



SB 35 – Oppose Unfair, Unconstitutional Pension Cuts

Public employees are willing to do their part to help preserve their pension benefits, but they aren't willing to bear the entire burden. The We Are One Illinois coalition of public-employee unions stands ready to work collaboratively to develop real pension system reforms that are fair and constitutional.

- SB 35 would make it impossible for retirees to keep up with rising cost-of-living in retirement. Just through its COLA caps, **the bill illegally cuts the value of a retiree's pension between 28% to 31% after twenty years in retirement.** Pensions are the life-savings of public servants - their most reliable means of retirement security.
 - The bill caps COLAs to the first \$25,000 in benefits for those without Social Security and \$20,000 for those aligned with Social Security. It also freezes COLAs until age 67 or five years after retirement.
 - All the while, senior citizens – as major consumers of health care services – are one of the most at-risk demographic groups subject to inflationary pressures.
 - State employee pensions for those who worked for decades in public service are modest – even with the cost-of-living allowances (COLAs) generated under the current pension formula.
- The bill creates a hybrid defined-benefit/defined-contribution plan (“Tier 3”) for new hires in TRS or SURS. This harms retirement security for a new generation of teachers and state university personnel, making recruitment difficult. Participants in TRS and SURS already do not receive Social Security, and under Tier 3, more than half of their retirement would be at market risk. This would occur even though creating Tier 3 would not substantially address the state's unfunded liability.
 - Traditional defined-benefit pensions simply work better than defined-contribution plans – even hybrids. Defined-benefit plans are more efficient at providing retirement income. They generate better returns, and they diversify holdings and spread risk more effectively. Moreover, ongoing costs for defined-contribution plans exceed those of defined-benefit plans.
- SB 35 increases retirement ages and employee contributions. Combined with other cuts, this further balances Illinois' pension debt on the backs of workers who did not cause the problem and paid into the pension systems out of every paycheck.
- Although the bill contains a pension funding guarantee, it does not require the retirement systems to sue for payment if the state underfunds pensions. The authority is only permissive. It also does not give employees a separate right to civil action.
- Law changes made by SB 35 are exempt from collective bargaining, denying democratic, representational rights to hundreds of thousands of workers.

SB 35 unilaterally diminishes benefits for all state retirement systems (except the Judges'), even though the Illinois Constitution specifically states that pension benefits are a contractual right that may not be diminished or impaired. Inviting a legal challenge will lead to “several years” of budget uncertainty, doing little to address Standard & Poor's concerns as expressed in its recent downgrade of Illinois bond rating. Further, if litigation overturns SB 35, Illinois will have kicked the can down the road and further jeopardized its fiscal situation and the solvency of its pension systems. It may even owe back-payments to the pension systems.