Retirement Security for Illinois Educators
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August 19, 2010

The Editor
Wall Street Journal
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To the Editor:

R. Eden Martin's commentary on August 19 warns that public pension funds across the country are in imminent danger of collapse due to unfunded liabilities carried by these plans. He further warns that thousands of public employees, including school teachers and first responders, will be left with nothing in their golden years if these plans go bankrupt.

However Mr. Martin never describes the scenario under which a public pension system will go bankrupt, probably because in most cases it is highly unlikely. This is a major flaw in his argument. He should stop scaring public employees into thinking their futures are bleak.

Mr. Martin lives in Illinois, and teachers comprise the largest segment of public pension fund members in the state – more than 365,000 people. The Teachers' Retirement System of Illinois carries an unfunded liability of some $35 billion. A concern? Yes, but hardly of the magnitude of Mr. Martin's doomsday scenario. A public pension system will go broke if all outstanding pension and benefit liabilities come due at the same time. For Illinois teachers, as a practical matter, that is highly unlikely. By law it is impossible.

Under Illinois statute, active teachers are not eligible for a pension benefit. So as long as there are teachers teaching, all pension liabilities will not come due at the same time. Mr. Martin envisions no teachers teaching and no public school districts operating. Doomsday, indeed.

Public education, like many other government functions, cannot simply cease to exist. While individual school districts have closed many times in the history of Illinois, the functions of those districts always have been transferred to other districts. Children must attend school under the law. Conversely, public education cannot shut down and schools will always employ teachers. This rationale is applicable to many functions of government, especially public safety.

In reality, TRS and the other state public pension systems in Illinois have faced unfunded liability concerns since the 1950s and are still operating and issuing billions of dollars in pensions and benefits every year. TRS has For Mr. Martin to raise dire warnings now about unfunded liabilities and the imminent collapse of pensions systems ignores almost 60 years of history in his home state.

Sincerely,

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November 13, 2010

The Editor
Wall Street Journal
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To the Editor:

In a November 13 editorial on public pension reform, the Journal unfortunately repeated an erroneous prediction that the retirement funds for Illinois' public employees will "run dry" by 2018. The reality is this doomsday scenario has been routinely discredited by financial experts.

The prediction is the product of an academic exercise by a Northwestern University economics professor who ignored reality and used selective facts and figures to reach a desired conclusion. Illinois' largest public pension fund, the Teachers' Retirement System, had its actuaries, Buck Consultants of Chicago, investigate the validity of the Northwestern professor's claim.

They found that the doomsday prediction will only come true at TRS if – between 2009 and 2018 – TRS does not earn another dime in investment income and does not receive any contributions from active teachers, school districts and state government. That scenario is simply next to impossible. In fiscal year 2010, TRS contributions and investment income totaled $6.45 billion.

Illinois state law requires teachers and school districts to contribute to TRS, so the only way those contributions dry up is if schools in Illinois stop operating. Further, the Northwestern study greatly, and deliberately, underestimates the investment income TRS will generate in the future. The doomsday calculations are based on an unrealistic investment return of about 2 percent per year. In FY 2010, the actual rate of return on TRS investments was 13.5 percent. Over the last 25 years it is 8.6 percent.

Repeating this erroneous conclusion as if it were a cold hard fact only serves to unnecessarily scare Illinois teachers into thinking their pensions will soon collapse. Nothing could be further from the truth.

Sincerely,

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January 25, 2011

The Editor
Wall Street Journal
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To the Editor:

Your editorial of January 22, "Public Pension Hygiene Act" is a disservice to your readers because it repeats a discredited claim that Illinois' public pension systems will "begin running out of money" in about 10 years. This falsehood only serves to scare retired public employees.

The state's largest public pension system – Teachers' Retirement System – has studied this doomsday prediction and found that the only way TRS can run out of money in 10 years is if the system does not collect another dime in contributions from teachers, school districts and state government; *and* investment income hovers around 2 percent a year for the next decade. In other words, it is next to impossible. In 2010 the system's investment rate-of-return was 12.8 percent. TRS took in $6.8 billion in revenue and paid out $3.9 billion in benefits.

The same editorial discusses the proposed Public Employee Pension Transparency Act. Unfortunately, no matter what formula is used to determine how big or how small the unfunded liabilities of public pension systems are, the bottom line remains that pension funds across the country are carrying billions of dollars in unfunded obligations. In Illinois, elected officials are working diligently to solve this problem.

