



PENSION COST SHIFT WITH SAVINGS REINVESTED IN SCHOOLS

Stand for Children Position: **Support**

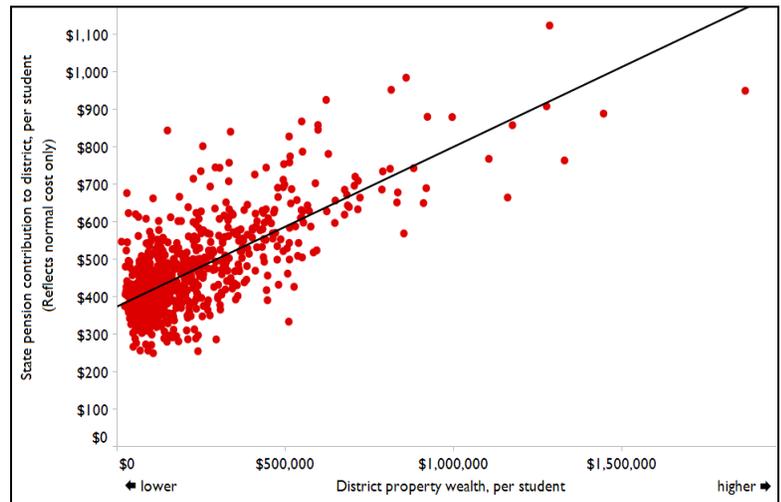
ISSUE SUMMARY:

Shifting the cost of teacher pensions from the State to local school districts has become heavily debated over the last year, with the most recent proposal suggesting school districts assume responsibility for an additional 0.5% of payroll each year until fully covering normal cost. The Teachers' Retirement System (TRS) is currently funded by employee contributions of 9.4% of salary, school district contributions of 0.58% of payroll, and the State for the remainder of the cost required to reach a 90% funded ratio in 2045. In FY2013, TRS's certified contribution was \$2.7 billion. TRS covers educator pensions throughout Illinois, with the exception of Chicago teachers.

OUR POSITION:

Our mission is to ensure that all children, regardless of their background, graduate from high school prepared for, and with access to, a college education. To that end, equitable funding invested effectively is imperative. And when funding is limited, we support prioritizing appropriations to the lowest-income districts.

We believe public schools in Illinois would benefit from increased investment. As we work toward that important goal, we also want to make progress toward equity. The General State Aid formula was designed to direct greater State dollars to lower-income areas. But the State's payment of TRS's employer contribution competes with this funding prioritization.



Districts with higher incomes, higher budgets, and higher salaries also get a higher State TRS subsidy. This disproportionate subsidy to wealthier districts is contrary to our fundamental mission of supporting equitable funding.

BUT DON'T CUT EDUCATION TWICE! The reinvestment in education is an integral component of our support. A cost shift onto districts should not happen in a vacuum, with ISBE's budget simultaneously taking steep cuts to other programs. We see this fundamentally as a funding equity issue – not a pension reform question. Our support of a cost shift is contingent on savings being allocated to more equitable education funding streams, such as General State Aid.

We are asking the General Assembly to allow the Appropriation Committees discretion over the TRS normal cost so that it can be considered as a piece of the comprehensive education budget picture, including this provision in the revenue-setting resolution, and codifying any cost shift language in the Budget Implementation (or other substantive) bill.

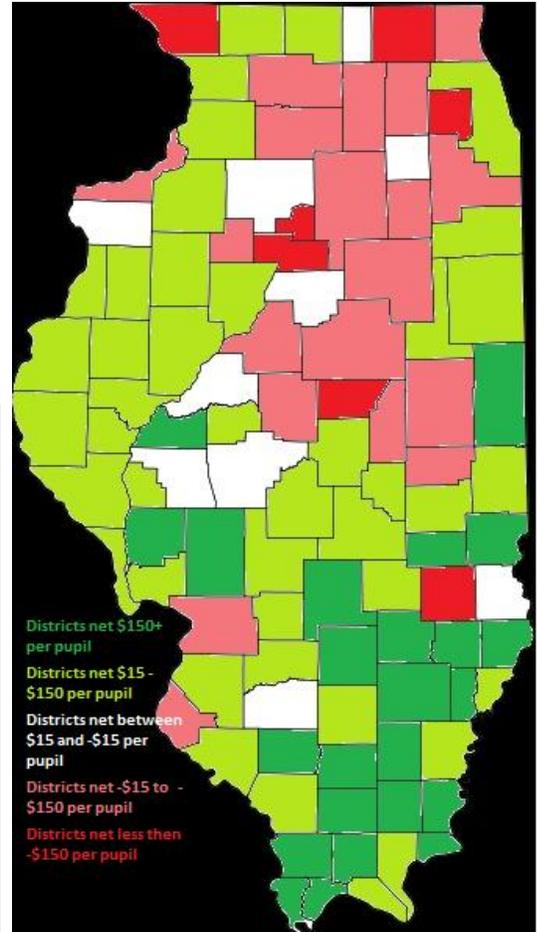
THE LOCAL IMPACT:

School districts and their employees and taxpayers have, understandably, been concerned about the effects that a pension cost shift would have on educational programs and property taxes in their school districts. While we cannot know the exact impact of such a change without knowing the broader FY14 budget picture, this map is intended to provide a general estimate. Many school districts are developing worst-case budget scenarios that include an 80% proration to General State Aid. This represents about a \$440 million cut to the GSA line item.

So, what if the General Assembly held the GSA appropriation flat and instead funneled the \$440 million in cuts through a TRS cost shift to districts? Subtotaled by county, the green counties “benefit” the most from cuts coming from a cost shift. (Of course, \$440 million is an *incredibly* steep cut – more than twice the amount ISBE’s budget was cut in FY13 – and one that we hope will never become reality.)

In general, which districts are negatively affected most by:

<i>A cost shift?</i>	<i>A GSA cut?</i>
<ul style="list-style-type: none"> - Flat grant and alternate method districts (that is, districts with high levels of property wealth) - Districts with low percentages of students living in poverty - Districts with higher payroll costs, which leads to higher retirement salaries and higher normal cost - Those in red counties on the map 	<ul style="list-style-type: none"> - Districts with low levels of property wealth - Districts with high percentages of students living in poverty - Chicago (which already pays its own pension costs) - Districts in Southern and Western IL - Those in green counties on the map



The map above shows the average benefit per pupil if \$440 million were cut through a cost shift rather than GSA, based on county-wide averages for each school district. Source: Our analysis of ISBE GSA data prepared in December 3, 2012 and the IPI data cited above.

Don't cut education twice!
Support equitable funding. Protect our most vulnerable students.
Preserve General State Aid first rather than maintaining TRS subsidies that benefit the wealthiest districts.