WIREPOINTS

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Solving Illinois' Pension Problem:

Why It's Legal, Why It's Necessary, and What It Looks Like

Part 2: Illinois Pensions: Overpromised and Overgenerous

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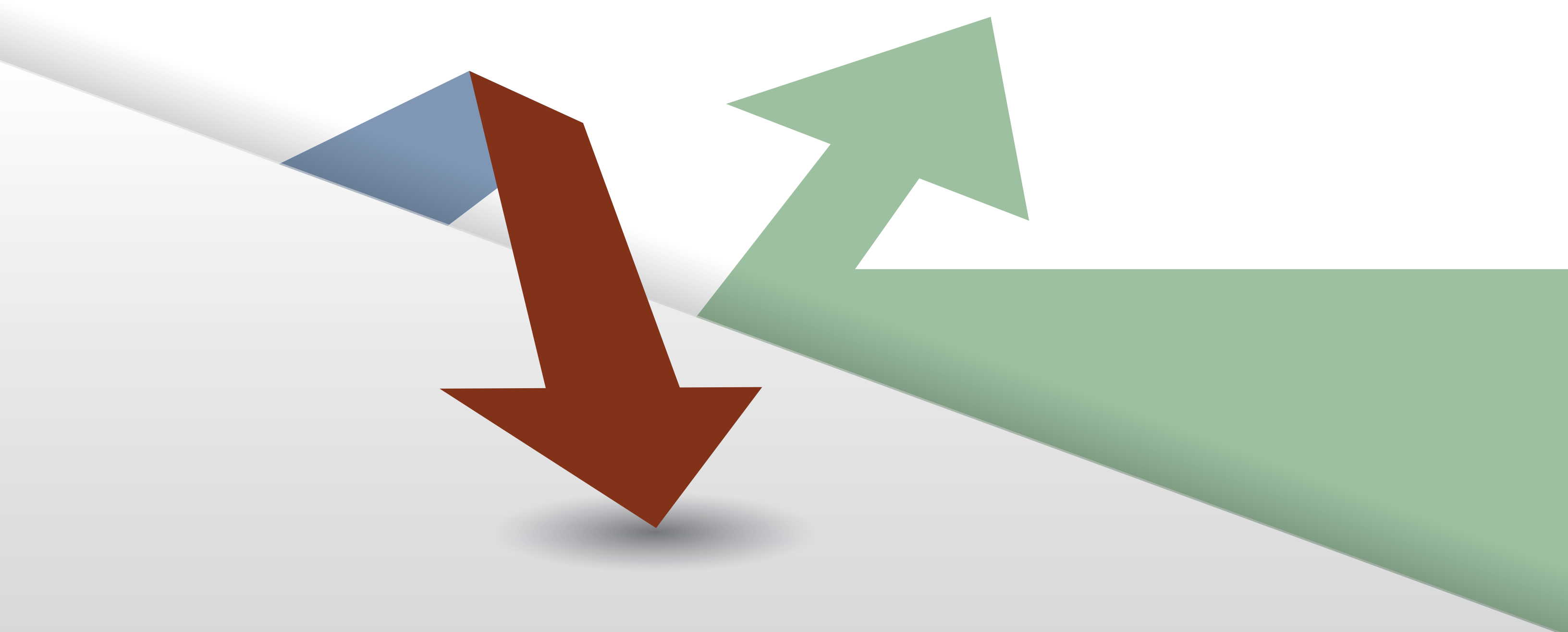

Part 2
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A fundamental problem with the state pension protection clause is its asymmetry. Illinois lawmakers enacted strict constitutional language to ensure that pension benefits would never be diminished, but they didn't create a mechanism to control or limit the growth in those benefits.

What few spending controls they did put in place, such as the balanced budget amendment, have been entirely ignored. Lawmakers failed to contemplate that pension benefits could be used by future legislatures for political gain or that benefit growth could markedly outstrip the ability of its residents to pay for them.[1]

With no limits in place, accrued pension liabilities – the total sum of what's owed in future pension benefits at any one time – have grown far faster than in most states and have inflicted serious damage to Illinois' economy, resident incomes and public worker retirement security.

This second part of Wirepoints' four-part series outlines how those overpromised benefits, and not underfunding, have been the real cause of Illinois' crisis. It also details how overly generous pension and retiree health insurance benefits are a driver of that overpromising.

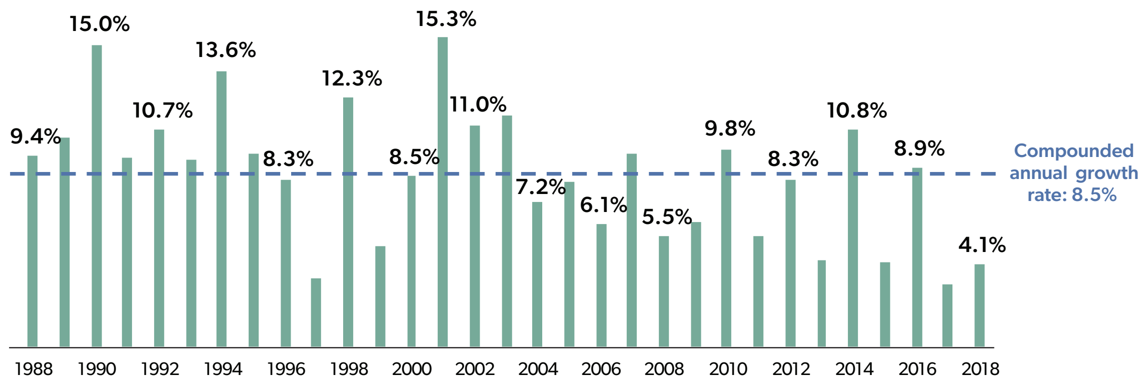
Illinois' pensions are overpromised, not underfunded

Illinois' pension crisis is usually blamed on "underfunding." The term implies that Illinois' legislature failed systematically to pay into the five state-run pension systems with taxpayer contributions, resulting in massive shortfalls.

But an analysis of the state's pension data reveals that too few contributions into pensions hasn't been the real problem. More than enough funds have been poured into the systems. Instead, the true cause of Illinois' underfunding has been the dramatic and persistent growth in total pension benefits promised.

Illinois accrued liabilites have grown 8.5 percent per year on average since 1987

Accrued liabilities of Illinois' five state-run pension funds, year-by-year growth, 1987-2018



Source: Illinois Department of Insurance

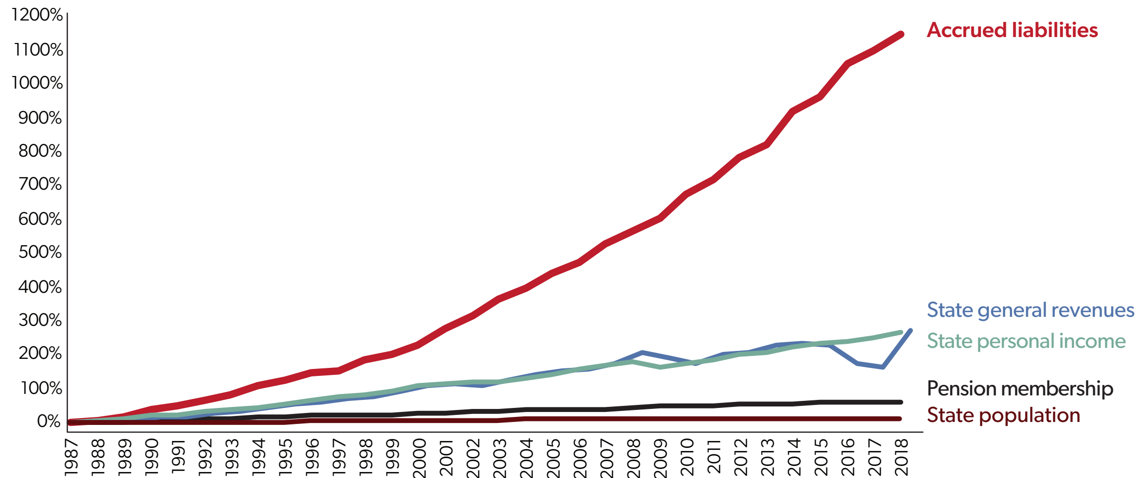
Wirepoints found that Illinois' accrued liabilities have exploded over the past three decades, growing far faster than what the state's economy, its tax base and personal incomes could ever have afforded. Illinois' pension promises have grown more than those in almost every other state since 2003, fueling a fiscal crisis that's unparalleled nationwide.

Wirepoints' findings are based on an analysis of Illinois pension and economic data stretching back to 1987, as well as 50-state pension plan data from 2003-2017 collected by Pew Charitable Trusts.[2]

The accrued liabilities of the state's five state-run pension funds have grown at a compounded rate of 8.5 percent a year since 1987, according to data from the Illinois Department of Insurance. Those liabilities grew by more than 10 percent annually for 11 of those years, resulting in stunning compounded growth.[3]

Pension benefit growth overwhelms Illinois' economy, state revenues

Cumulative growth: accrued liabilities of the five state-run pension funds vs. other indicators, 1987-2018



Source: Illinois Department of Insurance; Illinois Comptroller; U.S. Bureau of Economic Analysis; U.S. Census Bureau

That's resulted in a total increase of 1,146 percent over the entire 31-year period. No other state metric comes even remotely close to matching that kind of growth. The state's personal income, a proxy for GDP, grew just 267 percent over the same period and the state's general revenues were up 275 percent.[4]

Overall, total benefits have grown four to nine times faster than other key growth metrics.

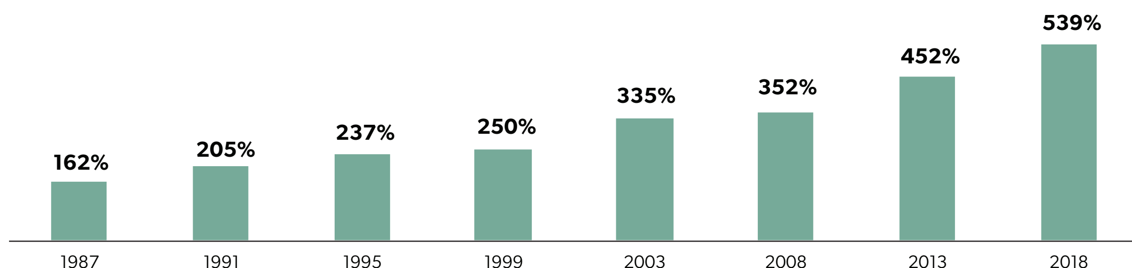
Another way to measure accrued liability growth is to compare it to the state's tax base over time. Thirty years ago, the state's obligations to active workers and retirees amounted to 162 percent of the state's general revenues. Today, those promises have ballooned to more than 500 percent of revenues.[5]

That's the result of benefits growing 8.5 percent a year since 1987, far outstripping the rapid 4.4 percent average annual growth of state general revenues over the same period.

With pension benefits outpacing every measure of Illinoisans' ability to pay for them, it's no wonder Illinois is in crisis, its taxpayers are fatigued, and core government services are being slashed.