Sincerely,

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August 1, 2011

The Editor
The Wall Street Journal
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To the Editor:

Your July 25th article, "The Softer Approach On Pension Problems" inaccurately portrayed the true condition of state pension funds by not providing the proper context on several points.

In the chart accompanying the story Illinois was included among the "lowest-funded" pension systems in the United States. The unfortunate use of that phrase implies that these pension plans lack the resources to meet their obligations to retirees. Illinois is accurately shown as 45 percent funded. The remaining 55 percent, of course, represents the concern – the state's unfunded pension liability. What is not said is that the unfunded pension liabilities are *long-term* debt that never comes due at one point in time.

For Illinois' largest public pension plan, Teachers' Retirement System, the current unfunded liability is about $40 billion, and the total liability is $77 billion. But because active teachers cannot by law collect retirement benefits, the vast majority of the total liability will never have to be paid in any given year. All TRS had to pay out in fiscal year 2010 was the $3.9 billion due to retired teachers. TRS currently has $37 billion in assets. Because TRS is meeting its long-term investment targets and continuing to receive contributions from our members and state government, we will have enough money to meet our annual obligations.

You also say that state pension systems are "seeing red" because they ignore actuarial standards, use "unfulfilled investment expectations" and give generous benefits." While true that political science can override actuarial science, most public plans, including TRS, have met their long-term investment targets, usually set at around 8 percent. Further, benefits paid to retired teachers in Illinois are justified, not generous. The average pension is $42,700 a year, not much when you consider that Illinois teachers do not participate in Social Security.

Finally, you note that state courts in Colorado and Minnesota have recently ruled that annual cost-of-living adjustments for public pensions are not part of "base pension payments" and can be reduced by legislatures. Those decisions do not apply to other states. The constitutional and legal protections afforded to the pensions of retired public employees vary widely from state to state - from virtually nothing to iron-clad.

Sincerely,

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January 6, 2012

The Editor
Wall Street Journal
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To the Editor:

The conclusion drawn by Andrew G. Biggs and Jason Richwine in their January 4 op-ed column, "Why Public Pensions Are So Rich" is that self-controlled 401(k) savings programs are a panacea for the growing cost of public pensions. This is a false premise. As noted in the article, 401(k) plans have proven to be woefully inadequate as a primary vehicle to provide for the needs of retired Americans, regardless of whether they were employed in the private sector or the public sector.

Arguing that public pension benefits are too generous when compared to what 401(k) plans have delivered only creates a wedge between the public and private sectors and fuels a race to the bottom. Instead of trying to dismantle a system that provides public sector workers with a safe retirement, the focus should be on helping the private sector increase retirement security; including the restoration of pension plans.

Good retirement planning focuses on replacing a reasonable portion of the income earned annually while working. It is no wonder that a study by the National Institute on Retirement Security shows that 90 percent of all Americans believe a pension is the key to a self-reliant retirement. And nearly 80 percent indicate that policymakers should find ways to make it easier for employers to offer pensions.

Almost half of all private-sector workers do not even have access to employer-provided retirement savings plans, and of those who do, the median household headed by a person aged 60 to 62 with a 401(k) account has less than one-quarter of what is needed in that account to maintain its standard of living in retirement, according to data compiled by the Federal Reserve and analyzed by the Center for Retirement Research at Boston College for The Wall Street Journal.

Further, the facts and statistics used by Mr. Biggs and Mr. Richwine in their analysis need to be scrutinized. The pair used figures from the 2010 annual report of the Teachers' Retirement System of the State of Illinois as the central example of their contention that public pensions are too generous. They note that the average pension for all retired Illinois teachers in 2010, $43,000, goes up when you carve out one specific subsection of that universe – teachers retiring today with 30 to 34 years of service.

But when you look at the entire universe of retired teachers in Illinois, you will find that 56.2 percent of all retired teachers in Illinois, or 51,334 people, receive a pension of under $50,000. That is not an extravagant retirement benefit in today's economy when you consider that Illinois teachers do not receive Social Security.

They also conclude that many Illinois teachers do not pay the required 9.4 percent contribution to TRS because school districts "'pick up' all or part" of the contribution.

In reality, the 9.4 percent contribution is deferred compensation and is part of any teacher's overall salary and benefit package. The "pick up" merely refers to school districts that decide to deduct the contribution before taxes are paid, rather than after taxes are paid. There are individual tax benefits for teachers if the TRS contribution is deducted pre-tax. And since taxpayers supply all of the funds for teacher salaries and benefits anyway, taxpayers are not paying anything extra for this "pick up" and teachers are not paying anything less. All of the money comes from the same source.

Sincerely,

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