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Treasurer's plan a winner for State of Illinois retirees



THE SAVAGE TRUTH | Merging pension boards would cut costs, aid public oversight

TERRY SAVAGE
savage@suntimes.com

State Treasurer Alexi Giannoulias has proposed a reform to the state-funded pension system that will save more than \$80 million a year in fees and costs that come directly out of the pockets of more than a quarter million state employees. The plan is to consolidate the investment man-

agement decisions of five large pension funds into one organization, called ILPERS, for Illinois Public Employees Retirement System. Those who would benefit from this cost-cutting measure include state workers covered by: the Teachers' Retirement System (which covers pension and disability for teachers and administrators in Illinois public schools outside of Chicago); the State University Retirement System (which provides

benefits to state university employees); the Judges' Retirement System; the State Employees' Retirement System, and the General Assembly Retirement System. Currently, the pension fund for each of those groups has its own board, investment advisers and decision-making power. Combining them would not only save administrative costs and fees, but the plan would also bring much-needed ethical reform to the management of the nearly \$70 billion invested through these funds. Each fund would retain its own benefit administration.

Giannoulias noted that the U.S. attorney's office is working on indictments from the FBI's Operation Board Games investigation. In

the trial of Antoin "Tony" Rezko, testimony by Teachers' Retirement System board member Stuart Levine showed that powerful board members worried such a consolidation would limit their influence. Under the new bill, which is still seeking sponsors, the ILPERS board would be modeled after other state retirement boards, notably CALPERS, which manages California's public pension investments. It would consist of 13 managers, including the chairman of each of those retirement funds. Information about investments would be updated publicly on a monthly basis. Board members would have a required education program. And an ethics component would prohibit finder's fees and

other gifts, including political contributions. ILPERS is an idea whose time is long overdue. Consolidating these powerful and shadowy boards won't guarantee investment profits, but it will save a small fortune annually on costs. Everyone who is covered by one of these employee retirement plans — all 271,000 of these employees — should cheer this concept. And they should send an e-mail to: ilpersnow@treasurer.state.il.us. The treasurer's office will collect the comments and forward them to the state Legislature when the bill is introduced. After all, to coin a phrase: A penny saved is a penny earned. And that's The Savage Truth! [Comment at suntimes.com](http://Comment.at.suntimes.com).

Pension plan deserves serious consideration

THE ISSUE: Illinois State Treasurer Alexi Giannoulias has proposed creating a new Illinois Public Employees' Retirement System that would consolidate the investment functions of five state-funded pension boards under a single professional, ethically governed and transparent structure.

OUR OPINION: This plan deserves serious consideration because of the potential annual savings of up to \$80 million and the likely restoration of public confidence in state pensions. Care must be taken to ensure the full impact of pension system job losses is assessed and retirees must be assured of the safety of their benefits.

Imagine you are the owner of five financial institutions. Each of the businesses functions independently of the others. There are five separate budgets, five organizational charts filled with managers, and five staffs of employees.

Imagine, too, the businesses are doing the same type of work and striving to meet the same goals. One day you awaken in the middle of the night and wonder how much might be saved by pooling everything into a single company that operates under one administration. You push the numbers around and determine it would dramatically reduce the cost of doing business.

That's not unlike a state pension plan proposal made last week by Illinois State Treasurer Alexi Giannoulias. He believes the "Illinois Public Employees' Retirement System" could save as much as \$80 million annually in duplicated spending and instill traditions of transparency and professionalism in the governance of state pensions. "This is a hard bill to be against," Giannoulias said in a telephone

interview with the editorial board of The Southern Illinoisian. "It will save an exorbitant amount of money and bring some professionalism and prestige to the pension system. ... It won't cure our broken pension system, but it is a huge step in the right direction."

We think Giannoulias' plan deserves serious consideration. There won't be any miracle, quick-fix remedies for the growing state pension debt, which is ballooning toward the \$50 billion mark. But a first step in any sensible business stabilization strategy is getting costs under control.

Giannoulias said his proposal would pool the investment functions of the five state pension plans, which he believes would save \$50 million to \$80 million per year in administrative costs and management fees. The plan also would tighten ethical standards for a newly created single governing board by banning finder's fees, and prohibiting board members, their spouses and pension system employees from receiving any compensation in connection with any

investment — among other safeguards.

The state's best and brightest would be sought to govern and oversee the new system, and the leaders would be required to achieve and sustain a level of pension expertise through continuing training.

