Crowding Out

In many states, especially Illinois, higher education is among the most vulnerable sectors to pension crowding out. Rising pensions trigger a budgetary chain reaction that ends with social services and higher education suffering the greatest cuts. Higher ed is one of the shock absorbers of state budget deficits, especially Illinois.

Talking Points

- The theme of this cheat sheet is based in large part on my personal experience on the Universities pension board and working directly with Illinois higher education administrators and faculty.

- The pain in higher ed has been acute – both institutionally and to the many persons who have seen salary cuts or lost their jobs.

- Illinois public universities have resorted to among the most extreme measures in the country to cope with the budget crisis – substantial tuition increases and aggressive budget cutbacks.

- The impact of these changes and cuts is predictable – lower demand for Illinois education. Many middle-aged parents in Illinois can attest to the aggressive recruiting tactics of other non-Illinois schools exploiting the image of Illinois universities as financially fragile and undependable.

- The largest campuses can best withstand the storm – Champaign and Chicago. Smaller campuses outside of the Chicago area, however, are very vulnerable to long-term damage from budget cuts.
University Pension Obligations Dramatically Rise

Higher Education Funding Crowded Out by University Pensions
- Demands for universities to pay pensions
- General funding cut to accommodate pension payments

Cost Shift from State to Universities
- Universities seek alternatives to state funding to maintain operations

To shift costs, tuition rises, maintenance deferred
First Domino – Bulging Pension Payments

Expected “normal” pensions costs in theory are flat. The State increases payments to pensions to make-up for prior shortfall, displacing higher education spending.

Total higher education funding looks as if it is rising. However, operating funds for higher education actually declined. The cuts are masked by adding pension payments to the reported higher education budget.

Another look at the breakdown between the “normal” annual pension costs, and the “make-up” costs to account for prior underfunding and inaccurate actuarial assumptions.
Illinois was last in this review of change in higher education funding from 2015-2016. The budget impasse devastated Illinois higher education funding. Illinois and Arizona were the states whose higher education funding plummeted, even after the recovery from the 2008 recession.
Since 2000, higher education sought alternative sources of funds other than from the State. 2016 was an especially challenging year.

Community colleges raised funds through local taxes, as well as increased tuition and fees.
“Cost Shift” to students is a national trend. However, the pension crowding out in Illinois has magnified this shift locally.

Deferred maintenance has generally increases. HIDDEN in this general graph are selected schools suffering from a crisis in dilapidated plant and facilities.

Source: University responses to IBHE technical questions; ICCB
Rising tuition is a national trend as universities struggle to pay both pensions and operating expenses. Illinois is one of the most aggressive public systems to increase tuition. Are students bearing the tuition increases tapped out?
Actuaries have projected substantial increases in an already punishing pension cost. This will exacerbate the problems that have triggered enrollment declines. Some schools are much more vulnerable than others in the system to such decreases in student population.
Pension Cheat Sheet Series

Pension360 has, or will receive from its board of authors, cheat sheets on the following topics:

State Comparison of Constitutional Pension Protections
List of State Pension Reforms Nationally
Summary of Illinois Constitutional and Legal Arguments Protecting Pensions
Risk-Mitigating Investment Strategies for Pensions Before the Next Big Crash
Personal Pensions Perspectives – Term of Employee Pensions - Illinois
Personal Pensions Perspectives – Terms of Employee Pensions - California
Personal Pensions Perspectives – Terms of Employee Pensions - New Jersey
Illinois Pension Crowding Out - The Numbers
Who Get’s What - Graphs of Annual Pension Payments
Pension Population Politics - When Will Tier II Members Exceed Tier I Members
Pension Asset Transfers
Pension Buyouts - Worth the Risk and Trouble?
Pension Particulars - Ways to Raise or Lower Funding Without Spending a Dollar
Illinois Pension Dashboards
Chicago and Cook County Pension Dashboards
Pension Funding – California – Tax Base and Cash Flow
Pension Funding – Illinois – Tax Base and Cash Flow

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