

Bond Case Briefs

Municipal Finance Law Since 1971

Retirees Win Big in Illinois.

An Illinois Supreme Court ruling this month that overturned the state's effort to cut retiree health care costs casts doubt on Illinois' pending pension reform. This could potentially hurt its credit rating, a new note by Moody's Investors Service said. In a note released July 11, Moody's placed the state's credit rating on a negative watch and said that the majority of the justices "expressed views that run counter to the rationale used in recent pension reform legislation for certain city and state plans. We therefore perceive increased risk that the Illinois Supreme Court will rule the pension reform legislation unconstitutional, which would jeopardize \$32.7 billion of pension liability reduction."

In its 6-1 ruling, the court overturned a lower court ruling and found that Illinois' constitutional pension protections are not just limited to core pension earnings, but extend to other benefits provided under the retirement systems. The ruling wiped out changes Illinois made in 2012 that allowed the state to force retirees, including those who retired prior to enactment of the law, to pay higher health insurance premiums. The move provided annual savings of approximately \$90 million, according to the state.

Here's why Moody's is concerned that the opinion places pension reform in jeopardy: The majority opinion states, "Where there is any question as to legislative intent and the clarity of the language of a pension statute, it must be liberally construed in favor of the rights of the pensioner." This and other sections of the ruling "signal how the court could side with pensioners when it eventually addresses the constitutionality of recent state pension reforms, which have already been challenged, as well as Chicago's pension reforms, which we expect will be challenged," Moody's said.

In December, Illinois passed reform that reduced cost-of-living adjustments (COLAs) for employees and retirees in four of the five state pension systems. (As a concession, the legislation also increased state contribution requirements and reduced employee contribution rates.) Moody's estimated that these and other changes reduced accrued liabilities of the three largest pension systems by approximately \$32.7 billion combined, or 17 percent.

Liz Farmer
Governing.com