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Illinois must move forward on digging out of its pension problem

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A new report from a civic group offers a plan that includes a 10-year income tax surcharge to shore up underfunded pensions. State legislators should take action.

If left too long on the back burner, Illinois' underfunded pensions will burn up the state's finances.

As David Roeder reported in Wednesday's Sun-Times, the Civic Committee of the Commercial Club of Chicago released a report this week calling for a 10-year income tax surcharge and exploring other measures to get the state's pensions back into balance. The Legislature should follow up by enacting pension reform.

Illinois' five statewide pensions are underfunded by about \$140 billion. The state now is on a "ramp" that requires ever-increasing payments into the pension funds each year until 2045, when the state will pay some \$18 billion in 2045 alone. That will make it hard to pay for all the other things the state does, including education, public transportation and roads and bridges.

In the current fiscal year, the state's budget is close to \$50 billion, which shows how hard it will be to come up with \$18 billion just for pensions.

If there is to be a graduated income tax surcharge, we'd like to see top earners pay a higher percentage than those on the bottom rung. That would require a constitutional amendment, and the most recent effort to pass a progressive income tax amendment failed in 2020.

The Civic Committee, which opposed the 2020 progressive tax referendum, is now proposing a surcharge of 0.5% on individuals and 0.7% on corporations, which would raise an estimated \$2.9 billion. It also is recommending broadening the sales tax to include services. All of that money would go toward funding pensions and the state's rainy-day fund. Individuals now pay a flat rate of 4.95%.

"If you do this in a responsible fashion and adopt proper actuarial and accounting methods ... we will actually solve the problem," said state Sen. Robert Martwick, D-Chicago, a longtime proponent of pension reform.

Fully funding the pensions would boost Illinois' bond rating, which at BBB+ is now the lowest among all states.

Illinois already has taken sensible measures. For the state's fiscal years 2022 and 2023, Gov. J.B. Pritzker added a total of \$500 million to pension payments beyond what is required by law. What's needed, though, is a plan that covers every year going forward until pensions are properly funded.

The Civic Committee plan includes suggestions the Legislature is likely to find unpalatable, such as a tax on retirement income and eliminating the estate tax on assets above \$4 million. It also suggests cutting state agency spending by 2% to 3%, which might sound reasonable until you remember some state agencies are trying to recover after have been hollowed out by year after year cuts.

But a comprehensive plan that bumps up revenue to front-load repayments while flattening out the upward curve of the existing repayment "ramp" could get Illinois on a path toward fixing the problem. Any element that can help make new taxes progressive should be included.

With healthy revenues coming in, the Legislature may not be in the mood to raise taxes. But the time to act is now.

