

Finance Sub-Committee Meeting on Pensions

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Cook County Pension Sub-Committee
June 29, 2011

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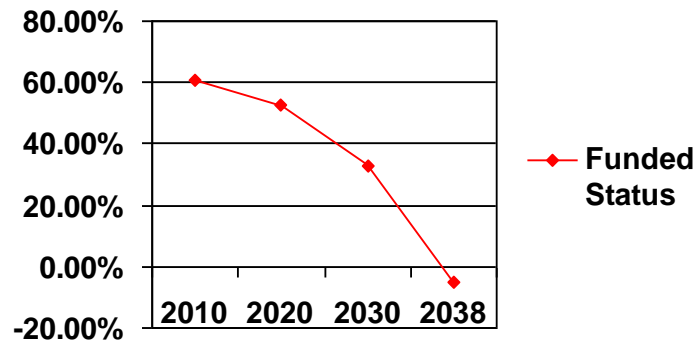
Paths to Solvency



Introduction

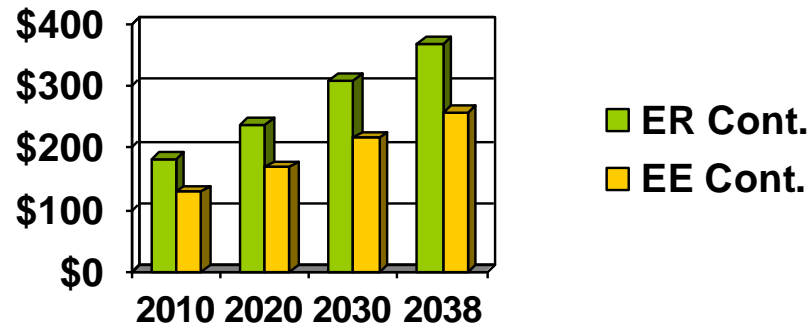
- The Cook County Pension Fund is currently funded at 60.7%. The funded status has dropped 30% in the last ten years and 15% in the last five.
- Cook County, as the employer, has made their full statutory required contributions to the Pension Fund every year and has repaid any loans from the fund.
- The statutory contribution is a multiple of the employee contribution and unrelated to the actuarial value of the liability being accrued by the fund.

Benefits, Employer & Employee Contribution: No Change



- Projected funded status with no changes to benefit formula or contribution levels

Millions



Billions

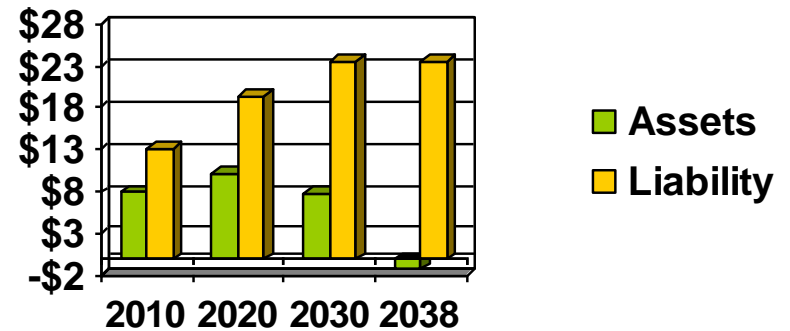
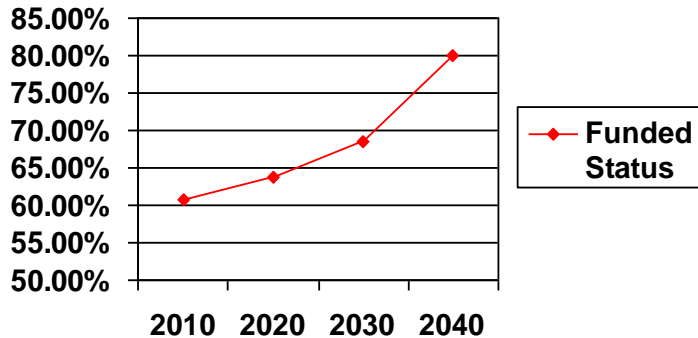


Table 1
Paths to Solvency
Commissioner Gainer

Benefits: No Change

Employee Contribution: No Change (8.5% of pay)

Employer Contribution: Increase Employer contribution to reach 80% in 2040



- Employer Contributes 21.49% of payroll annually beginning in 2012
- Employer currently contributes approximately 13% of payroll

