

Introduction to the Illinois Police  
Office  
(IPOP)  
Pen  
Fund  
ghters'  
PIF)

**September 14, 2021  
289 Days and Counting !**

Elizabeth

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David Zaloga

Chief Financial Officer - FPIF

# Session Objectives

- Understand purpose of the pension consolidation legislation,
- Convey to others the structure and status of the consolidated funds, and
- Gain a clearer understanding of the steps to be taken as the June 30, 2022 deadline for consolidation approaches.

## Poll Question #1:

What is your current understanding of PA 101-0610?

- a) I am very familiar with the consolidation legislation and have been following the activity of FPIF and/or IPOPIF.
- b) I know that it is coming but have many questions about how the consolidations will occur.
- c) I am hoping the consolidation legislation is overturned or delayed.
- d) I am not familiar with the pension consolidation legislation.

# BACKGROUND

## Illinois Pension Fund Consolidation Task Force

- Report issued October 10, 2019
  - Consolidate Article 3 and Article 4 Investment Assets into two new Investment Funds
  - Improve Investment Returns
  - Reduce Costs
- SB1300 introduced during the Fall Veto Session

# BACKGROUND

## Public Act 101-0610

- Signed into law December 18, 2019
- Effective January 1, 2020
- Transition Boards appointed by Governor Pritzker on 1/31/20
- Permanent Boards to be elected and seated by January 1, 2021
- Amends the Illinois Pension Code
- Consolidate assets of 353 Article 3 Funds and 296 Article 4 Funds into two consolidated funds for investment purposes.
- FY19 DOI Investments - \$8.9B (Article 3) and \$6.4B (Article 4)
- Local fund boards continue to make benefit determinations and administer benefits.

# ELECTED BOARD AS OF JANUARY 1, 2021

## Board Composition

### **FPIF**

- Chuck Sullivan, Chair (P-A)
- Brad Cole, Vice Chair (IML)
- Kevin Bramwell (P)
- Matthew Kink (P)
- Greg Knoll (B)
- Tom Daily (M)
- Herb Roach (M)
- Open – Election in process (M)
- George Schick (P)

### **IPOPIF**

- Shawn Curry, Chair (P)
- Dan Hopkins, Vice Chair (B)
- Paul Swanlund, Secretary (P)
- Elizabeth Holleb, Treasurer (M)
- Lee Catavu (P)
- Brad Cole (IML)
- Michael Inman (M)
- Mark Poulos (B)
- Phil Suess (M)

# BOARD ACTIONS

- *“All actions taken by the transition board and the permanent board shall require a vote of at least 5 trustees, except that the following shall require a vote of (at) least 6 trustees: the adoption of actuarial assumptions; the selection of the chief investment officer, fiduciary counsel, or a consultant as defined under Section 1-101.5 of this Code; the adoption of rules for the conduct of election of trustees; and the adoption of asset allocation policies and investment policies.”*

# TRANSITION PERIOD – 30 MONTHS

1/1/20 – 6/30/22

## Critical Functions:

- Elect a Permanent Board by 1/1/21
- Provide Statutorily Required Training
- Communicate with local pension funds, municipalities, and stakeholders
- Transfer local pension fund assets into consolidated fund – by 6/30/22

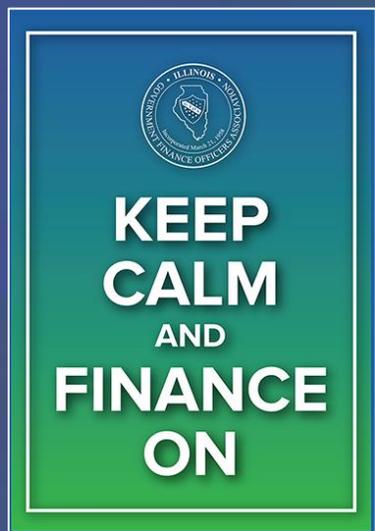
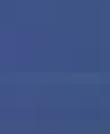
# CURRENT STAFFING

