

Illinois Faces Financial Disaster; Urgent Need for Medicaid and Pension Reform

I read the 53 page Civic Federation Study. Starting with the premise that I am not an accountant, but a history major, I came to the following conclusions: their study is very conservative on increases in state spending in that they assume state salaries and costs for many areas are not going to go up at all. On the other hand they assume that the financial crisis will not result in a powerful argument for in the temporary tax increase due to drop in 2015 being made permanent, or at least be continued for an additional period of time. For those of already retired they want to change the COLA, increase the cost of our health care and tax our pensions. Please remember that none is on the verge of happening, but they are making a powerful argument for change. And remember I am just the messenger Bob Lyons

Found in the 53 pages – and I only touch upon Medicare, which is what the study is mostly about.

General Funds pension costs—including statutorily required State pension contributions and debt service on pension bonds—are projected to increase by approximately 35% from \$5.7 billion in FY2012 to \$7.8 billion in FY2017. Pension-related costs increase from roughly 17% of total General Fund’s expenditures in FY2012 to 21.6% in FY2017.

1. The Civic Federation recommends that current Illinois retirees and employees hired before January 1, 2011 receive the same annual pension benefit increases as new employees: 3% a year or one-half of the increase in the Consumer Price Index, whichever is less, and that pension benefits be increased by a simple interest rate. (The Federation also supports reducing non-vested benefits for current employees, increasing employee contributions or both.

2. The Civic Federation supports requiring all State retirees to share the cost of their health insurance premiums. The Federation also supports abolishing any law or rule that allows retirees who live outside Illinois to pay lower premiums than retirees who live in Illinois for the same insurance coverage.

The Civic Federation supports broadening the base of the individual income tax in Illinois to include federally taxable portions of retirement and Social Security income, thereby stabilizing the State’s finances while protecting the lowest-income individuals. The cost of exempting this income from taxation was estimated at \$1.1 billion in FY2010, based on a personal income tax rate of 3%, and would be higher at the current rate of 5%.¹

They assume that in 2015 the temporary tax increase drops. The personal income tax rate is set to decline to 3.75% beginning on January 1, 2015 and to 3.25% on January 1, 2025; the corporate rate falls to 5.25% in 2015 and returns to 4.8% in 2025.

General Funds Expenditures

General Funds expenditures are expected to increase by 6.9% from \$33.6 billion in FY2012 to \$36.0 billion in FY2017. This projection is based on the Civic Federation’s forecast incorporating known spending pressures and the assumption that the Medicaid program will be underfunded, resulting in substantial growth in unpaid bills.

The Civic Federation’s spending projections focus on Medicaid, pensions and group health insurance—areas in which cost increases have been among the hardest to control. Other State operations, including education, are left unchanged from the FY2012 budget

The Civic Federation’s projections assume that Medicaid appropriations will be limited to an annual increase of 2% and that underfunding of the Medicaid program will result in growing unpaid Medicaid bills and increasing delays in the payment of healthcare providers. This assumption is based on a recent analysis by HFS and is consistent with past Illinois budget practices

General Funds pension costs also include principal and interest payments on POBs issued by the State in FY2003, FY2010 and FY2011. Illinois sold \$10 billion of POBs in FY2003, of which \$7.3 billion was used to reduce the retirement

contributions for FY2010 and FY2011. Debt service costs decline in FY2016 due to final retirement of the FY2010 POBs in FY2015.

The FY2010 POBs totaled \$3.5 billion and will cost a total of \$382 million in interest over five years. The FY2011 bonds, which totaled \$3.7 billion, will cost the state a total of \$1.3 billion in total interest cost over eight years. Although the total principal borrowed only increased by \$234 million, or 6.8%, the State will pay \$897.5 million more in interest for the FY2011 bonds, or a 234.8% increase over the total interest cost for the FY2010 bonds.

Retirees overwhelmingly choose the more expensive traditional health plan. In FY2011 two-thirds of retirees were enrolled in the traditional plan.⁷⁸ Illinois law provides that State employees who retired before January 1, 1998 and those who retired after that date with at least 20 years of service do not pay healthcare premiums.⁷⁹ Exceptions include General Assembly members, who can retire with as few as four years of service and not pay any premiums, and judges, who can retire with as few as six years of service and not pay premiums.

As of February 2011, 91.0% of the 81,900 retirees covered by the group insurance program were not required to pay any premiums.⁸⁰ The State was expected to pay \$497.6 million for health insurance coverage for retirees in FY2011, while retirees were expected to pay \$12.0 million

Civic Federation Recommendations for State Retiree Health Insurance

The Civic Federation supports requiring all State retirees to share the cost of their health insurance premiums. The Federation also supports abolishing any law or rule that allows retirees who live outside Illinois to pay lower premiums than retirees who live in Illinois for the same insurance coverage.

Civic Federation Recommendations for State Pensions

It remains unclear how the State can comply with statutory pension funding requirements and also pay for other costs of running State government. In light of fiscal realities, the Civic Federation recommends that current Illinois retirees and employees hired before January 1, 2011 receive the same annual benefit increases as new workers: 3% a year or one-half of the increase in the CPI, whichever is less, and that benefits be increased by a simple interest rate. The Federation also supports reducing non-vested benefits for current employees, increasing employee contributions or both.

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A study for the legislature in May 2011 presented alternatives for new retiree health insurance premium structures based on pension income, years of service and age when benefits began.¹⁴⁰ The study estimated that the State could save between \$260 million and \$300 million in FY2012 (out of a total cost of \$680.6 million) by increasing the share of premiums paid by retirees and their dependents from the current average of roughly 9% to close to 50%.¹⁴¹ A bill based on the study's recommendations stalled in the Illinois Senate in 2011.¹⁴²

Retirees covered by the Teachers' Retirement Insurance Program (TRIP) are required to pay premiums, but they effectively obtain subsidies if they live out of state. Under Illinois law, TRIP retirees who do not have access to the State's managed care networks—including those who live outside of Illinois—pay half as much in premiums for the traditional health plan.¹⁴³ For example, the monthly premium is \$326.52 for a TRIP retiree aged 65 or older without Medicare who does not have access to managed care. The premium is \$653.03 for the same retiree who does have access to managed care.¹⁴⁴ Only four Illinois counties do not have complete access to managed care.¹⁴⁵