WIREPOINTS

A dramatic rise in pension benefits – not funding shortfalls – caused Illinois' state pension crisis

Key findings

By any measure, the growth in pension benefits accumulated by government workers and retirees in Illinois has been overwhelming. It's been the cause of Illinois' pension crisis.

- **Since 1987, total state pension benefits owed to workers have grown multiple times faster than any other measure of the economy.** Total benefits have grown at an annually compounded rate of 8.8 percent over the past three decades. Compared to 1987, pension benefits are up 1,061 percent, which is:
    - 6 times more than total state general revenue growth (236 percent) over the same time period;
    - 8.4 times more than median household income growth (127 percent); and
    - 9.5 times faster than inflation (111 percent).

  In 1987, households were on the hook for $4,300 in promised pension benefits. That amount swelled to over $43,000 per household by 2016.

- **Illinois had the third-highest pension benefit growth in the nation, higher than all its peer states.** Between 2003 and 2015, the Illinois legislature allowed benefits to grow at a 7.5 percent annual pace, according to Pew Charitable Trusts. That's higher than all of Illinois' neighbors and the nation's ten largest states. The 50-state average was 5.5 percent per year.

  In contrast, Wisconsin's accrued benefits grew just 3 percent annually over that time period. Indiana's grew 5 percent annually. The slowest growth of the ten-largest states in the U.S. was in Michigan, which grew just 3.3 percent a year.

A lack of money has not been the cause of the pension crisis. Illinois' pension assets have grown at a rapid pace, far outstripping the growth of other Illinois economic indicators and pension assets in other states.

- **Since 1987, state pension assets have grown multiple times faster than any other measure of the economy.** Total assets have grown at an annually compounded rate of 7.2 percent over the past three decades. Compared to 1987, total pension assets are up 644 percent. That total asset growth is:
    - 2.7 times more than total state revenue growth (236 percent) over the same time period;
    - 5.1 times more than median household income growth (127 percent); and
    - 5.8 times faster than inflation (111 percent).

- **Illinois had the seventh-highest pension asset growth in the nation, higher than all its peer states.** Between 2003 and 2015, Illinois' pension assets grew at a 5.9 percent annual pace, according to Pew Charitable Trusts. That's higher than all of Illinois' neighbors and the nation's ten-largest states. The 50-state average was 3.7 percent per year.

  In contrast, Indiana's assets grew 4.4 percent annually and Wisconsin's grew 2.9 percent. Other peer states, including Michigan, Kentucky, and Pennsylvania all experienced asset growth of less than 1 percent a year over the same period.

Fast-growing pension assets simply haven't been able to keep up with the pace of benefit growth in Illinois. With a lower rate of benefit growth, Illinois would not have a pension crisis.

- **Taxpayers have paid more than their fair share to pensions**. Increasingly burdensome contributions have helped assets grow rapidly since 1987. Illinoisans have put $24 billion more into pensions than the original 1996 Edgar ramp required. As a result, pension costs now consume more than a quarter of the state's general budget.

- **Illinois' pension crisis would be far smaller if benefits had grown at a more reasonable pace.** Wirepoints' analysis shows that if Illinois benefits had simply grown at a more moderate pace since 2003, the state's pension shortfall would be $40 to $85 billion lower today. And if pension benefits had grown 5.4 percent annually since 1987, the state pension systems would be fully funded today.