

## ASSAULTS ON BENEFITS, INACTION ON FISCAL CRISIS

*By Larry Poston and Judy Curry*

As we go to press, the legislative session scheduled to end May 31 has just concluded, leaving much of Illinois' budgetary affairs in limbo. The Illinois State Senate approved a tax hike, which, unlike Governor Pat Quinn's, would have raised the state income tax from 3% to 5%. In the House, the picture was very different, with even a temporary two-year hike to the Governor's level (4.5%) failing to garner enough Democratic votes for passage. The governor is preparing a doomsday budget, which will almost certainly slash important state services and no doubt include another "pension holiday." The prospect of a special session now looms in which a 60% majority rather than a simple majority would be needed for passage of any legislation.

If there is any upside to legislative inaction, it is that bad initiatives may be stalled along with the good. One good sign, to the extent that it allows time for further input from SUAA and other constituencies, is House Joint Resolution 65, which establishes a task force to review Illinois public pension plans and make recommendations on their future. Consisting of designated legislators from both houses and representatives from business and labor, as well as two members from statewide annuitant organizations, the task force is to report to the governor by November 1, 2009. But of course the outcome of its deliberations cannot be guaranteed. The situation in Springfield remains very fluid and requires the attention of every member of SUAA throughout the summer.

The state's estimated indebtedness is now \$12.4 billion and is projected to rise to \$14.7 billion by the end of FY 2010. Our pension debt is the highest in the nation at \$70 billion, being handed to the public employees, both present and retired, and the state's present contributions, coupled with a bad market, have resulted in what was once funded at an actuarially mediocre level of 60% now falling below 40%.

While supporting the governor's courage in backing an income tax increase, SUAA has specifically opposed:

- Those of the governor's proposals that would place much of the burden for closing the gap on state employees, such as increased employee pension contributions that would force employees to pay for the state's failure to meet its obligations to the systems;
- Another "pension holiday" that would further undermine the integrity of the system;
- The creation of a second-tier benefit system for employees (see "The Myth of Defined Contributions" elsewhere in this issue);
- The possibility of increased health insurance premiums on top of those already negotiated by the unions.

One of the most obnoxious of the proposals, a 2% increase in state employees' contributions to their own pensions without matching state funds (in effect, a 2% salary decrement) has apparently been taken off the table at this time of writing.

Some legislators, we are pleased to say, are staying above the fray. All those concerned with the fiscal health of Illinois owe thanks to Senate President John Cullerton for his leadership on the tax issue. Representative Will Burns, for example, has pointed out that by comparison with other states, Illinois pension systems are not by any means overly generous. Taking a longer-term view, Senator Kwame Raoul, chair of the senate committee on pensions, has called for an amendment to the constitution that would remove current language confining the state to a flat tax system; if his amendment were to be approved by the voters, the state would be free to introduce a graduated system. We are pleased that a number of legislators with whom SUAA communicated regularly have shown their support. If your legislator has been supportive of our pension concerns, let him or her know that you appreciate that support.

## PRESIDENT'S PERSPECTIVE

### *A letter from UIC-United's President*



More than six years ago, then-UIC SUAA President Ralph Westfall discussed with me the need for the development of a Web site for the chapter. I was a relatively new member, but since I had some experience in constructing and maintaining Web sites for my classes, I decided to vol-

unteer. Over the course of this period of time, I have revised and expanded the Web site while taking over management of the three chapter-related listserv lists. In addition to my responsibilities as webmaster and director of electronic communication, I have served as first vice president during the past three years. In looking back, I feel a great sense of accomplishment and satisfaction. Now I am faced with the biggest of challenges: leading the chapter as the State of Illinois moves through one of the darkest economic and political periods in its history—a formidable task indeed. SURS annuitants and members must now confront major attacks on our pension and health care benefits.