Accrued pension liabilities overwhelm state budget

State pension accrued liabilities as a percentage of Illinois General Fund revenues



Source: Illinois Department of Insurance; Illinois Comptroller

History of Illinois' five state-run pension funds and other economic indicators

History of Illinois state teachers (TRS), university employees (SURS), state workers (SERS), judges (JRS) and legislators (GARS) pension funds and other economic indicators ($ in billions)

Year	Actuarial liabilities	Fund assets	Unfunded liability	Funded ratio	State general revenues	State personal income	Inflation	State population
1987	$17.9	$11.0	$7.0	61%	$11.1	$197.2	113.6	11,391,178
1988	$19.6	$11.9	$7.7	61%	$11.6	$212.6	118.3	11,390,183
1989	$21.6	$13.0	$8.6	60%	$12.1	$226.9	123.9	11,409,782
1990	$24.9	$14.4	$10.5	58%	$12.8	$240.8	130.7	11,446,979
1991	$27.2	$15.5	$11.7	57%	$13.3	$245.9	136.2	11,535,973
1992	$30.1	$17.2	$12.9	57%	$14.2	$265.7	140.3	11,635,197
1993	$32.9	$18.8	$14.1	57%	$15.1	$275.4	144.5	11,725,984
1994	$37.4	$20.4	$17.0	55%	$16.2	$290.1	148.2	11,804,986
1995	$41.0	$21.5	$19.5	52%	$17.3	$307.8	152.4	11,884,935
1996	$44.4	$23.6	$20.8	53%	$18.1	$327.6	156.9	11,953,003
1997	$45.9	$32.2	$13.7	70%	$18.9	$346.3	160.5	12,011,509
1998	$51.6	$37.2	$14.3	72%	$20.0	$367.4	163.0	12,069,774
1999	$54.2	$38.7	$15.5	71%	$21.7	$383.4	166.6	12,128,370
2000	$58.8	$42.8	$16.0	73%	$23.3	$412.4	172.2	12,434,161
2001	$67.8	$42.8	$25.0	63%	$24.1	$427.5	177.0	12,488,445
2002	$75.2	$40.3	$34.9	54%	$23.6	$432.4	179.9	12,525,556
2003	$83.8	$43.3	$40.5	52%	$25.0	$440.0	184.0	12,556,006
2004	$89.8	$54.7	$35.1	61%	$27.0	$457.4	188.9	12,589,773
2005	$97.2	$58.6	$38.6	60%	$28.2	$476.6	195.3	12,609,903
2006	$103.1	$62.3	$40.7	60%	$28.6	$508.5	201.6	12,643,955
2007	$112.9	$70.7	$42.2	63%	$30.3	$538.1	207.3	12,695,866
2008	$119.1	$64.7	$54.4	54%	$33.8	$551.5	215.3	12,747,038
2009	$126.4	$64.0	$62.4	51%	$32.1	$525.2	214.6	12,796,778
2010	$138.8	$63.1	$75.7	45%	$30.3	$540.5	218.1	12,840,503
2011	$146.5	$63.6	$82.9	43%	$33.8	$568.0	224.9	12,867,454
2012	$158.6	$64.0	$94.6	40%	$34.1	$593.2	229.6	12,882,510
2013	$165.5	$65.0	$100.5	39%	$36.6	$607.7	233.0	12,895,129
2014	$183.2	$72.1	$111.2	39%	$37.0	$637.3	236.7	12,884,493
2015	$191.0	$78.1	$112.9	41%	$36.6	$662.8	237.0	12,858,913
2016	$208.0	$81.5	$126.5	39%	$30.5	$670.5	240.0	12,820,527
2017	$214.5	$85.4	$129.1	40%	$29.4	$689.7	245.1	12,778,828
2018	$223.3	$89.8	$133.5	40%	$41.5	$724.2	251.1	12,723,071
Total growth	**1,146%**	**720%**	**1,819%**		**275%**	**267%**	**121%**	**12%**
Compounded annual growth rate	**8.5%**	**7.0%**	**10.0%**		**4.4%**	**4.3%**	**2.6%**	**0.4%**

Source: Illinois Department of Insurance; Illinois Comptroller; U.S. Bureau of Economic Analysis; U.S. Census Bureau

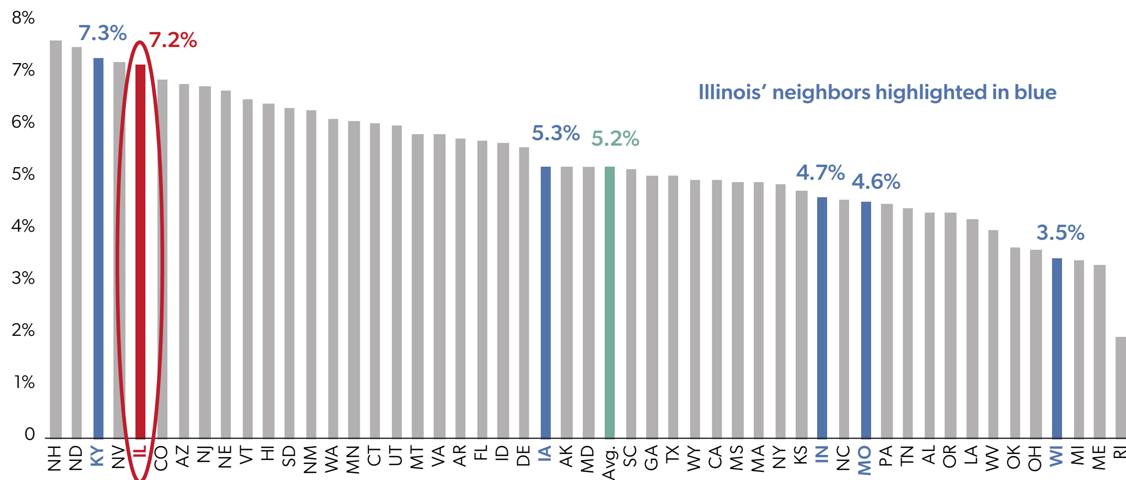
Illinois growth in accrued liabilities: a national outlier

A 50-state comparison over time reveals just how much of an outlier Illinois' pension promises really are. Wirepoints compared the growth of Illinois' accrued liabilities to those of other states using 2003-2017 data compiled by Pew Charitable Trusts. Comparable state-to-state data over a longer period was not available.[6]

During that 14-year period, Illinois' accrued liabilities grew 7.2 percent annually, the 5th-fastest pace of any state in the country. Illinois' growth rate was faster than the national average of 5.2 percent and far faster than the growth of all of its neighbors except Kentucky. (See Appendix A for more details.)

Illinois has the 5th-fastest pension benefit growth of any state

Average annual growth in state pension accrued liabilities, 2003-2017



Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"

In contrast, states like Wisconsin, Maine, Michigan, Oklahoma and Ohio kept the growth of their pension obligations under 4 percent per year.

While a 2-3 percent differential in growth rates may not look like much, over a long period the compounding effect can be dramatic. Had Illinois' pension benefits simply grown at the national average of the Pew data back in 1987, Illinois' plans would be fully funded today based on official assumptions.

Too much growth in pension liabilities can also overwhelm a state's economy. Some states have seen the growth in their promises far exceed the growth in their GDPs.

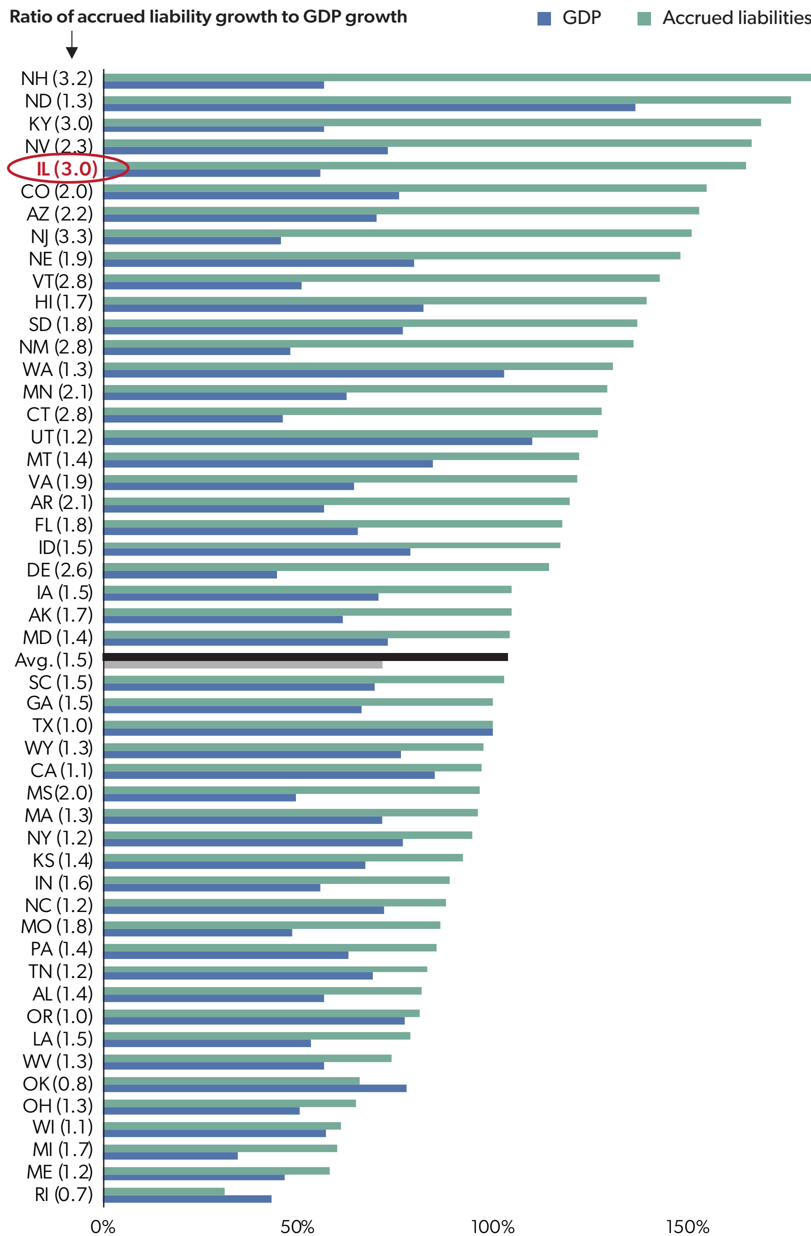
In 24 states, accrued liabilities outgrew their economies by 1.5 times or more between 2003 and 2017. And in 13 states, liabilities grew two times or more than their economies did. Illinois is one of them.[7]

Illinois' accrued liabilities grew 165 percent from 2003 to 2017, compared to a GDP growth of just 56 percent. That's three times more over the entire period. Only New Jersey, New Hampshire and Kentucky's accrued liabilities grew faster relative to their GDPs.

In contrast, states with low pension growth rates have largely prevented promises from overwhelming their economies.