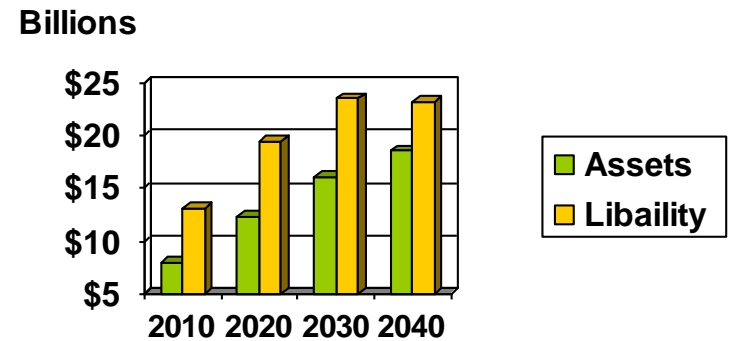
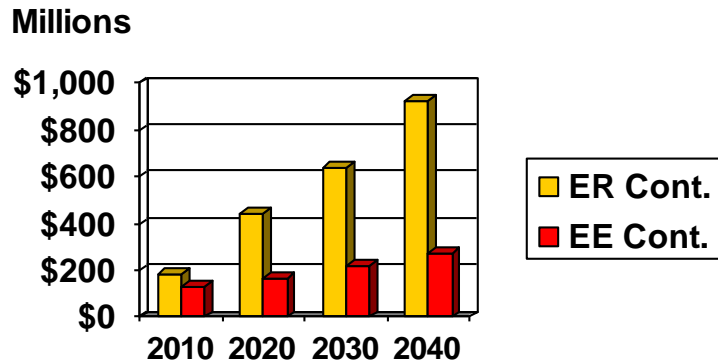
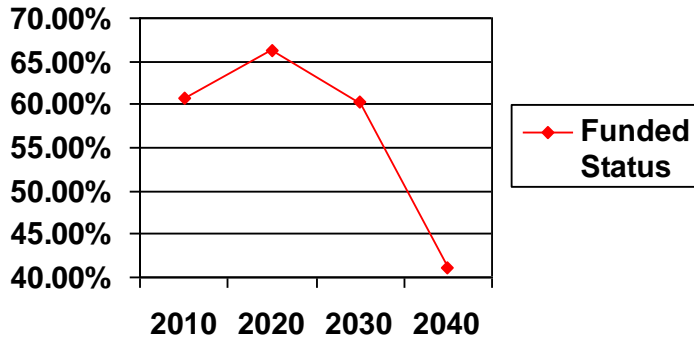


Table 2
Paths to Solvency
Commissioner Gainer

Benefits: Multiple 2.4 to 2.2; FAS = final 8 years; retirement age increased 5 years; COLA reduced to lesser of 3% or ½ CPI.

Employee Contribution: an additional 1% of Salary to 9.5%

Employer Contribution: No formula change, but increases with wage & contributions



- Changes only apply to those under 50
- Multiplier changed from 2.4% to 2.2%
- Final Average Salary changed to average of last 8 yrs.
- COLA reduced to 3% or half of CPI
- Retirement Age increased 5 years
- Employees Contribute 9.5% of Salary

