# CONSOLIDATION OF PENSION FUND INVESTMENT AUTHORITY

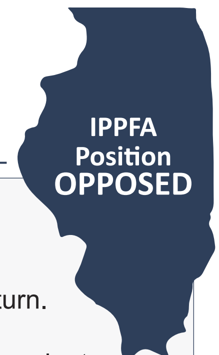
## IPPFA OPPOSED

The Illinois Municipal League (IML) and several special interest groups have proposed consolidating the investment authority of Illinois' local police and fire pension funds.

The Boards of Trustees of Police and Fire Pension Funds are individually responsible for customizing an investment strategy appropriate for their members and taxpayers. First responders are a part of an elite group of public employees that manage and control their pension funds. Teachers, state employees, university professionals, county and municipal employees all have their own retirement systems to manage and oversee.

The Illinois Public Pension Fund Association (IPPFA) and many stakeholder organizations **OPPOSE** proposed consolidation of the investment authority currently entrusted to our local police and fire pension funds.

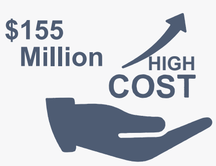
The IPPFA supports implementation of enhanced investment authority and a reliable actuarial methodology. Both of these improvements promote fund stability and taxpayer savings.




## REASONS FOR OPPOSITION

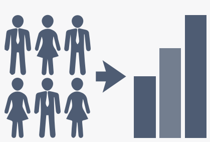

### There is no investment problem

Local police and fire pension funds have consistently outperformed applicable investment benchmarks. By consistently outperforming, local police and fire pension systems have saved taxpayers millions by receiving higher rates of return. A recent peer-reviewed study published by the Anderson Economic Group concluded police and fire pension funds have consistently been managed in a prudent, efficient, and productive manner.




### High cost of transition of assets

IML's proposal would require the transitioning of approximately $14 billion in assets from numerous funds into one *(or two)* consolidated investment portfolio. In a recent peer reviewed study, the Anderson Economic Group estimated the transition costs could reach $155 million. The same study found it would likely take ten years for pension funds to recover from the costs and lost investment opportunity. The Commission on Government Forecasting and Accountability (COGFA) reached similar conclusions regarding the cost of transitioning to a single State-run system.



### Each fund is specific to its members demographics and needs

Maintaining individual board control over investments addresses the demographics of first responders. Local investment control accounts for the needs of first responders' which are unique from those of other Illinois public plan participants. Simply put, each pension fund has structured its portfolio to better serve its members. In the pension fund world, one size just doesn't fit all.


### Fees are not high

Local police and fire pension funds continue to be recognized by several independent surveys as having some of the lowest investment management fees in the State. Investment fee contracts are commonly negotiated on a "most favored nation" basis. This means that the fees paid to investment fund managers are the lowest offered by the manager. Increasing the amount of the assets allocated to a manager does not necessarily mean lower fees.


### Consolidation will not positively impact taxpayer contributions

Funding for the retirement systems is driven by liabilities, which would not be positively affected in any significant manner by consolidation. The pension payment is the pension payment regardless of the fees paid.

### Risk of losing current superior investment results to chase unfounded "savings"

The high risk bet of pension consolidation yields no meaningful savings while exposing the members' assets to substantial risk and certain loss. The savings the IML speculates may possibly materialize would represent approximately 0.12% of retirement assets. Savings of this insignificant amount is further obscured by rounding errors. Furthermore, miniscule changes in assets, fees, and asset allocation could easily wipe out any projected savings.

### Lacks diversity of multiple investment pools

Article 1 of the Pension Code directs pension funds to diversify their investments. The IPPFA believes it is prudent to have several investment pools. Consolidation would create a mega-pension board and set the stage for mega-losses in the event a major corporate holding fails. When Enron failed, the consolidated investment board of Florida had one firm that had an overweight position and lost the fund $335 million. Illinois' losses were only about a tenth of this amount, in part because the separate boards employed different money managers.

### Dilutes stakeholder representation on the Board of Trustees

Local police and fire pension boards are comprised of retirees, active first responders, and municipal appointees. All trustees are uncompensated and well-trained fiduciaries. IPPFA believes a board governed by a majority of elected and accountable trustees who are participants in the retirement system ensures politicians will not be able to manipulate the investment decisions of the funds. We think majority representation of those that stand to lose the most if the system is manipulated is good public policy.
These participants have their paychecks debited weekly/monthly to make their contribution to their retirement system. Consolidation fails to represent these stakeholders adequately.

### Local jobs will be outsourced

Currently, local police and fire pension funds contract with reasonably priced local investment professionals, accountants, lawyers, insurers, and banks. These businesses pay Illinois income, property, and sales taxes. They employ Illinoisans and support Illinois charities. The State's large funds overwhelmingly are sending their money to New York. Illinois will be financially wounded by the "Walmart effect" caused by giving large Wall Street investment houses money formerly invested by Illinois businesses.

### Costs of administration will increase

Currently Illinois local police and fire pension funds' administrative work is largely performed by volunteer trustees. If consolidated, these administrative tasks will be performed by professional state employees *(who ironically will cost the state more money in overhead costs)*.

### The State has a poor track record of managing large pension funds

Not a single Illinois police or fire pension fund trustee has been indicted, convicted, or censured for impropriety in the administration of pension funds. Compounding the risk of consolidation, Illinois' state-run pension systems have a record of ethical and legal infractions substantiated by convictions. From Tony Rezko to Stuart Levine, Illinois state-run pension funds have a track record of poor funding, cronyism, and criminality. Police officers and firefighters' retirements should not be tested by Springfield's political whims.