Illinois House approves pension cuts

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The Illinois state Democratic Party is pressing ahead with plans to cut pensions and retiree health care benefits, even as it becomes ever clearer that the state's financial crisis has been exacerbated by years of financial fraud. This included overstating the state's fiscal health in order to obtain lower interest rates on its bonds.

The entire political establishment is united in its determination that workers pay to satisfy the banks and financial houses, even for crimes both Republicans and Democrats committed in close collaboration with the same banking interests.

On March 21, the Democratic-controlled House of Representatives passed a bill that would eliminate the current three percent per year cost-of-living adjustment. Workers would receive no cost-of-living adjustments for the first five years following retirement, or until they reach the age of 67. This adjustment will only apply to the first 25 percent of a retiree's income. It is estimated that this change will save the state up to $100 billion over 30 years and would cut the so-called unfunded pension liability by $20 billion, from the current amount of $97 billion.

With the elimination of cost-of-living adjustments, retired workers will see real reductions in income and living standards due to inflation, currently estimated at around two percent per year, according to measures that understate the real erosion of workers' purchasing power.

Other changes to state pensions approved by the House in recent weeks include a cap on the maximum income used in benefit calculations, which is now tied to the maximum Social Security wage base, currently $113,700. The House also passed a measure increasing the retirement age, affecting workers 45 years of age or younger in 2013. Workers are currently eligible to retire with full pensions at age 60 following 20 years of service. The new measure would introduce tiers, with workers between 40 and 44 years of age required to attain age 61 for full benefits, those currently 35 to 39 would have to wait until the age of 63, and those 34 and younger would only get full pensions if they retire at 65.

State officials allege that the pressure to cut pensions stems from the increasingly large percentage of the state budget that must be allocated in order to keep pension funds solvent. For the next fiscal year, it is estimated that pension costs will amount to 21.5 percent of total expenditures. Even at such a large percentage of the state budget, the funding of the main pension plans will remain shockingly low—40 percent for the five main pension systems, whereas the average funding nationally for state pensions is 75 percent. Prediction of catastrophic failure has become an additional tool used by the Democrats and local media to argue for further cuts.

The poor level of pension funding stems from over two decades of inadequate pension payments allocated by the state legislature. In 1994, the General Assembly passed a law allowing it to amortize pension costs over a 50 year period, rather than the more common 30 years used by other states. Even then, it set a target rate of only 90 percent funding, and instead of requiring evenly spread annual payments, allowed state legislators to push the bulk of payments many years into the future in order to fund current budget priorities. The period immediately following the passage of the law corresponded to the share market boom of the late 1990s, which temporarily obscured the inadequate pension funding.

In 2003, having gotten behind in payments, the state issued $10 billion in bonds to make up some of the difference. Bear Stearns, the bond underwriter, was later found to have bribed then-governor Rod Blagojevich to win the business. In 2005, the legislature then passed another law, this time allowing the state to take so-called pension holidays, and skip required annual payments altogether for certain years, in exchange for making larger payments later on. The pension holidays, pushed by Blagojevich, were used to plug gaps in the state budget.

On March 11, the United States Securities and Exchange Commission (SEC)—nominally responsible for enforcing laws and regulations regarding securities such as stocks and bonds—announced a settlement with the state of Illinois over accusations of fraud in regard to the state's issuance of $2.2 billion in bonds during the period from 2005 to 2009, in which it took pension holidays. Essentially, the SEC claims that because Illinois misrepresented the true state of its pension financing, it received interest rates on its bonds that were more favorable than it deserved. According to the settlement, the state will no longer make such misrepresentation, leading no doubt to increased borrowing costs and further budget cuts.

Democrat Elaine Nekritz, the bill's sponsor, claimed that the measure is "another sacrifice that we all have to make in the spirit of shared sacrifice in order to right our state's fiscal ship and get us headed in the right direction." The invocation of shared sacrifice by Nekritz, as with all other similar claims, is a complete fraud. Since the beginning of the economic crisis in 2007, the financial aristocracy in the US and around the world has used the specter of economic collapse to wage a devastating campaign of austerity against the working class, attacking all the social gains won by workers through generations of struggles.

In countries like Greece, Spain, Cyprus, and elsewhere workers are being forced to take drastic reductions in their living standards in order to repay enormous sums to the biggest banks and investment houses. Meanwhile, the financial aristocracy has sacrificed nothing, instead seeing their wealth and income skyrocket. In the United States, from 2009 to 2011, 149 percent of increased income went to the top 10 percent, while the bottom 90 percent saw a fall in income. The top one percent took 81 percent of increased income, and the top one-tenth of the one percent took 39 percent. Far from shared sacrifice, the policies undertaken in recent years have contributed to historic levels of inequality.

Workers must place no confidence in the trade unions to defend their pensions. Dan Montgomery, president of the Illinois Federation of Teachers, complained that the measure was "blatantly unconstitutional" due to the state constitution's historically strong protection for pension agreements. The financial elite and their bought-and-paid-for political representatives, however, have no concern with the state constitution and are tearing up whatever protections get in their way. For their part, the unions are aligned with the Democratic administration of Governor Pat Quinn and the state legislature, and intimately tied to the profit system, making any struggle to against the looting of pensions dependent on workers' building new organizations of workplace and political struggle.