

Retirees Today

Illinois State Employee Association Retirees

Rudy J. Kink, Jr., Executive Director

John P. Coady, President

John Mundstock, Secretary of the Board

Philip Novak, Director

John Hartnett, Director

David Thompson, Director

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Solvency of the State Pension Funds

by John Coady, ISEA Retirees Board President

During these tumultuous times with the news of a global pandemic, governments struggling with finances, and social unrest, as ISEA Retiree's president I felt a reminder about the importance of the solvency of our state pension funds would be timely.

Simply put, our legal advisors say that despite our wins in the State courts for pension protection, attempts could yet be made by the State to not pay retired state employees what we are entitled.

The advisors tell us that there are at least two theories that the State may assert. One is by the State obtaining federal bankruptcy relief and the other is by a legal theory in state court of inability to pay. Both are related to the solvency of the state pension funds.

In the last few months with the challenges to State budgets due to the pandemic, the topic of state bankruptcy for pensions has been widely reported. Illinois has been part of that discussion. There are many hurdles before that could take place that include the need for Congress to pass a law, the state legislature and governor's approval, battles at the State Supreme Court level, and battles in the Federal Courts. Rest assured that ISEA-Retirees will be in the midst of those legal battles. All-in-all, there would be many political and legal challenges to overcome for a bankruptcy to be a possibility.

Another attempt by the State to not pay retirees what we are entitled is based upon the theory of inability to pay.

Those of you who have won a small claim judgment in Circuit Court may have been told by the judge that the defendant does not have to pay you because of his or her bleak financial circumstances. There is a descriptive term in the halls of the courthouses for these individuals; they are called "judgment proof." Our advisors say that governments may try to use a similar defense to avoid paying what the courts say they owe.

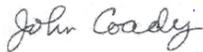
This is not hypothetical. Our 2015 victory in the *Pension Reform Litigation* was orally argued before the Illinois Supreme Court in March of 2015. I was present in the courtroom and heard the attorneys for the State of Illinois try to justify the State's reduction of our pension benefits based on this very argument. Our attorneys were poised to respond. But one of the Justices cut the argument off with the message that if such a theory did exist, it was preposterous for the State to suggest that the State's financial picture had then reached that crisis level.

(Continued on page 2)

Solvency of the pension funds is the best defense against the need for bankruptcy or an attempt to avoid payment based on inability to pay. The recent good news is that all mandated contributions for this fiscal year that ends June 30, 2020 have been made by the State. Last year, the Governor proposed not fully funding, and ISEA Retirees objected. We appreciate the Governor’s reconsideration. ISEA Retirees will continue to lobby the legislature and the Governor to make those payments. We were pleased to learn that the state pension funds are now invested with a conservative approach while it reduces big gains in good markets it also limits deep losses in times of down markets.

Finally, thank you for choosing the Illinois State Employees Association Retirees as your advocate to protect the rights and benefits of retired state employees and their survivors and for your faithful payment of dues.

Very truly yours,



John Coady, Board President
Illinois State Employees Association Retirees

ISEA Retirees Budget Tax Year 2019

| | Actual | | |
|------------------------------|------------------|---------------------------------|------------------|
| Revenue | | Office Supplies | \$1,651 |
| Dues | \$181,252 | Rent | \$17,739 |
| Investment Income | \$519 | Miscellaneous | \$376 |
| Miscellaneous Revenue | \$3,955 | Printing and Reproductions | \$2,992 |
| Cash Reserves | \$19,746 | Seminars/Continuing Ed/Travel | \$1,894 |
| Total Revenue | \$205,472 | Postage | \$4,195 |
| | | Telephone | \$2,974 |
| Expenditures | | License & Fees | \$702 |
| Salaries | \$113,658 | Legal and Accounting | \$450 |
| Payroll taxes | \$8,957 | Computer Repair and Maintenance | \$1,000 |
| Contractual Labor | \$33,583 | Technology | \$1,166 |
| Maintenance and Repairs | \$60 | Contingency | \$429 |
| Utilities | \$3,021 | Board Meeting | \$1,221 |
| Insurance | \$3,891 | Tax Preparation | \$2,473 |
| Furn, Fixt, Equipment Rental | \$1,540 | Total Expenditures | \$205,472 |
| Dues & Subscriptions | \$1,500 | Surplus | \$0 |

ISEA Retirees Mourns a Loss

Geraldine Johnson began with the Department of Revenue in April 1954. She worked as a Supervisor for the Capital Development Board and then transferred to the Comptroller’s office before she retired with 38 years of State service. Geraldine joined ISEA in 1974 and was instrumental in creating the ISEA branch office in East St. Louis.

