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[Candidates Avoid Talk About Illinois' Pension Problem.]

Lost in the standard issue political histrionics of the Illinois governor's race is serious talk of how to resolve a $130 billion public pension shortfall that has a stranglehold over much of what can be accomplished by any state leader.

Rivals Bruce Rauner and J.B. Pritzker agree on little, yet they so far have found common purpose in tiptoeing around the pension minefield that likely will dictate the success or failure of whichever of them is sworn in next year.

And that avoidance by Republican incumbent Rauner and Democratic challenger Pritzker is in keeping with a long tradition that fed the crisis in the first place.

Dating back to the days of Prohibition, Illinois governors and lawmakers from both parties have mostly abstained from the sort of voter displeasing fiscal fortitude needed to balance retirement obligations with other financial needs.

Now, that chronic political instinct to put off tough decisions until after the next election has ballooned the cost and narrowed pension-fixing options to either expensively painful or pie-in-t-e-sky.

The latest crop of ideas come not from political leaders but from think tanks and activists. They range from amending the state constitution to dialing back ironclad pension protections embedded in the state charter, to refinancing pension debt like a mortgage, to paying most of the debt off quickly by essentially taking out the mother-of-all-loans.

Each idea faces daunting obstacles, be they political, legal, financial — or all three. Layered on top of it all is deep public suspicion of the leaders in charge of fixing things.

One idea apparently not on the table may be the most straightforward though is the most politically fraught — a major tax increase that raises revenue to pay down the debt.

"It's hard to see a solution that isn't really dramatic," said J. P. Aubry, director of state and local research at Boston College's Center for Retirement Research. "This is a political thing and not a pension mechanics thing."

The pension crisis, which has saddled Illinois with the lowest credit rating among the 50 states, is a trick box because it grew over generations of neglect. Yet to solve it requires a long-term commitment to financial discipline, and history has shown that is not part of Illinois' political DNA.

Further complicating any solution is the pension clause inserted in the state constitution of 1970 that forbids benefits from being "diminished or impaired." Three years ago, the Illinois Supreme Court unanimously declared those words to be a sacred trust.

In the court's bluntly worded opinion, which struck down a 2013 law reducing benefits promised most veteran public workers, the justices also blamed pension problems on the timidity of state leaders.

“It is a crisis for which the General Assembly is largely responsible,” justices wrote.

Changing the law

So if the Constitution is an obstacle to change, why not just change the Constitution? That, in essence, is the argument underpinning a recent recommendation from the Civic Federation, a budget watchdog, for an Illinois Constitutional amendment aimed at modifying the pension clause to allow “reasonable, moderate changes” to retiree benefits.

Changing the Illinois Constitution, though, is no slam-dunk, and not just because of procedural hurdles requiring extraordinary votes of first the General Assembly and then voters at large.

It is far from clear whether courts would allow the state to reduce payments to current retirees or pension promises to long-time employees whose benefits have been constitutionally protected for almost a half-century.

“You can’t retroactively change substantive rights,” said Ann Lousin, a professor of constitutional law at John Marshall Law School who was a research assistant at the 1970 constitutional convention.

“This is another one of those kick-the-can things. We basically are unable to fund the pensions properly, even though lawmakers know what they could do to fix things,” said Lousin, referring to tax increases that could be enacted.

Neither Pritzker nor Rauner make mention of pension reform plans on their campaign websites. As the sitting governor, however, Rauner reaffirmed his support in early April for a constitutionally questionable bill that would give employees the choice between keeping annual cost-of-living increases or having future pay increases factored into their pensions, but not both.

The governor has also proposed shifting some of the cost of funding pensions for teachers and college educators away from the state and on to local schools and state universities. Both ideas have met stiff resistance from Democrats and Republicans.

Refinancing the debt

History convinces Ralph Martire, executive director of the Center for Tax and Budget Accountability, a nonpartisan think tank, that raising taxes to meet the obligations will never happen. As he sees it, the only way out of the crisis is to refinance the outstanding debt.

“It’s like refinancing your home mortgage if you’ve got a big balloon payment coming. Do you get rid of your home? No,” said Martire.

The catch to that idea, however, is that refinancing isn’t free. Martire estimates such a scheme would require the state to float an additional $11.25 billion in bonds that would add to pension costs in the short-run but over future decades would save $67 billion.

“There’s not a downside, compared to what we have. We already have a credit rating that’s in the tank,” Martire said.

Experts in the credit markets doubt Martire’s plan will be greeted with enthusiasm. That’s partly because the folks with the purse-strings have memories of being fooled by previous Illinois efforts to retool the pension debt.

“This has to be tied to some ironclad protections that things will get better,” said Richard Cicarrone, president and CEO of Merritt Research Services LLC, which focuses on credit information related to municipal bonds. “There have been a lot of empty promises and games before.”

Indeed, the Chicago-based Government Finance Officers Association argues against state and local governments issuing bonds to cover pension obligations.

Each of those variables raises even bigger questions about yet a different pension-related borrowing plan that makes the scope of Martire’s proposal look like chump change. The State Universities Annuitants Association, an advocacy group for college workers and retirees, is asking the General Assembly to authorize a whopping $109 billion bond sale to get the pension funds in solid financial condition by 2045 and save the state $100 billion in the interim.

A tough sell

When Detroit, Stockton, California and other municipalities got into financial trouble, a bankruptcy judge handled outstanding pension debts by ordering benefit cuts among other savings. States like Illinois are barred from seeking bankruptcy protection, so there could be no supervisory oversight on the horizon.

The state has the power to get itself out of this mess by raising taxes or trying to convince unions to agree to money-saving concessions. But lawmakers are politically loath to do it, let alone talk about it with any specificity.

Illinois’ financial crisis isn’t confined to pensions. The backlog of unpaid bills in 2017 at one point soared to nearly $16.7 billion, though it has since been halved. The stiffing of vendors has helped further a credibility crisis that hinders whatever the state decides to do with pensions.

“The people of Illinois are so unhappy with government that they don’t trust them,” said David Yepsen, the former director of the Paul Simon Public Policy Institute at Southern Illinois University.

Even if there were some grand and lasting bargain to stabilize state finances, the pension funds would effectively stand in line with all the other interests with their hands out, looking for their share and hoping for a long-awaited fix.

“There’s no other solution to right the ship with cuts around the edges,” Aubry said. “There’s going to have to be a moment when everyone sits down at the table and says, ‘Obviously the status quo can’t persist.’ The question is when and how that comes.”

Better Government Association

By Tim Jones

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