

Retirees Today

Illinois State Employee Association Retirees

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Summer 2017

SESSION UPDATE

Jessica Nardulli & Tom Ryder

The General Assembly did not pass a budget by the May 31 deadline. As a result, they did not adjourn the legislative session and instead recessed “to the call of the chair.” As predicted, shortly after adjourning the spring session without passing a budget, two credit agencies issued another credit downgrade for Illinois. Further downgrades were expected at the end of June if a budget was not approved.

Beginning on June 1, the Illinois Constitution requires three-fifths’ votes in the House and Senate to pass legislation with an immediate effective date, making it more difficult to pass controversial bills like tax hikes or spending cuts.

The Legislature reconvened on June 21 after Governor Rauner called them into special session until an agreement could be reached on a comprehensive budget package. The Governor’s proclamation directed the General Assembly to consider legislation that will reach a balanced budget with reforms, including property tax relief, job creation, term limits, and spending caps.

On Sunday, July 2, the House passed a budget package. The revenue bill, Senate Bill 9, funds a \$36 billion budget for the State of Illinois by increasing the personal income tax effective July 1, 2017 from the current 3.75% to 4.95%. Corporations would see the income tax rise from 5.25% to 7%. Notably, the revenue bill does not include new service taxes or a tax on retirement income. The revenue bill is expected to raise \$5.1 billion (net). The bill passed 72-45, which includes 15 Republicans. The FY18 budget and FY17 supplemental budget, Senate Bill 6, easily passed the House by a vote of 81-34. Total state spending was cut by \$2.5 billion, including 5 percent reductions to the operations of most state agencies and a 10 percent cut to higher education. This budget fully funds pensions and adopts a Tier III pension proposal and use of full salary in Tier II pension payments. The budget assumes \$500 million in savings from pension changes sought by Governor Rauner to create a defined contribution 401(k) style retirement plan to compete with the defined benefit pension plans currently offered to state employees.

On July 4, the Senate convened and concurred with the House in the passage of the budget package, with one Republican Senator voting with the majority. Shortly after the budget package was approved, Governor Rauner vetoed the package citing the lack of property tax relief, term limits, and “regulatory relief” for businesses in his veto message. The Senate almost immediately voted to override the Governor’s vetoes by a 36-19 vote, the minimum needed.

On July 6, the House also voted to override the Governor’s vetoes of the package after a two hour lockdown as hazmat teams investigated a powdery substance that was thrown at the Governor’s Office and other areas inside the Capitol. There is now a budget in place for FY18.

Both Chambers are now adjourned until the call of the chair. However, there is still work to be done. A substantive solution is still needed to allow education dollars to flow to schools for the beginning of the 2017-2018 K-12 school year. Without a new funding formula, general state aid cannot be distributed and a lot of schools will be unable to open after summer vacation.

Even with a budget in place, there could still be trouble on the horizon. If Moody’s or some other ratings agency downgrades the state to junk bond status, it will damage the government’s ability to borrow to pay off the backlog of bills that has been piling up during the impasse. Past due bills now stand at \$14.725 billion and Illinois is one bond rating downgrade away from junk status.

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Pension Reform

Several pension proposals were floated by lawmakers during the spring session. Three proposals ultimately received some support from legislators, but none of the following measures passed both chambers in order for the Governor to consider. None of the proposed pension legislative proposals would have changed benefits already being received by current retirees. While taxing all or part of pensions was discussed during budget and revenue negotiating sessions, no legislation was considered that would tax pensions or retirement income.

SB16, introduced by Senate President John Cullerton, would require employees in the state pension systems and the Chicago teachers' pension system to choose between two choices – what has become known as the “consideration” model. Current employees would choose either (1) to continue to have future pay increases count toward their pensions and give up the automatic 3 percent compounded increases in their retirement benefits, or (2) to keep the pension raises but give up having future pay increases count toward retirement. SB 16 also includes language to lessen state pension payments in the future and would enact a new Tier 3 hybrid pension plan for state and local governments. SB16 passed the Senate 31-21 but was not considered in the House.

HB 4027 and HB 4045, sponsored by Republican Leader Jim Durkin and Majority Leader Barbara Flynn Currie, combines the “consideration” plan pushed by Senate President Cullerton, a buyout option, Chicago teacher pension funding, and an end to the General Assembly Retirement System. Both bills would also create an option for retirees to take a lump-sum buyout of their pension benefits. Limitations to the buyout option include limiting the number of people who could participate each year and the payment from the state retirement system must be in the form of a rollover into another retirement plan. Both HB 4027 and HB 4045 passed out of the House Pensions Committee 11-2-1 but neither was called for a vote before the full House.

