



ILLINOIS PUBLIC PENSION FUND ASSOCIATION

Preparing Pension Funds for Tomorrow

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June 2013 Newsletter



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Significant, New Problems Identified with Senate Bill 1 through Actuarial Analysis

By "We Are One" ILLINOIS

Evidence continues to mount that Senate Bill 1 creates more problems than it solves. To be clear, SB 1 is unconstitutional and thus saves nothing. The extreme pension cuts the bill attempts to make have huge problems associated with them, made apparent in the bill's actuarial analyses. Quotes from the TRS actuarial analysis and explanation follow:

“The Tier 1 employer normal cost is now negative.”

- During her media availability, Rep. Elaine Nekritz characterized this as a good development for school districts, saying “[t]here would be no shift” if a TRS cost-shift bill passed.
- This fails to recognize that TRS pensions would no longer qualify for a Social Security exemption. Far from paying nothing, under a TRS cost-shift, school districts would ultimately be on the hook to pay the employer’s portion (6.2%) of Social Security benefits.
- Once school districts are required to pay Social Security taxes, this will almost certainly necessitate massive property tax increases across the state.
- SB 1 would be the largest unfunded mandate imposed on school districts in history. “The current proposal...creates a Social Security compliance issue for Tier 1 in addition to the existing issues for Tier 2.”
- SB 1 creates the same problem in Tier 1 as exists in Tier 2 – an inadequate pension benefit structure.
- Again, if SB 1 becomes law, school districts would eventually begin paying Social Security taxes because TRS pension benefits are too low to qualify for a Social Security exemption.
- It is likely that the same problems for TRS will also affect SURS. “SB 1 provisions result in Tier 1 and Tier 2 members paying for more than the cost of their benefits.”
- The SB 1 pension cuts are so absurdly deep that workers would actually be paying more than what their pension benefit is worth.
- This is more than just completely unfair. It is immoral and illogical. SB 1 creates a pension system that actually penalizes its members. The bill slashes pensions so aggressively that employees would face a monetary loss by being part of the pension system.
- The bill goes to extremes to hurt working, middle-class families.

This is not just about numbers. This is about people – the working families of Illinois. It is about promises made and fairness for the teachers, nurses, caregivers, child protection workers, and public safety personnel who contributed toward their pensions, even as the state did not.

SB 1 not only violates the law, but violates this promise by having the audacity to require employees to pay more than what their pension is worth, while local property tax payers eventually pick up the tab to pay for Social Security.

Letter to the Honorable John Boehner—Speaker of the House of Representatives

Dear Mr. Speaker: (April 3, 2013)

On behalf of the national organizations listed above—representing state and local governments, officials and public retirement systems—we are writing to express our strong opposition to the *Public Employee Pension Transparency Act* and respectfully urge you **not** to become a cosponsor of this legislation. This legislation creates a dangerous precedent with regard to federal taxation and regulation of state and local governments. It also represents a fundamental lack of understanding regarding the operations and funding of public pensions and the strong accounting rules and strict legal constraints already in place, which require open and transparent governmental financial reporting and processes.

Further, this legislation paints an inaccurate and misleading picture of the state of public finance and pensions, and ignores the extensive efforts made at the state and local levels to close short-term budget deficits, as well as address longer-term obligations such as pensions. According to the National Conference of State Legislatures, 44 states have enacted major changes in state retirement plans from 2009-2012. These changes have included increases in employee contributions to pension plans, longer vesting periods, reduced benefit levels, higher retirement ages, and lower cost-of-living adjustments. Some modifications may apply to new workers only, while others affect current employees and/or retirees. Federal intrusion into areas that are the fiscal responsibility of state and local governments is unwarranted. It

makes no sense to impose disruptive and costly federal requirements that only serve to interfere with state and local government economic recovery and pension reform efforts. We would welcome the opportunity to visit with you or your staff in the near future to discuss the many changes taking place in states and local governments around the country to examine benefit levels and financing structures to help ensure the sustainability of public pensions, and to answer any questions you might have. Please feel free to contact our organizations' legislative representatives to arrange a meeting, answer any questions, or if you would like additional information:

Michael Bird, National Conference of State Legislatures (202) 624-5400

Deseree Gardner, National Association of Counties, (202) 942-4204

Neil Bomberg, National League of Cities, (202) 626-3042

Larry Jones, United States Conference of Mayors, (202) 293-7330

Elizabeth Kellar, International City/County Management Association, (202) 962-3611

Cornelia Chebinou, National Association of State Auditors Comptrollers and Treasurers, (202) 624-5451

Barrie Tabin Berger, Government Finance Officers Association, (202) 393-8467

Tina Chiapetta, International Public Management Association for Human Resources, (703) 549-7100

Leigh Snell, National Council on Teacher Retirement, (540) 333-1015

Jeannine Markoe Raymond, National Association of State Retirement Administrators (202) 624-1417

Working in Illinois' Public Interest A Comparison Study on Earnings, Benefits and Impacts

By LABOR EDUCATION PROGRAM, School of Labor and Employment Relations; U of IL

The State of Illinois confronts serious budgetary challenges. While the state's affinity for borrowing money, inaction in providing serious tax reform, and poor investment performance are primarily responsible for this large budget deficit, the Governor and other state legislators have supported measures to limit expenditures on employment costs as quick fixes to the problem. Paired with the public dialogue on public sector workers, these actions raise an obvious question: Are state and local government employees in Illinois "overpaid?" - [click here for more...](#)

KPERS bill expands police and fire pensions

Measure rewards first responders who stay on the job

By Andy Marso—CJOnlinecom/The Topeka Capital-Journal—May 21,2013

Much of the Legislature's work has stalled amid tax and budget wrangling since lawmakers returned for the wrap-up session, but both chambers were able to pass a bill expanding the pension system for the state's police officers and firefighters.

