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*of The Commercial Club of Chicago*

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**To: Members of the Commercial Club**

**From: Miles White, Chairman of the Commercial Club  
Jim Farrell, Chairman of the Civic Committee  
Ty Fahner, President of the Civic Committee and the Commercial Club**

**Date: November 14, 2012**

It was the Commercial Club's hope that the November elections would bring much-needed change to our legislature and remove those from office who have been roadblocks to pension reform. Instead, it appears we will soon have even more legislators who aren't prepared, or willing, to make the tough decisions necessary to save our state.

We're writing today to let you know that the pension crisis has grown so severe that it is now, unfixable.

We do not make that statement lightly. It is an honest statement that no one – not our legislators, nor our governor, nor labor leaders - is willing to say publicly. But, we will.

Our state's debt is nearing \$200 billion – including unfunded retirement liabilities, bonded debt costs and unpaid bills. It's crushing our ability to educate students, ensure adequate public safety and provide health care and social services to those who are most in need. Further, Illinois' bond rating is the worst in the nation and continues to deteriorate.

While a number of pension reforms have been proposed in the General Assembly, these are half measures at best. Whether they involve token reductions in cost-of-living adjustments, locking in billions of dollars of unfunded retiree health care obligations or other scenarios, these "reforms" are either insufficient or stand to make our state's fiscal situation even worse.

Unfortunately, there are real people whose lives are being greatly harmed by legislative inaction and irresponsibility. Young teachers who are dutifully paying into their pension fund each month will not receive the pension they are expecting when they retire. There simply won't be enough money. It isn't fair to them and we've gone so far as communicating to teachers directly. Taking their pension contributions under these circumstances is the equivalent of fraud.

We have identified four fundamental reforms that must be undertaken immediately just to slow the bleeding and reduce the size of the financial burden Illinois taxpayers must bear. Although it is no longer possible to preserve all state pension benefits as currently



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*\*Honorary Members*

structured, there are steps that would minimize the long-term damage. Before undertaking these reforms, it is critical that the pension funds immediately lower their discount rate assumptions to provide a more realistic assessment of their current financial condition. (Moody's has suggested the high grade long-term corporate bond index rate, which was 5.5% for 2010 and 2011.) The following changes must be included in any proposal that claims to be "meaningful" pension reform.

1. Eliminate all cost-of-living increases
2. Institute a pensionable salary cap
3. Increase the retirement age to 67
4. Shift annual costs to local employers over 12 years or more

Unless each is addressed, nothing else legislators say or do will matter. These four reforms are the standard by which all reform proposals should be judged moving forward. As our legislators prepare to meet in December and January, we will not allow any "politically acceptable" half measures to be presented as "reform." We will work tirelessly to make these very necessary and basic reforms a reality. Our state, its employees, its retirees and its taxpayers deserve no less.

Thank you for your continued support.