Pensions, Higher Education and the Budget Crisis: The Past Haunts the Present and Threatens Our Future

By Ken Andersen

The advice proves true: "The gods visit the sins of the fathers upon the children."(Euripides) Or Biblically, "I punish the children for the sins of the fathers to the third and fourth generation...."(Exodus 20:5) Restated more academically, "The deprecations of the past impact our future for a long time."

Illinois' current budget situation is one more proof of the validity of this long-known truth. The failure to fund appropriately the state pension systems for many years has contributed to the current budget crisis that is affecting every Illinois citizen. It is not just the pension funds, it is not just higher education, it is not just education as a whole: every person in Illinois is impacted both directly and indirectly.

Budgets of the public universities and community colleges have been cut sharply. Higher tuition has impacted students and parents with the significant drop in support for the Monetary Award Program, dramatically affecting some private colleges. The impact of these cuts will impact the state for years to come. Further, the situation may worsen depending on the outcome of the budget struggles this year.

What might have been!

<u>The state should not be in this budget crisis!</u> James Hacking, Executive Director of the State Universities Retirement System (SURS), has developed several charts demonstrating the impact on our recent history if the state had obeyed its own laws and appropriately funded the retirement systems. SURS would have exceeded the 90% target funding ratio starting in FY'85 and not needed significant additional funding until FY'05. This means at the height of the recent recession the state would essentially have had all the funds it was forced to put into the SURS system available for other purposes. Since that money comes out of the higher education budget, think what those funds could have meant in support of student scholarship aid and adequate funding of our public four-year and community colleges. (While not identical, the pattern for other public pension systems is reasonably similar.)

<u>The state had ample warning</u>. A 1973 lawsuit by the Illinois Education Association and the AAUP to force the state to make pension payments as required by a 1967 law was not contested by the state. But on appeal the Cook County Circuit Court dismissed the suit on the grounds that no benefits had been lost and the court should not tell the legislature what to do. The State Supreme Court affirmed that ruling. Meanwhile, alarmed workers had been successful in pushing for protection of pension benefits in the revised state constitution. Efforts to move toward a system of full funding repeatedly failed until passage of a 1995 law gradually ramping up payments to achieve full funding. It placed much of the burden on taxpayers in a distant future with sharply increased funding beyond 2030 to 2045.

<u>Those covered by the pension systems paid every cent due from them on time</u>. Funds coming from the participants helped the state significantly in that stock market gains based on their contributions served to reduce the liability of the state. The pension shortfall is not the fault of any or all of its participants. They kept their part of the contract.

The need to reform the state income tax and reduce property taxes has been demonstrable for many years.

What Is.

The recent cuts in state support for higher education and for the student aid so vital to private colleges and universities are directly linked to the failure to fund pensions as required by state law. What could have been in effect a "rainy day fund" did not exist entirely due to the legislators and governors failing to fund fully the pension system for many years and some years taking a "pension holiday," making no contributions at all.

This shortfall becomes part of the budget crisis that includes a structural deficit in the state budget estimated to be between 3% and 4% projected beyond 2010. Further, the state has never met the constitutional goal of providing 50% of the support of public elementary and secondary education. This is not a matter of excess state employees—Illinois has the fewest number of state employees per population of any state in the union. Note, this is unlike Cook County and Chicago that are currently being criticized for excessively expanded payrolls linked to political spoils systems. And, certainly, the profusion of units of local government undoubtedly wastes resources. For example, Champaign and Urbana could reap substantial savings from combined police departments, park districts, libraries, etc. School consolidations in many areas of the state would provide a better quality of education through a better utilization of resources. But these needed changes would not directly affect the state budget shortfall.

Efforts to resolve issues of educational funding shortfalls and the state's structural deficit are exemplified by House Bill 750 seeking to increase the state personal and corporate income tax rates coupled with reductions in property tax. Numerous groups across the state are supporting this effort given that some 80% of school districts are said to be in the red. Senator Rick Winkle's SB1484 would modify HB 750 to reduce the amount of the tax increases, preserve the reduction in property taxes, and mandate greater state funding for higher as well as elementary and secondary education. But, the Governor has repeatedly promised to veto any income tax increase. *Would he be Machiavellian enough to welcome the increase if it passed over his veto?* It would give him money he urgently needs while keeping his promise to veto any income tax increase.

Recently, significant concern has focused on legislation being developed—not yet filed—by the Governor to change pension funding. Some of the proposals being discussed will not pass constitutional muster although it may take extended court cases to demonstrate that. In the effort to balance the budget many of the proposals count savings today that will not actually occur until many years in the future, if ever.

One concern is the impact of such changes on recruitment of future faculty and staff. A loss of future benefits would make the growing compensation gap between public and private colleges and universities even more dramatic. A "brain drain" could become a flood of departures by top faculty taking with them the grants and contracts that support much of the research and the jobs they produce. Cuts in financial aid may increase the number of students leaving the state for their education—often never to return—another brain drain.

What Will Be.

Will higher education take more cuts in the state budget this year? Will the pension legislation be revised? Will the state cut and run on pension funding? Action by stakeholders will determine the outcome. If those of us concerned with and about higher education do not make ourselves heard loud and often with the legislature, the state of Illinois will be the ultimate loser as it has been with its past practices. Ultimately Illinois as a state is the greatest loser if it continues to undercut its entire educational system.

The current governor and legislature cannot be held responsible for what others did in the past. But they must be held responsible for the failure of leadership in addressing the current budget crisis. Until Illinois faces up to the need to change its tax structure and starts "paying as we go" it will continue to defraud its citizens by denying them the future that could have been.

The sins of the fathers....