Bond Case Briefs

Municipal Finance Law Since 1971

Savings From Illinois' Pension Buyout Plan Could Fall Short.

CHICAGO (Reuters) – Illinois might not be able to bank on all of the $423 million in much-needed pension savings from a buyout plan included in a fiscal 2019 budget that received final approval in the state legislature on Thursday, government finance experts said.

The budget for the fiscal year that begins on July 1 calls for bond-financed buyouts of pension benefits after past attempts to cut retirement benefits were tossed out by courts on constitutional grounds.

The fact that buyouts would be voluntary raised concerns about the feasibility of the projected savings.

Illinois is struggling with an unfunded pension liability that has climbed to $129 billion after years of skipped or actuarially inadequate annual state contributions to its five retirement systems. Those contributions are projected to grow from $8.43 billion in fiscal 2019 to just over $10 billion by fiscal 2023, according to a state legislative commission report.

Under the buyout plan, current workers could cash in the 3 percent compounded cost of living adjustment (COLA) owed them in retirement for 70 percent of the value and a reduced 1.5 percent COLA. The state would also offer vested former workers 60 percent of the value of their pensions if they choose to end them.

Steve Malanga, George M. Yeager Fellow at the Manhattan Institute, a conservative think tank, called the savings from the buyouts “speculative.”

“Often these buyouts don’t attract as many participants in the public sector as they might in the private sector because of how good the benefits are for government employees,” he said in an interview.

He added that given the “especially generous” compounded 3 percent COLA, only workers urgently in need of money may opt for a buyout of that benefit.

But Republican State Representative Mark Batinick, who has worked on pension buyout legislation for three years, said the plan is based on reasonable assumptions.

“I don’t think the issue with any of this is going to be the (buyout) takers,” he said.

Laurence Msall, president of the Civic Federation, a Chicago-based government finance watchdog, said it was difficult to determine the effectiveness of the plan without an actuarial analysis. He also took issue with the up to $1 billion of general obligation bonds the state would sell over three years to fund the buyouts.

“The state has had an expensive practice that will continue this year to rely on borrowing to fund the pension buyout,” he said.

MISSOURI PENSION BUYOUTS

So far Missouri is the only state to offer pension buyouts to former workers, according to Keith Brainard, research director at the National Association of State Retirement Administrators. He added he is unaware of any states buying out COLAs.

Of the 17,005 former workers in the Missouri State Employees Retirement System, 3,740 applied for a lump sum payment, resulting in a first-year saving of about $2.5 million and a projected long-term reduction in state contributions of nearly $90 million, the pension fund reported in January.

Ted Hampton, a Moody's Investors Service analyst, said the pension buyout and other aspects of the enacted state budget will be evaluated to see if they "really advance the capacity to deal with retiree benefits and debt service long-term, or whether they are primarily a way to provide near-term fiscal relief."

Pensions, along with retiree healthcare and debt service on bonds, will consume 30 percent or more of state revenue in fiscal 2019, Moody's said in a report released on Thursday.

While that is about triple the median level for U.S. states, Moody's warned that reducing statutory pension funding requirements would weaken Illinois' credit rating, which at Baa3 with a negative outlook is just a notch above junk.

Reporting by Karen Pierog in Chicago; Editing by Matthew Lewis

MAY 31, 2018

Copyright © 2026 Bond Case Briefs | bondcasebriefs.com