Over the past several years, the chapter's membership has grown dramatically, largely through the efforts of our hardworking membership directors, including Geraldine Piorkowski and Susan Sindelar. As you know, our voice in Springfield is only as loud as our numbers are great so we must continue to recruit and retain our fellow UIC retirees and employees as members of SUAA. As has been true for past chapter presidents, I will make this effort an important activity for our board.

Facilitating communication between the board and the chapter membership will also be a major goal during my tenure. Please let me know how we might improve our chapter's Web site, [www.uic.edu/orgs/suaa](http://www.uic.edu/orgs/suaa), as well as the use of other Internet-based communication media, such as the UICSUAA listserv list. We have two excellent board members coordinating the production of our newsletters: Larry Poston and Judy Curry. I am indebted to them already for their fine service in this time-consuming task, and I look forward to their continued efforts. They would welcome your thoughts and suggestions on how to improve this newsletter.

I would be remiss if I didn't mention the wonderful work that our program and social directors, Carol Humble and Rose Kirk, respectively, perform. In the end, it is the advice and participation of all members of the board in our deliberations that enables us to move forward in pursuit of SUAA's goals.

Finally, I want to remind you once again to be sure that the chapter has your current e-mail address. As the political situation in Springfield continues to evolve at a rapid pace, we will contact you via the e-mail listserv to provide timely information and to solicit your participation in the political process.

I have big shoes to fill; Irv Miller has set a high standard and done a great job as our most recent president. I welcome your ideas on how we might strive to protect our retirement and health care benefits as we work to achieve SUAA's objectives.

*Merrill L. Gassman  
President and Webmaster  
E-mail: [mgassman@uic.edu](mailto:mgassman@uic.edu)*

**23RD ANNUAL RETIREMENT PLANNING CONFERENCE**—More than 300 UIC faculty and staff attended an all-day conference on Saturday, May 30, at Student Center West to explore the nuts and bolts of retirement. A panel of recent retirees kicked off the day by sharing their personal experiences in retirement. Speakers from SURS, TIAA-CREF, and Fidelity Investments offered advice on preparing for retirement. *UIC United* newsletter columnist and former board member John McCrosky explained the basics of retirement plans and of Medicare and Social Security implications for SURS pensions. Judy Curry spoke on the importance of UIC United/SUAA in protecting retirement benefits. Kudos to staff from UIC's Human Resources office and from University Human Resources who planned this year's highly successful event.

## ASSAULTS ON BENEFITS, INACTION ON FISCAL CRISIS

*Continued from page 1*

Much worse is the loose talk about “gold-plated pension systems” emanating from the press and certain organizations whose spokespersons regard retirees as shamefully overpaid. Dan Miller of the Heartland Institute is one of many to use the cliché “gold-plated” to describe retiree benefits. And in a shockingly dishonest radio advertisement aired shortly before the designated close of the legislative session, the National Taxpayer’s Union of Illinois attacked the governor’s proposed income tax hike in terms implying that such a hike would not be necessary were it not for greedy pensioners. Our ability to deflect unsought changes in our system requires that all our members not only stay in touch with developments in Springfield, but that they be ready to respond vocally and factually to

ill-informed attacks in the press designed to inflame public opinion against those who have served the state long and well.

Elsewhere in this issue of the newsletter, we examine two other questions: (1) in a piece already mentioned, the myth that defined-contribution plans, as opposed to defined-benefit plans, are a good bargain for the state; (2) in John McCrosky’s column, what adequate investment in our system would mean if we drew an analogy between the state’s performance and that of an individual saver meeting his or her goals. And if, when you receive this issue, there is still time to contact your legislators—well, that’s perhaps the most important thing you can do this summer.

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## SUAA REGIONAL CONFERENCE A PACE-SETTER

*By Rose Kirk*

A workshop for the Northern Illinois SUAA Chapters was held at the College of DuPage in Glen Ellyn, on Friday, April 24, 2009. Several speakers and panel members spoke to an audience of 70 about current matters of importance to members of the Illinois state pension systems as well as residents of this state.