The proposed Illinois Public Employees' Retirement System wouldn't change the benefit structure for the 270,000 people relying on retirement benefits, according to Giannoulias. He said the group includes public school teachers, judges, university employees, state workers and members of the General Assembly.

Giannoulias, considered by some as a potential gubernatorial candidate in 2010, said the pension plan is not linked to any perceived political aspirations. He said opposition is expected and that he does not anticipate any political gain by pursuing the plan; the opposite is more likely.

Concern already has been expressed by officials representing the Teachers Retirement System. Those who have voices on the

existing pension boards likely will want to maintain their influence. And there needs to be a careful examination of the impact of job losses caused by unifying the pension systems' investment functions and staffing.

"If I was concerned about politics I probably wouldn't be doing any of this," he told The Southern's editorial board. "This is the right thing to do."

The plan carries some one-time, up-front costs of \$23-\$30 million, he conceded, but stressed the long-term savings and professional oversight are worth the investment. The plan isn't chiseled in stone, Giannoulias said, expressing a desire to hear others' suggestions for changes and improvements.

With the dark financial clouds hanging over Illinois, the time is ripe for reform. It's time to stop the bleeding. We don't yet know if every detail of the proposal from Giannoulias hits the nail on the head, but it is an idea worthy of serious consideration and discussion. We hope our state's leaders give it the attention it deserves.



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Combining pension funds makes sense ethically, financially

RRSTAR.COM STAFF REPORTS

Posted Mar 08, 2009 @ 05:54 PM

Combining the state's pension funds would make sense for cost savings alone. But add the transparency and the ethical reform that would be gained and the merger is irresistible.

State Treasurer Alexi Giannoulias visited the Editorial Board last week to explain his proposal to create one pension board called Illinois Public Employees Retirement System (ILPERS) to handle investment activities. Now, three boards manage investing five pension funds.

Let us explain. There's TRS (Teachers Retirement System); ISBI (Illinois State Board of Investment), overseeing GARS or the General Assembly Retirement System; JRS or Judges Retirement System; and SERS, (the State Employees Retirement System); not to be confused with SURS, the State Universities Retirement System.

Confused? You don't know confused until you try to find out about these boards. Once you get the acronyms right — no small feat — their Web sites are not exactly chock-full of information.

That would change under Giannoulias' proposal.

"We want to create an ILPERS Web site which will show every day where every penny is going, how we perform against different benchmarks, what the long-term outlooks are, who's getting the business, how they are getting the business — make it as transparent a process as possible because these pension funds have become just a cesspool of corruption and scandal and pay to play," he said.

In Illinois, the calculus is straightforward: The more boards, the more opportunity for political payoff. Federal prosecutors have proved that in their Operation Board Games investigation, which already has resulted in the convictions of Tony Rezko and Stuart Levine and the indictment of William Cellini.

The pension reform also would set ethical practices. For example, it would prohibit board members from receiving compensation in connection with any investment.

Giannoulias says the consolidation could save \$50 million to \$80 million in lower administrative costs and management fees. Simple stuff, as he says: When you have three asset pools and you combine them into one, your bargaining power is greater.

The concept is not revolutionary. California has merged its pension funds for years in CalPERS. Wisconsin has the Wisconsin Investment Board.

It's good news that Giannoulias has a powerful legislative ally in state Sen. Jeff Schoenberg, D-Evanston, who has sponsored the reform package.

It's bad news that Jon Bauman, the director of the Illinois teachers retirement fund, has stirred up suspicion and distrust in his opposition to the Giannoulias plan.

In a press release last month, Bauman said the consolidation could increase investment risk and the potential for political influence; it fails to address the debt of the pension system (which could be as high as \$70 billion); and could cost \$400 million in startup expenses.

We disagree. Where did Bauman get the \$400 million figure? Giannoulias, on the other hand, can detail the \$50 million to \$80 million in savings from increased efficiencies and economies of scale.

There's no reason to have this many pension boards, each with their own officials, managers and functionaries. No reason, that is, short of protecting the status quo — the inefficient and expensive status quo in an economy that can't afford it.

No legislation will solve every problem of Illinois' pension system, the nation's most underfunded, but providing sunshine is a good start. "When you put your eggs in one basket, it's easier to keep an eye on that basket," Giannoulias said. Sure enough, Illinois has had its share of rotten eggs.

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Fix broken pension system

While resignation, impeachment and appointments dominate the talk in Illinois political circles, it's wise to remember that the business of Illinois' dysfunctional government marches on.

