



A Union of Professionals

# 1274 Newsline



North Suburban Teachers Union – Local 1274, CFL, IFT/AFT, AFL-CIO

May 2012

## Pensions Top Agenda in Springfield

In recent years, every legislative session in Springfield seems to bring a new crisis, and the current session is no different -- except the stakes are even higher.

On April 20th, Governor Quinn announced a "public pensions stabilization plan" that he said will erase the \$44 billion unfunded liability for teachers' pensions by 2042. In the words of the IFT, the plan as it stands will have an unacceptable, adverse impact on teachers and other public employees.



According to the Teachers Retirement System, the elements of the plan that would affect teachers most directly include:

- ▶ **A 3% increase in member contributions, from 9.4% to 12.4%.** The 9.4% that teachers pay is already substantially higher than the 6.2% paid by most people for Social Security. Increasing our contributions is a way of making teachers take on more of the burden for a system that is in crisis because the state, not teachers, has failed to meet its financial obligations in the past.
- ▶ **A gradual increase in the retirement age to 67.** Changing the age requirement for members who are close to retirement is not fair to those who have made plans for retiring all their lives. It also has an impact on districts who will have to pay more to keep teachers employed who are on the higher end of the pay scale, and does not have as big a "bang for you buck" in cost savings as other parts of the plan.
- ▶ **Upon retirement, a change in the cost of living adjustment from the current 3% compounded to a COLA that is capped at 3% or one-half of the CPI, whichever is less. The new COLA would NOT be compounded.** The current 3% compounded COLA helps retirees keep pace with inflation while in retirement. By capping the COLA, and not compounding, you are essentially freezing retiree benefits. This means that future retirees will fall further and further behind as

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**Pension funding will be the hot topic at the Statehouse this spring. However, at the time this issue of *Newsline* was sent to the printer, the Quinn plan had not yet been put into legislative language and the situation was still in considerable flux. The IFT and our partners in the We Are One Coalition Illinois are continuing to work together to find a solution to the problem that is both fair and sustainable for the long term.**

**The pension issue will no doubt be widely covered by the news media as events unfold, but watch your inbox for updates and action alerts throughout the session for the latest from our union. Then find out how you can help by visiting the IFT Action Center on the union's web site at [www.ift-aft.org](http://www.ift-aft.org).**

they age.

- ▶ **Upon retirement, a member's COLA will not begin until 5 years after retirement, or age 67, whichever comes first.** As with the other COLA adjustments, this is a way of reducing costs to the state but it also limits a retiree's ability to keep up with inflation.

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# Essential Questions on Our Pension System

## Why is there a such a big problem with funding pensions in Illinois?

The pension debt was caused by politicians who habitually failed, over decades, to pay the state's modest share of pension costs. In 1996 legislators passed a law requiring an increase in contributions each year to bring the pensions up to their required funding level of 90%, but the legislators promptly ignored the law and continued to make partial payments. As a result, the total unfunded liability for all public employee pension systems now stands at a whopping \$83 billion, \$44 billion of which is in the Teachers Retirement System.



## Are teachers getting a free ride?

Absolutely not. Teachers pay 9.4% of their salary directly into the Teachers Retirement System (TRS), the state is supposed to put in about 8.5% and school districts contribute .58% of total payroll. Since 1940, teachers and districts have paid 100 percent of their required contributions every year, while the state has not.

## Do teachers also get Social Security?

No, unless they have earned it through previous employment. For the vast majority of teachers their pension is their **only** source of retirement income.

However, even the minority of teachers who do earn Social Security do not get a double pension. Under federal laws, known as Government Pension Offset (GPO) and Windfall elimination Provision (WEP), the Social Security benefits a teacher may have earned in previous work is severely reduced, as are any survivor benefits earned by a spouse.



## Are teacher pensions too high?

According to TRS, the average teacher's pension is about \$43,000 a year. Out of 87,000 retired teachers in Illinois, 17,269 receive a pension that's less than \$20,000. Only a few

teachers and administrators (only about 2% of retirees) receive large pensions of more than \$100,000. Clearly, teachers are not getting rich from their pensions.