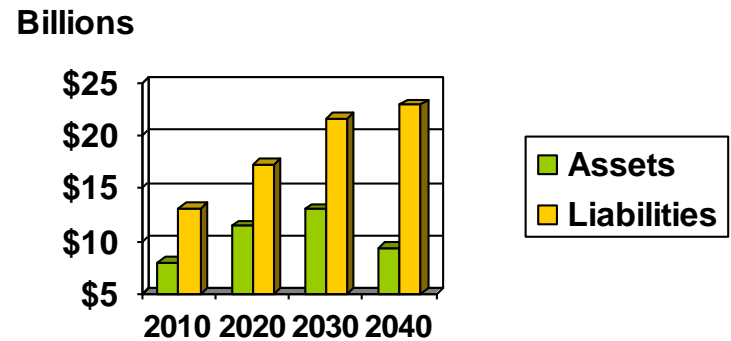
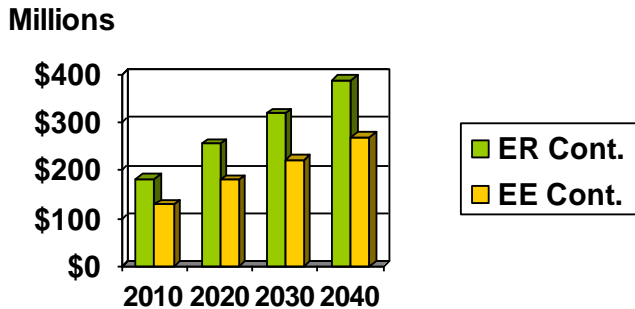
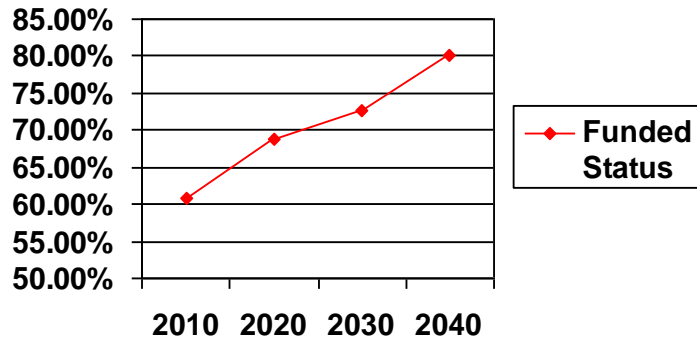


Table 12
Paths to Solvency
Commissioner Gainer

Benefits: Multiple 2.4 to 2.2; FAS = final 8 years; retirement age increased 5 years; COLA reduced to lesser of 3% or ½ CPI.

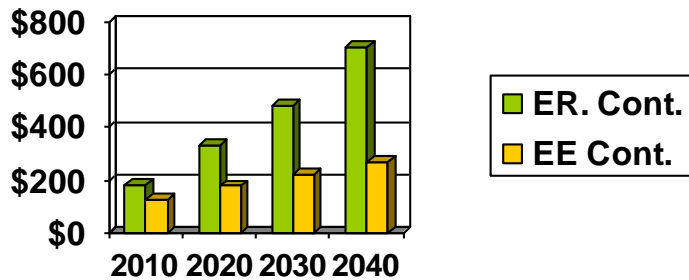
Employee Contribution: Additional 1% of Salary to 9.5%

Employer Contribution: Ramp over 10 years until 80% funded in 2040.



• After 10 years Employer Contribution levels off at 16.42%

Millions



Billions

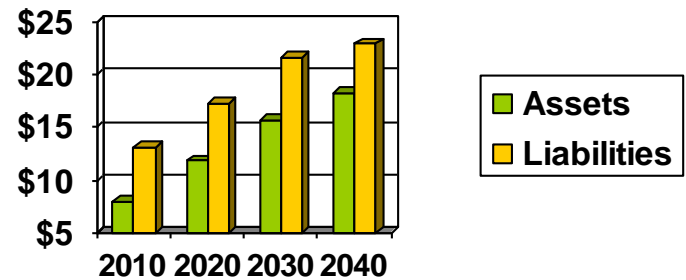
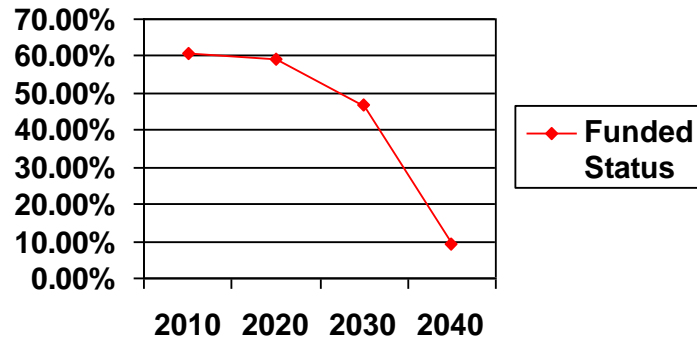


Table 13
Paths to Solvency
Commissioner Gainer

Benefits: Basket of Changes only applies to Employees under age 50:

