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Giannoulias calls for creation of ILPERS by merging state pension boards

New ethics bill to save millions, increases transparency of investments

Illinois State Treasurer Alexi Giannoulias is calling for the consolidation of the investment activities of all five of the state-funded pension systems into a single investment entity to curb ethics abuse in state government and save beneficiaries tens of millions of dollars annually.

The legislation Giannoulias is crafting aims to eliminate the fraud and abuse committed in connection with the federal Operation Board Games investigation. The consolidation would also cut administrative costs and management fees, saving beneficiaries up to $82 million annually.

A similar proposal to combine the pension systems surfaced in 2003, but was squashed by political powerbrokers William Cellini, Tony Rezko and Stuart Levine. Each has been implicated in the ongoing investigation spearheaded by U.S. Attorney Patrick Fitzgerald.

“The cost of corruption is real,” Giannoulias said. “If these corrupt insiders had not been successful in thwarting this worthwhile proposal, the state retirement systems would have saved substantial amounts of money over the last five years.”

Currently, three boards oversee the investments of the five pension systems. The Illinois State Board of Investment (ISBI) oversees the investments of the General Assembly Retirement System (GARS), Judges Retirement System (JRS) and State Employees Retirement System. While the investment functions of these three state pension systems are handled by ISBI, each system retains its own board to oversee the administration of benefits to its members.

The Teachers' Retirement System and the State Universities Retirement System each invest their own assets independently, as well as administer the benefits to their members. The Teachers' Retirement System (TRS) provides pension and disability benefits for teachers and administrators in Illinois public schools outside of Chicago. The State Universities Retirement System (SURS) provides those benefits for state university employees.

Under Giannoulias' legislation, the investment functions of all five pension systems would merge to form a single fund managed by a new Illinois Public Employees' Retirement System (ILPERS). Giannoulias stressed that only the investment duties of the boards would merge and that each pension system would retain a board to administer benefits and address issues confronting beneficiaries of each respective system.

Laurence Msall, president of The Civic Federation, strongly supports the creation of ILPERS, which will dramatically improve the financial and investment oversight of Illinois' pension funds

"The Civic Federation commends Treasurer Giannoulias for addressing a critical shortcoming in the state's pension systems," Msall said. "The Federation has for many years urged the state to require financial training for state pension fund board members. The current investment climate makes improved financial expertise even more critical for board members, who are being called on to make the increasingly complex and difficult investment decisions necessary to safeguard and grow billions of dollars in state pension assets."

Giannoulias believes that consolidating the boards' investment activities would result in a savings of $12 million annually in administrative costs alone, and up to $70 million annually in fees paid out to the private firms hired to manage and invest assets in each system.

"With more money to invest, the asset size increases and beneficiaries will experience a better rate of return, while economies of scale will reduce the fees paid out to investment managers," Giannoulias said. "The money in these systems belongs to public employees; they earned it and deserve to get the best return possible when it comes time to retire."

Pension benefits for retirees are constitutionally guaranteed in these five pension systems and state tax dollars must make up any shortfall caused by underperforming investment returns. Giannoulias believes the consolidation of the boards will result in better performing investment returns and ultimately benefit taxpayers.

Under Giannoulias' proposal, the new ILPERS board would consist of 13 members, and each pension board would have a representative. All board members would be required to complete an education component that would provide training on the roles and responsibilities for serving on the board.

Giannoulias would also require ILPERS to make investment information more accessible and transparent to the public. ILPERS would post monthly investment updates online, detailing the amount of money it invests, where it gets invested and how much is made on returns.

"Corruption has cost the Illinois millions of dollars and created a climate of cynicism throughout the state," said Cindi Canary, Director of the Illinois Campaign for Political Reform. "This bill will make it more difficult for influence peddlers to line their pockets and candidates to fill their campaign chests with money that belongs to state retirees. Merging the boards should have taken place long ago to prevent such abuse."

Finally, the bill would codify several ethics measures that are currently voluntary or ambiguous in the law. The legislation would prohibit board members, their spouses and ILPERS employees from benefiting financially from the investment system by eliminating “finder fees” and other gifts, and it would ban vendors with contracts over $50,000 from making political contributions. It would also ban board members from contributing to candidates running for office or political campaigns, and prohibit them from seeking elected office.

“Partisan politics and sweetheart deals for insiders should have no place in Illinois’ retirement systems,” said Jay Stewart, Executive Director of the Better Government Association. “This legislation will help ensure that the retirement systems are managed with the best interest of the beneficiaries in mind versus the best interest of politicians and those with clout.”

After the 2002 election, Governor Rod Blagojevich’s Transition Team recommended the state pension systems consolidate their investment functions, estimating that the merger would save $20 million annually. According to federal court documents, convicted influence peddler Stuart Levine, a TRS board member, and recently indicted co-conspirator William Cellini feared that consolidation of pension investment boards would limit their influence and prevent them from illegally steering pension investments to investment managers, including a real estate investment firm run by Cellini and his family members.