Illinois pension promises grow three times faster than GDP

Cumulative growth: total state pension accrued liabilities vs. Gross Domestic Product (GDP), 2003-2017



Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"; U.S. Bureau of Economic Analysis

Take Wisconsin, for example. The state's pension promises grew a total of 61 percent between 2003 and 2017, barely more than the state's GDP, which grew 57 percent. Rhode Island managed to keep its accrued liabilities from outgrowing its economy. Liabilities grew just 31 percent while the state's economy grew 43 percent.

A common factor among the low growth states is their more reasonable benefit structures and a willingness to enact pension reform.

Wisconsin's shared risk pension plan and relatively modest benefit structure have for decades kept the state's promises limited and its pension system healthier than most other states.[8]

Michigan pioneered comprehensive state pension reform in 1997 when it created 401(k)-style plans for new workers.[9]

Rhode Island enacted major pension reforms in 2011. That's one of the reasons why the state's benefits have grown far more slowly than the economy. The state introduced hybrid retirement plans for existing workers, froze cost-of-living adjustments and increased retirement ages for both new and current workers.[10]

Those states acted to get their retirement benefits under control. Unfortunately, Illinois can't do the same because of its asymmetric pension protection clause.

A2. Illinois pension assets have grown rapidly

Illinois' pension crisis is currently wrapped up in a narrative of underfunding – that the state, and by extension its residents, never contributed enough to Illinois pensions. Those opposed to reform consistently blame underfunding as the cause of the state's crisis.

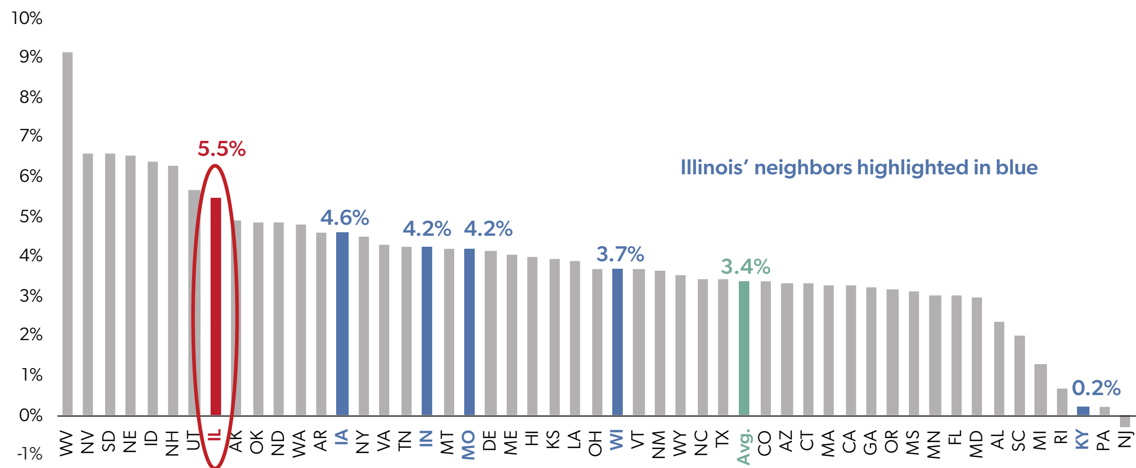
But contrary to most assumptions, Illinois' pension assets – buoyed by taxpayer contributions – have grown rapidly over the past three decades. Just like pension benefits, assets have grown far faster than any major measure of the state's economy.

Unfortunately, Illinois' extreme liability growth has simply overwhelmed one of the fastest pension asset growth rates in the country.

Illinois' pension assets grew 5.5 percent a year between 2003 and 2017, the 8th-fastest nationally, based on an analysis of Pew data. The 50-state average was a much lower 3.4 percent.[11] (See Appendix A for more details.)

Illinois has the 8th-fastest pension asset growth of any state

Average annual growth in state pension assets, 2003-2017



Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"

Illinois' rapid asset growth also outpaced that of its neighbors. Iowa's assets grew 4.6 percent annually, while Wisconsin's grew 3.7 percent.

Illinois' high asset growth rate differentiates it from the other states suffering a major pension crisis. Both Kentucky and New Jersey saw their assets stagnate or fall even as their liabilities skyrocketed between 2003 and 2017. Kentucky's assets grew a paltry 0.2 percent annually at the same time that its liabilities grew 7.3 percent. And New Jersey's assets actually shrunk compared to liabilities that grew 6.8 percent annually.

The takeaway is that Illinois' fast-growing assets simply couldn't keep up with the state's growing promises.

Illinois' pension assets grew faster than its economy

Illinois' pension asset growth was even faster when measured over a longer period of time. The assets of the five state funds grew an average of 7 percent annually over the past 31 years, increasing from just $11 billion in 1987 to $90 billion in 2018.

Illinois' assets have grown far faster than any major measure of the state's economy. Assets are up 720 percent over the entire period while state general revenues grew just 275 percent.[12]

Much of the growth has come from taxpayer contributions into the pension plans. Most notable is the amount of funding put in by taxpayers since the implementation of the 1996 Edgar Ramp, the pension funding plan introduced by Gov. Jim Edgar.

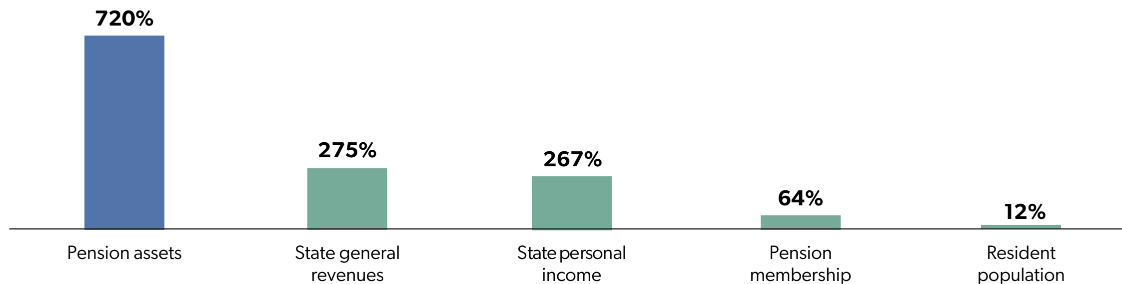
The original ramp called for taxpayers to pay $56 billion into the pension systems from 1996 through 2018.

But taxpayers have ended up contributing far more than that. Taxpayers put $83 billion into the pension funds, or $27 billion more than the original ramp called for. In 2018 alone, taxpayers contributed over $3.5 billion more than the original ramp required.[13]

However, that growth in assets has come at a cost. Illinois' contributions to the pension funds have become so large that they now consume more than a quarter of the state's annual budget. That's left less funding available for other vital programs and social services.

Illinois pension assets have grown far faster than state revenues, income, population

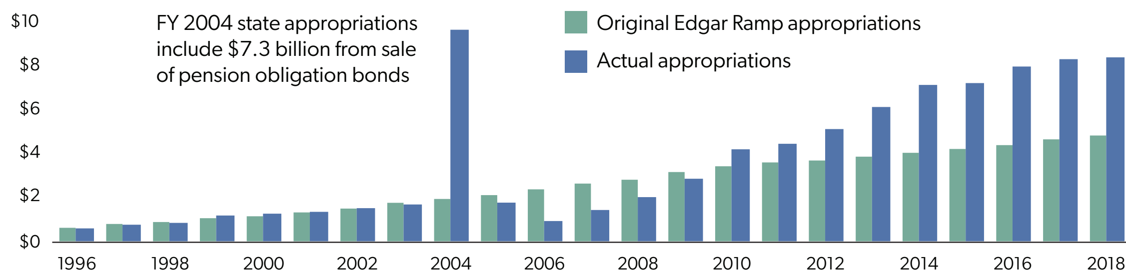
Total growth in state pension assets vs. other indicators, 1987 vs. 2018



Source: Illinois Department of Insurance; Illinois Comptroller; U.S. Bureau of Economic Analysis; U.S. Census Bureau

Illinoisans have contributed $27 billion more to pensions than original Edgar Ramp required

Total taxpayer contributions to Illinois five state-run pension funds, 1996-2018
Original Edgar Ramp projected appropriations vs. actual appropriations (in billions)



Source: Commission on Government Forecasting and Accountability

Illinois would not be in crisis if its promises had grown at a reasonable rate

Illinois' official $134 billion pension shortfall for 2018 would look dramatically different today if politicians had reformed pensions and slowed the growth of benefits back in 2003.

For example, if lawmakers had taken action to limit accrued liability growth to neighboring Indiana's 2003-2017 rate of 4.7 percent, Illinois' pension shortfall would have totaled just $76 billion in 2018. Or, if politicians had reformed pensions to match Wisconsin's growth rate of 3.5 percent, Illinois' shortfall would have been just $50 billion.

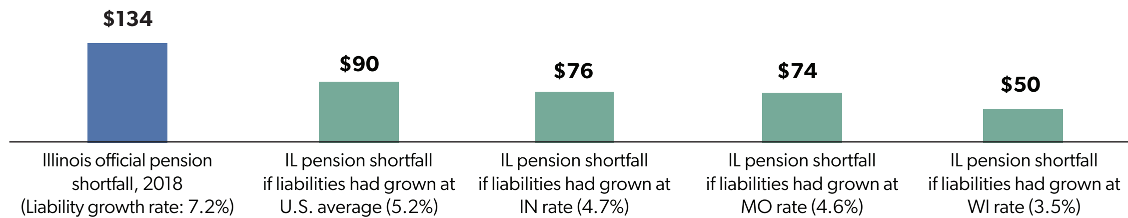
And if politicians had taken steps to slow the growth in pension liabilities three decades ago, Illinois could have avoided its current crisis.

Had Illinois' accrued liabilities grown 5.3 percent annually since 1987, close to the 2003-2017 average growth rate nationally, instead of at 8.5 percent, the state's assets would have caught up to its promises and Illinois would have been 100 percent funded in 2018 – at least under the state's official actuarial assumptions.

A 5.3 percent growth rate in promises would still have been rapid when compared to Illinois' economy and taxpayers' ability to pay. But it shows that a more moderate growth in benefits over the past 30 years would have spared Illinoisans the burden of the nation's worst pension crisis.

