



Mission: Possible

An update to the Pension Funding & Fairness Act

The Problem

Illinois faces a staggering \$83 billion in unfunded public pension liabilities. For years, the General Assembly and successive governors have failed to fully fund the annual pension payment. Instead, officials have gone on an all-out spending spree. Today, every Illinois household is now burdened with \$4,423 in state government debt.

Understandably, both state employees and taxpayers are worried. Fixing this mess will be politically challenging, but with the state running out of cash, taxpayers already strapped, and public employees wondering if their promised pension will be there, the time is right for creative and bold thinking.

Our Solution

Until a mechanism that prevents irresponsible spending while protecting pension payments is put into place, Illinois will continue the long, slow economic decline that has been underway for over 30 years. The Pension Funding & Fairness Act would require state leaders to set priorities while allocating finite taxpayer resources by:

- Instituting first a statute and then a constitutional amendment to establish a Spending Growth Index of inflation plus population. This is projected to be an average annual rate of 2.4 percent, allowing state spending to grow each year in a predictable way.
- Requiring that the first appropriation each year be to the required public employee pension payment. We have a moral

obligation to fund pensions, and Illinois must prioritize the pension contribution.

Once this is in place, surpluses above the Spending Growth Index would be used to pay down past due debt, now estimated to be \$6 billion. Several years of overspending created this debt, and it will take several years to reduce it to zero. A Past Due Paydown Fund could eliminate this debt by Fiscal Year 2014.

Next, Illinois would establish a Budget Stabilization Fund to be filled from revenues above the Spending Growth Index. The Budget Stabilization Fund would equal no more than 8 percent of the General Revenue Fund's total spending and could only be accessed during revenue shortfalls that occur during economic downturns.

Finally, a Taxpayer Relief Fund would be filled starting in 2015 from revenues above the Spending Growth Index once the past due debt has been paid down and the Budget Stabilization Fund is fully funded. Refunds would then be issued annually to Illinois taxpayers according to the number of exemptions filed on their most recent tax returns.

Why This Works

By embracing the Pension Funding & Fairness Act, Illinois will be able to control spending excesses, budget responsibly, and fully fund the annual required pension payment.

Overall, this plan will help the government honor its commitments while also honoring its responsibility to the taxpayers—all while launching a new period of growth and government accountability in Illinois.

Learn more at illinoispolicy.org.