Dick Lockhart, SUAA lobbyist, reported on the focus of current pension-related legislation and made recommendations encouraging those present to be more aggressive in their advocacy for the state’s pensioners.

The legislature is considering several proposals to fill the hole resulting from the state’s multibillion dollar deficit. At the time of the meeting, there was less than a month left in the legislative session and it appeared that important legislation might be voted on as early as May 8.

Most of the proposed legislation is negative to pension plans. These proposals include a two-tier benefit system (which translates into a different level of benefits for new hires); an increase for pensioners and/or employees in the cost of health care coverage; an increase in employee contributions to the system; and an increase in the retirement age, requiring employees to work until their mid-60s.

Even though the idea of consolidating the five retirement-system funds is dead for this year, it could be reconsidered at a later date. Another “pension holiday” is also being proposed under Governor Pat Quinn’s budget for next year, which proposes that the state budget \$1.5 billion instead of the required \$4 billion toward pensions.

Increasing the retirement age to 65 or 67, while delaying entry onto the state’s pension rolls, would necessitate a general increase in state property taxes. Another proposal to pay the state’s deficit is to increase state sales taxes, possibly on a broader list of goods and services. The state currently taxes only 20 items in goods and services from a possible list of over 100. Although Governor Quinn has proposed a hike in the current flat state income tax from 3% to 4.5%, a progressive income tax has also been discussed.

Recommendations for SUAA and its chapters include:

- Increase membership—**numbers count**;
- Institute a recognition program for special efforts by members;
- Train SUAA members to be effective advocates;
- Without combining funds, get pension-funds administrators to work together for their mutual benefit;

*Continued on next page*

## SUAA REGIONAL CONFERENCE A PACE-SETTER

*Continued from page 3*

- Work with other annuitants associations in an informal coalition to get things done;
- Link SUAA members to legislators:
  - keep a record of legislators' voting records;
  - visit their offices, give positive suggestions;
  - call, mail, and e-mail when appropriate;
  - work on campaigns as private citizens.

Mitch Vogel, current president of the SURS Board and former president of the University Professionals of Illinois for 20 years, spoke on pension reform and SURS.

He reported that the state has typically raised money by taking money from teachers, increasing tuition, decreasing the amount of student aid, and taking money from pensions. The pension system is grossly under-funded and there is no good plan to take care of the problem. A desired approach to increase state funding, already embodied in existing legislation, is to contribute increments over several years until the pension funding level reaches a healthy limit.

A by-product of the scandals of the previous administration has been the restructuring of the SURS Board. Governor Quinn signed Public Act 96-0006 into law on April 3, 2009. This legislation, among other things, changes the composition of the current board structure and eliminates the current governor-elected Board of Trustees of the State Universities Retirement System, effective July 15, 2009. The new board will consist of eleven trustees: four appointed by the Governor, four active participants elected by the participants of the system, and two annuitants elected by the annuitants of the system. The chair of the SURS Board will also be the chair of the Illinois Board of Higher Education.

Among other cost-saving devices, as mentioned above, there is talk of eliminating benefit coverage for dependents entirely.

Sessions discussing SUAA advocacy allowed chapter members to share their experiences in increasing membership, visibility, and cooperation within and outside their individual campuses.

Reiterated throughout the day was the importance of:

- Updated and informational Web sites;
- Maintaining current membership lists (including contact with members who don't use e-mail) and adding spouses to the member list;
- Social events; interacting with campus administration, current employees, unions, and other groups; as well as
- Publicizing information on and working effectively with legislators. Blogs and chat rooms were also suggested as a means of communicating ideas and mobilizing initiatives.

One of SUAA's best advertising points is that, in ALL it does, it is an advocate not only for current Illinois pensioners, but also for those still employed in our state universities, whose future benefits we are trying to protect.

The moderator of the event was Dick Johnson, president of SUAA, whose initiative was responsible for the convening of what we hope will be a series of regional meetings, including an annual spring workshop. Panel members included Jane Lehmann (Elgin Community College), Jerry Lewis (Joliet Junior College), Steve Mansfield (College of DuPage), Roger May (Chicago City Colleges), Irv Miller and Bill Troyer (University of Illinois at Chicago), Joe Vaughan and Alan Voelker (Northern Illinois University), and Addison Woodward (Governors State University).

