



## PUTTING PENSION COSTS IN CONTEXT: ILLINOIS

This brief on Illinois is part of a series of state reports that compare pension obligation to subsidy spending for either FY 2018 or FY 2019, depending on data availability.

The measure chosen for pension obligation is the employer normal cost, which is that portion of the total normal cost (i.e. present value of future benefits allocated to a particular fiscal year) that is attributable to employers. The employer normal cost is obtained from annual financial statements and actuarial valuation reports – either extracted directly or calculated by: 1) multiplying covered payroll by the employer normal rate; or 2) subtracting the employee share from the total normal cost; or 3) subtracting legacy costs (i.e. annual payment needed to amortize the unfunded actuarial accrued liabilities) from actuarially determined employer contribution. Where the necessary information is not provided, the employer normal cost is estimated by multiplying the total normal cost by the actuarially determined employer contribution (rate) as a percentage of total contribution (rate).

The cost of economic development incentive programs is obtained from annual reports from economic development agencies, state tax expenditure reports, and GASB Statement No. 77 Tax Abatement Disclosures in annual financial reports. We also consider corporate tax dodging via offshore tax havens as reported by U.S. PIRG. Where data for a particular program or tax expenditure is not available for the year of study, the most recent data (but no earlier than 2016) is used as an estimate.

<b>2019 Illinois Public Employee Pension Obligations</b>	<b>\$2,207,828,876</b>
<b>2018/2019 Cost of Illinois Corporate Tax Breaks</b>	<b>\$2,307,842,322</b>

The State Employees' Retirement System (SERS), State Universities Retirement System (SURS), Teachers' Retirement System (TRS), Judges' Retirement System (JRS), and General Assembly Retirement System (GARS) make up Illinois' public pension systems. Based on annual financial reports and actuarial valuation reports, the total employer normal cost for all systems amounted to \$2.21 billion in 2019 [1-5]. Meanwhile, the state lost just about that much revenue through economic development subsidies and tax loopholes—and that is only a partial estimate because of missing and inconclusive data.

Among Illinois' many economic development tax incentives, the Economic Development for a Growing Economy (EDGE) program tops the chart in terms of the annual forgone revenue, at \$155 million annually. The program offers a generous tax credit with a 10-year carry-forward to attract or retain firms that are wanted by other states [6]. At just over \$141 million, the sales tax exemption for manufacturing and assembling machinery and equipment is the second-most costly. We added up all the tax credits and exemptions listed in the state's latest tax expenditure report. We found that firms

located in special zones like Enterprise Zones and Foreign Trade Zones received at least \$49 million in tax benefits. Other programs abated individual income taxes for \$83.5 million in 2018. Like other large states, tax credits are awarded for research and development as well as film production; a total of \$78.6 million was claimed in 2018 for both programs [7].

Besides economic development tax incentive programs, the state’s revenues are being drained through several tax loopholes. First, retailers in Illinois are entitled to a “vendor discount” on the sales and use tax, which amounted to \$128 million in lost revenue for the state in 2018. (Illinois retailers get to keep 1.75 percent of sales tax receipts, with no cap.) The state also offers similar discounts on motor fuel, underground storage tanks, and automobile renting occupation and use tax, which added another \$23 million to the yearly cost. The \$151.5 million lost to Illinois’ vendor discounts is the largest such revenue loss of any state (about half of states have no such discounts, and another quarter cap such losses). These discounts were enacted in the age of manual cash registers when retailers needed time to tally collected taxes; they were long ago made obsolete by computerized cash registers. Second, Illinois uses only one of three traditional factors to apportion corporate income tax—the company’s share of in-state sales. This “single sales factor” formula allows companies with a lot of property and payroll in the state but sells mostly to mostly out-of-state customers to avoid a large amount of state income tax. Since the single sales factor was adopted around 2000, we do not have a current estimate for how much revenue the state would gain a year if the three-factor formula (in which property, payroll, and sales taxes are equally weighted) were brought back. At the time of adoption, the Department of Revenue estimated that Illinois lost \$63 million in corporate income tax receipts in the year after transitioning from the three-factor formula to the single sales factor formula [8]. We can safely assume that figure has substantially increased. Third, while the exact figures are not available, Illinois is losing revenue by not decoupling from federal tax breaks, such as the 100% bonus depreciation for machinery and equipment as well as tax cuts awarded as part of the Opportunity Zone program. Finally, Illinois corporations avoided paying \$1.5 billion in 2016 using offshore tax havens [9].

