IPPFA NEWS

For Immediate Release
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New studies show simple way to improve local pension funds and warn of consolidation pitfalls

CHICAGO – Two new studies focusing on police and fire pension systems in Illinois have shown that much is to be gained by easing a key pension system restriction. The studies, performed for the Illinois Public Pension Fund Association (IPPFA), also show that the consolidation of local funds into one large state entity is risky and offers no real benefit to taxpayers.

"These studies tell us that when you ease a single arbitrary restriction on local pension systems, you get the best bang for the buck for taxpayers and retired police and firefighters," said IPPFA President James McNamee. "They also demonstrate that bigger isn't always better, and that consolidating local pension funds is risky, may not generate the expected cost savings, and may harm local economies."

The studies, performed by Anderson Economic Group, LLC of Chicago, examined what would happen if the Illinois General Assembly voted to ease the investment restrictions on local pension funds with less than $10 million in assets. The studies showed that gains for these approximately 228 smallest funds in Illinois would average as much as 1.8 percentage points per year if the restrictions were eased, and this action would increase average annual pension fund returns statewide by at least $418 million over 20 years.

“Higher returns means it won't cost taxpayers extra to keep these pension funds healthy,” McNamee said. “Expanded investment authority is the least cumbersome and most effective way to ease the local contribution responsibility.”

The easing of investment restrictions will result in near-certain higher returns even when taking into account the higher volatility of riskier assets, the studies said.

The studies also concluded that any move to consolidate all 641 downstate Illinois police and firefighter pension funds into one massive state pension system would be expensive and fraught with risk. Such a consolidation would require that almost all assets from each local fund be liquidated and then re-invested in the larger fund. This move could generate a one-time cost of up to $155 million in commissions, taxes, fees and potential market losses, which would increase the pension funds' unfunded liability by that amount as well. It would take many years to recoup that cost in the minor administrative savings realized by consolidation.

Consolidation poses a particularly high risk if the transfer occurs during a period of stock market growth and the local pension funds miss out on the resulting gains from their existing investments, the studies found. In addition, economies may suffer when the local banks and asset managers who handle individual pension funds are set aside in favor of larger, out-of-state investment firms that would likely handle the consolidated pension fund.

“There's also the issue of local control,” McNamee said. “A consolidated fund means community residents have much less input on how their tax dollars are spent.”

Retirement benefits are provided to police officers and firefighters through local pension funds in Illinois. The funds are regulated by state law, but they are managed by local boards of trustees. There are 643 pension funds for police officers and firefighters in Illinois, 641 of them downstate and two in Chicago.

The IPPFA was founded in 1985 as a not-for-profit organization whose mandate was to educate public pension fund trustees. In 2009 the IPPFA became the primary education provider for public pension fund trustees in the state of Illinois, and its members manage more than $18 billion in pension assets.

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To view the studies, please click on the links below:

Illinois Downstate Pension Fund Consolidation

The Impact of Easing Investment Restrictions on Downstate Illinois Police and Fire Pension Funds

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