



Wirepoints Report

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Illinois owes \$68 billion in health benefits to government retirees. Politicians haven't set aside a penny to pay for them.

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-- Connecting the dots between our economy, government and business --

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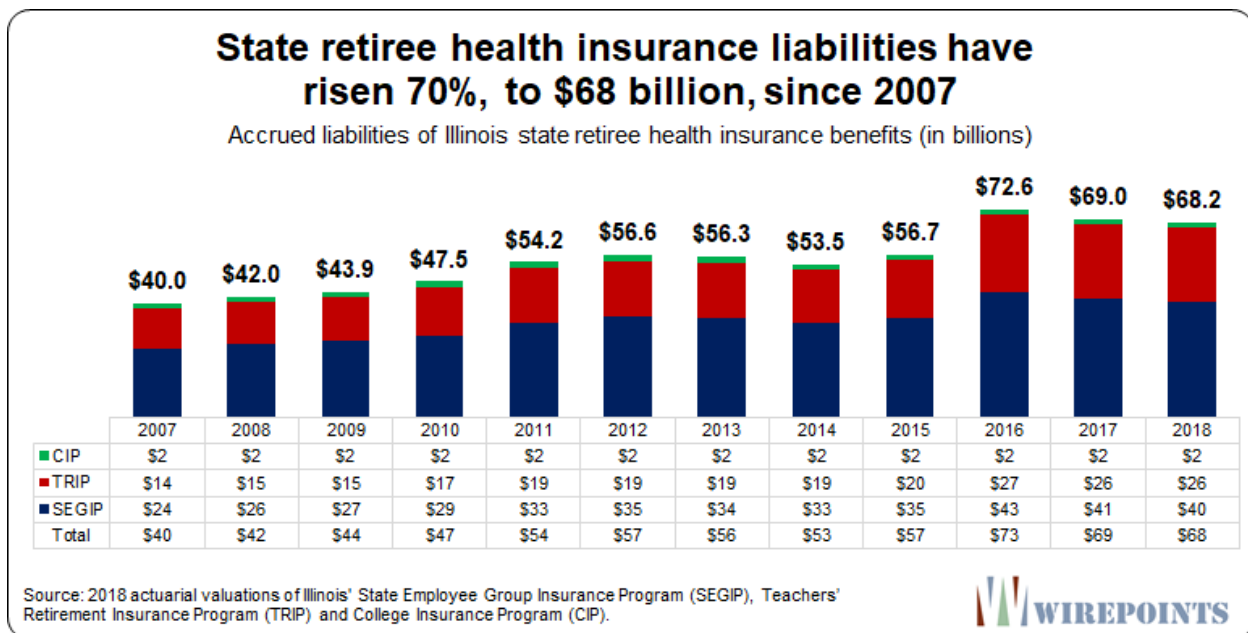
Introduction

There's another government-worker benefit wreaking fiscal havoc in Illinois: free and heavily-subsidized health insurance for *retired* state workers, teachers and community college employees.

According to [the latest](#) state actuarial reports, over the next 38 years Illinois owes a total of \$168 billion in health insurance benefits to retired public-sector workers.

The state's actuaries say Illinois should have \$68 billion set aside and invested today so it can safely make those \$168 billion in future payouts. The problem is, state politicians haven't set aside anything at all.

That \$68 billion hole is yet another [financial time-bomb](#). It's been totally ignored thus far by Illinois' lawmakers. Unfunded health insurance promises have grown 70 percent since 2007 and they play a large role in Illinois' overall retirement crisis.



Rather than properly pre-fund its future retiree health insurance obligations, the state pays only for the yearly costs as they are incurred under what's called a "pay-go" system. Government payments for claims will rise from \$1.3 billion today to as much as nearly \$6 billion in the next few decades. Illinoisans can expect those rising costs to further squeeze the state and other local government budgets.

Illinois' "other" retirement debt

Illinois provides more than 560,000 state workers and retirees with subsidized retiree health insurance benefits. Beneficiaries include:

- State employees and retirees, including state workers, public university employees, judges, and lawmakers, who participate in the [State Employee Group Insurance Program \(SEGIP\)](#);
- Teachers in the [Teachers' Retirement Insurance Program \(TRIP\)](#); and
- Community college employees in the [College Insurance Program \(CIP\)](#).