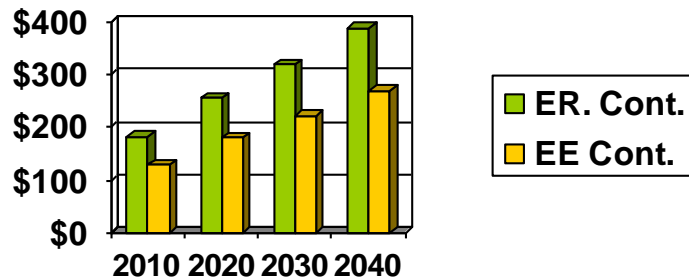
Employee Contribution: Additional 1% of Salary to 9.5%

Employer Contribution: No formula change, but increases with wage & contributions



- Benefit changes apply only to Employees under age 50
- Employer contributes at current formula

Millions



Billions

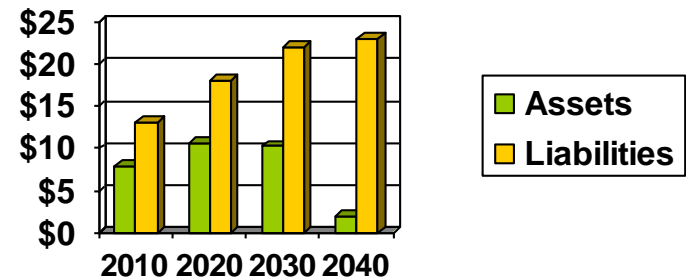
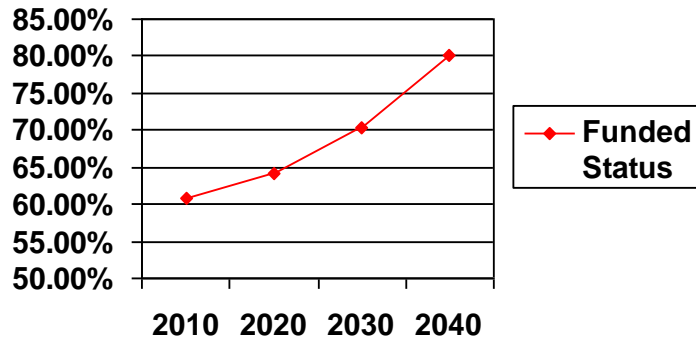


Table 15
Paths to Solvency
Commissioner Gainer

Benefits: Basket of Changes only apply to those under age 50

Employee Contribution: Additional 1% of Salary

Employer Contribution: Ramp over 10 years until 80% funded in 2040



- Changes only apply to those under 50
- Multiplier changed from 2.4% to 2.2%
- FAS to average of last 8 years
- COLA reduced to 3% or half of CPI
- Retirement Age increased 5 years
- After 10 years Employer Contribution levels off at 16.42%

