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Column: Proposed $107 Billion Bond Isn't the Cure for Illinois' Public Pension Crisis.

A big, bold plan to save the state's debt-strapped public pension funds is being floated this week in Springfield. But don't get your hopes up.

It's not the cure to Illinois' festering financial crisis.

An influential state employee advocacy group, the State Universities Annuitants Association, is urging Illinois to issue $107 billion in bonds to pay off shortfalls in the state's five leading pension funds.

Yep, that's a whopping $107 billion — backed by taxpayers who will be on the hook, especially if this deal goes bad. And the odds of that occurring look pretty good.

"It's a big gamble," says Howard Cure, director of municipal bond credit research for Evercore Wealth Management in New York.

While full details of this plan are expected to be unveiled Tuesday before a state panel, bond and public finance experts are already highly skeptical. They're concerned it will add to Illinois' pension burdens — now estimated at $130 billion in unfunded liabilities and growing — and further hinder the state's sorry overall financial health.

Let's start with the bond market.

At $107 billion in 27-year fixed-rate bonds, it would be the largest amount of debt the state ever sought from investors. Bond experts wonder if Illinois — with its record of political dysfunction, inability to pay its bills in a timely way and $25 billion in general obligation debt — will attract enough hungry investors.

One way to lure wary backers is to spice up the bonds and sell them at above-market interest rates. Such a premium would likely attract risk-taking investors, probably from overseas funds, or deep-pocketed individuals hoping to make a killing.

But higher rates are tougher to pay off and investors' bond payments must be paid on time, says Evercore's Cure. Missing a debt payment means riling angry bondholders, who could quickly sue the state or take other legal actions to recoup their investments, he adds.

Laurence Msall, president of the Civic Federation — a nonpartisan government research group — says his organization has "serious concerns and reservations" about the proposed bond effort too.

On top of the gargantuan amount, the bond is limited to pensions and not linked to any comprehensive financial plan for improving state finances, Msall asserts. The bond's size could also impede the state's ability to seek borrowing or bond financing for infrastructure or other basic needs, he says.

Despite these somber concerns, no one should be beating up on the State Universities Annuitants Association, which represents more than 200,000 current and retired employees, for leading this charge.

The group believes many initial concerns will be addressed when it reveals the details of its plan to the General Assembly committee exploring public pension matters. It will argue that its refinancing proposal will lop $103 billion off state pension costs through 2045 while increasing the pensions' funding levels to 90 percent.

Rep. Robert Martwick, the Chicago Democrat who heads the House pension committee, has no position on the bond plan but wants it to become part of a larger pension reform debate. In the coming weeks, the $107 billion initiative will be fully discussed by finance experts, labor and taxpayer advocates, he stresses.

Of course, when it comes to Illinois' public pension crisis, there's no shortage of issues to chew over.

Government leaders have been doing that for way too many years with few results, mainly because of state underfunding of pensions, feisty union opposition and a provision in the state constitution that prohibits any structural changes to the funds or benefits.

Those who want to totally dump public pension plans haven't had any better luck getting around that provision.

It's a nasty trick bag because, in the meantime, the amount of public pension liabilities keeps stacking up and strapped taxpayers are increasingly responsible for paying more.

It's a mess.

But this big, bold but flawed bond plan isn't the solution to the public pension crisis.

We can't be that desperate.

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by Robert Reed

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