S&P: Illinois Ratings Unaffected By Pension Reform Law Judgment.

NEW YORK (Standard & Poor's) Nov. 21, 2014–Standard & Poor's Ratings Services today said that its rating and outlook on Illinois (A-/Negative) are unaffected following the declaratory judgment issued today by the Sangamon County Circuit Court on Illinois' pension reform law (Public Act 98-0599), declaring the same unconstitutional and void and making permanent the restraining order and injunction on enforcing or implementing any provision of the law. The state's attorney general issued a statement following the decision that indicated the state would appeal the decision to the Illinois Supreme Court.

Key elements of the reform were to take effect June 1, 2014, and apply to all state pension plans except the Judges' Retirement System. We cited the legal challenges to the pension reform legislation and the associated implementation risk as part of our credit review on July 23, 2014, when we revised the outlook on the state to negative from developing, and we will continue to monitor the legal process relating to the pension legislation. More importantly, from a credit perspective, savings from the pension reform are not included in the fiscal 2015 budget.

The Illinois general assembly adopted comprehensive pension reform legislation (Public Act 98-0599) on Dec. 3, 2013, and Governor Quinn signed the law on Dec. 5. This followed years of inaction and a lack of consensus on how to proceed with the large and increasing pension liabilities. From a credit standpoint, Standard & Poor's views the pension reform as a significant accomplishment that could lead to improved funding levels, greater plan sustainability, and improved prospects for budget stability. However, if the reforms don't move forward as planned, we believe the significant fixed-cost pressure associated with postretirement benefits will escalate.

Under Standard & Poor's policies, only a Rating Committee can determine a Credit Rating Action (including a Credit Rating change, affirmation or withdrawal, Rating Outlook change, or CreditWatch action). This commentary and its subject matter have not been the subject of Rating Committee action and should not be interpreted as a change to, or affirmation of, a Credit Rating or Rating Outlook.

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