## FPIF

- William Atwood
  - Executive Director/Chief Investment Officer
- Steve Zahn
  - Chief Operating Officer
- David Zaloga
  - Chief Financial Officer
- Mitchell Green
  - Portfolio Officer

## IPOPIF

- Richard White
  - Interim Executive Director
- Kent Custer
  - Chief Investment Officer
- Steve Yoon
  - Investment Officer



# Transition and Asset Transfer Process

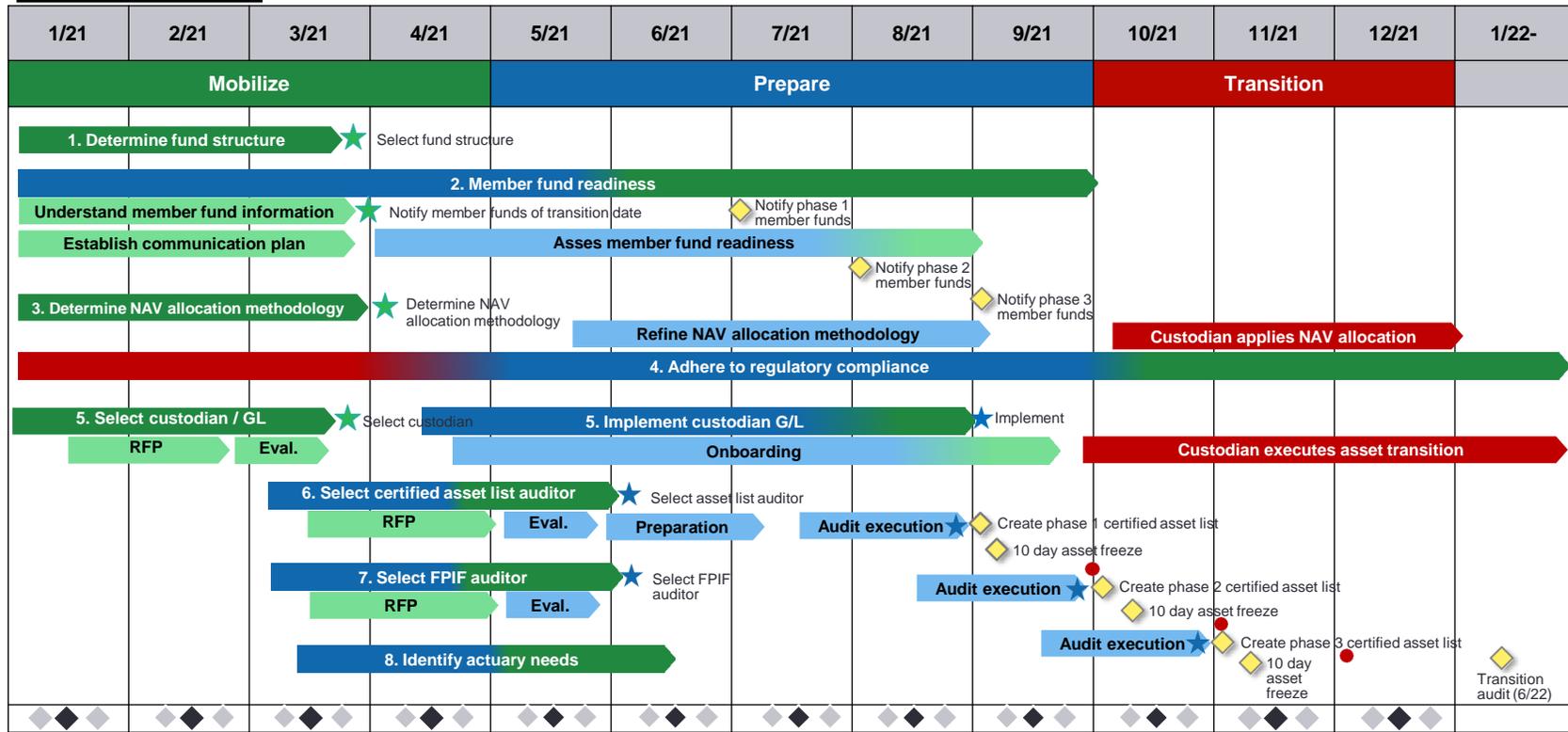


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**Note: All tasks and dates are tentative and subject to change!!**