Millions

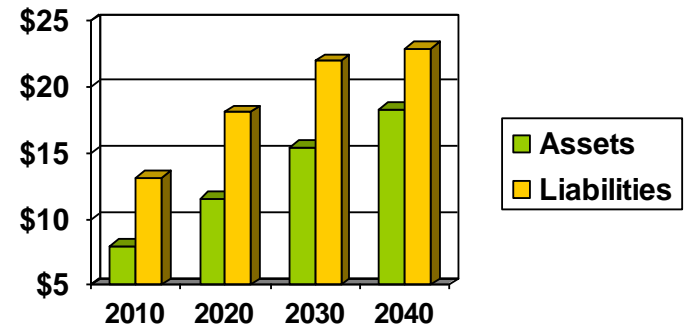
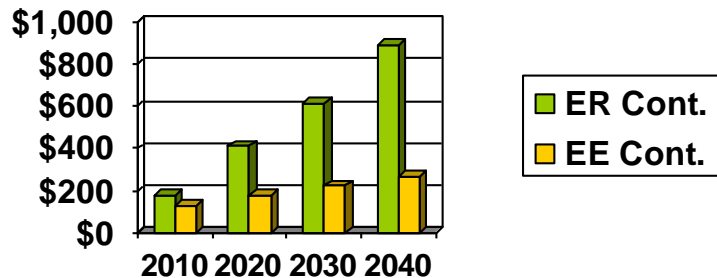
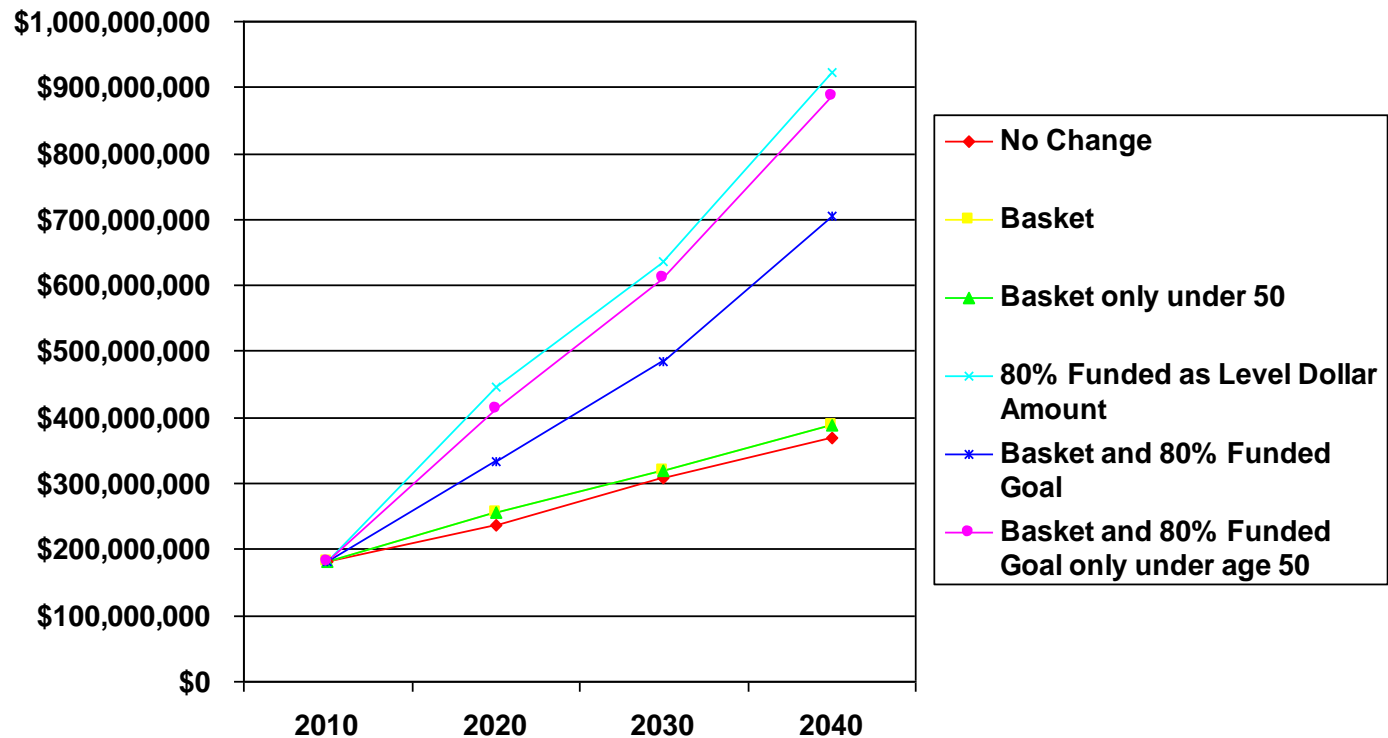
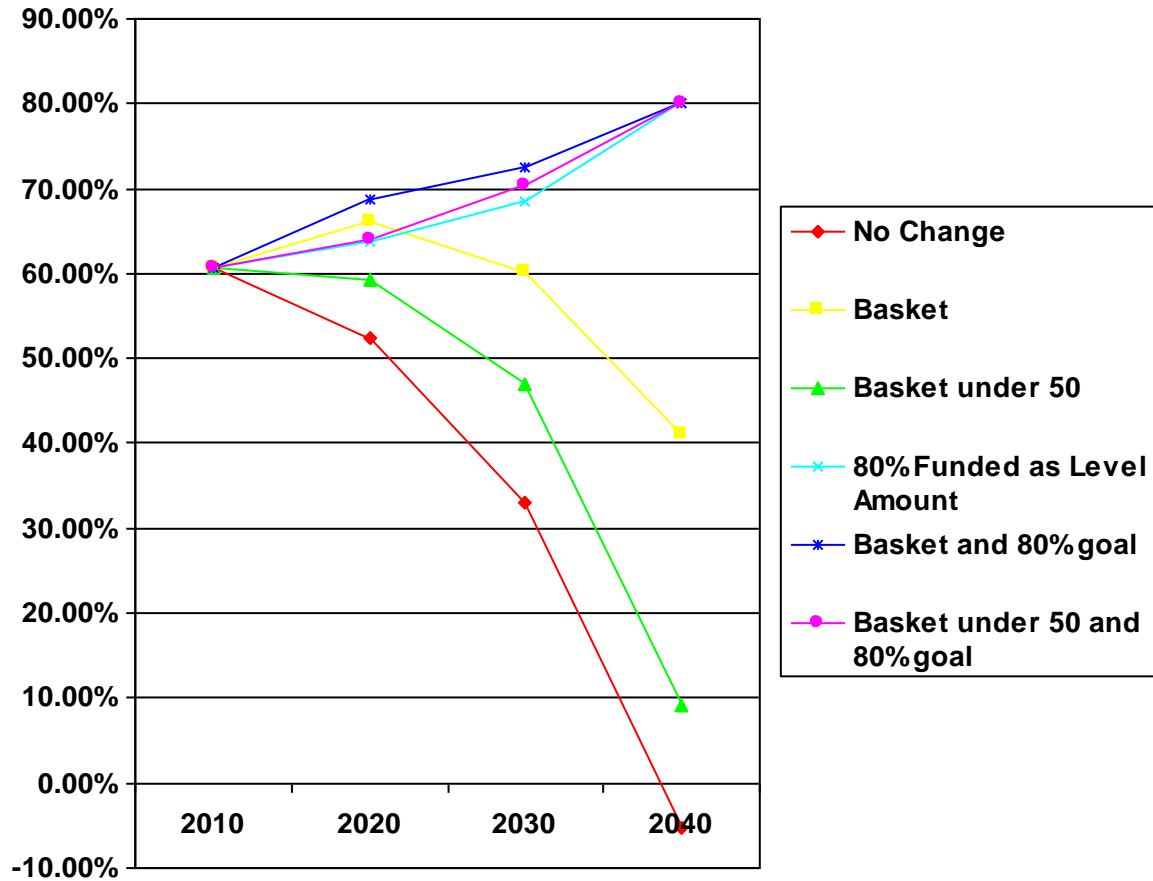


