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THE FUTURE IS YOURS

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Are State, County and Municipal Pensions Solvent?

Is your State, County or Municipal Pension solvency a question that you may asked about in the past? Many people may ask; how does their solvency affect me? Let's answer that question with a question; Who pays for public pensions? The answer is …taxpayers of the state, county or municipality they reside.

If Cook County Illinois property taxpayers were surprised this year, just wait until the pensions in Illinois continue to have solvency issues. In Illinois, state pensions and most likely other public pensions in Illinois are considered a contract and as such must be paid according to the state constitution. Presently in Illinois most public pensions are not considered fully funded by actuarial standards. Private pensions are usually considered fully funded if the assets they hold to make the pension payments are 70-80% or more funded. Typically, a private pension if funded at less than around 60% the PBGC will take over the pension, determine the actuarial amount for the pensioner and reduce the amount paid to recipients to ensure that the fund can continue to make payments. Generally, there is a cap on the amount that the fund will pay so just because you might be receiving $50,000 in pension benefits, does not mean that you will continue to receive that amount.

In a recent Wirepoints article, which I have attached a link illustrates just how poor Illinois' public pensions are funded. Illinois pension debts jump back up to $140 billion, state shortchanges its annual contribution by $4.4 billion – Wirepoints | Wirepoints

Don't worry Illinois is not in the worst shape, Kentucky is, but in order to be competitive with Kentucky, Illinois is a close second at the 49th worst funded pension system out of 50 states. Always the bridesmaid.

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If you don't believe it can get worse in Illinois, just wait. With the passage of the "Workers Right Amendment" public sector unions may continue to desire increased benefits which most likely will cost more, and those funds will have to come from … you the taxpayer. Remember there are other taxes besides income taxes. There's gas tax, sales tax, energy tax, so the State can create a tax and you might not even know you are being taxed. Take gas taxes in Illinois. Illinois has two taxes on the sale of gasoline. A state sales tax in addition to the gas tax which, is indexed for inflation and has more than doubled under Governor Pritzker.

Given this financial problem, it's hard to see how Illinois gets out of this situation without facing the facts and making structural changes. In some ways it seems like a Bernie Madoff Ponzi scheme in that those who are getting paid first get paid while those at the end of the line might not receive anything. Should at some point the system become insolvent, then consider this; if more money goes towards pensions, less money is available for roads, schools, healthcare and so on down the line. Basically, almost all the tax money collected could go towards paying pensions, but the rest of the infrastructure becomes unusable and insolvent.

Also consider this; in Illinois, retirement income is not taxed, so as people who in the past paid income taxes now become those who are not paying taxes due to the type of income they are receiving; How do you replace that tax revenue? Potentially from those still working unless they change the tax law. Which is possible. Should that occur, then you could see an increasing number of people who have the means or possibly snowbirds relocate to their winter homes permanently. If this were to happen, what might happen to home values? Fewer people to buy and more supply means potentially lower home values, but most likely still relatively high property taxes could remain.

As I believe Margaret Thatcher said, "Socialism is great until you run out of spending other people's money."

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If you would like to discuss ways to possibly earn more on your money to potentially be able to weather financial storms like this along with trying to keep pace with inflation, then give me a call and we can talk about your situation and work on developing strategies that might help you achieve and maintain your Financial Independence. So, give Milton Flanagan a call at 630-235-5273 or email mflanagan@flanaganfinancialservices.net and he can discuss your situation in greater detail.

Doing nothing could mean running out of money before running out of air.