Other Legislation

This spring, both chambers passed legislation that would:

- Make voter registration automatic for Illinois residents seeking a new or renewed driver's license or state ID, unless they choose to opt out.
- Prohibit state law enforcement agencies from enforcing federal civil immigration laws.
- Expand automatic expungement for juvenile records.
- Raise the minimum wage to \$15 an hour by 2022.
- Allow the state to sell the Thompson Center.
- Change the state's funding formula for K-12 education.
- Make it easier for local governments to consolidate.
- Workers compensation changes.
- Property tax credits for veterans and seniors.

Illinois State Fair

We will have our booth at the Illinois State Fair once more this year. Our table will be in the Illinois Building (which is air-conditioned) and opens daily from 9:00 to 5:00. The dates are August 11, 2017 through August 20, 2015 and we hope you will stop by to visit us if you attend the fair.



ISEA Retirees Budget Tax Year 2016

	Actual
Revenue	
Dues	\$189,742
Interest & Investment Income	\$30,816
Miscellaneous Revenue	\$5,245
Cash Reserves	\$0
Total Revenue	\$225,803
 Expenditures	
Salaries	\$101,669
Payroll taxes	\$9,313
Contractual Labor	\$33,000
Maintenance and Repairs	\$693
Utilities	\$2,456
Insurance	\$3,952
Furn, Fixt, Equipment Rental	\$3,500
Dues & Subscriptions	\$576
Office Supplies	\$2,191
Miscellaneous	\$11
Printing and Reproductions	\$3,599
Seminars/Continuing Ed/Travel	\$3,360
Postage	\$6,531
Telephone	\$1,734
License & Fees	\$1,119
Legal and Accounting	\$450
Computer Repair and Maintenance	\$1,539
Rent	\$12,000
Technology	\$1,907
Contingency	\$1,596
Board Meeting	\$1,315
Tax Preparation	\$3,641
Total Expenditures	\$196,152
Surplus	\$29,651

ISEA Retirees is very pleased to have Jennifer Staley join our staff. Jennifer began with the State Employees' Retirement Systems (SERS) in June of 1974, retiring January 1, 2017 with 42.50 years of state service. She joined ISEA Retirees after retiring from the State Retirement Systems (SRS). She and her husband have two grown sons and reside in Chatham, Illinois.

A message from the ISEA Retirees President John Coady

Like me, you may have noticed that missing from the current legislative proposals to deal with the State of Illinois financial crisis are attempts at reducing State retiree pension and health care benefits for those of us already retired. That's good news for State of Illinois retirees.

Twin Illinois Supreme Court decisions previously pronounced judgment that the State's promise of pension benefits to State retirees is a promise that cannot be violated.

The Court's 2014 *Kanerva v. Weems* decision held that the Illinois Constitution Pension Protection Clause prohibited the State from imposing health insurance premiums on retirees when they had been promised during their years of employment there would be no premiums.

The Court's 2015 *Pension Reform Litigation* case reaffirmed that membership in any retirement system of the State is an "enforceable contractual relationship, the benefits of which shall not be diminished or impaired." The Court struck down the State's attempt to reduce retirement annuity benefits. The Court rejected the State's contention that the financial crisis allowed the reduction. The Court said:

Crisis is not an excuse to abandon the rule of law. It is a summons to defend it.

Many are owed a debt of thanks for defending the rights of retirees in those cases. ISEA Retirees Executive Director Rudy Kink provided excellent guidance and leadership in keeping members and the Board informed. The ISEA Retirees Board of Directors showed courage in proceeding with significant expenditures of association funds for litigation at a time that outcomes were unclear.

ISEA Retirees Lobbyist Tom Ryder was masterful in coordinating the association's leading role in the pension reform litigation. Many attorneys, especially ISEA Retirees' Attorneys Don Craven and Michael Reagan in the Pension Reform ...



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...case and Attorneys Don Craven and John Myers in the *Kanerva* case were zealous champions in the Illinois courts of law for retirees' rights.

Most importantly, scores and scores of the members of the Illinois State Employees Association Retirees answered Director Kink's call for voluntary financial contributions to help defray the cost of litigation. Funds of approximately \$36,000 were coupled with savings over the years from members' faithful payment of dues to pay attorneys' fees of \$87,500.

It would be nice to say that the final battle has been fought and that State of Illinois retirees and their survivors are able to live out their lives without any fear of future legislative encroachment upon retiree annuities and other benefits. But we all know better.

All of us that play a role in the administration of the Illinois State Employees Association of Retirees, including the executor director, Board of Directors, lobbyists, and office staff, pledge that we will remain vigilant against new attempts to reduce promised retirement annuities and other promised benefits. And please know that your continued support as ISEA Retirees' members is vital to the effective work of the association as perilous times remain ahead.

Please feel free to contact me,

John Coady

ISEA Retirees Board President

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