Illinois' pension shortfall would be far lower today if liabilities had grown at neighboring states' rates since 2003

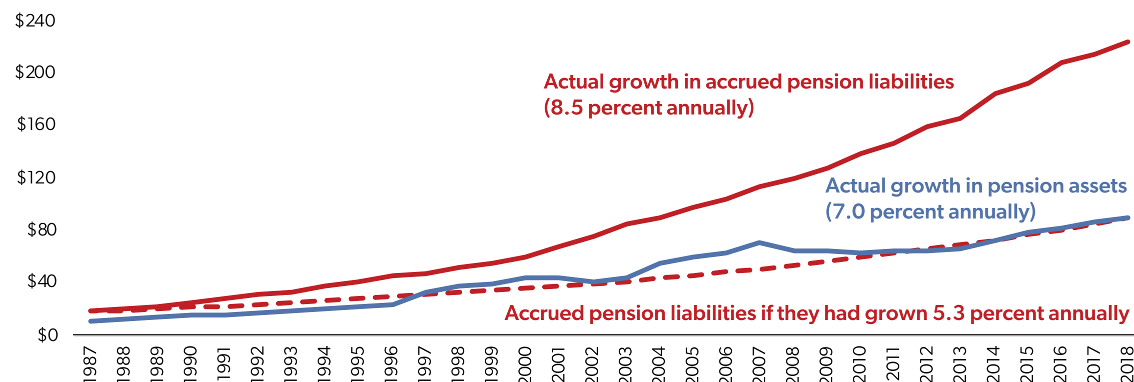
Illinois' official state pension shortfall (unfunded liabilities) in 2018 vs. shortfall if Illinois accrued liabilities had grown at neighbors' growth rates since 2003 (in billions)



Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"; Wirepoints calculations

Illinois would have no crisis today if pension benefits had grown 5.3 percent a year since 1987

Actual state pension assets vs. actual accrued liabilities vs. liabilities grown at 5.3 percent a year (in billions)



Source: Illinois Department of Insurance, Wirepoints calculations

Illinois' pensions are overly generous

Illinois' long-term growth in pension promises stems largely from the generous benefits state workers receive. The state's rules on retirement ages, cost-of-living adjustments (COLAs) and employee contributions – combined with automatic spiking, pension pickups, automatic sick leave and other perks – have resulted in annual pension benefits worth millions in retirement for career workers.[1]

Critics of the current system often focus on double dippers and those with outrageous yearly pensions as the reason why Illinois pensions are unsustainable. Beneficiaries like that do contribute to the crisis, but that's not where the bulk of the problem lies. Illinois' pension crisis stems from the simple fact that the benefits provided to the average retiree are too expensive.

The best way to compare how overly generous Illinois retirements are is to look at the benefits of recently retired career workers with 30 or more years of service. That captures the full value of benefits and allows for an apples-to-apples comparison across states.

The average, recently retired, career state pensioner in Illinois receives $70,600 in annual pension benefits and can expect to collect over $2.3 million in total benefits. That's a result of one of the most generous COLAs in the country, which doubles a retiree's annual pension after 25 years in retirement.[2]

Pensions aren't the only generous benefit career workers receive. Nearly 75 percent of Illinois state employees also receive free retiree health insurance. Those benefits are worth, in present value terms, $200,000 – $500,000 per retiree, depending on their tier.[3]

In the following pages, Wirepoints compares Illinois' teacher pension benefits and state worker retiree health insurance benefits to those of its peer states. Due to the high costs of hiring actuaries, Wirepoints limited its analysis to teacher pensions and state worker retiree health benefits.

Pension benefits of recently retired career state pensioners

Pension benefit data for Illinois state retirees who retired after 1/1/2017 with 30-plus years of service

Fund	Final Average Salary	Approximate age at retirement	Current annual pension	Total direct employee contributions	Estimated total payout in retirement**	Employee contributions vs. estimated payout
TRS	$108,183	59	$79,379	$172,257	$2.6 million	7%
SURS	$92,820	59	$71,282	$141,895	$2.3 million	6%
SERS	$85,976	59	$54,317 + Social Security	$69,698	$1.8 million + Social Security	4%
JRS*	$199,780	72	$175,047	$252,454	$4.1 million	7%
GARS*	$89,698	65	$87,974	$191,499	$1.8 million	12%
Average	**$99,066**	**59**	**$70,612**	**$134,038**	**$2.3 million**	**6%**

Source: Pensioner data obtained from the 5 state-run pension systems via 2020 FOIA requests.
*Retired since January 1, 2017 with 20 or more years creditable service.
**Estimated total payout is based on approximate life expectancies from Social Security's actuarial life tables. Current ages as of 2020 were used to determine pensioners' life expectancies.

A brief history of teacher pension benefit increases

Given the one-sided nature of the pension protection clause, past Illinois lawmakers should have been extremely careful about giving away any new benefits. But a review of teacher benefits – the Illinois Teachers' Retirement System publishes a complete list of changes to the pension plan since 1915 – shows they weren't. (See Appendix B for a summary of TRS benefit changes.)[4]

Notable changes to teacher pensions benefits:

Cost-of-living increases

- 1969: COLA increased to 1.5 percent simple
- 1971: COLA increased to 2 percent simple.
- 1978: COLA increased to 3 percent simple.
- 1990: 3 percent COLA increase compounded annually.

Pension benefit formula

- 1947: Pension formula: 1.5 percent of Final Average Salary (FAS) per year of creditable service with a 60 percent maximum. Final Average Salary calculated based on the last 10 years of service.
- 1971: Pension formula upgraded to 1.67 percent for first 10 years of service; 1.9 percent for next 10; 2.1 percent for next 10; and 2.3 percent for years over 30. Maximum percentage of FAS increased to 75 percent. FAS calculation changed to highest four consecutive years within the last 10 years of service.
- 1998: Pension formula upgraded to 2.2 percent a year. TRS member contributions increased by 1 percent.

Sick leave benefits

- 1972: Service credit granted for up to one-half year of unpaid sick leave.
- 1984: Service credit granted for up to one year of unpaid sick leave.
- 1998: Any unused sick leave could be used for credit, if not compensated in any other way.
- 2003: Service credit granted for up to two years of unpaid sick leave.

Retirement ages

- 1947: Retirement permitted at age 55 with 20 years of service; age 60 with 15 or more years of service.
- 1969: Retirement permitted at age 55 with 20 years of service; age 60 with 10 or more years of service; age 62 with 5 years or more of service.

Illinois teachers are the most generously compensated among neighbors, largest states

Wirepoints compared Illinois teacher pensions to 10 other peer states and found Illinois teachers receive the most generous pension benefits by far. High Final Average Salaries, early retirement ages, and one of the nation's most generous COLAs allow Illinois teachers to out-earn their colleagues in expensive states like California and New York, even before adjusting for cost of living.

Wirepoints focused on teacher benefits since they're a proxy for the generosity of Illinois' overall pension system. Teachers' Retirement System benefits make up nearly 60 percent of the state's obligations and teachers are the nation's single largest homogenous group of government workers.

Important factors considered (See Appendix C for additional details.)

- Wirepoints focused on the benefits of career teachers with 30-plus years of service who retired in FY 2018, allowing for an apples-to-apples comparison across states. Wirepoints acknowledges there are many new tiers offering different levels of benefits across the states, including in Illinois, but the overwhelming majority of earned benefits are still owed to teachers in older tiers.
- Illinois' peer states were limited to the following: Illinois' five neighboring states, which directly compete for talent and investment, and the nation's five largest states by population.
- Teachers in the majority of Illinois' peer states participate in Social Security. Those benefits are included in our analysis of teachers' total retirement benefits.[5]
- Wirepoints used the U.S. Bureau of Economic Analysis' Regional Price Parities Index to adjust for cost-of-living differences across states.[6]
- Teacher benefit data was obtained from 2018 Comprehensive Annual Financial Reports or from individual state FOIA requests.

Summary findings

The average career teacher in Illinois, after adjusting for regional price differences, will receive approximately $2.9 million in pension benefits over the course of her retirement. That same teacher in New York will receive approximately $2.1 million, while a California teacher will receive $2.0 million.

Teachers in Illinois' neighboring states will, on average, receive far less than that. Benefits range from $2.4 million for Kentucky teachers to $1.6 million for Indiana teachers. Teachers in Texas will receive about $1.36 million, the lowest of Illinois' peer states.

Those total benefits include expected Social Security payments. Teachers in New York, Florida, Pennsylvania, Wisconsin, Iowa and Indiana participate in Social Security. Teachers in Illinois, California, Kentucky, Missouri and Texas do not. (Individual districts in Texas and Missouri have the option to enroll teachers in Social Security, but a majority of districts in each state do not do so.)[7]

Total expected benefits for a recently retired career teacher

Total expected benefits for a recently retired career teacher
(retired in 2018 with 30-plus years of service), (in millions)

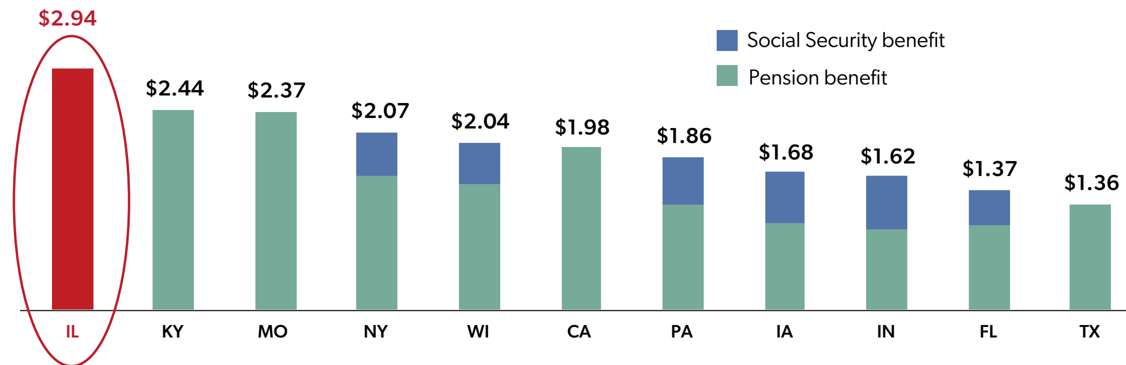
State	Pension benefits	Social Security benefits	Total benefits in retirement	Regional Price Parity (RPP)	Total benefits adjusted for RPP
Illinois	**$2.90**	**—**	**$2.90**	**98.5**	**$2.94**
Kentucky	$2.14	—	$2.14	87.9	$2.44
Missouri	$2.12	—	$2.12	89.5	$2.37
New York	$1.78	$0.62	$2.40	115.8	$2.07
Wisconsin	$1.42	$0.46	$1.88	92.4	$2.04
California	$2.27	—	$2.27	114.8	$1.98
Pennsylvania	$1.26	$0.56	$1.82	97.9	$1.86
Iowa	$0.95	$0.56	$1.51	89.8	$1.68
Indiana	$0.88	$0.58	$1.46	89.8	$1.62
Florida	$0.96	$0.41	$1.37	99.9	$1.37
Texas	$1.32	—	$1.32	97.0	$1.36

Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

Peer state comparison: Career Illinois teachers receive the most retirement benefits

Total expected benefits for a recently retired career teacher (retired in 2018 with 30-plus years of service)
Adjusted for regional price differences, (in millions)



Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

Breaking down the elements of teacher pensions

Pension comparisons are complicated given the host of factors that help determine total benefits. Those include salaries, pension formulas, ages at retirement, cost of living adjustments and other perks including end-of-career spiking and accrual of unused sick leave days.

Fortunately, most of those elements are captured in four numbers: Final Average Salary, beginning pension benefit, age at retirement, and post-retirement cost-of-living adjustments. Wirepoints compares those factors across the surveyed states for career teachers with 30-plus years of service who retired in FY 2018.