Illinois owes \$68 billion in retiree health insurance benefits to over 560,000 government workers

Financial data and membership of Illinois' state retiree health insurance programs, 2018

Program	Total active and retired members	(in millions)			
		Accrued liabilities	Assets	Unfunded liabilities	Funded ratio
State Employee Group Insurance Program (SEGIP)	264,579	\$40,093	\$0	\$40,093	0%
Teachers' Retirement Insurance Program (TRIP)	268,783	\$26,327	-\$18	\$26,345	-0.1%
College Insurance Program (CIP)	33,271	\$1,820	-\$64	\$1,885	-3.5%
Total	566,633	\$68,240	-\$82	\$68,323	-0.1%

Source: Source: 2018 actuarial valuations of Illinois' State Employee Group Insurance Program (SEGIP), Teachers' Retirement Insurance Program (TRIP) and College Insurance Program (CIP).

The responsibility of paying for those programs is divided between the state, school districts and community colleges.

Since the state is entirely responsible for making the yearly contribution to SEGIP, it's on the hook for the whole funding shortfall in SEGIP, or \$40 billion.

The state is also officially responsible for [about 57 percent](#) of TRIP's annual costs, with school districts responsible for the rest. That means the state is on the hook for a bit over half of TRIP's \$26 billion in liabilities.

The state also pays for about 50 percent of CIP's annual costs, with community colleges paying the rest. That means the state is on the hook for about half of CIP's \$2 billion in liabilities.

The state is on the hook for a vast majority of Illinois' retiree health insurance debt

Employers' share of Illinois retiree health insurance liabilities based on GASB 74 and 75, 2018

Employers	SEGIP		TRIP		CIP		Total	
	Accrued liability	Share	Accrued liability	Share	Accrued liability	Share	Accrued liability	Share
State of Illinois	\$40.1	100%	\$15.09	57.3%	\$0.9	49.5%	\$56.1	82%
School districts	\$0.0	0%	\$11.23	42.7%	\$0.0	0%	\$11.2	16%
Community colleges	\$0.0	0%	\$0.0	0%	\$0.9	50.5%	\$0.9	\$0.0
Total	\$40.1	100%	\$26.3	100%	\$1.82	100%	\$68.2	100%

Source: 2018 actuarial valuations of Illinois' State Employee Group Insurance Program (SEGIP), Teachers' Retirement Insurance Program (TRIP) and College Insurance Program (CIP).

In total, the state is officially on the hook for \$56 billion in retiree health debt, while community colleges and school districts are responsible for \$12 billion.

New federal accounting rules, GASB 74 and GASB 75, which came into full effect in 2018, now require state actuaries to divide responsibility for health insurance debt among affected employers based on their share of annual costs.

[From the actuarial firm Milliman:](#)

“GASB 75 states that the “projected long-term future contribution effort” of the employer is considered in the determination of an employer’s proportionate share...Note that the proportionate share of the NOL (Net OPEB Liability) will be included with the individual employer’s balance sheet and the proportionate share of the OPEB expense will be on the individual employer’s income statement. This is a significant change from GASB 43 and 45. In those statements, no liability or expense was calculated for the individual employer’s financial reporting.”

Retiree health benefits

State workers with 20-plus years of service [receive free health insurance](#) during retirement. (SEGIP offers state workers a 5 percent discount on their retiree health insurance for every year of work, maxing out at 100 percent for 20 years of work. Retirees who retired before 1998 earned free health insurance after just 8 years of service.)

According to a [2011 study](#) by Mercer on behalf of the Commission on Government Forecasting and Accountability (COGFA), most SEGIP members end up receiving free insurance: “Roughly three fourths of current retirees have at least twenty years of service and, therefore, do not have to pay contributions.”

