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Illinois General Assembly Passes "Landmark" Pension Changes.

CHICAGO — The Illinois General Assembly approved an overhaul to the state's pension system billed by its backers as a "landmark" reform that will stabilize both the system and the state's fiscal foundation.

Critics attacked the plan as being either too hard on workers or too weak to repair a system saddled with $100.5 billion of unfunded liabilities. Some lawmakers also raised concerns over whether the plan can withstand the legal challenge expected from unions after Gov. Pat Quinn signs the package.

After two years of false starts and political bickering among lawmakers over how to restructure the pension system, Gov. Pat Quinn had nothing but praise for the plan and lawmakers who approved it.

"This landmark legislation is a bipartisan solution that squarely addresses the most difficult fiscal issue Illinois has ever confronted," Quinn, who faces re-election next year, said shortly after the vote. "This bill will ensure retirement security for those who have faithfully contributed to the pension systems, end the squeeze on critical education and healthcare services, and support economic growth."

In addition to praising the General Assembly's leaders and members of the conference committee appointed in June to assemble a compromise plan, the Democratic governor said: "I salute the members of the General Assembly who showed great political courage by voting yes for pension reform."

The plan is estimated to trim $160 billion off state payments owed to the system, with the goal of reaching full funded status in 30 years primarily by cutting benefits and infusing the system with supplemental state contributions in addition to scheduled annual payments. The changes would trim about $21 billion of the state's unfunded liability tab.

The state's five funds are currently just 39.3% funded. Contributions have been rising steadily, consuming 20% of the fiscal 2014 general fund budget, up from 12% in fiscal 2010. Under the existing funding schedule that level would rise to 26% in 2045.

The state's pension woes and political impasse over how to overhaul the system have driven the state's credit deterioration, with its ratings now the weakest among states, at the low-single-A level.

In addition to tarnishing its own reputation with investors, the state's credit struggles have driven up the costs of borrowing for most Illinois-based issuers, especially those dependent on the state for aid, such as its public universities. It's called by market participants the "Illinois penalty" or "Illinois effect."

The state hopes to see a positive impact on its interest rates from the action as soon as next week when it takes competitively bids on a $350 million taxable general obligation issue. The three major rating agencies all assign a negative outlook to the credit. It's unclear whether an outlook shift would occur so quickly as analysts digest the impact of the reforms and a legal challenge looms.

The vote in each chamber was nearly simultaneous and followed several hours of debate Tuesday, less than a week after the General Assembly's leaders announced they had agreed on a plan.

Without action, House Minority Leader Rep. Jim Durkin, R-Western Springs, warned the rating agencies could "move our credit rating even lower."

While some lawmakers warned the package didn't go far enough to warrant a label of "comprehensive" reform, others said it went too far. Sen. William Delgado, D-Chicago, called the changes "morally wrong, morally corrupt" because of the impact on public sector employees and retirees.

The Senate tally came first with 30 members voting for the legislation which was presented in the form of a conference committee report and 24 against and three voting present. The yes votes included 20 Democrats and 10 Republicans.

The House voted 62 to 53 in favor of the report with one voting present. The yes votes included 47 Democrats and 15 GOP members. Democrats hold a majority in the General Assembly.

BY YVETTE SHIELDS