1. Final Average Salaries

Career Illinois teachers retire with a final average annual salary of $108,628, the highest amount among the states Wirepoints surveyed. New York and California teachers are close behind with salaries of about $106,000. No other state salary breaks $100,000.

After adjusting for regional price differences, the gap in salaries between Illinois and its peer states grows significantly. Illinois teachers alone receive more than $110,000 in salaries, while New York and California's drop to the $92,000 range.

Teachers in several states, including Pennsylvania and Florida, have Final Average Salaries after adjustment that are $30,000-$50,000 lower than Illinois'.

Those salaries matter because they serve as the base for the calculation of teacher pension benefits. The rules for determining the Final Average Salary across states are relatively uniform, with most states calculating it as the average of the three highest years (36 months) of salary. Illinois' Tier 1 pension rules base a teacher's Final Average Salary on her four highest consecutive years of service.

California has the most generous rules; there, teachers' Final Average Salary is based on the average of the 12-highest months of service. At the other end, Indiana averages the last five years of a teacher's service. The rules for the remaining states fall somewhere in between.

Peer state comparison: Career Illinois teachers retire with the highest Final Average Salaries

Average Final Average Salary for a recently retired career teacher (retired in 2018 with 30-plus years of service)

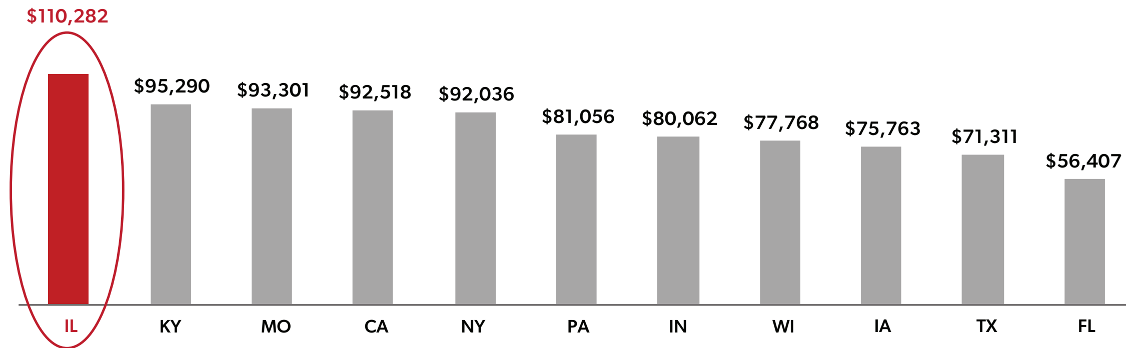
State	Final Average Salary	Regional Price Parity (RPP)	Final Average Salary adjusted for RPP
Illinois	**$108,628**	**98.5**	**$110,282**
Kentucky	$83,760	87.9	$95,290
Missouri	$83,504	89.5	$93,301
California	$106,211	114.8	$92,518
New York	$106,578	115.8	$92,036
Pennsylvania	$79,353	97.9	$81,056
Indiana	$71,896	89.8	$80,062
Wisconsin	$71,857	92.4	$77,768
Iowa	$68,035	89.8	$75,763
Texas	$69,172	97.0	$71,311
Florida	$56,351	99.9	$56,407

Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

Peer state comparison: Career Illinois teachers retire with the highest Final Average Salaries

Average Final Average Salary for a recently retired career teacher
(retired in 2018 with 30-plus years of service), adjusted for regional price differences



Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

2. Beginning pension benefit

The beginning pension benefit of a retiring career Illinois teacher was $80,839 after adjusting for cost-of-living. Again, that is the highest among Illinois' peer states.

Career teachers in New York receive the next highest starting benefits of $78,687 – including both a pension and a Social Security benefit. Teachers in Missouri, California and Pennsylvania receive approximately $74,000.

Below that, teachers from Kentucky to Florida receive beginning annual benefits ranging anywhere from $73,884 to just $43,161.

Peer state comparison: Career Illinois teachers receive the highest beginning retirement benefits

Total expected benefits for a recently retired career teacher
(retired in 2018 with 30-plus years of service)

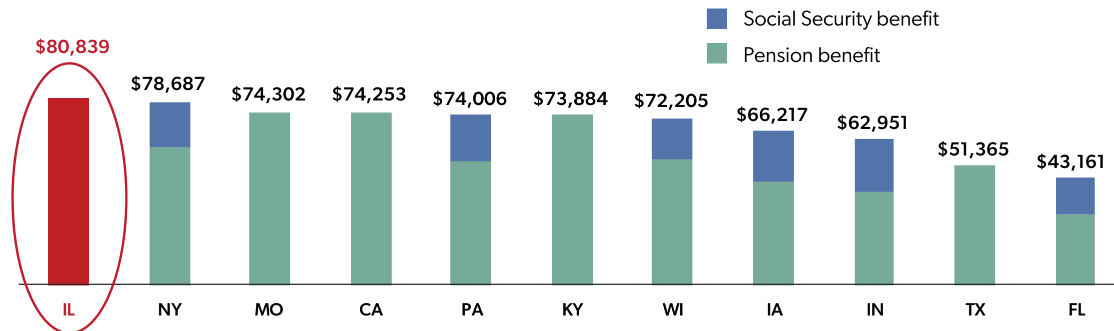
State	Beginning pension benefit	Beginning Social Security benefit	Total beginning benefit	Regional Price Parity	Total benefits adjusted for RPP
Illinois	**$79,626**	**—**	**$79,626**	**98.5**	**$80,839**
New York	$68,968	$22,152	$91,120	115.8	$78,687
Missouri	$66,500	—	$66,500	89.5	$74,302
California	$85,242	—	$85,242	114.8	$74,253
Pennsylvania	$52,508	$19,944	$72,452	97.9	$74,006
Kentucky	$64,944	—	$64,944	87.9	$73,884
Wisconsin	$50,385	$16,332	$66,717	92.4	$72,205
Iowa	$39,711	$19,752	$59,463	89.8	$66,217
Indiana*	$35,986	$20,544	$56,530	89.8	$62,951
Texas	$49,824	—	$49,824	97.0	$51,365
Florida	$28,466	$14,652	$43,118	99.9	$43,161

Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

Peer state comparison: Career Illinois teachers receive the highest beginning retirement benefits

Total expected benefits for a recently retired career teacher (retired in 2018 with 30-plus years of service)
Adjusted for regional price differences



Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations
Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

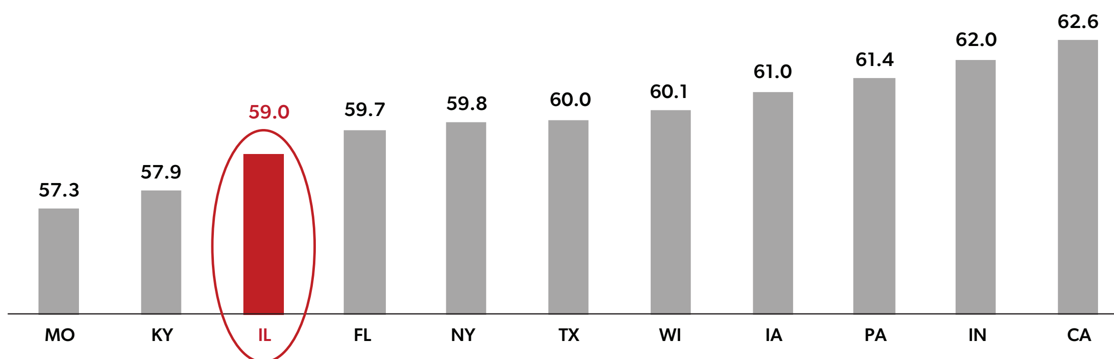
3. Retirement age

The age at which teachers begin to collect their pensions partially determines the total lifetime benefits they'll receive. Retirement age rules vary widely among states, but in general, most allow teachers to begin collecting benefits in their 50s after about 30 years of service.

The average career Illinois teacher began collecting a pension at age 59, while career Missouri teachers had the lowest average retirement age at 57.3. California teachers, meanwhile, begin drawing pensions at the average age of 62.6, almost four years after career Illinois teachers do.

Peer state comparison: Illinois teachers begin collecting benefits earlier than most

Average age at retirement for a recently retired career teacher (retired in 2018 with 30-plus years of service)



Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations
Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

4. Cost-of-living adjustments

Cost-of-living adjustments have one of the biggest impacts on a teacher's overall benefits because they determine how much annual benefits grow in retirement, if at all.

Illinois grants all teachers, beginning at age 61, an automatic, 3-percent compounded COLA, which is the most generous of any of the 11 states surveyed.

Texas, Pennsylvania, and Indiana grant COLAs on an ad-hoc basis, meaning the legislature decides each year whether to grant an increase, also called a "13th check." That rarely happens in some states. Last year, Texas gave its first increase in more than a decade and Pennsylvania hasn't granted an increase since 2002. Indiana granted small 13th checks to retirees in 2019 and 2020.[8, 9, 10]

Florida stopped offering an automatic COLA in 2011. And Wisconsin's COLA benefit varies widely from year to year based on the fund's investment returns, sometimes even creating negative annual benefits.[11, 12, 13]

Even New York and California don't offer COLA benefits as generous as Illinois'. California grants a 2 percent simple COLA with a special provision protecting against inflation. And New York's COLA benefits range from 1 to 3 percent a year, but only apply to the first $18,000 of a teacher's pension, meaning the maximum annual benefit a teacher can receive is $540.[14, 15]

The impact COLAs can have on annual pension benefits is dramatic. For example, Illinois' compounded, automatic 3 percent increase doubles a teacher's annual pension benefit after 25 years. A teacher retiring with a starting pension of $100,000 in 2020 will receive more than $200,300 in 2045.

Kentucky's 1.5 percent compounded COLA would grow a $100,000 starting pension to $142,950 in 25 years, a 43 percent increase. New York's COLA benefit would boost a teacher's $100,000 starting pension to $112,960, assuming the teacher receives the maximum 3 percent simple increase each year. Meanwhile, teachers in Iowa don't receive a post-retirement pension boost at all.