Members of the Kansas Police and Firemen's Retirement System (a division of the Kansas Public Employees Retirement System) currently may retire with a maximum of 80 percent of their average ending salary if they have 32 years of service. House Bill 2213 would allow them to retire with 90 percent if they work an extra four years. -

- [click here for more...](#)

DB Versus DC Investment Returns: The 2009 – 2011 Update

By Brendan McFarland/ Towers Watson—May 22, 2013

Towers Watson has been comparing annual investment returns in defined benefit (DB) and defined contribution (DC) plans for more than 15 years.[1] This latest analysis adds investment returns for 2009 through 2011 and, for the first

time, looks at the asset allocations of a subset of large plan sponsors for 2010 and 2011, comparing DB and DC plan performance to simulated investment returns;

- 1) Consistent with other down stock market years, defined benefit plans outperformed defined contribution plans in 2011 by one of the largest margins since 1995.
- 2) Among the largest one-sixth of plans, defined benefit plans have outperformed defined contribution plans by almost a percentage point since 1995.
- 3) Defined contribution plans are outperforming defined benefit plans in market booms, while defined benefit plans are better equipped to weather downturns. - [click here for more...](#)

PUBLIC SECTOR WORKERS AND JOB SECURITY

By Alicia H. Munnell and Rebecca Cannon Fraenke

One issue that comes up in discussions of compensation of state/local workers is their job security relative to that of workers in the private sector. Several questions arise in this regard. How much more secure are public sector jobs? Has their relative security declined in the Great Recession? Do different types of public sector workers fare differently? And how should greater job security be incorporated in the calculus of relative compensation? This brief addresses these issues. - [click here for more...](#)

State and Local Government Workforce: 2013 Trends

By Center for Excellence Publication date—May/2013

This annual survey conducted by the Center and the International Public Management Association for Human Resources (IPMA-HR) finds that as local and state government workers head for the exits, human resource managers say their top concern is staff development. (5/13)

- 1)33 percent report pay freezes, compared with 51 percent in 2012
- 2)18 percent report layoffs, compared with 28 percent in 2012
- 3)27 percent report hiring freezes, compared with 42 percent in 2012 -[click here for more...](#)

Pension Spending Supports \$1 Trillion in Economic Output

From—National Institute on Retirement Security

A new economic impact study finds that pension expenditures provide critical economic stimulus to the economy - more than \$1 trillion in economic output in the United States.

PENSION SPENDING SUPPORTS 6.5 MILLION AMERICAN JOBS, \$1 TRILLION IN ECONOMIC OUTPUT

Retiree spending stimulates, stabilizes U.S. economy

WASHINGTON, D.C., MARCH 6, 2012 – A new economic impact study finds that pension benefit expenditures provide critical economic stimulus to the economy, including more than \$1 trillion in total economic output in the United States.

- [click here for more...](#)

SEC charges Harrisburg with fraud; settled case puts all municipalities on notice

By Donald Gilliland—The Patriot News—May 7, 2013

Harrisburg has become the first municipality ever in the history of the U.S. Securities and Exchange Commission to be charged for making misleading statements outside its official securities documents.

The SEC charged the City of Harrisburg on Monday for making misleading material representations about the financial health of the city - securities fraud - over a period of years as the city's incinerator financing deteriorated. The City has offered to settle the charges - essentially by improving its internal controls - and the SEC has accepted that settlement, in part because the city was cooperative during the investigation. - [click here for more...](#)

Summary of Negotiated Agreement between We Are One Illinois and Senate President John Cullerton

By We Are One

1. Include an ironclad pension funding guarantee to ensure that the state cannot skip or short payments to the state's retirement systems. This fixes the fundamental, chronic problem of state underfunding and ensures that future legislatures and governors can never again engage in the type of fiscal negligence that led to today's pension funding problem. 2. Dedicate state revenues to a Pension Stabilization Fund to make supplemental payments on top of the state's required contribution. This major financial commitment will strengthen the retirement systems' solvency. - [click here for more...](#)

Moody's Revised New Approach to Adjusting Reported State and Local Government Pension Data

Segal Consulting—April 2013

On April 17, 2013, Moody's Investor Services issued a revision to its new approach to adjusting state and local governments' reported pension liability and asset information.¹ In response to feedback it received during the comment period that ended on September 30, 2012, Moody's made some changes to what it had proposed last year.² This *Bulletin* summarizes Moody's adjustments and notes whether and how they differ from the adjustments that Moody's proposed last year.

It is important to note that Moody's changes are *not* intended as a guide, standard or requirement for pension *reporting* or *funding*. However, Moody's will publish annually its adjusted pension statistics for states and large local governments.

- [click here for more...](#)

Training and Education

IPPFA Toolkit!!!

Illinois Public Pension Fund Members:

In our desire to actively engage our membership, and produce relevant materials that will be useful to our members in the field we have commissioned the services of VISION MAI, LLC to produce a tangible, easy-to-read handbook that can be

referenced and revered at any time. -

- [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...](#)