## How are our pensions different from what other people get?

Teachers have what is known as a defined benefit pension plan, in which an employee is promised a specific benefit for life beginning at his or her retirement based on factors such as age, earnings, and years of service. On the other hand, most employees in the private sector pay into Social Security (also a type of defined benefit plan) and many also have defined contribution plans, in which the amount put into the plan is guaranteed, but future benefits depend upon how well the investment (such as a 401k) is doing.

## Is our current benefit system just too expensive?

No. According to IRSI (Illinois Retirement Security Initiative, a nonprofit and nonpartisan organization), our current system is actually quite cost effective. The average 'normal cost' (meaning the actual amount



needed to fund pensions) of all five Illinois pension systems averages 9.13% of payroll. The national average for state and local government is 12.5%, placing the normal cost of Illinois' current defined benefit program far below the national average.

Likewise, again according to IRSI, switching to either Social Security or a defined contribution plan, even if it was possible legally, would actually cost more. The real problem with our pension system is not that it is too expensive, but that the state, by not paying its share, has put us in this hole.

## What health insurance benefits do retired teachers get?

Teachers have access to a variety of health insurance options, including HMOs and traditional indemnity plans. While these are subsidized, they are not free. According to TRS, on average retired teachers pay around \$577 per month in health insurance premiums, in addition to copayments, deductibles and the like. On an average pension of \$43,000 a year, these are substantial costs.

## From the President

### *Between a Rock and a Hard Place*

Given the fluid nature of the situation in Springfield there is no doubt that by the time you are reading this some of the information will be obsolete. Our long-running battle to protect our pensions is coming to an endgame and due to today's political and fiscal climate we seem inexorably headed towards an unpleasant result.

At this point in time, Governor Quinn has proposed a ruinous change to our pensions (see article on page 1). Unfortunately the press and politicians from both sides of the aisle and all corners of the state are hailing Quinn's plan as a bold and necessary fix.

In the past the IFT and our labor partners have been able to fight off similar legislative attacks. Just last year our relentless pressure helped kill SB 512, an even more insidious pension-destroying bill. In part we have been able to win those battles because we are on the righteous side: our pensions are fair, affordable and constitutionally guaranteed. And, undeniably, the only reason that we are in this mess is that the state has a 50 year history of failing to make their full payment into the retirement system.

But today, several factors are converging to undermine us.

**Economic Pressure:** The Great Recession, along with years of mismanagement from Springfield, has left Illinois in financial ruins. That makes paying the full pension obligation (60% of which goes to paying the cost of the debt created by the state's history of underfunding) particularly painful, allowing politicians to characterize pension payments as squeezing out other necessary government programs.



**Political Pressure:** Fair or not, we are facing a nationwide political tidal wave of pressure to "reform" pensions. And it is not just coming from Republican-controlled states. Even in New York, the Democratic governor has signed pension reform legislation, even though a recent non-partisan study has found that its system is funded at 101% for the next 30 years.

**Limited Funding Options:** For years labor has made the case that fixing the pension crisis requires finding a new, dedicated revenue stream. Last year, the financial crisis finally led the state to pass a large income tax increase in order to reduce its

deficit from ridiculous to just plain bad. That makes the political climate for finding yet another new source of revenue, such as a lower sales tax that includes services, impossible.

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***One solution that the IFT has endorsed -- a constitutional amendment to allow for a progressive income tax -- is a long shot that could take years.***

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**Constitutional Protection:** Finally, the ultimate fail-safe protecting our pensions – the constitutional guarantee that they “shall not be diminished” – is being questioned. Quinn's argument is that giving teachers a choice of pension plans -- even two equally bad choices -- makes it constitutional. Though most analysts still believe that Quinn's plan is unconstitutional, there seems to be a growing sense that a way around the constitutional protection could be found.