Peer state comparison: career Illinois teachers receive the most generous COLAs in retirement

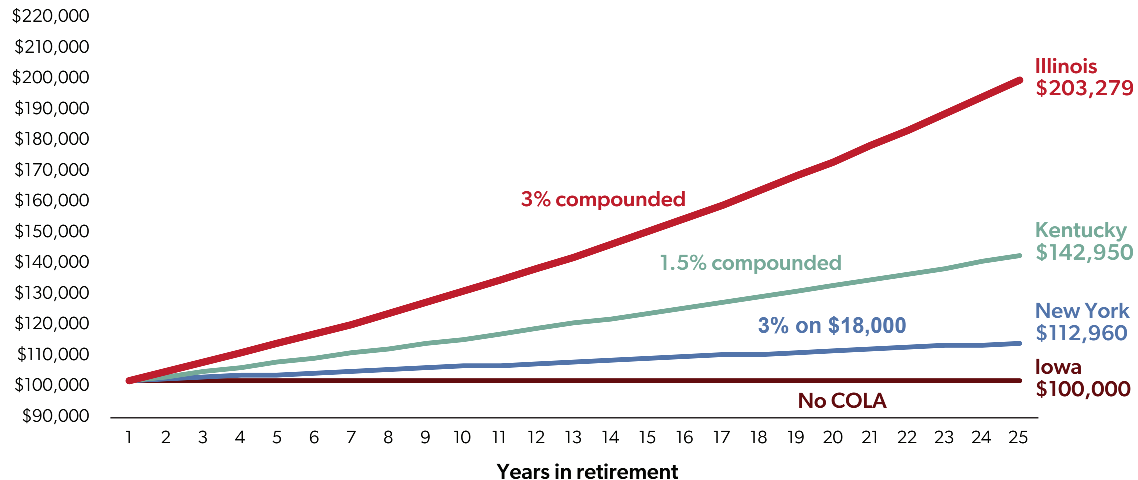
Cost-of-Living Adjustments for a recently retired career teacher (retired in 2018 with 30-plus years of service)

State	Cost-of-Living Adjustments
Illinois	**Compounded 3% annually**
Kentucky	Compounded 1.5% annually
Missouri	Compounded 0%-5% annually based on CPI, can't exceed 80% of initial benefit
Wisconsin	Compounded, based on investment performance, can provide negative benefits
Florida	Compounded 3%, only for years worked before 7/1/2011
California	Simple 2%, real benefit cannot fall below 85% of initial benefit
New York	Simple, only on first $18,000, Half CPI, min 1% to max 3%
Indiana	Ad Hoc "13th check" passed by legislature, checks provided in 2019, 2020
Texas	Ad Hoc "13th check" passed by legislature, 2019 check was 1st in a decade
Pennsylvania	Ad Hoc "13th check" passed by legislature, no check since 2002
Iowa	No COLA provided

Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations
Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

Illinois teachers' 3% compounded COLA doubles benefits in 25 years

Effect of state COLA benefits on a $100,000 starting pension



Source: FY 2018 Actuarial Reports; Comprehensive Annual Financial Reports and/or FOIA requests of state pension funds; U.S. Bureau of Economic Analysis; Wirepoints calculations

Note: See Appendix C for additional details on state benefits and Wirepoints' assumptions.

The comparison to their peers shows Illinois teachers receive some of the nation's most generous benefits. But a more appropriate comparison is to the retirements of the private sector workers who pay for public sector workers. That's where real discrepancy exists.

Private sector Illinoisans retiring today would have to have approximately $1.8-$2 million at the time of their retirement to get the same $2.3 million lifetime payout career state workers receive. The vast majority of ordinary Illinoisans have nowhere near that amount saved.[16]

The benefits provided by Social Security don't approach the level of pensions, either. The average Social Security benefit for Illinoisans is just $17,000 a year, and the annual maximum is just $36,000. The combined benefits in the private sector from retirement accounts and Social Security don't come close to matching the pension of a career public sector worker.[17]

Career state workers in Illinois receive free retiree health insurance

Wirepoints compared state worker retiree health insurance benefits across Illinois' 10 peer states and found Illinois workers enrolled in the State Employees Group Insurance Program (SEGIP) receive the most generous subsidies.

Illinois state workers with at least 20 years of service can retire in their mid-50s and receive full health insurance coverage at no charge, with state taxpayers picking up the entire cost of premiums.

SEGIP offers state workers a 5 percent discount on their retiree health insurance premiums for every year of work, starting at 50 percent (after 10 years of vesting) and maxing out at 100 percent for 20 years of service. Members who retired before 1998 earned free health insurance after just 8 years of service.[18]

Most workers receive the full premium subsidy during retirement since a vast majority retire with more than 20 years of service. Wirepoints found that 73 percent of currently retired State Employee Retirement System members are eligible for free retiree health insurance.[19]

The plan is especially rich because it covers the full cost of retiree health insurance premiums for workers who retire before they are Medicare-eligible (age 65). That means state taxpayers pick up the full insurance costs of those retirees until they turn age 65, when Medicare finally becomes the primary payer for those retirees. Since some workers can retire with full pension benefits and retiree health benefits as early as age 55, the increased costs to taxpayers become significant.

Medicare-eligible retirees with 20 years or more of service cost state taxpayers between $6,500 and $7,000 a year. Pre-Medicare age retirees currently cost the state $12,000 to $15,000 annually.[20]

The present value of that benefit for career workers was worth $200,000 to $500,000 per retiree in 2013, depending on the pension tier and age, according to FOIA data obtained from Illinois' Office of the Governor.[21]

In all, the state pays for 90 percent and retirees pay for 10 percent of SEGIP's annual retiree health insurance costs.

Free retiree health insurance for state workers costs Illinois taxpayers $200,000-$500,000 per retiree

SEGIP Actuarial Valuation Sample Life Costs, June 30, 2013

Value of retiree healthcare benefit depending on member age and pension benefit tier

Regular pension formula			Alternate pension formula		
Pension tier	Current age	Present value of benefit	Pension tier	Current age	Present value of benefit
1	35	$339,624	1	35	$492,113
1	40	$333,356	1	40	$482,102
1	45	$315,686	1	45	$462,029
1	50	$283,267	1	50	$412,488
1	55	$269,963	1	55	$313,993
2	28	$248,372	2	28	$251,524
2	40	$223,096	2	40	$212,628

Source: Data obtained from a 2016 FOIA request to the Governor's Office.

Note: A worker in the private sector would need the present value amounts available at retirement to purchase the equivalent amount of health insurance provided to retired Illinois state workers.

Illinois retiree health benefits vs. other states

Illinois is at the extreme end of state-provided retiree health insurance. Its benefits outclass most states and anything workers in the private sector receive. According to a 2011 study by Mercer Consulting on behalf of Illinois' Commission on Government Forecasting and Accountability (COGFA), state, county and city governments across the nation offer retiree health insurance benefits that, on average, require employees to pay just over half of their premiums.[22]

Among Illinois' 10 peer states, four provide no subsidies for retiree health insurance and four provide a partial subsidy, according to 2016 data collected by Pew Charitable Trusts. Two states provide a maximum guaranteed subsidy of 100 percent of premiums like Illinois does, but cap the subsidy amount they provide.[23]

Specifically, Indiana, Wisconsin, Florida and Iowa provide no retiree health insurance subsidies.

Missouri and New York provide a maximum subsidy of 65 percent and 88 percent of premiums, respectively. Pennsylvania subsidizes the remaining insurance costs after pre-Medicare retirees contribute 3 percent and post-Medicare retirees pay 1.5 percent of their final salary. Kentucky provides a subsidy of $120 for every year of a retiree's service (the subsidy for 30 years of work totals $3,600 annually).

Public and private employers who offer retiree health insurance benefits require retirees to pay half the cost

2010 Mercer Survey – Average participant contributions* for retiree healthcare

Retiree status	States	Counties	Cities	Private sector (500+ employees)
Pre-Medicare	54%	49%	53%	54%
Medicare eligible	54%	49%	59%	52%

Source: COGFA; Mercer Consulting, "Retiree Healthcare Contributions May 2011"
*As a percentage of premiums (does not include out-of-pocket costs; e.g., deductibles and copays).

California has the same subsidy structure as Illinois: 5 percent for every year worked. And Texas provides up to a 100 percent subsidy for annually determined premium contributions based on years of service. But both limit their maximum provided subsidy to $7,704 and $6,504, respectively. In contrast, Illinois' maximum subsidy in 2015 was the highest of all its peer states, at $13,500 annually.[24]

Finally, when it comes to a private sector comparison, Illinois' free, state retiree insurance benefits make it an outlier. Most small- and medium-sized employers, which account for 80 percent of all workers, don't offer retiree health insurance at all. There's simply no comparison. And of the few large private sector firms that do offer coverage, employees are, on average, responsible for paying half of their costs.[25]

Peer state comparison: Illinois provides the most generous retiree health insurance subsidies

Details of state retiree heath insurance premium subsidies for state employees, 2016

State	Employer's premium contribution	Prorating description
Illinois	50-100%	10 years of service (YOS) = 50% subsidy; then 5% per YOS, up to 100%
California	50%-100%, up to $7,704	10 YOS = 50% subsidy; then 5% per YOS, up to 100%
Texas	50-100%, FY 2015 rates: $236 to $542 (varies depending on plan)	The difference between the total premium and the annually established retiree contribution, which varies based on YOS as of Sept. 1, 2014: 10- 14 YOS = 50%; 15-19 YOS = 75%; 20 or more YOS = 100%
New York	84-88%	Based on employee grade; grades 1-9 = 88%; grades 10 or higher = 84%
Missouri	25-65%	YOS times 2.5% of PPO 600 Plan premium, capped at 65%
Pennsylvania	Varies	Pre-Medicare retirees pay 3% of Final Average Salary Medicare-eligible retirees pay 1.5% of Final Average Salary State pays rest of premium
Kentucky	$1,800 and up (no maximum)	$120 times YOS
Iowa	85-100% until sick leave credits are depleted	Sick Leave Insurance Program: Retirees may use unused sick leave to pay for premiums until funds are depleted
Wisconsin	No benefits offered	No benefits offered
Florida	No benefits offered	No benefits offered
Indiana	No benefits offered	No benefits offered

Source: Pew Charitable Trusts, "State Retiree Health Plan Spending: May 2016"

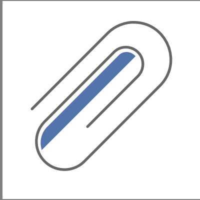
Conclusion

Illinois' decades of overpromising and politicians' refusal to acknowledge the state's growing problems have created the worst pension crisis in the nation. There is simply no fixing Illinois without changing the current pension system and dramatically reducing the state's retirement debts.

Unfortunately, Illinois politicians continue to deny the possibility of any kind of structural pension reform. They dismiss any meaningful changes as a legal impossibility.

But there is a path to reform. Illinoisans can amend the state constitution's pension protection clause and then enact the statutory reforms Illinois needs.

The third part of Wirepoints' four-part series will cover how a state constitutional amendment for pension reform would work in Illinois and why it would survive any state or federal constitutional challenges.



