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Reason Foundation

This newsletter highlights articles, research, opinion, and other information related to public pension problems and reform efforts across the nation. To find previous editions, please visit http://reason.org/newsletters/pensionreform/.

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Articles, Research & Spotlights

Illinois' Pension Reforms Struck Down by State's Top Court

By Scott Shackford, via Reason.com

Illinois' massive pension crisis, arguably the worst in the nation, is about to probably get worse. On May 8, the state's Supreme Court unanimously ruled that efforts to tamp down on the crisis by scaling back workers benefits are a violation of the state's constitution. A provision in the state constitution states that benefits for government employees cannot be "diminished or impaired."

The pension reforms Illinois enacted in 2013 to try to rein in its unfunded liabilities and more than $100 billion in debt involved curbing cost of living increases and putting a cap on how much of an employee's salary may be used to calculate pension payments. The court determined these reforms count as diminishing or impairing benefits.

Justice Robert Karmeier rejected the argument that economic necessity overrides the constitution's pension protections:

"Our economy is and has always been subject to fluctuations, sometimes very extreme fluctuations. [But] the law was clear that the promised benefits would therefore have to be paid and that the responsibility for providing the state's share of the necessary funding fell squarely on the legislature's shoulders. The General Assembly may find itself in crisis, but it is a crisis which other public pension systems managed to avoid and... it is a crisis for which the General Assembly itself is largely responsible." - Karmeier wrote.

Both the state and government employees themselves have a very long history of skipping pension payments. The judge even criticized them for failing to keep a temporary tax hike from 2011 to bring in more revenue to the state. But John Tillman, CEO of the free-market, pension-reform-oriented Illinois Policy Institute, took a dim view of Karmeier's call to raise taxes to fix this problem.

To read more about the issue, go here <http://click.email.reason.org/?qs=a9a6925133ec52e24a013da81ae24b673e7e3228ecb4ce2082d0dc99d943dd8bcc0910043cf73c65>.

Moody's Downgrades Chicago's Debt to Junk Status in Wake of Illinois's Ruling

By Truong Bui, Reason Foundation

Moody's on May 12 downgraded Chicago's debt to junk status. Specifically, the rating company downgraded the city's $8.1 billion of general obligation debt; $542 million of sales tax revenue debt; and $268 million of authorized motor fuel tax revenue debt from Baa2 to Ba1.

One of the key rationales for the downgrade is the "expected growth in the city's highly elevated unfunded pension liabilities". Moody's notes that this factor is exacerbated by the Illinois Supreme Court's recent overturning of the state's pension reforms enacted in 2013, since the ruling implies that the city has few options to rein in the growth in its unfunded pension liabilities. Moody's expects that "the costs of servicing Chicago's unfunded liabilities will grow, placing significant strain on the city's financial operations absent commensurate growth in revenue and/or reductions in other expenditures." In fact, contribution to the city's Police and Fire pension plans will increase by 179 percent in 2016. As a result, the rating company places a negative outlook on the city's debt.

Among the things that could improve the debt ratings, according to Moody's, are halting the growth in the unfunded liabilities, and revenue growth and/or reductions in other operating expenses that could help easing the pension cost pressure. On the other hand, continued growth in the pension debt or a court's ruling the current statute governing the city's pension plans unconstitutional could worsen the ratings.

To read more about the Moody's decision, go here <http://click.email.reason.org/?qs=a9a6925133ec52e272f9d60524dd470ff19ffae12a03752fb9c36e69fa2a593452e2e19c9f9a068a>.

San Bernardino Bankruptcy: Bondholders Lose against CalPERS

By Truong Bui, Reason Foundation

On May 11, US Bankruptcy Judge Meredith Jury dismissed an attempt by pension bond investors to win the same treatment received by the California Public Employees' Retirement System (CalPERS) in the San Bernardino bankruptcy. The city declared bankruptcy in 2012, with a $45 million deficit.

Luxembourg-based Erste Europäische Pfandbrief-und Kommunalkreditbank AG (EEPK), which holds $50 million of pension obligation bonds issued by the city in 2005, argued that because bond proceeds were used to pay the pension liability, those bonds should be treated as if they were pension debts owed to CalPERS. The judge rejected this line of reasoning, contending that there was no evidence that the city intended to treat the two kinds of debts the same way. The rationale is that while CalPERS has the ability to reduce pension payments to the city's employees if the pension debts are not paid, bondholders simply don't have this power.

The ruling facilitates the city's plan to repay its pension bondholders only a penny on the dollar, in contrast to full payments to CalPERS. The city's action is consistent with a broader pattern found in the bankruptcies of Stockton, California, and Detroit, Michigan, where bondholders received little of what they were owned, while pensions were left unscathed.

To read more about the issue, go here <http://click.email.reason.org/?qs=a9a6925133ec52e2de86e5a3a3655362f1960ef5b20c42242bf40a2f432040294d944998e33784ef> and here <http://click.email.reason.org/?qs=a9a6925133ec52e2e4cfecd858d6b102a7eb4500e8e5ec93b99a3edda0d6dd41f11db4c4386f46ea>.