Table 16
Paths to Solvency
Commissioner Gainer

Employer Contribution



Funded Status





Results

- If no action is taken the Cook County Employee Annuity and Benefit Fund will have no assets and the County would have to enter a pay-as-you-go policy by 2038.
- Even if benefits are modified slightly by using the changes in the basket, that still will not bring the fund to an 80% solvency.
- In order to be 80% solvent by 2040 there will have to be increases by the Employer greater than the current statutory contribution limits, increase in Employee contributions and changes to the retiree benefit structure.



401(k)/Defined Contribution Research Report



Defined Contribution Plans for a Public Workforce

Senate Bill 512, the pension bill debated in Springfield this year, contained a provision for a self-managed plan for all State, City of Chicago and Cook County employees. This was a new development, as 401(k) style plans are currently limited to the State University Retirement System (SURS) system. With funded ratios for public plans dropping and calls for budget cuts, nationally, the conversation has grown around switching from Defined Benefit (DB) retirement plans to Defined Contribution (DC).

These calls are countered by those uncomfortable with the increased risk for the employees of market volatility and longevity risk. Arguments have been put forward in support of maintaining the DB status quo, amending DB plans and moving toward DC. Recently, new 401(k) vehicles have been introduced that focus on maintaining the retirement income security within a DC plan.

For a public sector population without the guaranteed income of Social Security, the stability of the future retirement income stream is paramount. As the demand for 401(k) like vehicles grows for this population, plans with greater income security, investment decision support, employee education and annuity-like features have increased.

The following report details the results of national studies on the way employees use 401(k) plan assets, academic research or best practices and case studies from other public plans.