# Transition Components Timeline



**LEGEND:** ■ Key phase   ■ Activities   ★ Critical Path Milestone   ◆ Steering committee   ◆ Audit committee   ◆ Key statute activity   ● Transition date

# SEPARATE ACCOUNT BALANCES

- *“The board shall separately calculate account balances for each participating pension fund. The operations and financial condition of each participating pension fund account shall not affect the account balance of any other participating pension fund. Further, investment returns earned by the Fund shall be allocated and distributed pro rata among each participating pension fund account in accordance with the value of the pension fund assets attributable to each fund.”*

# ACCOUNTING AND AUDITING

- Fund Financial Audit FY2020
- Fund Financial Audit FY2021
- Fund Financial Audit FY2022
- Audit – Certified Asset List
- Transition Audit due 12/31/22\*

**“Within 6 months after the end of the transition period or as soon thereafter as may be practicable as determined by the board, the books, records, accounts, and securities of the Fund shall be audited by a certified public accountant selected by the board.”**

## Poll Question #2:

Currently, who is the primary source of guidance to your local pension board re. investments?

- a) Pension Board contracts with investment manager/advisor.
- b) Municipal Treasurer/Finance Director
- c) Pension Board makes own investment decisions

# INVESTMENT FUNCTIONS

## FPIF

- Chief Investment Officer
- General Investment Consultant
  - Marquette Associates 4th qtr 2020
- Custodian
  - Transition and hold assets
  - Northern Trust 1st qtr 2021
- Transition Manager(s)
  - Transition Bench in Place
- Accounting/Audit Consultant
  - Advise and monitor consultant
  - Ernst & Young 4th qtr 2021

## IPOPIF

- Chief Investment Officer
- General Investment Consultant
  - Verus Advisory
- Custodian
  - Transition and hold assets
  - State Street
- Transition Manager(s)
  - RFP in progress
- Passive Management RFP

# POLICIES AND PROCEDURES

- Bylaws
- Internal Policies/Procedures
- Asset Consolidation Rules

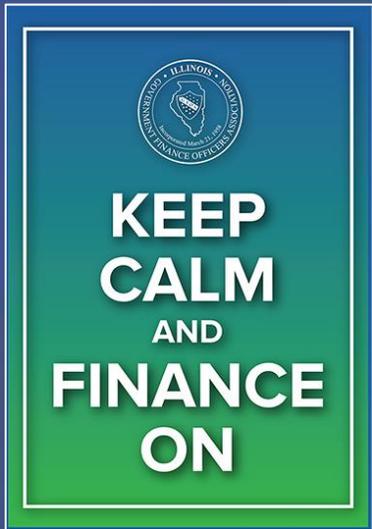
# TRANSFER OF ASSETS

## **FPIF**

- Transfer Date Notices
- Complete in Phases
- 10/1/21 – 1/4/22
- Transfer Receipts to Local Funds

## **IPOPIF**

- Consultant – Transition Architect
- Investment Team developing rules
- STAY TUNED!



# Post Transfer Ongoing Operations

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# CASH MANAGEMENT OF LOCAL FUNDS

## Transfers to and withdrawals from Consolidated Fund

- *“Nothing in this Section prohibits a fund under this Article from maintaining an account, including an interest earning account, for the purposes of benefit payments and other reasonable expenses after the end of the transition period as defined in Section 22B-112, and funds under this Article are encouraged to consider a local bank or financial institution to provide such accounts and related financial services.”*

## Poll Question #3:

What source of actuarial data does your municipality/employer use for funding police and/or fire pension obligations?