Bills continue to go unpaid. Students continue to attend classes in substandard buildings. Historic sites and parks remain shuttered. Critical state services continue to go underfunded and understaffed.

And Illinois' badly broken public pension system

gets worse. State unfunded pension liability has reached epic proportions, ballooning to \$54.4 billion, Treasurer Alexi Giannoulias reports. That's a \$12 billion increase

► The issue:

► Why care if Illinois' pension system is broken?

in just one year in the difference between assets in the five pension funds and what is owed to employees in benefits. The state made this mess by failing to make payments, increasing debt and incurring interest costs, he said. With the addition of a recession, "nest eggs are in danger of cracking."

It is against that backdrop that the Operation Board Games investigation marches on. Investigators have focused on an alleged \$7 million scheme aimed at squeezing kickbacks out of companies seeking business from the state. More than a week before the governor's Tuesday arrest, Mr. Giannoulias told our editorial board, "The cost of corruption is real." He said that if power brokers hadn't killed a similar reform plan which was floated in 2003 "the state retirement systems would have saved substantial amounts of money over the last five years."

Not surprisingly, that 2003 plan was doomed by William Cellini, Tony Rezko and Stuart Levine, all of them Blagojevich allies, and all of them implicated in U.S. Attorney Patrick Fitzgerald investigation of corruption in Illinois government.

To fix what is so horribly broken, at least in the pension system, the treasurer is advocating a two-prong approach based on efficiency and transparency.

First, he would merge the investment functions of Illinois' five pensions system for state workers, teachers, judges, universities and the General Assembly into a single Illinois Commission on Government Forecasting and Accountability. That move alone, he said, would save taxpayers up to \$82 million each year in administrative costs and management fees. It also could increase the rate of return on the investment since larger pools of cash would be invested.

At the same time, he would offer tough ethics reforms. For example, board members would be barred from doing business with companies that do business with the system, a change meant to end to scams like the one recently in the Teachers' Retirement System. It would eliminate so-called finders fees and other gifts to board members and would ban vendors with contracts of over \$50,000 from making political contributions. It also would bar members from running for or serving in elected office while on the board.

Not surprisingly, good government groups are applauding the ethics component. They are right to do so. Given the state's most recent ethical black eye, these changes should be made sooner rather than later. The merger component has proven far less popular in a number of circles, including the folks at the Teacher Retirement System, which quickly put out a statement blasting the plan.

Others have expressed fears over creation of a single investment pool. They may have valid concerns and Mr. Giannoulias himself suggests that his plan isn't necessarily perfect. It is, however, a good place to start to tackle this critical issue. Mr. Giannoulias also said that if just one of the two components of his plan is adopted, the pension system will be better for it. We've no doubt he's right and urge lawmakers, fresh from the stench of the governor's arrest, to quickly take up the ethics component to ensure that there is no hint of the pay-to-play politics in the multi-billion dollar pension pool.

We commend the treasurer for not only bringing attention to the issue, but for trying to do something about it. And we challenge critics to show what, if anything, they can do to make it better. And then do it. Continuing to ignore this growing problem would be nothing less than, well, criminal.

A chance for Illinois pensions

By The Quad-City Times | Thursday, December 04, 2008

Bureaucratic wagons are circling against Illinois State Treasurer Alexi Giannoulias' clear-headed approach to the state's public employee pension mess.

Illinois has five separate pension funds managed by three separate boards. Together, they have 300 employees.

Giannoulias proposes merging administration of these funds to cut overhead and reduce the impact of political influence and corruption.

Already, some of the employee groups are reacting predictably with complaints that can be summarized thusly: Leave us alone. We can get along fine by ourselves.

But they aren't by themselves. Several analyses rank Illinois' unfunded pension obligations as the worst in the nation. Unfunded pension debt — the amount expected to be owed to future retirees versus the money expected to be paid in — exceeds \$43 billion. So, taxpayers have to kick in to help cover the \$1,900 to \$3,100 per month in retirement payments guaranteed to about 270,000 retired teachers, judges, legislators and other public employees.

Giannoulias' plan isn't much different from what Iowa has been doing for decades. The only difference is Iowa doesn't have a history of politically connected appointees manipulating investments and skimming off a share. We hope public employees and their representatives embrace this opportunity. The fact is, they can't go it alone. They rely on taxpayers for more help. By collaborating with Giannoulias, the public employees groups have an opportunity to cut overhead expenses and provide a bit of help to taxpayers.