Appendices

Appendix A. Pension liabilities across the 50 states

Growth in accrued pension liabilities and pension assets across the 50 states

By average annual growth in accrued liabilities, 2017 vs. 2003

	Total state accrued pension liabilities ($ in billions)				Total state pension assets ($ in billions)				Funded ratio	
State	2003	2017	Total growth	Average annual growth	2003	2017	Total growth	Average annual growth	2003	2017
New Hampshire	$4.7	$13.2	182%	7.7%	$3.5	$8.3	136%	6.3%	75%	63%
North Dakota	$3.0	$8.2	177%	7.5%	$2.7	$5.3	94%	4.8%	91%	64%
Kentucky	$24.1	$64.9	169%	7.3%	$21.3	$22.0	3%	0.2%	88%	34%
Nevada	$19.6	$52.1	166%	7.2%	$15.9	$38.8	144%	6.6%	81%	74%
Illinois	**$83.8**	**$222.3**	**165%**	**7.2%**	**$40.4**	**$85.4**	**111%**	**5.5%**	**48%**	**38%**
Colorado	$40.5	$103.3	155%	6.9%	$30.6	$48.7	59%	3.4%	76%	47%
Arizona	$28.7	$72.5	153%	6.8%	$28.5	$45.1	58%	3.3%	99%	62%
New Jersey	$88.3	$221.6	151%	6.8%	$82.5	$79.3	-4%	-0.3%	93%	36%
Nebraska	$6.1	$15.1	148%	6.7%	$5.6	$13.6	143%	6.6%	92%	90%
Vermont	$2.6	$6.4	143%	6.5%	$2.5	$4.1	67%	3.7%	94%	64%
Hawaii	$12.0	$28.6	140%	6.4%	$9.1	$15.7	73%	4.0%	76%	55%
South Dakota	$4.9	$11.6	137%	6.4%	$4.8	$11.6	144%	6.6%	97%	100%
New Mexico	$18.6	$44.0	136%	6.3%	$16.6	$27.5	65%	3.7%	89%	63%
Washington	$41.2	$95.0	131%	6.1%	$44.0	$85.1	93%	4.8%	107%	90%
Minnesota	$44.2	$101.5	130%	6.1%	$42.3	$64.3	52%	3.0%	96%	63%
Connecticut	$28.1	$64.1	128%	6.1%	$18.6	$29.3	58%	3.3%	66%	46%
Utah	$15.5	$35.3	127%	6.0%	$14.7	$31.9	117%	5.7%	95%	90%
Montana	$6.8	$15.0	122%	5.9%	$6.1	$10.9	78%	4.2%	91%	73%
Virginia	$42.5	$94.3	122%	5.9%	$40.5	$72.8	80%	4.3%	95%	77%
Arkansas	$15.5	$34.1	120%	5.8%	$13.9	$26.2	88%	4.6%	90%	77%
Florida	$89.3	$194.5	118%	5.7%	$101.9	$154.2	51%	3.0%	114%	79%
Idaho	$7.9	$17.3	117%	5.7%	$6.6	$15.8	139%	6.4%	83%	91%
Delaware	$5.3	$11.4	115%	5.6%	$5.3	$9.4	77%	4.2%	100%	83%
Iowa	$18.4	$37.6	105%	5.3%	$16.4	$31.0	88%	4.6%	89%	82%
Alaska	$10.6	$21.7	105%	5.2%	$7.4	$14.5	96%	4.9%	70%	67%
Maryland	$35.2	$71.9	104%	5.2%	$32.7	$49.3	51%	3.0%	93%	69%
South Carolina	$27.4	$55.7	103%	5.2%	$22.9	$30.2	32%	2.0%	83%	54%
Georgia	$55.2	$110.3	100%	5.1%	$55.8	$87.4	57%	3.3%	101%	79%
Texas	$115.2	$230.3	100%	5.1%	$109.3	$175.2	60%	3.4%	95%	76%
Wyoming	$5.7	$11.2	98%	5.0%	$5.2	$8.5	62%	3.5%	92%	76%
California	$310.5	$612.1	97%	5.0%	$268.7	$421.8	57%	3.3%	87%	69%
Mississippi	$22.2	$43.7	97%	5.0%	$17.5	$26.9	54%	3.1%	79%	62%
Massachusetts	$45.4	$89.1	96%	4.9%	$33.9	$53.4	57%	3.3%	75%	60%
New York	$107.3	$209.1	95%	4.9%	$106.6	$197.6	85%	4.5%	99%	95%
Kansas	$14.4	$27.8	92%	4.8%	$10.9	$18.6	72%	3.9%	75%	67%
Indiana	$26.2	$49.5	89%	4.7%	$18.0	$32.2	79%	4.2%	69%	65%
North Carolina	$54.9	$103.2	88%	4.6%	$58.2	$93.6	61%	3.5%	106%	91%
Missouri	$38.1	$71.2	87%	4.6%	$31.2	$55.5	77%	4.2%	82%	78%
Pennsylvania	$80.5	$149.2	85%	4.5%	$80.2	$82.6	3%	0.2%	100%	55%
Tennessee	$26.1	$47.8	83%	4.4%	$25.7	$46.1	79%	4.3%	99%	97%
Alabama	$28.8	$52.3	82%	4.4%	$26.7	$37.1	39%	2.4%	93%	71%
Oregon	$44.1	$79.9	81%	4.3%	$42.8	$66.4	55%	3.2%	97%	83%
Louisiana	$29.2	$52.2	79%	4.2%	$20.0	$34.0	70%	3.9%	68%	65%
West Virginia	$10.7	$18.6	74%	4.0%	$4.3	$14.7	242%	9.2%	40%	79%
Oklahoma	$23.4	$38.7	66%	3.7%	$15.5	$30.2	94%	4.9%	66%	78%
Ohio	$121.4	$200.0	65%	3.6%	$96.2	$160.3	67%	3.7%	79%	80%
Wisconsin	$63.2	$101.8	61%	3.5%	$62.7	$104.4	67%	3.7%	99%	103%
Michigan	$58.1	$93.1	60%	3.4%	$50.8	$60.6	19%	1.3%	87%	65%
Maine	$10.5	$16.6	58%	3.3%	$7.8	$13.6	74%	4.1%	74%	82%
Rhode Island	$9.0	$11.8	31%	2.0%	$5.7	$6.3	10%	0.7%	64%	54%
U.S. Total	**$2,024.7**	**$4,132.6**	**104%**	**5.2%**	**$1,791.1**	**$2,857.0**	**60%**	**3.4%**	**88%**	**69%**

Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"

Growth in state economies vs. state accrued pension liabilities across the 50 states

By total growth in state accrued pension liabilities, 2017 vs. 2003

	State Gross Domestic Product (GDP) ($ in billions)				Total accrued pension liabilities	Ratio of accrued liability growth to GDP growth
State	2003	2017	Average annual growth	Total growth	Total growth, 2003-2017	
New Hampshire	$51.7	$80.9	3.3%	57%	182%	3.2
North Dakota	$22.2	$52.5	6.3%	136%	177%	1.3
Kentucky	$128.1	$200.7	3.3%	57%	169%	3.0
Nevada	$91.8	$158.8	4.0%	73%	166%	2.3
Illinois	**$531.1**	**$826.8**	**3.2%**	**56%**	**165%**	**3.0**
Colorado	$198.8	$350.0	4.1%	76%	155%	2.0
Arizona	$192.7	$327.5	3.9%	70%	153%	2.2
New Jersey	$408.9	$595.3	2.7%	46%	151%	3.3
Nebraska	$66.9	$120.5	4.3%	80%	148%	1.9
Vermont	$21.4	$32.2	3.0%	51%	143%	2.8
Hawaii	$49.1	$89.4	4.4%	82%	140%	1.7
South Dakota	$28.1	$49.7	4.2%	77%	137%	1.8
New Mexico	$63.6	$94.3	2.8%	48%	136%	2.8
Washington	$258.4	$524.8	5.2%	103%	131%	1.3
Minnesota	$216.5	$351.4	3.5%	62%	130%	2.1
Connecticut	$183.5	$268.3	2.7%	46%	128%	2.8
Utah	$79.6	$167.3	5.4%	110%	127%	1.2
Montana	$25.7	$47.6	4.5%	85%	122%	1.4
Virginia	$310.2	$509.4	3.6%	64%	122%	1.9
Arkansas	$78.8	$123.4	3.3%	57%	120%	2.1
Florida	$595.3	$985.7	3.7%	66%	118%	1.8
Idaho	$40.7	$72.7	4.2%	79%	117%	1.5
Delaware	$48.9	$70.8	2.7%	45%	115%	2.6
Iowa	$106.7	$181.8	3.9%	71%	105%	1.5
Alaska	$32.0	$51.8	3.5%	62%	105%	1.7
Maryland	$227.8	$394.3	4.0%	73%	104%	1.4
South Carolina	$131.5	$223.1	3.8%	70%	103%	1.5
Georgia	$340.6	$566.5	3.7%	66%	100%	1.5
Texas	$833.5	$1,665.6	5.1%	100%	100%	1.0
Wyoming	$21.2	$37.5	4.1%	76%	98%	1.3
California	$1,523.5	$2,819.1	4.5%	85%	97%	1.1
Mississippi	$73.8	$110.2	2.9%	49%	97%	2.0
Massachusetts	$315.4	$540.8	3.9%	71%	96%	1.3
New York	$905.6	$1,604.1	4.2%	77%	95%	1.2
Kansas	$96.4	$161.2	3.7%	67%	92%	1.4
Indiana	$225.3	$351.1	3.2%	56%	89%	1.6
North Carolina	$312.4	$538.4	4.0%	72%	88%	1.2
Missouri	$205.2	$304.9	2.9%	49%	87%	1.8
Pennsylvania	$456.7	$744.3	3.6%	63%	85%	1.4
Tennessee	$204.2	$345.9	3.8%	69%	83%	1.2
Alabama	$134.4	$210.4	3.3%	57%	82%	1.4
Oregon	$127.6	$226.6	4.2%	78%	81%	1.0
Louisiana	$155.9	$239.2	3.1%	53%	79%	1.5
West Virginia	$46.7	$73.2	3.3%	57%	74%	1.3
Oklahoma	$105.9	$188.4	4.2%	78%	66%	0.8
Ohio	$428.7	$645.3	3.0%	51%	65%	1.3
Wisconsin	$204.8	$322.0	3.3%	57%	61%	1.1
Michigan	$376.3	$505.6	2.1%	34%	60%	1.7
Maine	$42.3	$62.0	2.8%	47%	58%	1.2
Rhode Island	$40.8	$58.5	2.6%	43%	31%	0.7
U.S. total	**$11,367.3**	**$19,519.4**	**3.9%**	**72%**	**104%**	**1.5**

Source: Pew Charitable Trusts, "The State Pension Funding Gap: 2017"; U.S. Bureau of Economic Analysis

Appendix B. A brief history of granted pension benefits

Given the one-sided nature of the pension protection clause, past Illinois lawmakers should have been extremely careful about giving away any new benefits. But a review of teacher benefits – the Illinois Teachers' Retirement System publishes a complete list of changes to the pension plan since 1915 – shows they weren't.[1]

Politicians have granted teachers compounding COLAs, increased benefit formulas, early retirement options, sick leave accumulation and more since the 1950s. Some of those benefits have been given away for free. Other benefits, though "paid for" with increased teacher contributions, were still grossly underpriced.

