

IGFOA Professional Education Committee presents the

2016 Illinois Public Pension Institute

March 17, 2016

8:30 AM to 4:30 PM

Doubletree Suites Hotel and Conference Center, 2111 Butterfield Road, Downers Grove, IL

7:40 – 8:25 AM **Registration & Continental Breakfast**

8:25 – 8:30 AM **Welcome and Overview**

8:30 – 10:00 AM **Fiduciary Liability for Fire and Police Pension Plan Trustees and 457 Plan Trustees**

Speakers: **Joe Connell**, Partner, Director of Retirement Services, Sikich LLP
 Richard J. Reimer, Managing Partner, Reimer, Dobrovolny & Karlson LLC
 James Martinez, Client Service Executive, Arthur J. Gallagher & Co.

Joe Connell – Part 1 (8:30-9:00AM)

The perception that a 457 governmental plan (typically not subject to ERISA) does not have legal responsibilities similar to an ERISA-covered plan is false. In fact, 457 plans are subject to the laws of the states in which they are established. Many of these state laws are based on the underlying principles of ERISA, with a number of state statutes using language virtually identical to the provisions of ERISA. Regardless of which laws apply, the conduct of plan trustees will be governed fundamentally by the same principle: to act prudently and in the best interests of the employees whose retirement funds are invested in the plan. This session will inform the trustees of 457(b) plans of the necessary steps to comply with the applicable requirements of their roles as “fiduciaries.”

Learning Objectives

Participants completing this session will be able to:

1. Understand the meaning of fiduciary and the importance of fiduciary principles in managing a 457 plan;
2. Prudently act in the best interest of plan participants and understand your plan’s responsibilities to retirees; and,
3. Identify possible steps that should be taken to effectively manage these responsibilities.

Richard J. Reimer – Part 2 (9:00 - 9:30 AM)

Illinois Statutes have stringent requirements and restrictions regarding Downstate Police and Fire Pension Trustee liability. Trustees are fiduciaries to the fund and owe a fiduciary duty to the fund(s) they represent. This session will outline what is meant by fiduciary responsibility and the personal liability that can result when trustees are accused of breaching that fiduciary liability. The session will also suggest ways to mitigate the exposure that Police and Fire Pension Trustees have to any accusations of breach of fiduciary duty.

Learning Objectives

Participants completing this session will be able to:

1. Understand Police and Fire Pension Trustee fiduciary duties and responsibilities under Illinois Pension statutes;
2. Understand the potential liability and damages that trustees may incur if accused of a breach of fiduciary liability; and,
3. Understand best practices and practical ways to mitigate the potential fiduciary liability that Trustees face.

James Martinez - Part 3 (9:30 - 10:00 AM)

Public pension trustees and employees face increased personal liability exposure in their roles as fiduciaries. This session will outline liability coverages available to lessen a pension trustee's fiduciary exposure, provide guidelines for assessing risk, and demonstrate how insurance companies evaluate pension funds. The session will also outline recent claims examples and ways to reduce the cost incurred or hopefully avoid altogether.

Learning Objectives

Participants completing this session will be able to:

1. Understand the fundamentals of Fiduciary Liability Insurance;
2. Understand the rating metrics Fiduciary Liability Insurance markets evaluate to price policies; and,
3. Understand effective ways to reduce claim costs or avoid claims cost based on claim examples.

10:00 – 10:15 AM Morning Break

10:15 – 11:15 AM Case Study: Analyzing the Requirement, Process and Calculations for Service Transfer Credits

Speaker: **Allison Barrett**, Principal, Pension Benefits Services, Lauterbach & Amen, LLP

Utilizing a case study, this session will demonstrate how to become a master of calculating purchases of and transfers of creditable service for Article 3 and Article 4 Pension Funds. It will also identify the components of each formula, learn who is responsible for each portion of the calculation, and recognize the common errors and challenges in performing these calculations.

Learning Objectives

Participants completing this session will be able to:

1. Identify the eligibility requirements and complete the calculation to purchase pre-employment military service for active members;
2. Identify the eligibility requirements and complete the calculation to purchase military service for active members called up for active duty while an active member of the pension fund;
3. Identify the eligibility requirements and complete the calculation to purchase lost creditable service due to time spent on a disability pension;
4. Identify the eligibility requirements and complete the calculations for miscellaneous unpaid breaks in service;
5. Identify the eligibility requirements and complete the calculations for a police officer to transfer creditable service between two Article 3 funds (portability;) and,
6. Identify the eligibility requirements and complete the calculations for a firefighter to combine creditable service (reciprocity,) and complete the retirement and disability benefit calculations for a firefighter under reciprocity.

11:15 AM – 12:15 PM Pension Reform Legislative Update

Speaker: Joe McCoy, Legislative Director, Illinois Municipal League (IML)

With all the changes happening in Springfield, what is a government entity to do about pension reform? Participants will hear from Illinois Municipal League (IML) Legislative Director Joe McCoy about current legislative issues and concerns related to pension reform, the status of the proposed property tax freeze as it relates to pension levies, and an update on the overall state of the budget.

Learning Objectives

Participants completing this session will be able to:

1. Stay current with Illinois General Assembly legislative proposals on pension reform that may significantly impact local governments and pension boards;
2. Explore recent developments in pension reform;
3. Understand the key provisions of the proposed property tax freeze legislation on pension levies; and,
4. Comprehend the current status of the State Budget.