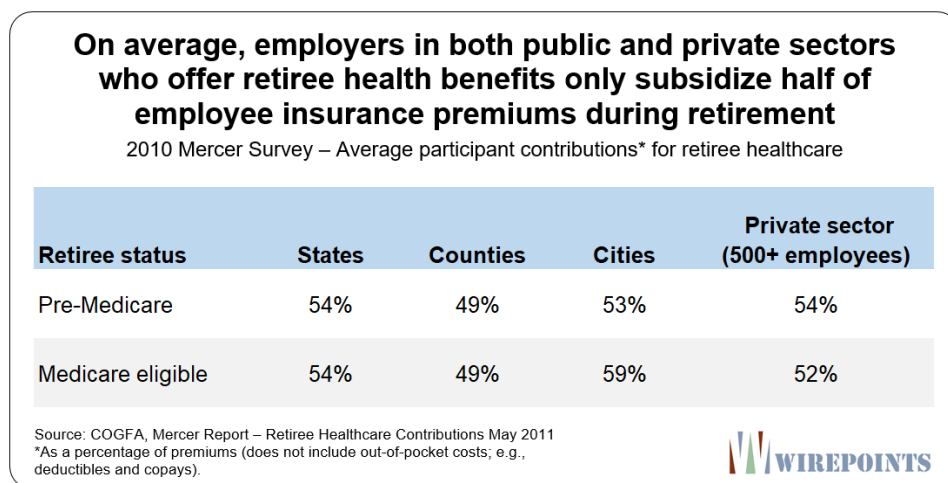
Wirepoints also analyzed the 2018 state employee pension database and found that 73 percent of State Employee Retirement System (SERS) members have worked the requisite years to get free retiree health insurance.

The present value of that benefit for career workers is worth \$200,000 to \$500,000 per retiree, depending on the pension tier and age of the employee, according to a 2016 FOIA obtained from the governor’s office.

Free retiree health insurance provided entirely at the employer’s expense is a benefit [that’s rare](#) in the public sector and almost unheard of in the private sector.

The Mercer study found that, on average, state, county and city governments across the nation that offer retiree insurance benefits pay only half of their employee’s premiums during retirement.

Mercer also found that most small- and medium-sized employers in the private sector do not offer retiree health benefits. And the 25 percent of large employers (500-plus employees) who do offer retiree health insurance benefits pay only half the cost of insurance, on average.

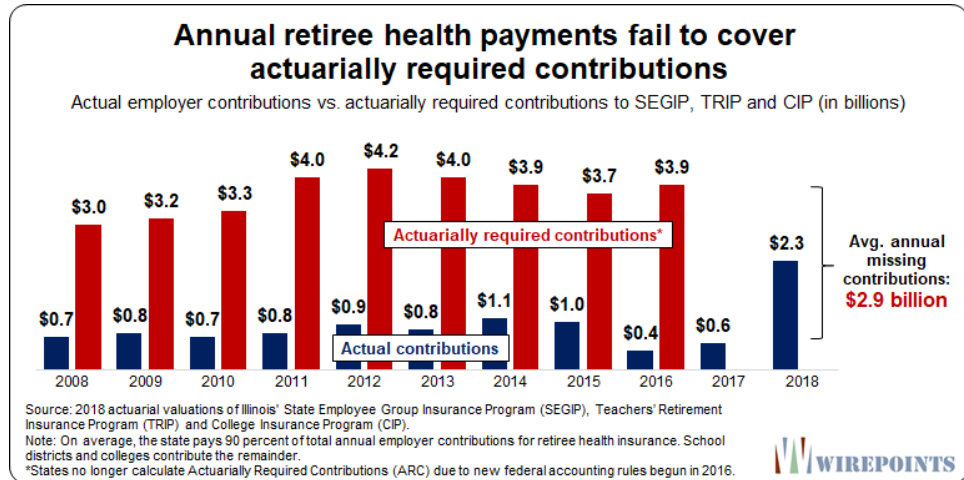


Members of TRIP and CIP get different, less generous benefit packages, but still receive insurance subsidies worth [50 to 75 percent](#) of their premium costs – subsidies paid for by taxpayers.

