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Dick Ingram: Some truths about state pensions

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Throughout Illinois, public pension systems have been a central topic of discussion for months as state government grapples with an uncertain economy. State legislators and organized labor continue to discuss the future of these pension systems as well as their anticipated costs to both taxpayers and members of the pension plans (who also are taxpayers).

This discussion is vitally important for the state's future fiscal health and will be most useful if based on facts and not hyperbole. Here are some truths to remember:

Illinois' pension systems are not bankrupt. It is true that the state's pension systems together have accumulated a total debt of $140 billion, but currently only have $53 billion in assets. That leaves the systems with an unfunded liability of $87 billion.

However, that total pension debt never has to be paid off at one point in time. It is composed of money owed to retired workers as well as active public employees at some time in the future. Because public employees cannot collect until they retire, the only amount that the systems must pay each year is the amount owed to retirees.

Illinois' pension systems will not run out of money and default in 10 or 15 years. The best example is Teachers' Retirement System, the state's largest public pension plan with more than 372,000 members. In fiscal year 2010, TRS paid out $3.9 billion in pensions and benefits. Total revenues in the same year, from teachers, school districts, state government and investments, totaled $6.8 billion. TRS currently has $37 billion in assets.

With a 30-year average investment rate of return of more than 9 percent, TRS continues to exceed its long-term investment targets. These returns, along with continued member and state contributions ensure that TRS will have enough money to meet our annual obligations for decades. TRS has carried an unfunded liability since at least 1953 and has never missed a pension check.

Pension benefits locked in place by the Illinois Constitution are not the main reason the systems carry unfunded liabilities. TRS members do not participate in Social Security and their average benefit is relatively modest. They pay more than half of the cost of these benefits, and the current cost of these benefits to the state pale in comparison to the amount of money state government has failed to contribute to the pension systems — and that comprises more than two-thirds of the money budgeted for pensions.

In the case of TRS, since 1970 the state has left unpaid more than $14 billion of current pension costs. This is the main reason for the system's unfunded liability. Under actuarial "full funding" standards, the state should have contributed $33.2 billion to TRS between 1970 and 2010. Instead, TRS received only $18.6 billion.

The annual cost of pensions is not bankrupting state government but helping the Illinois economy. In fiscal year 2010, the total state budget was $56.9 billion. Of that, all social service programs cost $17.5 billion. Medicaid services alone cost $9.8 billion. Public education — from kindergarten through university — cost $13.7 billion. Salaries for state employees — who carry out all the functions of government — total $3.6 billion. By comparison, all pension benefits paid out to retirees in the same year totaled $6.9 billion. The state's contribution to fund these benefits was $4 billion.

Pension benefits paid to retired public employees are a return on an investment. Each dollar is recycled through the economy as retirees spend money exactly as they did when they were receiving a salary. Combined, state government salaries and state-administered pensions during 2010 translated into a $24.5 billion economic stimulus for the state of Illinois.

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