12:15 – 1:00 PM Networking Luncheon

1:00 – 2:00 PM Incorporating Public Pension Liability Exposure into Credit Ratings

Speaker: Tom Aaron, Assistant Vice President – Pension Specialist, Moody’s Investor Services US Public Finance Group

Moody’s credit ratings for local governments take into account a variety of factors, one of which is the condition of government pensions. The risk to government credit over the past decade associated with pensions has increased due to steep asset declines during the severe market downturn of 2008 and maturing government employee and retiree demographics. Both of these factors have contributed to the significant rise in unfunded liabilities and contribution requirements. This session will provide an overview of how Moody’s considers pensions in its credit ratings and the rationale behind its approach, including perspectives tailored to an Illinois local government audience.

Learning Objectives

Participants completing this session will be able to:

1. Understand how Moody’s incorporates exposure to unfunded pension liabilities as one of many factors into its credit rating assessments of local governments;
2. Walk-through Moody’s adjustments to reported pension information, including data presented by governments and plans under new pension accounting standards, Governmental Accounting Standards Board Statements 67 & 68;
3. Discuss how the legal framework surrounding public pensions in Illinois, such as protections for benefits and statutory funding benchmarks, plays a role in Moody’s analysis; and,
4. Anticipate the pension-related questions a local government is likely to receive from a Moody’s analyst during the course of a rating review or the rating of a new bond sale.

2:00 – 2:45 PM **A Pension Modeler Tool: Demonstrating the Effect of Actuarial Assumptions, Methods, & Experience on Pension Funding**

Speaker: **Jason Franken**, Actuarial Consultant, Foster & Foster, Inc.

This session examines the impact that various actuarial assumptions and methods have on the long-term health of your pension plans. During this session, a dynamic modeling tool will be used to demonstrate how today’s pension decisions are shaping the future financial stability of your municipality.

Learning Objectives

Participants completing this session will be able to:

1. Recognize certain actuarial assumptions;
2. Understand funding laws; and,
3. Become knowledgeable about how asset experiences impact employer contributions and the funded ratio of pensions.

2:45 – 3:00 PM **Afternoon Break**

3:00 – 4:00 PM **The Laws of Appreciating Returns: Analyzing the Case for Making (or Not Making) Supplemental Pension Payments from Uncommitted Reserves**

Speakers: **Mitchell Serota**, President Mitchell I. Serota & Associates, Inc.
 Mark Nannini, Chief Financial Officer, Illinois Municipal Retirement Fund (IMRF)

Part 1: Downstate Police and Fire Pension Plans

Mitchell Serota (3:00 - 3:30 PM)

Finance Directors may be considering a recommendation to contribute more to the Police and/or Fire Pension fund than the tax levied for the fund(s.) This session will explore the factors and circumstances that would indicate whether it is either desirable or preferable to contribute more than the minimum requirement and how to convince the Governing Board that a larger contribution is a sound financial decision. The Society of Actuaries published a Blue Ribbon Panel report, which recommends a more thoughtful approach to funding public pension plans. A central theme of the report is the imperative that the obligations of the current generation not be passed down to later generations. The report also recommends that the actuary perform a “stress test” to see the impact of the cash flow upon the funded status of the plan in the future. The stress test will be applied to a case study to help compare the minimum required pattern of funding to a pattern with enhanced contributions. From the results of the stress test, the session will suggest criteria, which Finance Directors can apply when evaluating supplemental payments for Police and Fire Pension Plans.

Learning Objectives

Participants completing this session will be able to:

1. Understand the circumstances when it may be desirable to recommend a contribution that exceeds the minimum required;
2. Be familiar with the three main points of the Society of Actuaries' Blue Ribbon Panel on public funding;
3. Analyze the funding status of the plans sponsored by the municipality as part of the compensation component of the budget;
4. Understand the long-range impact of contributing more, earlier compared to being forced into contributing more, later.

Part 2: IMRF

Mark Nannini (3:30 - 4:00 PM)

This session will look at supplemental pension payments towards the IMRF unfunded annual accrued annual liability (UAAL.) It will provide a general overview of where to start the process and what decisions need to be made by an employer. The session will also discuss what goes into the decision for your organization during this process.

Learning Objectives

Participants completing this session will be able to:

1. Discuss the supplemental payments and UAAL;
2. Understand the need for additional supplemental payments; and,
3. Understand the possible steps needed to consider making or not making supplemental payments.

4:00 – 4:30 PM

IMRF Hot Topics & Update

Speaker: Mark Nannini, Chief Financial Officer, Illinois Municipal Retirement Fund (IMRF)

Accelerated Payments became effective April 2012 under P.A. 97-0609. This session will look at IMRF Accelerated Payments and how they are designed to pay the present value cost of any increase due to salary increases of more than 6% or 1.5 times inflation over the previous year. A general overview of where to start the process, what decisions need to be made, and what hurdles may be encountered with accelerated payments for organizations will be discussed.

Learning Objectives

Participants completing this session will be able to:

1. Discuss the provisions of PA 97-0609;
2. Understand the need for Accelerated Payments; and,
3. Be able to follow the process of Accelerated Payments from form 7.20 to the Accelerated payment invoice.

4:30 PM

Closing Remarks

Many thanks to Chris Minick, Finance Director, City of St. Charles and Public Pension Team Leader and Jon Beckmann, Accounting and Payroll Supervisor, Waukegan Park District from the IGFOA Professional Education Committee for planning and coordinating the 2016 IPP Institute!