As a state with some of the most underfunded pensions in the country, Illinois needs revenue wherever it can save or find it. Dialing down corporate subsidies and patching up tax loopholes would be a step in the right direction toward salvaging some of the billions in revenue lost every year to lessen the fiscal stress on the state’s pension systems.

## Subsidy Program Costs

Economic Development Subsidies and Tax Breaks	Subsidy Amount
Economic Development for a Growing Economy (EDGE) Tax Credit [6]	\$155,200,000
Angel Investment Credit Program [6]	\$5,200,000
Film Production Services Credit [7]	\$43,897,000
Research and Development Credit [7]	\$34,690,000
Enterprise/Foreign Trade Zones Credits and Exemptions [7]	\$49,383,000
Building Materials with Special Zone Exemption [7]	\$32,371,000
High Impact Business Credits and Exemptions [7]	\$14,956,000
Individual Income Tax Credits and Subtractions [7]	\$83,466,000
Sales Tax Exemption for Manufacturing Machinery and Equipment [7]	\$141,152,000
Retailer’s Discount/Timely-Filing Discount [7]	\$151,513,000
Corporate Income Tax Apportionment based on Single Sales Factor [8]	> \$63,000,000
Corporate tax dodging via offshore havens [9]	\$1,533,014,322
<b>TOTAL</b>	<b>\$2,307,842,322</b>

## Source Documents

(Accessed December 10, 2020)

- [1] State Employees' Retirement System of Illinois. 2017. "Annual Actuarial Valuation as of June 30, 2017." <https://www.srs.illinois.gov/PDFILES/Valuations/SERS/sers%202017.pdf>
- [2] State Universities Retirement System. 2019. "Comprehensive Annual Financial Report." [http://www.surs.com/sites/default/files/annual\\_report/COMP-FY2019.pdf](http://www.surs.com/sites/default/files/annual_report/COMP-FY2019.pdf)
- [3] Teachers' Retirement System of the State of Illinois. 2018. "Actuarial Valuation and Review of Pension Benefits as of June 30, 2017." [https://www.trsil.org/sites/default/files/documents/Segal\\_Final\\_%20Actuarial\\_Valuation\\_Report\\_TRS.pdf](https://www.trsil.org/sites/default/files/documents/Segal_Final_%20Actuarial_Valuation_Report_TRS.pdf)
- [4] Judges' Retirement System of Illinois. 2019. "Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019." <https://www.srs.illinois.gov/PDFILES/oldAnnuals/JRS19.pdf>
- [5] General Assembly Retirement System, State of Illinois. 2019. "Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019." <https://www.srs.illinois.gov/PDFILES/oldAnnuals/GA19.pdf>
- [6] Illinois State Comptroller. 2019. "Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2019." <https://illinoiscomptroller.gov/financial-data/find-a-report/comprehensive-reporting/comprehensive-annual-financial-report-cafr/fiscal-year-2019>
- [7] Illinois State Comptroller. 2019. "Tax Expenditure Report Fiscal Year 2018." <https://illinoiscomptroller.gov/financial-data/find-a-report/tax-expenditure-report/fiscal-year-2018>.
- [8] Illinois Economic and Fiscal Commission. 2002. "Illinois' Corporate Income Tax." [http://cgfa.ilga.gov/Upload/IL\\_Corp\\_Income\\_Tax.pdf](http://cgfa.ilga.gov/Upload/IL_Corp_Income_Tax.pdf)
- [9] U.S. PIRG Education Fund. 2016. "Picking up the Tab 2016: Small Businesses Bear the Burden for Offshore Tax Havens." <https://uspirg.org/sites/pirg/files/reports/USP%20PickTab%20Nov16%201.0.pdf>