



# FROM THE STATEHOUSE



By

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## Pension Systems Face Danger

A somewhat complicated -- but extremely important -- matter which affects a great many Illinois citizens, is the financing of pension systems.

Some pension systems funded by the state, or regulated by the state, are not in good financial condition.

A good example is the Downstate Teachers' Pension System. This covers all teachers outside the city of Chicago.

The Downstate Teachers' Pension System has an "actuarial deficiency" as of June 30, 1970 of \$936 million. The audit report for June 30, 1971 will not be available until around the first of the year, but I anticipate the deficit will be over \$1 billion.

What does an "actuarial deficiency" mean?

This means that the actuaries, the pension experts, say that in theory the system ought to have that much additional money to be completely secure. Very few systems, however, are fully funded.

The breaking point for a system that is in reasonably good shape is one that is 75% funded. Some experts will go as low as 65%. The Downstate Teachers' Retirement System is funded only at 34%.

That means that we can get by this year and next year, but 10 years from now or 15 years from now there will be a great many teachers retiring and someone is going to suddenly say, "What happened to all that money?"

This is how this tremendous deficit was built up: When a teacher pays \$1. into the pension system, the state by law is supposed to put in \$1.20. This has not been done and it has not been done under both Democratic and Republican administrations.

For the current fiscal year, for example, an additional sum of \$14 million was appropriated, but that portion was vetoed by the Governor. This year we paid 64¢ rather than a \$1.20. That means that we not only lose the difference between 64¢ and \$1.20, but we lose the interest on it year after year.

Unfortunately, there are other examples besides the teachers' retirement system.

The State Employees' Retirement System had an actuarial deficiency as of June 30, 1970 of \$279 million.

Yet, despite this deficiency, a little noted memorandum went around to all the payroll clerks in state government saying that the various offices should pay into the pension system not 6.4% of salary, as we have been doing, but 4.8% of salary.

That gets us by this year with spending a little less money but it builds up long-range problems for ourselves.

We mortgage the future not only when we create bonded indebtedness; we also mortgage the future when we don't pay into pension systems as we should.