A growing budget problem

Because Illinois operates on a pay-go basis for retiree health insurance, Illinois falls far short of paying the actuarially required contributions, or ARC, for health benefits. The ARC is the amount actuaries say the state should pay to cover current year costs and to pay to down some of the unfunded liability.

By 2008, the state funding shortfall had already reached \$42 billion. But instead of paying that year's \$3 billion ARC, Illinois contributed just \$700 million – the amount needed to only pay just that year's benefit claims.

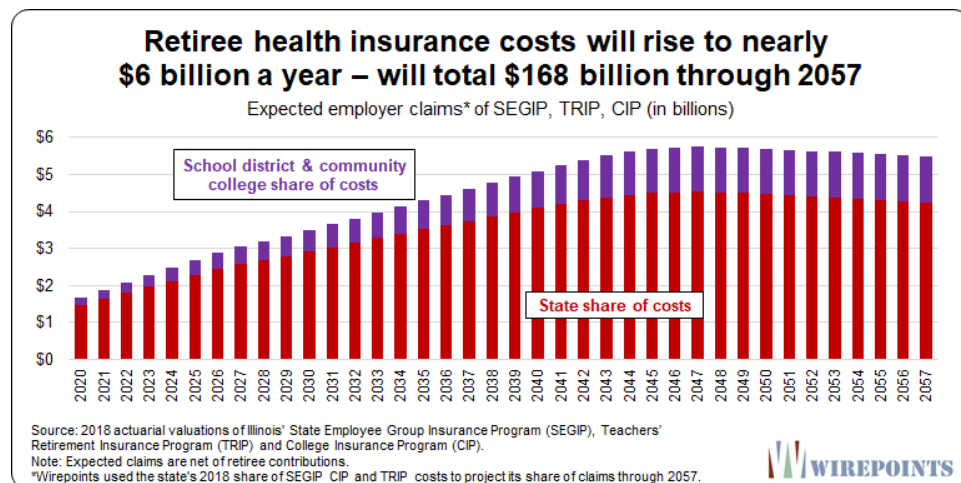


That same level of underpayment has continued since then. Illinois consistently underfunded retiree health by about \$3 billion a year between 2008 and 2016 – the last year ARC data is available. (New federal accounting rules, GASB 74 and 75, were fully implemented in 2018. The new rules no longer require actuaries to provide ARCs.)

Those yearly funding shortfalls, along with recent changes in accounting, have pushed up Illinois' retiree health insurance shortfall to \$68 billion.

The rising shortfall matters since the annual pay-go cost of retiree healthcare is growing rapidly. By 2027, the pay-go amount will total \$3 billion a year, with the state responsible for paying more than \$2.5 billion of that amount.

Costs are projected to peak in 2047, with the state responsible for paying \$4.5 billion out of a total \$5.7