She served as the ISEA Treasurer and became a Trustee on the Board of Directors where she served for more than 20 years.

ISEA Retirees is eternally grateful for her many years of service and will assuredly miss her leadership and guidance.

Capitol Update by Jessica Nardulli

The close of the 101st General Assembly has been unlike any other. The General Assembly began session in January, still riding high off a very productive 2019 session. The focus was to be more narrow in scope; tackling a comprehensive energy bill, reviewing the new gaming expansion law to incentivize a Chicago casino, protecting children in foster care, addressing the shortcomings within the Department of Children and Family Services, ethics and lobbying reform, and passing a balanced budget. Everything came to an abrupt halt when COVID-19 hit Illinois. The two chambers formed informal working groups to address several issues typically addressed in a committee setting. These groups met via conference calls for weeks, outside of public scrutiny.

In mid-May, the General Assembly produced a plan to enable lawmakers to safely return to Springfield for a three-day abbreviated session. Legislators and staff submitted to COVID-19 tests. The House convened in the BOS Convention Center. The Senate convened in the Capitol. The public had little meaningful access. Legislative action was available to the public through live streaming.

The three-day special session was ultimately extended for one day to provide lawmakers enough time to do their work. They passed 22 bills, all of which are expected to be signed by the Governor, including a budget, borrowing authority, and several measures related to COVID-19 for continuity of government and to support people whose lives have been disrupted by the pandemic.

With only Democrat support, lawmakers passed a budget package authorizing \$40 billion in general revenue spending for FY21, which begins on July 1, 2020. This budget allows for spending at about the same level as the last budget. Much of the spending remains tentative depending on the progression of the COVID-19 pandemic and potential congressional action that could send more financial aid to states. Lawmakers crafted the budget with a lot of unknowns, such as the depth of the economic hit from the virus, how much more the state will need to spend to respond to the virus, whether the voters will approve a graduated income tax in November, and if the state will receive support from the federal government.

Unlike the Governor's introduced budget in February, this budget does not presume the graduated income tax amendment will be approved by voters in November. The state is projecting a \$2.7 billion shortfall for the current FY20, ending June 30, and a \$6.2 billion hole for FY21, even with approval of the graduated income tax. One key to making the budget work is a plan to borrow up to \$5 billion from the Federal Reserve's Municipal Liquidity Facility program. That program allows the central bank to purchase certain short-term debt from states to help them make up for the loss of revenue due to the pandemic. This will serve as a "bridge loan" until the state receives direct support in the next stimulus package from the federal government. Congress has not yet authorized such a package and there is sharp disagreement between congressional Republicans and Democrats over what that plan should look like. The General Assembly has also given the Governor discretionary authority to set aside up to 15% of any line item or lump sum and 8% transferability between operational lines.

(Continued on page 4)

(Continued from page 3)

For retirees, the biggest issue is whether the pension systems will be adequately funded under the budget. Adequately funding the pension system has been a high priority of the Pritzker Administration. This has been shown, for example, by Pritzker applying unexpected increased income tax collections in April of 2019 to the pension system. Pritzker also, recently, rejected the notion of reducing pension debt through bankruptcy. Historically, however, Illinois has shown willingness to abandon its pension contributions in response to economic crisis. Because of that history, Illinois is now paying significant sums, more than the basic annual accrual cost, to reach a 2045 90% funding target, which is what is driving the high contribution levels of a full quarter of the state’s general revenue funds. Right now, the state already has a bill backlog of \$7.8 billion. This budget provides for making the state’s scheduled contributions. That is good news. Unfortunately, the bad news is that there are many unknowns at this point in time.
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2060 W. Iles Ave - Suite D
Springfield, IL 62704
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Even though these are uncertain times, the Governor has attempted to provide some certainty about funding the pension systems. During one of Governor Pritzker’s daily press conferences, he said the following in response to a question about pensions: “We need to make sure that people who are owed a pension are paid the pension that they’re owed. And I want to make sure that people understand how important it is that we support our seniors when they’ve worked a lifetime for that pension, whether they’re police officers or firefighters or state workers in any way. So, I continue to believe in the idea of supporting seniors when they retire.”

We at ISEA Retirees will miss seeing all your smiling faces this summer at the State Fair but we wish everyone a healthy remainder of the year. Remember, we can always be reached by phone or email.