Illinois Education Association-NEA

www.ieanea.org

FACT SHEET

— From the Department of Government Relations —

Consolidation of Pension Fund Investment Authority
SB 1734 (Schoenberg)

IEA Position OPPOSED

Proposal

Illinois State Treasurer Alexi Giannoulias has proposed consolidating the investment authority of the five state retirement systems – Teachers' Retirement System (TRS), State Universities' Retirement System (SURS), State Employees' Retirement System (SERS), Judges Retirement System (JRS), and the General Assembly Retirement System (GARS). Currently, the Illinois State Board of Investments (ISBI) is responsible for investing the funds of the SERS, GARS, and JRS. The Boards of Trustees of TRS and SURS individually are responsible for investing their funds. Governor Blagojevich proposed a similar consolidation plan a few years ago. The only difference between the plans is that the Treasurer's proposal includes a provision of ethics reform along with the consolidation.

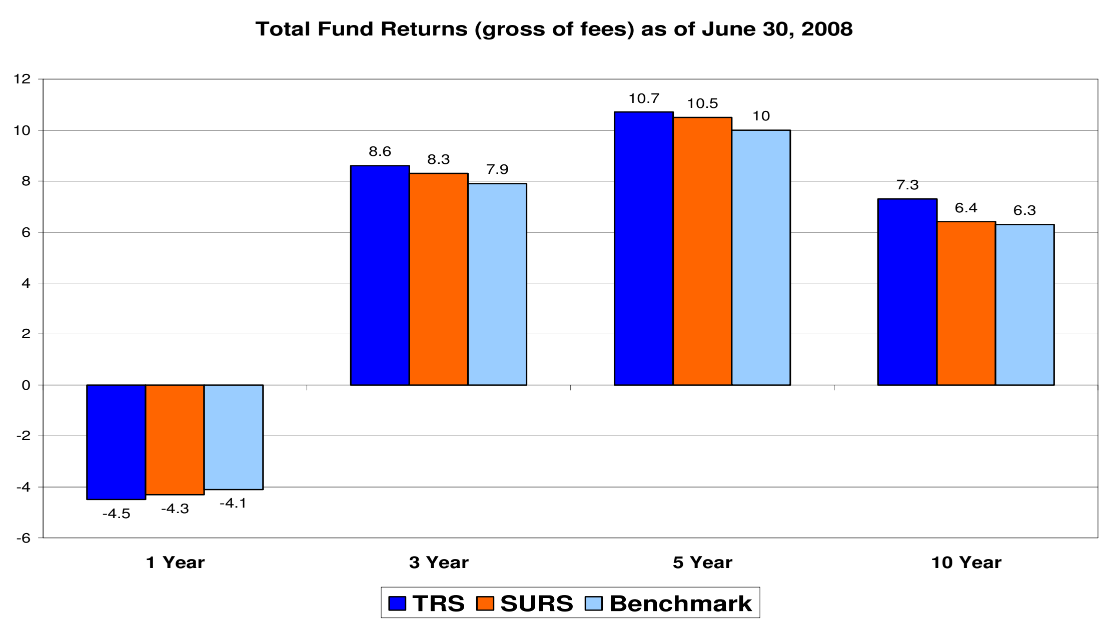
The IEA **opposes** the part of the proposal that would consolidate the investment authority of the five state retirement systems.

The IEA **supports** implementation of strong ethics legislation. Many, if not all, of the ethics proposals currently being discussed could be supported by the IEA.

Reasons for Opposition

- **There is no investment problem.**

TRS and SURS have consistently performed better than other national peers. *By beating the national average, TRS and SURS have **saved the state billions** by receiving higher rates of return.*



(over)

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

The savings that the Treasurer's office believes **may** materialize would only represent 0.08%-0.16% of all retirement assets. Savings of this tiny magnitude could be obscured by rounding errors. Furthermore, miniscule changes in assets, fees, and asset allocation could easily wipe out any projected savings.

- **Each fund is specific to its members demographics and needs**

Maintaining individual board control over investments addresses the fact that demographics of teachers and those in the universities differ from those of other Illinois public plan participants. As a result, the design of their portfolio should also differ, to take into consideration such issues as investment horizon and projected cash flow required by the individual membership. 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.**

TRS continues to be recognized by several independent surveys as having some of the lowest investment management fees in the entire country. Investment fee contracts are 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.

- **Proposal will not affect state pension contributions.**

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

- **High cost of transition of assets.**

This proposal would require the transitioning of $60-$70 billion in assets from three funds into one consolidated investment portfolio. In a recent request for a proposal, State Street estimated that the transition of the traditional stock and bond portfolios held by TRS, SURS, and ISBI would cost between $226.2 million and $372.0 million.

- **Lacks diversity of multiple investment pools.**

Article 1 of the Pension Code directs pension funds to diversify their investments. ***IEA believes it is prudent to have several investment pools.*** This proposal would create a mega-pension board and sets 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 three separate boards employed different money managers.

- **Dilutes stakeholder representation on the Board of Trustees.**

The TRS Board is comprised of a majority of stakeholders. ***IEA believes a board consisting of a majority of elected and accountable trustees that are participants of the retirement system ensures gubernatorial appointees will not be able to manipulate the investment decisions of the board.*** 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. The current proposal fails to represent these stakeholders adequately.