



ILLINOIS PUBLIC PENSION FUND ASSOCIATION

Preparing Pension Funds for Tomorrow

www.ippfa.org

October 1, 2015

October 2015 Newsletter



In this issue...



Greetings,

School is back in session! I am sitting here with a cup of Joe and thinking about how quiet it is here at my house now that the kids are back in school. Homework, games, homecoming, parent's weekend, and all of those crazy things we do with the kids. What a crazy time of year!

It's also that time of year when we come together for the IPPFA MidAmerican Conference. A time to renew our commitment to pension education, visit with our fellow trustees, and commit to keeping retirement security a number one priority. The conference dates are October 6th-9th. If you have not downloaded the App, please do prior to the conference. If you have any problems with the download, please contact the office, 630-784-0406.

If you are not aware, the IPPFA has launched the Advanced Trustee School. This program was developed for existing trustees and executives that have completed the basic trustee training. Please check out the website, www.ippfa.org for more information.

We will be starting a Retiree breakfast in the next few months. This breakfast seminar will focus on pension benefits, social security, AARP, VA Benefits, and healthcare benefits. We are looking for retirees from your pension system that are looking for more information in regards to these topics. Stay tuned to the website for more information.

The IPPFA has secured a number of tickets for the February 20, 2016 Chicago Wolves game versus the Rockford Ice Hogs! We are beginning a series of family outings throughout the year. In the next month, we will begin taking orders for tickets to the game. Stay Tuned! If you have any questions or concerns, feel free to contact us.

Be safe,

Tim Moss—Executive Director—IPPFA

IPPFA 2015 MidAmerican Golf Outing Brute Golf Course – October 6, 2015, reserve your spot now. -[click here for more...](#)

Illinois Articles...

- [Recent trends in capital accumulation and implications for investment](#)
- [A Letter that was sent to Crain's Chicago Business—Dated August 18, 2015—from Diane Oakley](#)
- [Scranton police/fire pension boards sue city to restore retiree raises](#)
- [Chicago faces record tax hike as pensions compound deficit](#)
- [A New Approach to Stock Market Execution](#)

National Articles...

- [Firms at risk of losing pension business because of LIBOR convictions](#)
- [No surprise: Conservative sneers that public employees like their pensions](#)
- [Pension Research Council](#)
- [A Guide to Disaster Preparedness and Relief Benefits](#)
- [States Enjoy Growth in Tax Revenues in the First Quarter of 2015](#)
- [4 ways to tap your home for money in retirement](#)
- [Medicare Advantage premiums remain stable; enrollment at all-time high](#)

Court Case...

- [Illinois Supreme Court Again Strikes Down Pension Reform](#)

Training and Education...

- [IPPFA Illinois Pension Conference/Seminars/Certified Trustee Training/e-Learning/Toolkit](#)
-

Illinois Articles...

[Recent trends in capital accumulation and implications for investment](#)

by François Gourio, senior economist, and Thomas Klier, senior economist and research advisor
Chicago Fed Letter—September 24, 2015

Business investment has been fairly low over the past several years. As a result, the growth in the stock of capital has not kept up with the growth in gross domestic product (GDP) or employment. This Chicago Fed Letter studies these recent trends and discusses their implications for future investment. One manifestation of economic growth has been the increase in the capital–labor ratio—the quantity of equipment and other productive assets available for each worker to produce goods and services.

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

A Letter that was sent to Crain's Chicago Business—Dated August 18, 2015—from Diane Oakley

Written by Diane Oakley, Executive Director National Institute on Retirement Security

To the Editor,

Your readers might be interested to learn that a study that was the subject of an August 12 opinion piece is fundamentally flawed and is irrelevant to the retirement security debate. In “Here's how to eliminate pension underfunding once and for all,” Josh McGee with the Manhattan Institute claims to assess public sector retirement plans but uses only private sector pension data that is not comparable. The study isn't even an apples to oranges comparison – it's apples to nothing.

This major miscalculation invalidates the findings and renders his study misleading and useless for the serious policy discussions about solving the defined benefit (DB) pension funding issues in Illinois.

Also troubling is that the study offers no data demonstrating that a self-standing, cost-efficient defined contribution (DC) account exists. The study suggests buying an annuity from an insurance company with the savings in a DC account. But, that has costs and only six percent of retirees choose that option. Moreover, our research indicates the current cost of buying an annuity with a DC account is 36 percent higher than a DB pension.

