Governor Pat Quinn outlined a plan last week to reform the state's troubled pension systems. In doing so, Quinn appeared to outright reject some pension ideas offered up by House Republican Leader Tom Cross and Senate President John Cullerton.

The governor said pension-reform negotiations, which have dragged on for well over a year, are in need of a fresh start. Republican Leader Cross' reform proposal raises employee pension contributions to force public employees into either a lower-cost system or to a 401(k)-style plan. The state's pension plans have billions of dollars in what's called unfunded liability, and the idea is to lower that liability by reducing retiree pension payouts.

The governor all but said Leader Cross' plan, which is hotly opposed by labor unions, needed to be tossed out. "I don't think there's a lot of enthusiasm by members of either party and either house for that particular bill," the governor said. "We're going to start from scratch, and everybody will have a voice and we'll get to a good place."

Quinn claimed he wants "meaningful reform" of the pension system and laid out four "key variables":

(1) Employer contributions. This idea would force local school boards and universities to finally pay a significant share into the pension funds. Quinn said the contributions could be phased in over time. The governor also said that the transfer of responsibility from the state to the schools and universities wouldn’t necessarily result in higher local property taxes, which are capped, but could be done via economizing by employers. Senate President Cullerton said much the same thing. All three Democratic leaders have said they favor this concept, so watch for it to move forward.

(2) Employee contributions. The governor now favors increasing employee pension contributions out of their paychecks. Senate President Cullerton’s chief legal counsel has suggested using various incentives to hike employee contributions by 3 percent, which could raise hundreds of millions a year if you include all state workers, public-school teachers, and state university employees. With the governor including the item on his list, the idea appears to be seriously in play.

It also doesn’t hurt that the *Chicago Tribune*’s latest poll showed that 50 percent of Illinoisans want to see employees contribute more to their pension funds to help pay for the billions of dollars of taxpayer underfunding over the past several decades. No other option presented by the newspaper’s pollster came even close to that number. The next highest was “Cut other state-funded programs,” which was backed by 30 percent.

(3) Cost-of-living adjustments. Some of the talk at the Statehouse has been about possibly basing annual cost-of-living raises on the original retirement income, rather than basing the increases on the previous year’s amount. By doing that, the state would switch to “simple” interest and avoid the “magic” of compound interest, which really adds up over the years. This COLA readjustment was done for future hires during the last round of pension reforms. The COLAs could also be lowered or even possibly eliminated.

(4) Retirement age. The retirement age has already been raised for future hires, but Quinn now wants to do that for current public employees.

Despite Quinn’s claim last week that any pension reforms would have to be “done in a constitutional manner,” AFSCME – which represents thousands of state workers – pointed out that a legal analysis prepared at the governor’s own behest in 2010 completely rejected the idea that pension benefits could be changed after an employee was hired.

The Illinois Constitution declares that public pension benefits are an “enforceable contractual relationship, the benefits of which shall not be diminished or impaired.” AFSCME and many others contend that the language means once a worker starts paying into the pension fund, the benefits can never be reduced in any way.

The governor also appeared to reject Senate President John Cullerton’s idea to adjust the pension “ramp” that ultimately requires a 95-percent pension funding ratio by 2045. The idea is to have 95 percent of all pension payouts for the next 30 years. Cullerton has said that ought to be lowered to 80 percent, which could save lots of money.

“I think we should look at the ones I mentioned,” Quinn said when asked about the Cullerton idea.

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