Illinois urged to stay with pensions
Study says 401(k) would cost more
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Moving state government employees to a 401(k)-style retirement system will do nothing to reduce Illinois' pension debt and could cost the state more money while producing worse benefits, a study released Monday says.

According to the Illinois Retirement Security Initiative, working under the auspices of the Center for Tax and Budget Accountability, state lawmakers should instead focus on how to pay off the $40 billion debt run up by the five state-funded pension systems.

"It was not our current (benefit) system that created Illinois' unfunded pension liability, it was the state's failure to fund the system," said Jourlande Gabriel, author of the study. "Switching to a defined contribution system will not erase the debt. It will simply cost the state more money while depriving retirees of adequate benefits."

The state-funded retirement systems for state employees, university workers, downstate teachers, judges and lawmakers are all defined-benefit - as opposed to defined-contribution - plans. Benefits are based on a formula that takes into account salary, years of experience and a benefit multiplier.

Some have suggested new public employees be put into defined-contribution plans, such as the 401(k) programs common in private industry. (Pensions for existing employees could not be changed). In those, employees decide how much of their salaries they want to contribute, and their benefits are based on the balances in their accounts at retirement.

The study found that retirement benefits offered to Illinois public employees are around the national average. The study included public employees in both the state and local pension systems, although the state does not fund local pension programs.

The study also concluded that the administrative costs of defined-contribution programs are three to six times as high as those for traditional defined-benefit plans. In Illinois, the study determined, that could add $275 million to $610 million in administrative costs.

The study also warned that people in a 401(k)-style plan could end up with lower benefits than those in a traditional plan.

Worst of all, said center director Ralph Martire, the switch would do nothing to reduce the pension debt already facing the state.

"It doesn't matter if we switch the pension system we have today," Martire said. "It wouldn't reduce by a penny the current unfunded liability."

He said switching pension plans has "been thrown out as a panacea."

The Civic Committee of the Commercial Club of Chicago last year recommended moving new state employees into a 401(k)-style system, along with other pension changes. The group also argued that a tax hike is needed to help pay off state debt, not only in pensions, but in health care.

Earlier this year, Sen. Bill Brady, R-Bloomington, and three other Republican senators sponsored a bill creating a defined contribution pension system for state employees.

Brady acknowledged that his approach would not cut Illinois' current pension debt, but believed it would reduce future costs. The bill has been bottled up in the Senate Rules Committee since early February.

Gov. Rod Blagojevich's office has said it wants pension system changes, but is concerned that a defined contribution approach may be too costly.

The Civic Federation of Chicago also has recommended a number of state government pension changes, such as increasing employee contributions, raising the retirement age and changing health benefits for retirees. That group said the state should study a defined contribution plan.

Martire said his group supports Blagojevich's proposal to lease the state lottery and issue $16 billion in bonds to reduce the pension debt. However, that would go only part of the way, he said, because state revenues don't keep pace with the costs of the pension plans and other state services.

"To solve the pension problem, we think we need fiscal reform, and to get there, we have to raise taxes," Martire said, adding that his group is promoting legislation to raise the income tax and expand the sales tax to services as a way of raising money. The plan also calls for tax relief.

Martire said the combination would mean 60 percent of Illinois taxpayers would see no increases in their taxes.

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