IPPFA

ILLINOIS PUBLIC PENSION FUND ASSOCIATION

Preparing Pension Funds for Tomorrow

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April 2013 Newsletter

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New Study Finds Overwhelming Support for Action to Provide All Americans with Pensions

by National Institute on Retirement Security (NIRSonline.org)

WASHINGTON, D.C., February 26, 2013 – A new nationwide public opinion research report finds overwhelming support for Congressional action to provide all Americans with access to a new type of privately run pension plan. The research also finds that Americans remain highly anxious about their retirement prospects (85 percent), and see pensions a way to improve their retirement readiness. Even though their retirement is in the distant future, virtually all Millennials – those born after 1976 for the purposes of this study – agree that the nation's retirement system is under stress and needs repair (95 percent).- click here for more...

2013 Member Health Plan Study

J.D. Power and Associates Reports:
As Health Plans in Various States Prepare for Increasing Health Insurance Enrollments, Many Health Plan Members Consider Using Health Insurance Exchanges

WESTLAKE VILLAGE, Calif.: 11 March 2013 -- The introduction of health insurance exchanges is generating interest among health plan members who purchase insurance directly, as well as those who have high deductibles and/or lower levels of overall satisfaction, according to the J.D. Power and Associates 2013 Member Health Plan Study SM released today. - click here for more...

SEC Charges Illinois for Misleading Pension Disclosures

By U.S. Securities and Exchange Commission
Washington, D.C., March 11, 2013 — The Securities and Exchange Commission today charged the State of Illinois with securities fraud for misleading municipal bond investors about the state's approach to funding its pension obligations. An SEC investigation revealed that Illinois failed to inform investors about the impact of problems with its pension funding schedule as the state offered and sold more than $2.2 billion worth of municipal bonds from 2005 to early 2009. Illinois failed to disclose that its statutory plan significantly underfunded the state's pension obligations and increased the risk to its overall financial condition. The state also misled investors about the effect of changes to its statutory plan. - click here for more...

Judge hears arguments in state retiree health insurance suit; Lawyers argue pizza and beer analogy

by Bethany Krajelis, The Madison-St. Clair Record—February 21, 2013
SPRINGFIELD — A Sangamon County judge on Wednesday heard arguments over a motion to dismiss a lawsuit that challenges a new law requiring state retirees to start paying premiums for their health insurance.
Near the end of the two-and-a-half-hour hearing, Sangamon County Judge Steven Nardulli asked attorneys representing both parties to submit a list of questions that they would like to see certified if he ruled against them. -
- click here for more...

Circuit Court for the Seventh Judicial Circuit

Sangamon County, Springfield, Illinois
The State Employee Group Insurance Act, 5 ILCS 375/1, (2012) ("SEIGA") allows the Director of the Department of Central Management Services ("CMS") to allocate the cost of health insurance premiums between the State and retired public employees. (Public Act 97-695, effective July 1, 2012.) The stated legislative purpose is to "... facilitate the maintenance of the program of group health benefits provided to annuitants, survivors and retired employees" by

altering the allocation of premiums between the State and retirees. 5 ILCS 375/15 (a) (2012). - click here for more...

THE STATE OF ILLINOIS—SUMMARY

February 2013

The plans:

Illinois has four large state-administered pension systems, two smaller state-administered systems, and a smattering of locally-administered systems. The state also maintains four retiree health plans. This analysis focuses primarily on three of the large state-administered systems – the Illinois State Employees Retirement System (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System (SURS) – which make up 75 percent of public pension active membership in the state. In order to see this article, you will have to become a member of IPPFA and receive a password on our web for members only.

- click here for more...

Future Retirees Don't Grasp Health Costs

By Center for Retirement Research at Boston College—March 7, 2013

More than half of baby boomers and Generation Xers do not realize how much they are likely to pay out of their own pockets for medical bills after they retire.

Many "were seriously underestimating the amount of savings they would need to accumulate in order to cover health in retirement," according to what may be the first comprehensive survey and analysis of what Americans expect to pay – and how far off their estimates are.

The good news is that Medicare pays roughly 60 percent of retirees' total costs. The bad news is that they have to somehow cover the other 40 percent, which is particularly expensive for those who live longer (read women). -click here for more...

UPDATED: Pension Action in the Legislature - March 19-22

By We Are One—March 12, 2013

Update #1 -- Wednesday, 3:10 p.m.: The Senate passed SB 1 by a vote of 30-22, with two voting present. It now only affects active members in the Teachers' Retirement System. Active and retired members in other systems (SERS, SURS, and GARS) are now dealt with in SB 1544, explained below. You can view the vote by clicking onto the "click here for more". An interesting, unfortunate side note -- SB 1 actually failed to pass the first time it was called for a vote on the floor, but the Senate President forced that the vote to be reconsidered. SB 1 now moves to the House. The Senate just rejected SB 35 by a vote of 23-30, with four voting present. - click here for more...