Faced with the inability of a DC plan to reach cost efficiency on its own, the author then makes a circular argument that retirees can purchase an annuity from a well-funded DB pension. Interestingly, the one state that offers a combined DB-DC plan allowing retirees to buy a DB annuity with their DC accounts chose to reopen its closed DB pension to new employees. What's more the majority of employees actively choose the DB pension over the DB-DC combination plan.

The author also fails to understand that closing a DB pension and replacing it with a DC plan does not eliminate the unfunded liabilities. This fact is well documented in both West Virginia and Alaska. The unfunded liability doubled in Alaska after the DB to DC switch. West Virginia learned that the way to solve its funding challenge was to commit to a disciplined and responsible funding policy making by making the full contributions every year.

Policymakers and taxpayer need accurate information to address the severe pension underfunding in Illinois. The Manhattan Institute paper fails that hurdle.

Sincerely,

Diane Oakley, Executive Director

National Institute on Retirement Security, Washington, DC

Scranton police/fire pension boards sue city to restore retiree raises

Articles **JIM LOCKWOOD, STAFF WRITER**—The Times-Tribune—September 13, 2015

Scranton's police and firefighter pension boards are suing the city to restore retiree raises that city officials blocked in January. A lawsuit by the police and firefighter pension funds claims that solicitors for Mayor Bill Courtright and city council in late December illegally directed the pension plan administrator and trustee to withhold retiree raises that were supposed to take effect in January.

However, those raises are owed under both contracts and city ordinances, and the city overstepped its bounds because control and administration of pension funds rests solely with the pension boards that had approved the raises, the lawsuit says.

After the pension boards approved the raises late last year, the city threatened to block them. When the pension boards did not back down, city and council solicitors issued a directive on Dec. 29 to the pension plan administrator and trustee to not pay the raises and they complied. - [click here for more...](#)

Chicago faces record tax hike as pensions compound deficit

By Elizabeth Campbell, Bloomberg News—September 22, 2015

CHICAGO — Chicagoans are bracing for the biggest property tax increase in the city's history as Mayor Rahm Emanuel contends with a budget shortfall and soaring retirement bills that have sent its credit rating tumbling. Emanuel, a Democrat, on Tuesday proposed raising property taxes by \$588 million over the next four years. That would inject cash into the city as it faces a \$426 million deficit and a pension-plan debt that's grown to \$20 billion, more than \$7,000 for each resident. - [click here for more...](#)

A New Approach to Stock Market Execution

By Rebecca Lewis & John W. McPartland—Chicago Fed Letter—September 14, 2015

The Federal Reserve Bank of Chicago has published extensively on the risks and effects of high-frequency trading (HFT) in U.S. financial markets and has in the past expressed an interest in the concept of batch auctions as a potential way to diminish the speed advantage of HFT traders. The Chicago Stock Exchange (CHX) recently filed an application with the U.S. Securities and Exchange Commission (SEC) to inaugurate CHX SNAP, an on-demand batch auction service. If and when approved, SNAP auctions would deemphasize speed and allow institutional traders to place large orders, with a reduced risk that information leakage results in adverse price movements against them. - [click here for more...](#)

National Articles...

Firms at risk of losing pension business because of LIBOR convictions

By Hazel Bradford—Pension & Investments—August 28, 2015

The Department of Labor is tentatively denying affiliates of Deutsche Bank AG, UBS AG and Royal Bank of Scotland Group the right to serve U.S. retirement plan clients because of criminal convictions related to LIBOR manipulations and other charges.

Money managers whose firms, parents or affiliates are convicted on criminal charges must seek individual exemptions

to serve as qualified professional asset managers for pension fund clients from the DOL, which has faced increased criticism about its process and the granting of QPAM exemptions. - [click here for more...](#)

No surprise: Conservative sneers that public employees like their pensions

By Michael Hiltzik—Los Angeles Times—September 14, 2015

A recent Gallup poll finding that public employees are happier than private-sector workers with their pension plans and other benefits has elicited a condescending response from the conservative American Enterprise Institute's economic blogger, James Pethokoukis.

At least we think it's condescending. His post is headlined: "No surprise: Government workers are way happier with their pension plans than private-sector counterparts."