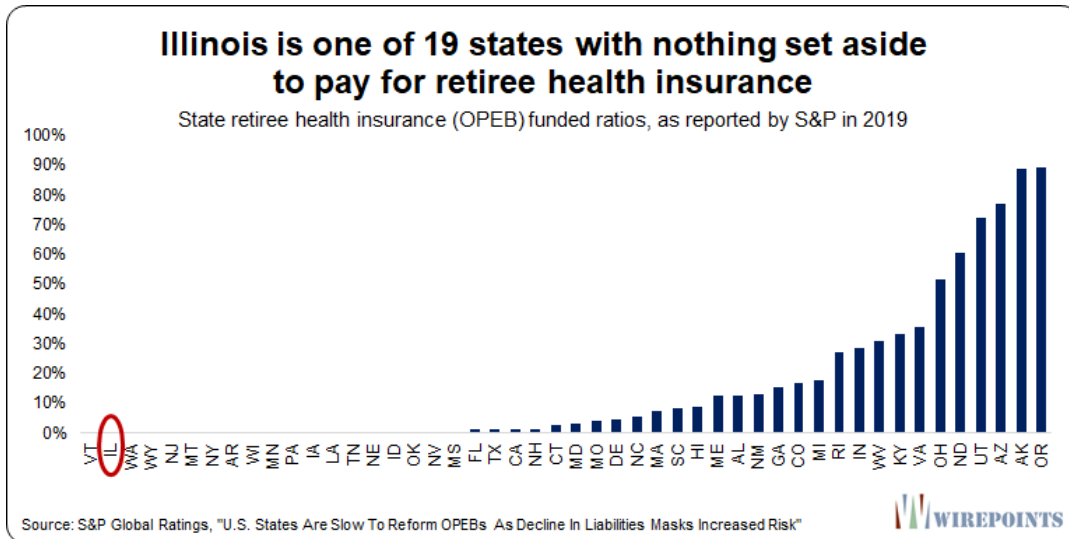


billion in health insurance costs.

In total, the pay-go amounts will grow by 4.6 percent annually through 2047, which will put constant pressure on Illinois' budget.

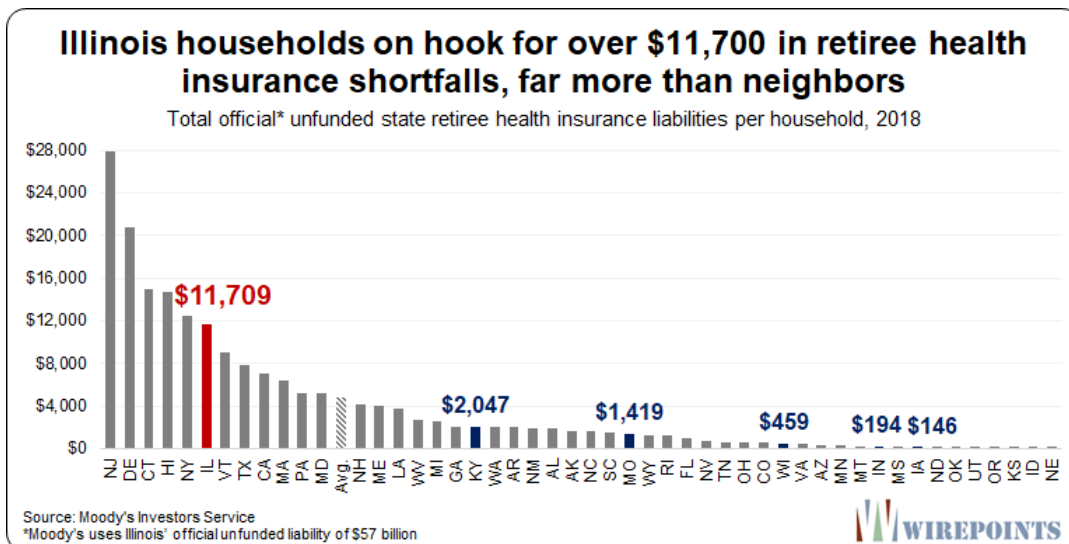
Retiree health elsewhere

Illinois is not alone in treating retiree healthcare as pay-go. Nineteen states have absolutely nothing set aside to pay for retiree healthcare. And over two dozen more have less than a quarter of the money they need, according to a [2019 report by S&P](#).



But the extent of underfunding is extreme in Illinois. That's particularly true when comparing the unfunded retiree health care debt per capita in Illinois versus our neighboring states.

According to Moody's Investors Service, as of 2018 each Illinois household was on the hook for more than \$11,700 in official unfunded retiree health benefits, the 6th-most in the nation (Moody's uses Illinois' official unfunded liability of \$57 billion). That amount is more than double the national average and six times what Kentuckians owe. And it's many, many times more than what residents in states like Wisconsin and Indiana are burdened with.



Retiree health is yet another debt that makes Illinois noncompetitive versus its neighbors.

Reforming retiree health insurance

Illinois' state pension crisis is already the nation's worst. Layer on top of that free and heavily subsidized health insurance benefits and it's no wonder Illinois faces the [most extreme retirement crisis](#) of any state in the nation.

Illinois lawmakers can change that by enacting reforms that significantly reduce the state's liabilities. Of course, like any other major retirement reform, it requires an amendment to the pension clause of the Illinois constitution.

Without reforms, retirement costs are on track to damage Illinois beyond repair.