"The Economic Consequences of A Failed Retirement Policy"

By Thomas J. Mackell, Jr., Ed. D. President—Association of Benefit Administrators

(Delivered before the Annual Educational Conference of TEXPERS, Austin, TX, March 5, 2013)

Before I take you through the landscape of our future retirement scenario, let's look for a moment at the rear view mirror at the past decade. This is the period that I would characterize as "The Lost Decade." A decade where predatory capitalism wreaked its havoc on the American people.

The median family is in the worse shape than it was since the late 1990s. We are risking the creation of a new underclass. We must sustain democracy by keeping America free from social and economic collapse because that is where we could be headed. In 2013, some 15+% of student loans have defaulted. 50 million Americans are in poverty and 20 million of those are in extreme poverty. 48 million are on food stamps.

The jobless are much less visible today than they were during the Great Depression because they are shored-up by government checks, family support, unemployment checks, Social Security disability checks and food stamps. The U.S.--the richest country in the world--has the third highest poverty rate out of the 30 leading industrial nations. The broadest measure of unemployment is some 14.5%--way above the headline number of 7.9%. The labor force participation has dropped to the lowest level since 1981. Job-seekers are only one-third as likely to find work as they were five years ago. Corporate America has billions in cash in their coffers but is reluctant to commit to hire and put money into expansion. Real wage growth has stagnated for 30 years. Government, at the national level, is in free-fall and incapable of working together to initiate a serious jobs development program. Everyone knows that a good paying job is the most important family program, the most important economic program and the most important national program that America could have. The CEO and Chairman of the Gallup organization wrote a book that appeared last year entitled: "The Coming Jobs War." In it he recited that amongst all of the world leaders, the one thing that they all agree on is that everyone of their citizens should have a good paying job. The uprisings in the Middle East, Greece, Spain, Portugal, Italy and Latin American are all about the young peoples' concerns about their economic futures. We are doing our children and our grand children a disservice.

Coupled with all that I have just recited, let's look forward at the impending retirement landscape. Large and growing numbers of workers are tapping retirement accounts for non- retirement needs. That number is estimated to be some $75 Billion per year, via withdrawals and loans. With Social Security and Medicare under the gun, these withdrawals are even more ominous. In 2013, only one in four workers has a pension plan. Only 43% of 401(k) participants in their 50s have account balances greater than $100,000. $97,000 is the median mortgage debt among families ages 55 to 64, up from just $34,000 in 1989. 47% of Americans say they aren't confident about having enough money to live comfortably in retirement. A recent PEW study found that 41% of adults between the ages 25 and 29 are now living or have lived recently with their parents.

Overall, 50 million Americans are in multigenerational households, a 10% increase since 2007.
Older people are going broke:
-they have lost their jobs
-their home values have plummeted
-their nest eggs have been diluted by the financial crisis.

Every day, 10,000 Baby Boomers turn age 65 and that will continue until 2030. Many of them are much less likely of enjoying a secure retirement. I have this horrible vision of elderly people living under bridges, along the highways and byways and railways of America somewhat akin to what this nation experienced during the Great Depression. The Defined Benefit Plan is a relic in the private sector. In 1981, 80% of workers were covered by a DB plan; by 2011, that number had diminished to 18% and it shrinks with each passing year. If the DB plan faces it demise in the public sector, what will the overall retirement landscape look like? What will the quality of worker look like who will be our first responders or teachers? I look at these positions not just as jobs but, more importantly, as a "calling." Trustees today are faced with a myriad of daunting challenges: Concerns that center around the macroeconomic environment and their ability to meet target returns; improving returns requires more flexibility, taking more risk and/or different kinds of risk; the risk management process is constantly evolving to keep pace; Trustees are experiencing a growing appetite for exploring new asset allocation models.

How do you think the average individual can deal with these complex and challenging esoteric scenarios, especially when half the people in the U.S. do not know the difference between a stock and a bond, much less hedging strategies? They cannot rely on an investment management consultant because they are on their own. In my opinion, it is criminal to leave workers out there naked with only a defined contribution plan as their sole pension. People accuse me of being depressing. On the contrary, I am an optimist and more importantly I am a realist. We have a challenge that must be addressed. We cannot continue down this road for too long before the social, political and economic consequences smack us in the face. Our political leaders have to be educated. Corporate leaders have to become re- engaged. What will happen to corporate profitability when people can no longer afford to buy the products and services that companies offer? The American people are looking for authenticity and leadership. In closing, let me say that each and every one of you must become an agent of change and a strong advocate for your brothers and sisters to protect the DB system and, thus, other peoples' money.

