertification of the Tier 1 employee contribution in 2017 and caps allowable increase at 2%.

The Jumbo Income Tax Increase

	Individual	Corporate*
2010	3.0 %	7.3 %
2011 - 2014	5.0	9.5
2015 - 2024	3.75	7.75
2025	3.25	7.3

* Inclusive of Personal Property Replacement Tax

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Revenue Produced from Tax Increase

	(\$ Billions)
Individual Income Tax	\$6.0
Corporate Income Tax (Including NOL Suspensions)	1.0
Estate Tax Reinstatement	.3
	\$7.3 *

* 25% Increase in Own Source Revenue

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Where Did it Go?

- Replaced FY 2011 Borrowing
 - Pension Bonds \$3.7
 - Tobacco Settlement Securitization 1.3
 - Inter-fund Borrowing 1.0
 - Short Term Borrowing 1.3
 - \$7.3**

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Governor Quinn's 2012 Fiscal Plan

\$35.4 Billion General Funds Operating Budget

- \$1.45 Billion Deficit Borrowing
- \$600 Million – New Revenue
 - De-couple from Bonus Depreciation

\$8.75 Billion Debt Consolidate Bonding

- \$1.45 Billion FY12 – Deficit Funding
- \$7.30 Billion – Pay outstanding bills
 - Vendors
 - Local Governments/Public Universities
 - Corporate Income Tax Refunds
 - Employee Healthcare Insurance

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General Assembly Fiscal 2012 Budget

\$33.2 Billion Operating Budget

- No Bonus Depreciation De-Couple
- No Borrowing to Balance Budget
- No Borrowing to pay off Bills

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A Balanced Budget & No Borrowing Well Not Quite

- \$1.7 billion of 2012 Medicaid Spending Pushed to 2013
- Federal Revenue Overstated by \$800 million due to Medicaid Deferral

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Where Does it all Go?

(Billions)

	General Funds	Other State Funds	Total	% of Total
Medicare/Employee Healthcare	\$6.8	\$7.6	\$14.4	22.1
K-12 Education	7.3	2.5	9.8	15.0
Higher Education	2.2	.3	2.5	3.8
Human Services	6.0	3.3	9.3	14.3
Corrections/Public Safety	1.6	.7	2.3	3.5
State Employee/Retiree Healthcare	1.1	.6	1.7	2.6
Local Government Transfers	-	5.2	5.2	8.0
Transportation	-	2.7	2.7	4.2
Pensions	3.5	.5	4.0	6.1
Debt Service	2.5	2.3	4.8	7.4
All Other	2.4	6.1	8.5	13.0
	\$33.4	\$31.8	\$65.2	

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What is Illinois's Tax Capacity

State and Local Taxes as a % of Gross State Product

National Average	9.32%
Illinois Pre-Tax (Rank 27 th)	9.08%
Illinois Post-Tax (Rank 7 th)	10.35%
16 th Place State	9.91%

*Illinois Ranks 16th in Per Capita GSP

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Illinois' Tax Burden Rankings

(as measured by % of GSP)

	<u>Before Tax Increase</u>	<u>After Tax Increase</u>
Business Income Taxes	10 th	5 th
Personal Income Taxes <small>(as % of Personal Income)</small>	37 th	13 th
Sales Tax	28 th	28 th
Property Tax	11 th	11 th
Overall	27 th	7 th

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Governor Quinn's Current Budget Projections General Funds

	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
State Source Revenues	\$29.3	\$29.9	\$30.8	\$29.3
Federal Funds	3.8	4.2	4.2	4.2
Total Resources	\$33.1	\$34.1	\$35.0	\$33.5
Spending				
Education	\$8.9	\$8.9	\$8.9	\$8.9
Medicaid	6.6	6.6	6.6	6.6
Human Services	6.9	6.5	6.5	6.5
Pensions	4.1	5.3	5.6	5.9
Debt Services/Short Term Borrowing	2.8	2.2	2.2	2.0
All Other Spending	4.3	4.2	4.4	4.4
Total Expenditures	\$33.6	\$33.7	\$34.2	\$34.3
Deficit/Surplus	< .5 >	.3	.8	< .8 >

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Operating Accumulated Debt Projection (Assumes Medicaid Grows at approximately 5%)

	Billions
Vendor Debt Projection End of FY 11	\$7.0
FY12 Deficit and Medicaid Vendor Deferral	2.3
FY 13 Deficit and Medicaid Vendor Deferral	1.2
FY 14 Deficit and Medicaid Vendor Deferral	3.0
FY 15 Deficit and Medicaid Vendor Deferral	5.3
FY16 Deficit and Medicaid Vendor Deferral	8.0
FY17 Deficit and Medicaid Vendor Deferral	8.0
	\$34.8

Approximately \$10.5 deferred Federal Revenue from 50% Medicaid Match

Re-Engineer Illinois