- a) Illinois Department of Insurance (IDOI)
- b) Independent Actuary contracted by local pension board
- c) Independent Actuary contracted by the municipality/employer
- d) Not applicable

# ACTUARIAL SERVICES TO LOCAL FUNDS

## Coordination with Illinois Department of Insurance

- “(2) After the conclusion of the transition period, each actuarial statement shall be prepared by or under the supervision of a qualified actuary retained by the Consolidated Fund and signed by the qualified actuary and shall contain such information as the Division may by rule require. The actuarial statement shall be filed with the Division within 9 months after the close of the fiscal year of the pension fund.”
- “Prior to the conclusion of the transition period, the actuarial statements may be prepared utilizing the method for calculating the actuarially required contribution for the pension fund that was in effect prior to the effective date of this amendatory Act of the 101st General Assembly.
- After the conclusion of the transition period, the actuarial statements shall be prepared by or under the supervision of a qualified actuary retained by the Consolidated Fund, and if a change occurs in an actuarial or investment assumption that increases or decreases the actuarially required contribution for the pension fund, that change shall be implemented in equal annual amounts over the 3-year period beginning in the fiscal year of the pension fund in which such change first occurs.
- The actuarially required contribution as described in this subsection shall determine the annual required employer contribution.”

# ACTUARIAL SERVICES

- Actuary Selection
- Adopt Actuarial Assumptions
- Complete Actuarial Study

## Poll Question #4:

What is your local pension fund's current investment return assumption?

- a) 7.50% or higher
- b) 7.25%
- c) 7.00%
- d) 6.75%
- e) 6.50%
- f) 6.25% or lower

# FINANCIAL REPORTING TO LOCAL PENSION FUNDS

## **FPIF**

- Asset Valuation Reporting
  - Monthly/Quarterly/Annual
- Coordination with IGFOA TARC Committee
  - External Investment Pool
  - Net Asset Value
- Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position

## **IPOPIF**

- Asset Valuation Reporting
  - Monthly/Quarterly/Annual
- TBD

# ANNUAL AUDIT CHALLENGES

- Consolidated Fund Fiscal Years end June 30
- Article 3 and 4 Fund fiscal year ends vary
- Consolidated Funds CAFR provided as audit evidence for the entire Fund
- Auditors of local pension funds to apply roll forward procedures to gain assurance on the period between FPIF/IPOPIF fiscal year end and local fund fiscal year end
- Additional disclosures at local fund fiscal year end may be required

## Poll Question #5:

How recently has your local pension fund received an IDOI audit/examination?

- a) Less than 1 year
- b) 1 – 3 years
- c) 3 – 5 years
- d) More than five years

# EXAMINATIONS OF LOCAL PENSION FUNDS

## Coordination with Illinois Department of Insurance

*“For pension funds established under Article 3 or 4 of this Code: (i) prior to the conclusion of the transition period, the Division shall make the periodic examinations and investigations described in the preceding paragraph; and (ii) after the conclusion of the transition period, the Division may accept and rely upon a report of audit or examination of such pension fund made by an independent certified public accountant retained by the Consolidated Fund. The acceptance of the report of audit or examination does not bar the Division from making a further audit, examination, and investigation if deemed necessary by the Division.”*

*“The Division or the Consolidated Fund, as appropriate, shall examine or investigate each pension fund established under Article 3 or Article 4 of this Code. The schedule of each examination shall be such that each fund shall be examined once every 3 years.”*

# BOARD DUTIES/IMPACT ON OTHER FUNDS

- *“The transition board trustees and permanent board trustees of the Fund shall be fiduciaries for the participants and beneficiaries of the participating pension funds and shall discharge their duties with respect to the retirement system or pension fund solely in the interest of the participants and beneficiaries. Further, the transition board trustees and permanent board trustees, acting prudently and as fiduciaries, shall take all reasonable steps to ensure that all of the transferor pension funds are treated equitably and that the financial condition of one participating pension fund, including, but not limited to, pension benefit funding levels and ratios, will have no effect on the financial condition of any other transferor pension fund.”*

**Interpretation?**

# LOCAL GOVERNMENT IMPACT

- Statement of Fiduciary Net Position
- Financial Statement Disclosures
- Audit Procedures
- Cash Management
- Investment Return
- Pension Funding Implications

# COMMUNICATION IS CRITICAL!

- Web Site
- Email
- US Mail
- Group Meetings
- One on One Outreach

**Remember: We are in this together!**

# QUESTIONS?

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