Though pressure is closing in from all sides, now is certainly not the time to give up the fight. However, it just might be time to consider doing something new. Until now we have steadfastly refused to accept any erosion in our pensions on the grounds of fairness and constitutional protections. If that continues to be our position, the likely outcome will be passage of something like the Quinn proposal, triggering a costly and less than certain challenge in the Illinois Supreme Court.

And if we do prevail in the Court will our enemies lay down their arms? Given the real financial problems caused by 50 years of state neglect, it's not likely.

So what are our other options? Perhaps it is time to consider cutting a legislative deal in which we kill Quinn's proposal by accepting a more benign change to our pensions and/or a modest increase in our contributions.

And what would we hope to get in return? A fix to the Tier 2 pension system (the already greatly diminished pension that all new teachers are subject to), and a guarantee that the state will make its payments to the system, now and in the future, so that we can have confidence that the pension promised to us will be there when we need it.

In solidarity,

Handwritten signature of Steve.



► **Over the next several years, school districts will have to begin paying the total annual cost of TRS pensions.** This means that the burden of paying for pensions will shift from the state to school districts. The argument is that districts have given raises to teachers without having to bear the full cost in pensions and that to save money we have to impose fiscal discipline. The fear is that the real result will be either dramatic cuts in cash-strapped districts, increases in property taxes to cover the additional costs (if not already capped), or both. Not only could this affect our success in bargaining, it also places greater reliance on the notoriously regressive property tax.

According to the IFT, the proposal that the Governor outlined would be posed to teachers as a choice. The choices would be:

**Door #1:** Teachers could choose the new pension benefit package, as outlined above, and receive retiree health insurance. In this scenario, pay increases would continue to be counted in the calculation of their pensions and they would receive a subsidy for health care.

**Door #2:** Teachers could keep the pension benefit structure they currently have but their salaries would be frozen for the purposes of calculating pensions. In addition, their health insurance benefits could be dramatically reduced or eliminated, although TRS claims that this applies mainly to other public employees who have a more generous retirement health care plan than teachers.



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*"Forcing public servants to choose between two sharply diminished pension plans is no choice at all." -- We Are One Illinois*

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One huge question in the debate over teacher pensions is whether the Quinn plan could stand up in court. Unions and their supporters say the proposal violates the Illinois constitution, which reads that state pension payments "shall be an enforceable contractual relationship, the benefits of which shall not be diminished or impaired." Quinn's plan gives employees a choice of two unpleasant options, and that choice is precisely what Quinn claims makes the plan constitutional, on the theory that changing benefits is part of an exchange of one benefit for another.

In a call to action to its members, the IFT said, "Considering that the subject at hand is the ability of hundreds of thousands of Illinoisans to support themselves in retirement, we believe the proposals are insensitive and irresponsible. Please help us make sure that Illinois lawmakers hear us loud and clear." ■

## Council Corner

**District 39SS:** Our fight against outsourcing of transportation failed. Following a threat of a court injunction based on the law protecting the compensation rights of union workers, the district agreed to find jobs for all employees. Contract negotiations are ongoing with retirement benefits the remaining sticking point.

**District 71:** Negotiations have started. Both sides have submitted proposals.

**District 219SS:** The RIF for the 2012-2013 school year has been agreed to. All members affected have been notified. In our April meeting with the Assistant Superintendent for Human Resources, we discussed a new law that came into effect on January 1, 2012. The possible impact of this law will be clarified by a joint phone call with the IMRF. On contract negotiations, the support staff negotiation team has asked for clarification on several of the Board proposals.

**District 807T:** Union and administration continue to meet to develop a new evaluation document and process to comply with PERA. The union negotiating team has begun to brainstorm and plan for negotiations.

### 1274 Newsline

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9933 N. Lawler, Suite 222  
Skokie, IL 60077  
847-673-1274  
Fax: 847-673-6079

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### Questions and/or comments?

#### Please contact:

Janet Kelsey  
Newsline Editor  
847-626-2854  
jankel@d219.org