It's possible, one supposes, that Pethokoukis thinks the superiority of public pension plans is a good thing, and that he's implicitly arguing that private employers ought to meet the public sector's higher pension standards in order to keep their employees happier today and comfortable in retirement. - [click here for more...](#)

Pension Research Council

Wharton School of the University of Pennsylvania—2016 NEWSLETTER

Implications of the New Regulatory Order for Retirement System Risk management was the topic of the 2015 Pension Research Council Symposium co-sponsored with the Wharton School's Boettner Center. Executive Director Olivia S. Mitchell cohosted the event with Raimond Maurer and Mike Orszag. Keynote speakers included Lady Barbara Judge from the UK Pension Protection Fund and Franklin Allen, Nippon Life Professor of Finance and Professor of Finance at the Wharton School of the University of Pennsylvania. - [click here for more...](#)

A Guide to Disaster Preparedness and Relief Benefits

By Benefits.Gov—September 10, 2015

At the end of August, the nation marked the 10th anniversary of Hurricane Katrina. As a country, we remember those who lost their lives and honor those who suffered losses, were injured, or were members of the first responder community who aided our friends and families in need of help. One way to do this is by making sure we know the disaster relief resources available to us. If a natural disaster strikes, you should know that Benefits.gov has relevant resources to help you prepare for the unknown.

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

States Enjoy Growth in Tax Revenues in the First Quarter of 2015

Preliminary Figures Show Double-Digit Growth in Income Taxes for the Second Quarter, But Recent Stock Market Declines Throw Up a Caution Flag

By Lucy Dadayan and Donald J. Boyd—The Nelson A. Rockefeller Institute of Gov't.

This is the 100th State Revenue Report (SRR) published by the Rockefeller Institute of Government of SUNY. The first report, authored by economist Steven Gold, was issued in

August 1990 and warned that the declines or slow growth in many states' revenues suggested that parts of the nation

were “in recession or skating on the brink of one,” a hypothesis that turned out to be correct. Since then, the SRR has gone through many changes. It now puts recent state revenue changes into historical context. It examines local property taxes as well as other revenue data, such as income tax withholding and estimated payments. It shows other state-level economic data, including employment and retail sales; and it provides personal income tax forecasts. - [click here for more...](#)

4 ways to tap your home for money in retirement

Social Security benefits may not be enough for a comfortable retirement, so many are using the equity in their homes for an income boost.

By Elizabeth MacBride, special to CNBC.com—Wednesday, 16 Sep 2015

Many Americans hold an emotionally driven view of their homes: They think the piles of particleboard and glass are castles. And they think they will grab the brass ring of American life once they pay off their mortgage.

But most people, say experts, would be far wiser to consider their homes as assets. Borrowing against your house or renting it out to generate income can be viable retirement strategies. If the Federal Reserve begins to raise interest rates—a shift that many expect to see this Thursday—Americans who need to bolster their retirements should look at their options sooner rather than later.

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

Medicare Advantage premiums remain stable; enrollment at all-time high

by CMS.gov—Centers for Medicare & Medicaid Services—September 21, 2015

Seniors and people with disabilities will have continued access to a wide range of Medicare health and drug plans in 2016

Today, the Centers for Medicare & Medicaid Services (CMS) announced that Medicare Advantage premiums will remain stable and more enrollees will have access to higher quality plans while, for a sixth straight year, enrollment is projected to increase to a new all-time high. In addition, CMS released today new information that shows that millions of seniors and people with disabilities with Medicare continue to enjoy prescription drug discounts and affordable benefits as a result of the Affordable Care Act. Today’s announcement comes as CMS releases the premiums and costs for Medicare health and drug plans for the 2016 calendar year. -

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

Court Case...

Illinois Supreme Court Again Strikes Down Pension Reform

By REIMER DOBROVOLNY & KARLSON LLC

In re Pension Reform Litigation, 2015 IL 118585

In a unanimous and strongly worded opinion, the Illinois Supreme Court struck down P.A. 98-599 (formerly Senate Bill 1) commonly referred to as the “pension reform legislation.”

As you may recall, P.A. 98-599 instituted a series of reductions in benefits to members of the five State pension funds. That legislation was aimed at reducing annuity benefits for Tier 1 participants by delaying the age at which members could retire, capping the maximum pensionable salary, and significantly reducing annual COLA increases.

After the Supreme Court affirmed the absolute protection against diminishment of pension benefits under Article XIII Section 5 of the Illinois Constitution (the Pension Protection Provision) in *Kanerva v. Weems* 2014 IL 115811 last summer, the State advanced the argument in defense of P.A. 98-599 the State's "reserved sovereign powers" (police powers) allow the Legislature to circumvent the mandate of the Constitution in the interest of the greater public good.