What is needed today is a commitment to the transformation needed to ameliorate the misery of people. Where people are legitimately concerned with social justice, with the alleviation of misery and the fairer distribution of power among all of the people. We owe this to our families, our fellow workers, our neighbors and our community. **Failure is not an option!**

Legal Updates

DOI Cites City of Harvey for Not Properly Funding its Pension Funds

By: Richard J. Reimer
On February 20, 2013, the Illinois Department of Insurance ("DOI") issued a Notice of non compliance to the City of Harvey, pursuant to the provisions of 40 ILCS, §5/1A-113 of the Illinois Pension Code. The DOI concluded the City failed to properly fund its Police and Fire Pension Funds as required by the Pension Code. In the Notice of non compliance, the DOI alleges the City of Harvey failed to make the required municipal contributions from 2007 through 2012. The DOI found the City of Harvey owes the Police and Fire Pension Funds at least $10,043,072.00. The effect of the City's failure to fund the Harvey Police Pension Fund, has left the Harvey Police Pension Fund 65% funded, and the Harvey Firefighters' Pension Fund only 40.5% funded.

The Notice of non compliance requires the City to provide the DOI with written evidence of any remedial action it takes to the DOI concerning the funding issue. Within thirty (30) days from the date of the Notice of non compliance. In the event that the City fails to provide such written evidence, the DOI may issue administrative orders requiring the City to appear and show cause for its non-compliance.

The statutory authority, which enables the DOI to issue a Notice of Non Compliance and assessment of potential penalties lies in a little utilized provision of the Pension Code, §5/1A-113(d). After a hearing, the DOI can order the City to comply. In the event that the City fails to comply within a prescribed time period, the DOI is empowered to assess a civil penalty of up to $2,000.00 against the City, for each instance of non-compliance. In the event that the penalties are not paid within thirty (30) days of the assessment, the DOI can refer this matter to the Illinois Attorney General or the Cook County State's Attorney to file a civil action on behalf of the People of the State of Illinois.

Police and Fire Pension Fund Trustees should welcome the DOI's actions and hope that this trend continues. The DOI's actions may be a powerful new tool in the fight with Municipalities that have blatantly ignored the requirement to properly fund their Police and Fire Pension Funds. What, if any, impact the DOI's actions will have on these municipalities remains to be seen. Reimer & Karlson's attorneys will continue to monitor this important development. Updates regarding this case will be posted on Reimer & Karlson's website www.rklaborlaw.com .

Training and Education

How Do I Satisfy the Annual Trustee Training Requirements?

By IPPFA

In 2009 the Illinois legislature passed two laws requiring a total of 16 hours of annual training for Downstate Police and Fire pension trustees, 8 hours more than trustees that sit on other public pension funds. Eight hours of this training is mandated to include the topics of ethics, fiduciary responsibilities and investments, not 8 hours on each topic as some believe. The type of training for the second eight hours is decided on by each board as to what is relevant and available to each board.

- click here for more...

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2013 IPPFA Spring Pension Conference

The IPPFA Spring Conference is scheduled for May 7-10, 2013 at the President Abraham Lincoln Hotel in Springfield, IL. **ATTENTION!!!** 2013 IPPFA Spring Pension Conference update: The President Abraham Lincoln Hotel & Conference Center is now full. - click here for more...

IPPFA On-Line Certified Trustee Program/and Classroom Program

The IPPFA is pleased to announce that it is now offering the 32-hour Certified Trustee Program (CTP) as an on-line course for the first time. Over 1,000 public pension trustees have gone through the IPPFA CTP, hundreds before the legislature made such training mandatory in 2009. Now through the on-line training those trustees that would have difficulty attending in-person training can obtain the required training using their own computer in the comfort of their home or office. This is especially helpful to the appointed or retired trustees that have other employment and should make it easier for municipalities to find citizens that are willing to be appointed as trustees. - click here for more...

Online Training/eLearning

This course introduces students to various aspects of financial management related to Police and Fire pension funds along with the administration of those pension funds. Each topic will be taught by a professional in their field. - click here for more...

Regional Seminars

How Do I Satisfy The Annual Trustee Training Requirements?
Experts will speak on the state of the economy, the updates of pension legislation in Illinois and the Illinois Department of Insurance will be speaking on a variety of topics. - click here for more...