Our View: Public must demand crackdown on corruption

Journal-Star, Peoria, IL

Published Sunday, January 18, 2009

With Gov. Rod Blagojevich staring down a trial in the Senate and federal corruption charges waiting in the wings, this state has a well-earned reputation to live down, and the trust of its citizens to win back.

While politicians and prosecutors continue to do their best to escort the guy off the stage, some folks are already looking ahead to prevent similar trouble. Among them is Lt. Gov. Pat Quinn, who recently set up an ethics panel to weigh potential changes to state law. The Illinois Reform Commission will be headed by former federal prosecutor Patrick Collins, who unquestionably has the chops for this gig after putting former Gov. George Ryan behind bars and once writing in the Chicago Tribune that "Illinois' bipartisan corruption virus is a particularly resistant strain."

His report is due in April, which may not be soon enough, as far as most of the public is concerned. Indeed, according to a new poll from the good-government crusaders at the Illinois Campaign for Political Reform, three of five Illinoisans believe Blagojevich's alleged actions aren't uncommon. That's a stunning distrust of state government.

Herewith, some suggestions for the panel and the Legislature to consider to bolster that trust:

- The commission includes Peorian Brad McMillan, who'd like to see legislative redistricting tackled. When gerrymandering guarantees the outcome of a political race, it discourages good people from challenging. Illinois needs leaders with integrity, most of all.
- Reform the Illinois Executive Inspector General's Office, which has become a spot for ethics problems to be dealt with secretly. A damning 2004 report on how the Blagojevich administration twisted and skirted state hiring practices was only made public at the demand of Attorney General Lisa Madigan. Otherwise the only folks who see the results of investigations are the head of the affected state agency - a gubernatorial appointee - and the governor's office. The state's current inspector general wants that changed. The Legislature should listen.
- Consider the state pension reform plan proposed by state Treasurer Alexi Giannoulias last month. No legislation may remove politics entirely from the system looking out for the state's retirees, but two names - Tony Rezko and Stuart Levine - should tell you that, at the very least, the state should be able to keep the felons' hands off of it.
- Think about campaign contribution limits. Illinois remains the "wild west" of campaign finance law, with few limits placed on donors. The recent ethics law bans donations from companies holding state contracts worth more than \$50,000 or bidding to get them. But that's just donations to statewide officeholders and candidates. There are at least two clever ways around that rule already - in money given to state party organizations or to the committees run by the four legislative leaders. That money is then doled out to candidates in need. Those loopholes are big enough to drive an armored Brink's truck through.

The Illinois Campaign for Political Reform also has some ideas, including a system of voluntary campaign financing of judges, requiring elected officials and appointees to report more detailed information on their debts and investments, giving more power to the State Board of Elections and making it easier to get a hold of public records under the Freedom of Information Act.

Another law won't clean Illinois of corruption. Let's face it, the law is irrelevant to bad people. But that's hardly an excuse not to try. Ultimately it's one more way for fed-up Illinoisans to measure how honest their elected officials are in this "everybody does it" political culture, and hold those who fail the test accountable at the ballot box.

Again, the power of the people and an aggressive U.S. attorney are the best ways of ensuring that politicians police themselves and serve the public better.

December 6, 2008

OUR VIEW

A better way with pensions

SUPPOSE you could get better financial services at a lower cost. Would you want the deal? In a heartbeat.

Illinois Treasurer Alexi Giannoulias is offering state retirees and taxpayers just that with his plan to combine the investments of the state's pension plans. The plans and retiree benefits would remain separate and wouldn't change. It would just be that one set of money managers would handle investments, not the three sets that do so now.

Giannoulias estimates the state could save \$50 million to \$80 million a year through lower administrative fees and elimination of duplication. Money managers charge a percentage of the amount they're managing. The larger the amount, the lower the percentage.

Illinois has the most underfunded pension system in the nation,

so having those extra dollars to meet retirement obligations rather than pay for overhead would be a blessing indeed.

The proposal also brings with it a new professionalism. Members of the board who would oversee the investments would need at least five years of financial experience and would be bound by stringent ethics rules. No more pay-for-play appointments and the corruption that has tainted Illinois' pension system.

People who want good government love this plan. But unbelievably, some union leaders and political insiders are fighting it. They're concerned about protecting their power and the status quo, not the good of retirees and the taxpayers.

This is an idea that's long overdue. We urge our local lawmakers, state employees/retirees and taxpayers to get behind it.