The event was sponsored by the College of DuPage, Governors State University, Northern Illinois University, and the University of Illinois at Chicago chapters of the State Universities Annuitants Association.

**Join UIC-SUAA** with a simple monthly deduction from your SURS annuity check or by an annual check for \$30. For an online membership application, go to [www.uic.edu/orgs/suaa/applicat.html](http://www.uic.edu/orgs/suaa/applicat.html) or call the UIC SUAA office (312) 996-5834, and we'll mail an application to your home.

# WE CAN'T CUT OUR WAY OUT OF IT

## Mike Lawrence Addresses Annual Chapter Spring Meeting

On April 16, members of UIC United, the State Universities Annuitants Association chapter at UIC, heard Mike Lawrence speak on how Illinois got into its current fiscal mess and how it might get out. Lawrence's answer, in response to recent criticisms like those of the *Chicago Tribune* ("cut before new taxes"), is that Illinois can't escape its fiscal crisis just by cutting. Revenue enhancement has to be on the table from the very beginning, and Governor Pat Quinn has made the first moves toward that end.

Lawrence was Governor Jim Edgar's former press secretary and senior policy advisor and recently retired as director of the Paul Simon Institute for Public Policy at SIU-Carbondale. This experience in the public sector is bolstered by 25 years' experience as a working journalist in Illinois.

Lawrence recounted how Governor Edgar's bequest of a surplus of \$1.5 billion was squandered by two consecutive governors, George Ryan and Rod Blagojevich, resulting in a crisis for which both parties shared the blame. With the worsening economic climate, the state, though legally obligated to meet a target to reduce unfunded liabilities in the pension systems, declared two successive pension holidays climaxing in an increase in unfunded liability from \$55 billion on June 30, 2008, to \$73 billion on December 31. In the late 1990s, pensions were funded at the 60% level—itsself woefully inadequate—but as a result of financial losses plus the two-year pension holiday, pensions are now funded at 40%. (See lead story in this issue.)

According to Lawrence, "Quinn's proposed pension holiday is 'bad policy' because it projects pension reforms that would save money over the next forty years, but assumes no benefit changes during that time and takes a rosseate view of prospective investment returns." In that sense it is uncomfortably reminiscent of Blagojevich's approach to budgeting.

Cutting alone won't do the trick, Lawrence warned. More than 90% of spending in Illinois is in the education, health care, human services, public safety, and pensions areas. Public opinion, recent surveys suggest, is against such cuts, including, rather surprisingly, cuts in pensions. Examples of what could be done, according to Lawrence:

- "If lawmakers imposed taxes on the full range of services, they could realize \$5 billion."
- "The state could have reaped \$830 million from Illinoisans making in excess of \$50,000. Senior citizens who earned more than \$300,000 eluded \$80 million in state taxes in 2007 by 'legally' deducting \$2.6 billion in retirement income from their adjusted gross."
- "Even if the governor and lawmakers allowed a \$20,000 deduction for purposes of extending the state income tax, they could corral more than \$500 million."

### Gamesmanship or Statesmanship?

Lawrence's caution to the chapter was that no answers are easy. Many citizens of the state do not have any idea of the size and scope of the problem. The present governor has prided himself on being an outsider, but he must now make the transition to being a leader. Republicans must be part of the solution rather than blaming Democrats for creating the problem, and Illinois needs to become more business friendly.

Some gubernatorial candidates, Lawrence said, have already positioned themselves for the next election by an antitax rhetoric that makes no positive contribution to the debate. They should not impede the governor and legislature from doing the right thing. "Gamesmanship led us into this mess; statesmanship must lead us out."

