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Illinois Pension Reform in Question on Insurance Ruling.

Illinois can't cut contributions to government retirees' health-insurance premiums, the state's top court said in a ruling with possible implications for Governor Pat Quinn's bid to fix a \$100 billion pension shortfall.

The Illinois Supreme Court, in a 6-1 decision today, ruled the health-insurance premium subsidies are pension benefits protected by the state's constitution that can't be diminished or impaired, as Illinois lawmakers tried to do with a 2012 law that let an administrator determine the level of contributions.

Protection of pension benefits is the same provision in the Illinois constitution retirees are relying on in challenging Quinn's plan to cut the pension shortfall with reductions in cost-of-living adjustments and increasing the retirement age for workers who are now 45 or younger.

Illinois has the largest pension-funding shortfall of any U.S. state. The remedial legislation has been delayed by court order until the case is decided.

The threat to Illinois' pension overhaul may prolong a selloff in state bonds that began in May, when lawmakers failed to extend a 2011 income-tax increase. That leaves the state with a \$2 billion hole that will require stiffing vendors, borrowing money and delaying payments to employees.

The extra yield municipal-bond investors demand to own Illinois general obligations instead of benchmark AAA munis rose yesterday to 1.28 percentage points, the highest since February, according to data compiled by Bloomberg. Illinois has the lowest rating among U.S. states and the widest yield spread among the 17 states tracked by Bloomberg.

Lawsuits Reinstated

Today's ruling reinstates lawsuits filed by members of three Illinois employee unions. Those cases had been dismissed by a state court judge in Sangamon County, which includes the state capital of Springfield.

The ruling supports the argument that "retirement security, including affordable health care and a modest pension, cannot be revoked by politicians," Henry Bayer, executive director of the Illinois chapter of the American Federation of State, County and Municipal Employees, said in a statement.

The ruling will have no direct impact on the pension reform litigation arguments, said Maura Possley, a spokeswoman for state Attorney General Lisa Madigan.

"While this decision is very clear on the fact that the pension clause covers health care benefits, the arguments in the pension reform litigation are different than the ones in this health care case," Possley said.

Ruling Disappoints

Sarah Wetmore, vice president and research director at the non-profit Civic Federation in Chicago, said her organization was disappointed with the high court ruling.

"The Civic Federation supported the changes that the state had made to retiree health-care subsidy, that they were necessary and rational to make the program more sustainable over the long-term," she said in a phone interview.

"We think this means the state is going to have to come up with a plan to make those payments going forward, whether that means cutting in other areas or raising additional revenue. It's an expensive program for the state and it's going to become more expensive in the future," she said.

Wetmore declined to speculate on the effect of today's decision on the pension reform bill litigation. "It's certainly not helpful for the state," she said.

Grant Klinzman, a spokesman for Quinn, said the governor remains confident that the pension reform law is constitutional.

"If the court's decision is predictive, the challenge of reforming our pensions will remain," Illinois Senate President John Cullerton said in a statement.

Cullerton and Quinn are Democrats.

Those pursuing the health insurance-premium claims are members of the Illinois' State Employees Retirement System, the State Universities Retirement System and the Teachers' Retirement System of the State of Illinois.

The case is *Kanerva v. Weems*, 2014-IL-115811, Illinois Supreme Court (Springfield).

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