GOOD JOBS FIRST

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PUTTING STATE PENSION COSTS IN CONTEXT:

ILLINOIS

PUBLIC PENSIONS HAVE BEEN A RED-HOT issue in Illinois in recent months. In December, Gov. Pat Quinn signed (behind closed doors) legislation that is supposed to shore up the state's retirement system by reducing benefits and increasing state contributions. A labor coalition called We Are One Illinois labeled the legislation "pension theft" and vowed to fight it in court.[1]

While many numbers are bandied about, the central issue is how much of an obligation is being taken on each year to provide benefits for current government employees such as teachers and first responders. The best way to measure this is to use an amount known as employer normal cost. Such costs can be found in the annual financial reports that each public pension plan has to produce. In the case of Illinois there are three main plans administered by the state: the State Employees' Retirement System of Illinois (SERS), the Teachers' Retirement System of the State of Illinois (TRS), and the State Universities Retirement System of Illinois (SURS). The most recent financial reports indicate annual employer normal costs of $569.8 million for SERS[2]; $842.5 million for TRS[3]; and $442.8 million for SURS.[4] The total is about $1.85 billion.

How should this amount be viewed? One approach is to compare it to the financial costs incurred by the state in supporting business through economic development subsidies and other special tax provisions. While not providing an assessment of the effectiveness of any particular subsidy or provision at achieving targeted policy objectives, such as creating family-wage jobs, this approach does provide an important perspective on public sector pensions.

Subsidies have been another controversial issue in the state. Some of the biggest giveaways came in 2011, when Sears got a $275 million state-local package and Motorola Mobility (now owned by Google) got $117 million.[5] House Speaker Michael Madigan recently called on the legislature to "resist the temptation to cave in to corporate officials' demands every time they impose a deadline for payment in exchange for remaining in Illinois."[6]

These deals are the most visible part of a system in which the state gives away tens of millions of dollars each year in corporate tax credits in the name of job creation.[7] The most visible program is the Economic Development in a Growing Economy (or EDGE) tax credit, which is derived partly from the state personal income taxes paid by workers and costs about $31 million a year. Tax credits for film production cost about $11 million, and the enterprise zone investment credit costs $7 million.

Illinois provides other lucrative tax breaks for business. The most expensive is the exemption for Manufacturing and Assembling Machinery and Equipment, which costs $183 million a year. An electricity excise tax for enterprise zones costs $39 million, and the Manufacturers' Purchase Credit against the sale tax costs $37 million. The Two Million Dollar Cap on the Franchise Tax for Corporations results in a revenue loss of $18 million, while the research & development tax credit costs $10 million. An archaic tax rule that allows retailers to keep a portion of the sales tax revenues they collect from customers costs Illinois about $121 million a year, more than in any other state.

Illinois is one of the states that allow corporations to apportion their taxable income by methods other than the traditional three-factor (payroll, property and sales) weighting. About a decade ago, the cost of the single sales factor policy to the state was estimated at $63 million a year.[8] The state's tax expenditure report does not include updated estimates.

Another major form of corporate tax avoidance that eats into state revenues is the use of offshore tax havens. In January 2013 the U.S. PIRG Education Fund published a report in which it calculated the impact of this practice on each state. For Illinois, the estimated annual cost is $1.9 billion.[9]

The total of these corporate subsidies, official tax breaks and unofficial tax dodging amounts to more than $2.4 billion per year, as summarized in the table below.

In other words, the annual taxpayer cost of funding the retirement benefits of current Illinois public employees belonging to the main state administered public pension systems is only 77 percent of the cost to the state of economic development subsidies and corporate tax breaks and loopholes.

EDGE Tax Credit	$31,259,000
Film Production Services Tax Credit	$11,826,000
Enterprise Zone and River Edge Redevelopment Zone Investment Credit	$7,602,000
Manufacturing and Assembling Machinery and Equipment Exemption	$183,000,000
Enterprise & Foreign Trade Zone High Economic Impact Business Electricity Excise Tax Exemption	$39,759,000
Manufacturers' Purchase Credit	$37,500,000
Two Million Dollar Cap on Franchise Tax for Corporations	$18,374,000
R & D Tax Credit	$11,476,000
retailer's discount (vendor discount)	$121,000,000
Single sales factor	unknown
Revenue loss from corporate use of offshore tax havens	$1,939,000,000
TOTAL	**$2,400,796,000**

NOTES:

1 http://www.weareoneillinois.org/news/governor-quinn-signs-pension-cutting-sb-1-union-coalition-will-sue

2 http://cgfa.ilga.gov/Upload/FinCondILStateRetirementSysFY2012Feb2013.pdf (p.55).

3 http://cgfa.ilga.gov/Upload/FinCondILStateRetirementSysFY2012Feb2013.pdf (p.42).

4 http://cgfa.ilga.gov/Upload/FinCondILStateRetirementSysFY2012Feb2013.pdf (p.68).

5 Sears: http://www.goodjobsfirst.org/subsidy-tracker/il-sears-holdings-corp. Motorola Mobility: http://www.goodjobsfirst.org/subsidy-tracker/il-motorola-mobility-now-owned-google

6 Quoted in Ray Long and Monique Garcia, "Madigan blasts tax breaks," *Chicago Tribune*, December 12, 2013 (via Nexis).

7 The figures in this and the next paragraph come from http://www.ioc.state.il.us/index.cfm/resources/reports/tax-expenditure/fy-2012/

8 http://cgfa.ilga.gov/Upload/IL_Corp_Income_Tax.pdf (p.6).

9 U.S. PIRG Education Fund, *The Hidden Cost of Offshore Tax Havens: State Budgets Under Pressure from Tax Loophole Abuse* (January 2013); http://uspirg.org/reports/usp/hidden-cost-offshore-tax-havens