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## SILVER LINING DEPARTMENT

From SUAA's June 1 minibriefing: The Pension System Modernization Task Force (see our lead story in this issue) will be holding meetings at least once a month between June and October of 2009. A report is due to the General Assembly and governor on or before November 1, 2009. Since the veto session will be held in October, possible changes to state pensions and benefits would not be submitted to the legislature until the 97th Legislative Session (2010). In SUAA's words, "This gives time for those who would be affected by the changes to convey a strong message to the legislators."

# THE RETIREMENT SCENE

## *Under the Microscope*

*By John McCrosky*

The current economic crisis in Illinois has resulted in an even more serious unfunded liability of public pension plans. This has made them a target once again for criticism and demands for changes in our “too rich” plans. What is not being told is the simple truth of compounding growth. By taking “pension holidays” and repeatedly underpaying into its pension systems when it does pay, the state has prevented those systems from investing new capital. The history of the state is to procrastinate and push the required funding off to future generations of taxpayers.

Let’s assume that as an individual you want to save \$500,000 for retirement based on an average annual rate of return of 9% (approximately what SURS has averaged). The following table demonstrates what happens if you delay:

<b>Goal</b>	<b>Rate of Return</b>	<b>Years of investing</b>	<b>Required monthly contribution</b>
\$500k	9%	30	\$292
\$500k	9%	25	\$469
\$500k	9%	20	\$777
\$500k	9%	15	\$1354
\$500k	9%	10	\$2617
\$500k	9%	5	\$6643

As we can see, the amount required to reach the goal becomes an increasingly heavy burden the longer the delay. This is analogous to the problem of state under funding. The unfunded liability results primarily from the loss of investment gains over time.

What if the state had made full funding a priority? John Terwilliger, a retiree from UIUC, oversees an excellent Web site, [www.geocities.com/johnt.suaa](http://www.geocities.com/johnt.suaa). In an article on that site titled “A Tale of Two Retirement Systems,” the University of California Retirement Plan (UCRP) is identified as being similar in size and benefits to SURS. The UCRP has been fully funded, and from 1990 to 2008 has paid benefits strictly from investment returns. UCRP did not require any employee or employer contributions during these eighteen years, saving billions of dollars in state contributions. Because of the market downturn, the system has resumed employee and employer contributions as of 2009. If the employee contributions had been continued during those eighteen years, one wonders: Could the UCRP have continued without any future employer contributions?

Critics have decried our pensions as “gold-plated,” and claim they need to be reduced for new members. The employer’s cost for SURS members, however, is approximately 10% of salary. This is not an excessive cost. It is comparable to the private sector if you consider social security contributions and a matching 401(k) plan. Private employers currently pay 6.2% to social security, and if they match 401(k) contributions at 4% this aggregate total is what the state is supposed to pay on behalf of a SURS member. Remember that SURS members do not make any Social Security contributions based on their earnings from a SURS employer.

The politicians and especially the news media need to examine the facts of the state’s unfunded pension liability critically before pushing for change. The change we need is fulfilling the funding obligations of the public pension plans of Illinois and recognizing their value.

*John McCrosky, who contributes regularly to this newsletter, has 35 years of experience in retirement planning with both SURS and TIAA-CREF. Because of the current crisis in state funding, he has deferred his analysis of the relationship between SURS benefits and Social Security until our next issue.*

## THE MYTH OF DEFINED CONTRIBUTION PLANS

In a misguided effort to reduce pension costs, the governor and legislature are considering a proposal to eliminate the existing “defined benefit” (DB) plan for new SURS members, replacing it with a “defined contribution” (DC) plan. According to a study conducted by the National Institute on Retirement Security, “A Better Bang for the Buck: The Economic Efficiencies of Defined Benefit Pension Plans,” three factors make defined benefit plans preferable to defined contribution plans.