Lawmakers have continually granted Illinois teachers additional pension benefits

History of major pension benefit increases and sweeteners granted to Illinois teachers

Year	Change
1957	The maximum retirement amount became $8,000 per year.
1959	170 days of work now equal to 1 year of service.
1961	The maximum retirement allowance became $12,000 per year.
1967	Working four or more clock hours daily now considered full-time employment.
1969	Retirement became permitted at age 60 with 10 years; age 62 with 5 years; and age 55 with 20 years of service.
1969	COLA benefit increased to 1.5 percent, simple.
1971	Average final salary became based on the highest four consecutive years within the last 10 years of service.
1971	Pension formula upgraded: 1.67% for first 10 years; 1.9% for next 10, 2.1% for next 10; 2.3% for years over 30. TRS member contributions increased by 1 percent.
1971	Maximum starting pension as a percentage of salary became 75 percent.
1971	COLA benefit increased to 2 percent, simple.
1972	Credit for one-half year or 85 days of sick leave granted.
1978	COLA benefit increased to 3 percent, simple.
1979	An Early Retirement Option (ERO) is established for members.
1980	TRS' health insurance program established with 50 percent subsidy of premiums.
1981	Employer pick-up (tax sheltering) of employee contributions allowed.
1984	Maximum of one year of service for 170 or more days sick leave granted.
1985	Insurance could be paid by the member's school district.
1990	3 percent COLA benefit increased to compound from simple.
1990	Part-time and substitute teachers now members of TRS.
1991	TRS retirees allowed to teach without restriction in colleges and universities.
1998	Pension formula upgraded: 2.2 percent per year. TRS member contributions increased by 1 percent.
1998	Unused sick leave could be used for credit if not compensated in any other way.
1998	State subsidy for the Group Insurance Program became 5 percent per year up to a 20-year maximum of 100 percent.
1999	Early Retirement Option extended to June 30, 2005.
2003	Service credit became permitted for members with up to 2 years of unused sick leave.
2006	Provided additional exemptions from employer contributions for excess salary increases.
2013	Early Retirement Option extended for another three years.

Source: Illinois Teachers' Retirement System, "Evolution of the Teachers' Retirement System of the State of Illinois Benefit Structure as of July 1, 2016"

Cost-of-living increases

Illinois' current cost-of-living adjustments for Tier 1 workers are the single biggest contributor to the state's pension distress. What started as a simple annuity increase at levels approximating inflation has now become a compounded yearly increase that doubles a retiree's annual pension after 25 years.

- 1969: COLA increased to 1.5 percent simple
- 1971: COLA increased to 2 percent simple.
- 1978: COLA increased to 3 percent simple.
- 1990: 3 percent COLA increase compounded annually.

Pension benefit formula

Pension benefits for every year worked were originally calculated as 1.5 percent of each worker's final average salary (FAS) with a maximum of 60 percent. By 1998, the formula had been changed to 2.2 percent of final salary with a maximum of 75 percent. Under the original rules, a teacher had to work 40 years to get the 60 percent maximum. Today, a Tier 1 teacher only needs to work 34 years to achieve the 75 percent maximum.

- 1947: Pension formula: 1.5 percent of FAS per year of creditable service with a 60 percent maximum. Average final salary calculated based on the last 10 years of service.
- 1971: Pension formula upgraded to 1.67 percent for first 10 years of service; 1.9 percent for next 10; 2.1 percent for next 10; and 2.3 percent for years over 30. Maximum percentage of FAS increased to 75 percent maximum. Average final salary calculation changes to highest four consecutive years within the last 10 years of service.
- 1998: Pension formula upgraded to 2.2 percent a year. TRS member contributions increased by 1 percent.

Sick leave benefits

Sick leave days in the private sector are typically treated as "use it or lose it." But teachers and other government workers in Illinois can accumulate unused sick leave days over the course of an entire career – and then cash those days out when they retire by adding them to their years of pensionable service.

- 1972: Service credit granted for up to one-half year of unpaid sick leave.
- 1984: Service credit granted for up to one year of unpaid sick leave.
- 1998: Any unused sick leave could be used for credit, if not compensated in any other way.
- 2003: Service credit granted for up to two years of unpaid sick leave.

Retirement ages

Teachers can begin drawing pensions with full benefits while still in their 50's. And a majority of teachers haven taken advantage of this rule. Sixty percent of teachers currently collecting a pension retired in their 50's.

- 1947: Retirement permitted at age 55 with 20 years of service; age 60 with 15 or more years of service.
- 1969: Retirement permitted at age 55 with 20 years of service; age 60 with 10 or more years of service; age 62 with 5 years or more of service.

Appendix C. Details of teacher pension comparison

General methodology/assumptions

- Wirepoints calculated the benefits of career teachers with 30-plus years of service who retired in FY 2018. Average age at retirement, Final Average Salary, beginning pension benefit and cost-of-living adjustments were used to calculate total benefits in retirement.
- The U.S. Bureau of Economic Analysis' Regional Price Parities Index was used to adjust for cost-of-living differences across states.[2]
- Assumed average total years of service: 34
- Assumed annual rate of inflation based on 30-year Expected Inflation as of June 2020: 1.8 percent. (Impacts state pension and Social Security COLA benefits)[3]
- Assumed life expectancy: 84. (Based on Social Security actuarial life tables)
- Social Security benefits were included in the retirement benefit calculations for teachers in New York, Florida, Pennsylvania, Wisconsin, Iowa and Indiana. Teachers in Illinois, California, Kentucky, Missouri and Texas were assumed to not receive Social Security benefits.
- The Social Security Administration's online "Social Security Quick Calculator" was used to estimate beginning Social Security benefits. Beginning benefits were based on teachers' Final Average Salary and their age at retirement. All teachers on Social Security were assumed to begin collecting benefits at age 62 regardless of the age they retired and began to collect their pension benefit.

Source data

Career teacher benefit data was obtained from 2018/2019 Comprehensive Annual Financial Reports or individual FOIA requests to each state pension fund that manages teacher retirements.

Sources of pension data for teachers who retired in FY 2018 with 30 or more years of service

State	Average age at retirement	"Final Average Salary/Beginning pension benefit"
Illinois	**FOIA request to TRS**	**2018 TRS CAFR, p.121**
California	2018 CALSTRS CAFR, P.185	2018 CALSTRS CAFR, P.185
Florida	FOIA request to FRS	FOIA request to FRS
Indiana	FOIA request to PERF	2018 PERF CAFR, p.235
Iowa	FOIA request to IPERS	FOIA request, 2018 IPERS CAFR, p.109
Kentucky	FOIA request to TRS	2018 TRS CAFR, p.189
Missouri	FOIA request to PSRS/PEERS	2018 PSRS/PEERS CAFR, p.130
New York	2018/2019 TRS CAFR, p.116	2018/2019 TRS CAFR, p.128
Pennsylvania	2018 PSERS Actuarial Report, p.38	2018/2019 PSERS CAFR, p.128
Texas	FOIA request to TRS	2018 TRS CAFR, p.146
Wisconsin	FOIA request to WRS	FOIA request to WRS

State-specific data proxies/assumptions

Florida

- Teacher-specific data is not included in the Florida Retirement System's public financial documents as teachers are classified as members of the state's "Regular" class of retirees, which comprise a vast majority of the state fund's pension membership. Wirepoints submitted a FOIA request to FRS for "retired members last employed by Florida school boards" to acquire specific pension, Final Average Salary and retirement age data for career, recently retired education employees.
- COLA estimate: Florida provides a 3 percent compounded COLA to members retiring after July 1, 2011 based on the following formula: Member's years of service completed before 2011 / members' total years of service * 3 percent = annual COLA benefit. Wirepoints' Florida teacher worked 34 years in total with 27 of those years occurring before July 1, 2011; (27 years/34 years) * 3 percent = 2.4 percent annual COLA

New York

- COLA estimate: Wirepoints assumed an average annual 1 percent simple COLA during retirement (based on 1.8 percent average future inflation).

Texas

- COLA estimate: Wirepoints assumed a $2,000 annual benefit provided every 12 years based on the 13th check provided in 2019.

Pennsylvania

- Average retirement age: Wirepoints' FOIA request for the average retirement age for teachers retired in FY 2018 with 30 or more years of service was denied by the Pennsylvania Public School Employees' Retirement System. The average retirement age for all teachers who retired in FY 2018 was used as a proxy.
- COLA estimate: No COLA increase applied during retirement.

Wisconsin

- The average benefits for Wisconsin teachers are likely lower than what is stated in this report as public school teachers, university professors and technical college professors are all classified as "teachers" by the Wisconsin Retirement System. The WRS was unable to provide Wirepoints with a more detailed data breakdown comprising just K-12 public school teachers in its returned FOIA.
- COLA estimate: The annual COLA provided to WRS retirees can vary significantly from year to year as it is based on the investment return performance of a "Core Trust Fund" and an optional "Variable Trust Fund." Wirepoints' Wisconsin teacher is assumed to only enroll in the "core" fund and is assumed to receive a 1 percent compounded COLA in retirement based on the average annual benefit provided to members over the 2000-2019 period: 0.9 percent.

Missouri

- COLA estimate: Missouri provides a compounded COLA benefit ranging from 0 percent to 5 percent based on the rate of inflation: Under 2 percent inflation, no COLA but inflation is cumulative with next year, resetting to zero after a COLA benefit is provided; 2 percent to 5 percent inflation, 2 percent COLA; 5 percent or more inflation, 5 percent COLA. Based on an average future inflation rate of 1.8 percent annually, Wirepoints assumes a 2 percent COLA every other year for a retired Missouri teacher.

Indiana

- The Indiana Public Retirement System (INPRS) denied Wirepoints request for pension and salary data for recently retired career teachers. Wirepoints used the available data for the Teachers' Pre-1996 Defined Benefit Account in INPRS' 2018 Comprehensive Annual Financial Report for its estimates. Wirepoints multiplied the average "Final Average Salary," "Average Monthly ASA Annuity" and "Average Monthly Defined Benefit" for all career teachers as of 2018 by 120 percent to serve as a proxy for the benefits of career teachers who retired in 2018. Wirepoints' multiplier of 120 percent is based on the average difference between the benefits of "all teachers with 30-plus years of service retired as of 2018" and "teachers with 30-plus years of service who retired in 2018" of the other surveyed states.
- Indiana teachers also receive retirement benefits from a 401(k)-style account as part of INPRS. Those payments are included in their total pension benefit.
- COLA estimate: An Indiana teacher is assumed to receive an annual compounded COLA of 0.4 percent to 0.6 percent based on the assumptions used in INPRS' 2018 Actuarial Valuation Report.

Iowa

- The Iowa Public Employees Retirement System denied Wirepoints' request for final annual salary data of "Education-classified" retirees. Wirepoints multiplied the average "High Average Salary" for all career retirees as of 2018 by 120 percent to serve as a proxy for a recently-retired career teacher's final salary.
- COLA estimate: No COLA increase applied during retirement.

Why It's Necessary

Illinois' Pensions: Overpromised & Overgenerous

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Why It's Necessary

Illinois' pensions are overly generous

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About Wirepoints

Wirepoints is a nonpartisan, nonprofit organization dedicated to telling the truth about Illinois' financial and economic condition. We are fiscal realists that oppose the failed, bipartisan governance that has perpetuated Illinois' decline. We provide research, analysis and news in a way that's understandable to ordinary citizens and are committed to promoting policies that will make this state competitive again in tax burdens, public services and economic opportunity.

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