After a lengthy recitation of the history of past pension reform efforts and the legislative intent in adopting the Pension Protection Clause in the Illinois Constitution of 1970, the Supreme Court first found the legislation resulted in a clear diminishment of pension benefits in violation of the Pension Protection Clause. It repeated its holding in *Kanerva*, "that the clause means precisely what it says: 'if something qualifies as a benefit of the enforceable contractual relationship resulting from membership in one of the State's pension or retirement systems, it cannot be diminished or impaired'". It further noted the amount of the members pension benefit depends on when the member first began making contributions to the retirement system and while that benefit could be increased, it cannot be diminished. In *re Pension Reform Litigation*, ¶¶5, 45.

The Court then addressed the State's argument it's police powers allowed it to suspend the Pension Protection Clause. In finding the State's argument unpersuasive, the Court gave a lengthy recitation of the historical inability of the General Assembly to adequately fund the State pension systems. It noted, "There is no dispute that employees have paid their full share as required by law at all times relevant to this litigation. That has not been the case with respect to the contributions owed by the General Assembly." *Id.*, ¶10. Specifically, the Court cited the recent SEC admonishment of State funding of the pension systems "as bearing no relation to actuarial calculation." *Id.*, ¶17. It then proceeded to debunk the State's argument the systems' underfunding was due to the Great Recession by noting several states bordering Illinois have significantly higher funding ratios than Illinois. *Id.*, footnote 6.

Having found fault with the State's given reasons for the cause of the pension crisis, the Court then proceeded to dismantle the legal justification offered by the State for the use of its police powers. The Court noted the contract clause cases cited by the State did not involve the Pension Protection Clause. Rather, those cases arose under the contract clauses of the Illinois and United States Constitutions. While that line of authority does recognize limited exceptions, those are allowable only if the impairment is reasonable and necessary to serve an important public purpose. Based on decades of warnings of underfunding, the Court found the current "crisis" entirely foreseeable. "The General Assembly may find itself in crisis, but it is a crisis which other public pension funds managed to avoid and, as reflected in the SEC order, it is a crisis for which the General Assembly itself is largely responsible." *Id.*, ¶66.

The Court also observed several less drastic alternatives the State considered and could have adopted instead of P.A. 98-599. For example, it found adopting a new amortization schedule for unfunded liability and seeking additional tax revenue less drastic means of addressing the pension funding issue. *Id.*, ¶67. These alternatives were acknowledged by the legislature in debate over passage of the bill. In short, the Court ultimately held the State could not justify the impairment of pensions by the contract clause or police powers.

In rejecting this argument, the Court noted that adoption of the State's argument that a crisis of its own making justifies suspension of the Pension Protection Clause would allow the legislature to circumvent this protection whenever it sees fit by creating an economic hardship in meeting its pension obligations.

In holding P.A. 98-599 unconstitutional in its entirety, the Court closed by stating, “Obligating the government to control itself is what we are called upon to do today. The Constitution of Illinois and the precedent of our court admit of only one conclusion: the annuity reduction provisions of Public Act 98-599 enacted by the legislature and signed into law by the Governor violate article XIII, section 5’s express prohibition against diminishment of the benefits of membership in public retirement systems.” Id., ¶89.

Together with the Supreme Court’s decision last year in Kanerva, this decision makes very clear any legislation seeking to address the pension deficit using a reduction in benefits faces a very high hurdle. Recognizing this concern, Governor Rauner was forced to admit his plan for reform moving existing members to a 401k style plan faced significant legal hurdles.

As the Supreme Court has sent the legislature back to the drawing board, we will continue to monitor legislative action in the arena of pension reform.

Training and Education...

2015 MidAmerican Pension Conference—Celebrating Our 30 Year Anniversary

IPPFA MidAmerican Pension Conference will be held in Lake Geneva, WI.

The dates for the 2015 conference are October 6th - 9th, 2015. The venue will be the Grand Geneva Resort & Spa. Our Keynote Speaker will be General Conway who is a four-star general and served as the 34th Commandant of the Marine Corps.

Grand Geneva Resort and Spa is now full. A few rooms are still available at Timber Ridge Lodge. The Holiday Inn Club Vacations has space available. **Call 866-915-4224** to make reservations and use the **Group Code: IPP**. The Holiday Inn Club Vacations is located at the Grand Geneva Resort and Spa as is Timber Ridge Lodge

2015 IPPFA MidAmerican Pension Conference online registration is now open for enrollment.

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

2016 IPPFA Illinois Pension Conference

Dates and location for 2016 IPPFA Illinois Pension Conference:

2016 IPPFA Illinois Pension Conference is schedule for May 3th - 6th, 2016, at the Embassy Suites in East Peoria, Illinois.

Book your rooms now for the Embassy Suites - Online Registration is now available. -[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...](#)

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...](#)

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...](#)