- “DB plans better manage longevity risk, or the chance of running out of money in retirement. By pooling the longevity risk of large numbers of individuals, DB plans avoid the over-saving dilemma—that is, saving more than people need on average to avoid running out of cash—that is inherent in DC plans. Consequently, DB plans are able to do more with less.”
- “Because DB plans, unlike the individuals in them, do not age, they are able to take advantage of the enhanced investment returns that come from a balanced portfolio throughout an individual’s lifetime.”
- “DB plans, which are professionally managed, achieve greater investment returns as compared with DC plans that are made up of individual accounts. A retirement system that achieves higher investment returns can deliver any given level of benefit at a lower cost.”

The full report can be found at [www.nirsonline.org](http://www.nirsonline.org).

The study further states that “the cost of delivering the same level of retirement income to a group of employees is 46% lower in a DB plan than in a DC plan. Policy makers should consider this factor especially as it applies to public sector workforces for whom tax dollars are an important source of funds for retirement benefits.”

John McCrosky, a long-time consultant on retirement plans for both TIAA-CREF and SURS, whose column appears regularly in our pages, points out that “if our pension plans are changed so that they only offer a DC design for new employees, there will be pressures to incorporate Social Security in the systems that are currently not integrated into it, like SURS. This would significantly increase costs to the state.”

In short, the study states, “DB plans are a more efficient use of taxpayer funds when a public employer is offering retirement benefits to state and local government employees.”

Illinois can best exercise its obligations to all taxpayers, not just retirees, by a considered review of factors like these before rushing to replace a plan that works if properly funded and, thus, before incurring the risk that future benefits will be a less attractive recruiting tool for future state hires.

## CHAPTER OFFICERS ELECTED AT SPRING MEETING

On April 16, members of UIC United elected the following officers and directors: Merrill Gassman, president, replacing outgoing President Irving Miller; Marsha Borders, first vice president, filling out the unexpired term of Gassman; William Troyer, second vice president; Charles Stanislaw, reelected as treasurer; and Charles Brown, director at large.

### Secretary Needed

Because of the press of other duties, Carol Koch has had to step down as secretary. We thank her for her service on the board and hope she will return when her schedule permits. This position remains open at this time of writing. Two of the current slate continue to perform certain functions previously delegated to

them: Merrill Gassman as webmaster and William Troyer as chapter legislative director.

### New Board Member

We are pleased to welcome Charlie Brown to the board as new director at large. Charlie holds a PhD in biochemistry with interests in neuroscience and high tech research instrumentation. Prior to coming to UIC, he worked in London at the central research laboratories of British Petroleum as analytical research manager for BP Chemicals in Western Europe. At UIC, he has served as director of the Research Resources Center and then as director of Research Resources-East, which he designed and set up.

# UIC-UNITED UIC CHAPTER OF SUAA

## Board of Directors 2009–2010

### OFFICERS

**Merrill Gassman**  
*President*  
mgassman@uic.edu

**Marsha Borders**  
*First Vice President*  
mborders@uic.edu

**William Troyer**  
*Second Vice President*  
wtroyer@uic.edu

**To Be Named**  
*Secretary*

**Charles Stanislao**  
*Treasurer*  
cstansl@gmail.com

**Irv Miller**  
*Past President*  
ifmiller@sbcglobal.net

### MEMBERS AT LARGE

**Charles Brown**  
gwtw08@gmail.com

**James Jones**  
jrjones@uic.edu

**Leonard Ramirez**  
lramirez@uic.edu

### CHAIRS

**Susan Sindelar**  
*Membership*  
sjsindelar@gmail.com

**Carol Humble**  
*Programs*  
JHumble368@aol.com

**Rose Kirk**  
*Social Events*  
rfrankirk@comcast.net

**Richard Johnson**  
*Political Involvement*  
rjohnson@uic.edu

### NEWSLETTER

**Judy Curry**  
*Coeditor*  
jcurry@uic.edu

**Lawrence Poston**  
*Coeditor*  
lsposton@uic.edu

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**UIC** UNIVERSITY OF ILLINOIS  
AT CHICAGO

SUAA-UIC (MC 270)  
1140 South Morgan Street, Room 146F  
Chicago, Illinois 60607-7142

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