

# Recommendations to Reform Public Pension Boards of Trustees in Illinois

**Presented by**

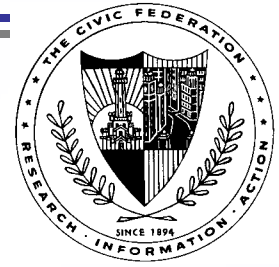
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February 28, 2006

# About The Civic Federation



- Non-profit government research organization founded in 1894
- Funded primarily by major corporate and professional service firms in the Chicagoland region
- Purpose:
  - To serve as a technical resource, providing nonpartisan research and information;
  - To promote rational tax policies and efficient delivery of quality government services; and
  - To offer solutions which guard against excessive taxation, enhance financial reporting and improve the quality of public expenditures
- Recent Pension Research:
  - Recommendations to Reform Public Pension Boards of Trustees
  - Analysis of State Pension Funds
  - Annual Status of Local Pension Funds Report
  - Analysis of Pension Funds in Local Government Budget Analyses
  - President Laurence Msall on Governor Blagojevich's first Blue Ribbon Pension Commission

# Premise

The primary mission of a public pension board of trustees should be to safeguard the fund's assets through prudent investments and effective management.

*The board should NOT act as an advocate for the interests of one stakeholder, especially when advocating those interests leads to increased liabilities.*

# Flaws in Current Board Composition

- Favor employees' interests
- Lack independent citizen representation
- Do not require financial experts or training

# Current Board Composition Favors Employees and Retirees

Illinois Public Pension Boards of Trustees Composition	
Fund	Employees and Retirees less than 50% of Board?
General Assembly	No, 7 out of 7
Downstate & Suburban Police Funds	No, 3 out of 5
Downstate & Suburban Fire Funds	No, 3 out of 5
Chicago Police	Even, 4 out of 8
Chicago Fire	Even, 4 out of 8
IMRF	Even, 4 out of 8 (Yes, 3 out of 7 voting)
Chicago Municipal	No, 3 out of 5
Cook County and Cook County Forest Preserve*	No, 5 out of 7
Chicago Laborers'	No, 4 out of 6
Chicago Park District	No, 4 out of 7
MWRD	No, 3 out of 5
SERS	No, 4 out of 7
SURS	Yes, 4 out of 9, but variable**
TRS	No, 6 out of 11
CPS	No, 10 out of 12
Judges	No, 4 out of 5

\*Cook County and the Cook County Forest Preserve are separate funds governed by the same board of trustees

\*\*State statute allows the Governor discretion to shift the balance of representation by appointing additional active employees or annuitants to the Board

Source: Illinois Pension Code, 40 ILCS 5

# Illinois Pension Boards Lack Independent Citizen Representation

- Taxpayers provide employers' pension contributions, and effectively serve as the plans' insurers.
- Yet only TRS is statutorily required to have *any* citizen representation on its board.

# **Illinois Pension Boards Lack Requirement for Financial Expertise**

- Public pension boards are charged with making complex financial and investment decisions affecting millions of dollars contributed by employees and taxpayers.
- Yet only TRS is statutorily required to include at least two independent citizen board members with financial experience.

## **Best Practices in Other States**

National Education Association 2004  
survey of 89 large public education pension  
funds found:

- 40% included citizen members who were neither retirement system participants nor government officials
- 27% included at least one independent citizen financial expert

# Best Practices in Other States

<b>Selected Teacher Pension Boards: Best Practices in Board Composition</b>			
<b>Fund</b>	<b>Employees and Retirees less than 50% of Board?</b>	<b>Citizen Members?</b>	<b>Financial Experts?</b>
Arizona ASRS	No, 5 out of 9	Yes, 4	Yes, 4
California PERS	Yes, 6 out of 13	Yes, 2	Yes, 1
Connecticut TRS	Yes, 5 out of 12	Yes, 4	No
Georgia TRS	Even, 5 out of 10	Yes, 2	Yes, 1
Maryland SRPS	Yes, 5 out of 14	Yes, 5	Yes, 5
Montana PERS	No, 4 out of 7	Yes, 3	Yes, 1
Nebraska OSERS	Yes, 3 out of 10	Yes, 2	No
New Jersey TPAF	Yes, 3 out of 7	Yes, 3	No
New York STRS	Yes, 4 out of 10	Yes, 1	Yes, 3
Ohio SERS	No, 5 out of 9	Yes, 3	Yes, 3
Ohio STRS	No, 7 out of 11	Yes, 3	Yes, 3
Rhode Island ERS	Yes, 6 out of 15	Yes, 2	Yes, 1
Texas TRS	Yes, 4 out of 9	Yes, 3	Yes, 5
Utah SRS	Yes, 2 out of 9	Yes, 4	Yes, 4
Virginia VRS	Yes, 4 out of 9	Yes, 5	Yes, 5
West Virginia TRS	Yes, 6 out of 14	Yes, 3	No
Wyoming WRS	Yes, 5 out of 11	Yes, 5	Yes, 1

Source: National Education Association. Characteristics of Large Public Education Pension Plans. Washington, D.C.: National Education Association, 2004. <http://www.nea.org/takenote/images/char2004.pdf>

# Best Practices in Other States

## Maryland State Retirement and Pension System

- 2003 reform: Balanced, 5 experts, annual training, fiscally responsible mandate

## Texas Teacher Retirement System

- Majority are experts, 5-year plan focused on meeting funding goals and providing efficient service to plan members

## Virginia Retirement System

- Majority are experts: 4 investment experts and 1 citizen with experience in management and administration of employee benefit plans

## Premise (Again)

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# Civic Federation Recommendations

1. Balance employee and management representation on Illinois pension boards
2. Develop a tripartite structure that includes independent citizen representation on pension boards
3. Include financial experts on pension boards, and require training for non-experts

*Pension boards of trustees should be designed for optimal stewardship of fund assets.*