“Leakage of Participants’ DC Assets: How Loans, Withdrawals, and Cash outs Are Eroding Retirement Income”

Hewitt 2011

Examined: The behavior of 1.8 million employees in 110 large 401(k) plans nationally to assess their ability to provide sufficient retirement income

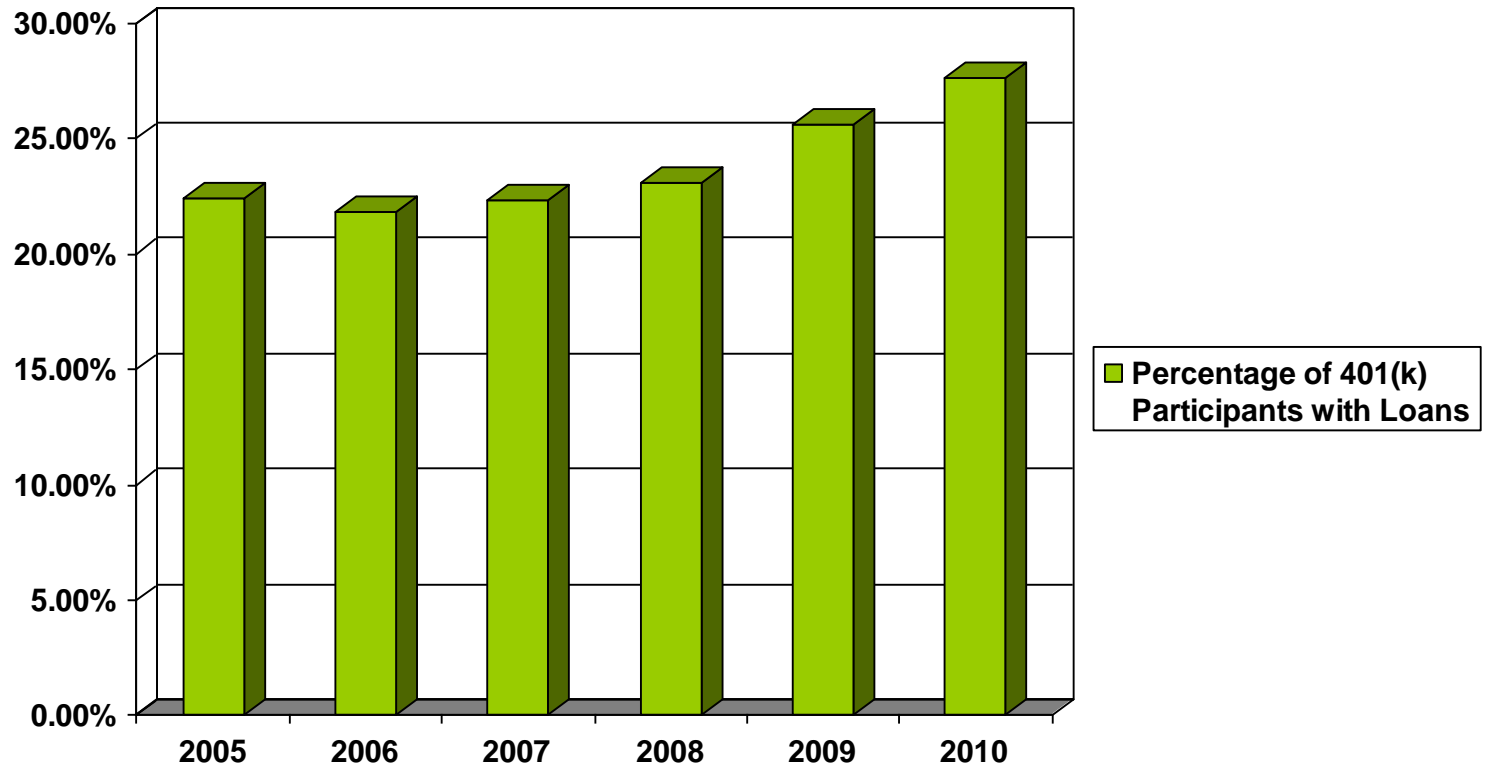
- 28% of all active participants had a loan outstanding.
- 70% of Employees that had loans outstanding at termination defaulted on the repayment.
- In 2010 over 6.9% of 401(k) participants took a withdrawal of funds.
- 401(k) members with lower salaries were more likely to take a withdrawal and more women were taking withdrawals than men.
- The majority of employees that took a withdrawal did so due to eviction or foreclosure.
- 42% of the workers that lost their jobs in 2010 took a cash out of their 401(k)
- Younger workers who change jobs are more likely to cash out their 401(k)
- Cashing out a 401(k) reduces future retirement income between 11% and 67%

Suggestions: Enact measures that reduce loans, withdrawals and cash outs

- Restrict the number of loans allowed and the amount an employee can borrow or withdraw
- Limit the reasons for hardship withdrawals
- Simplify rollover process for those who are leaving employment for a new position

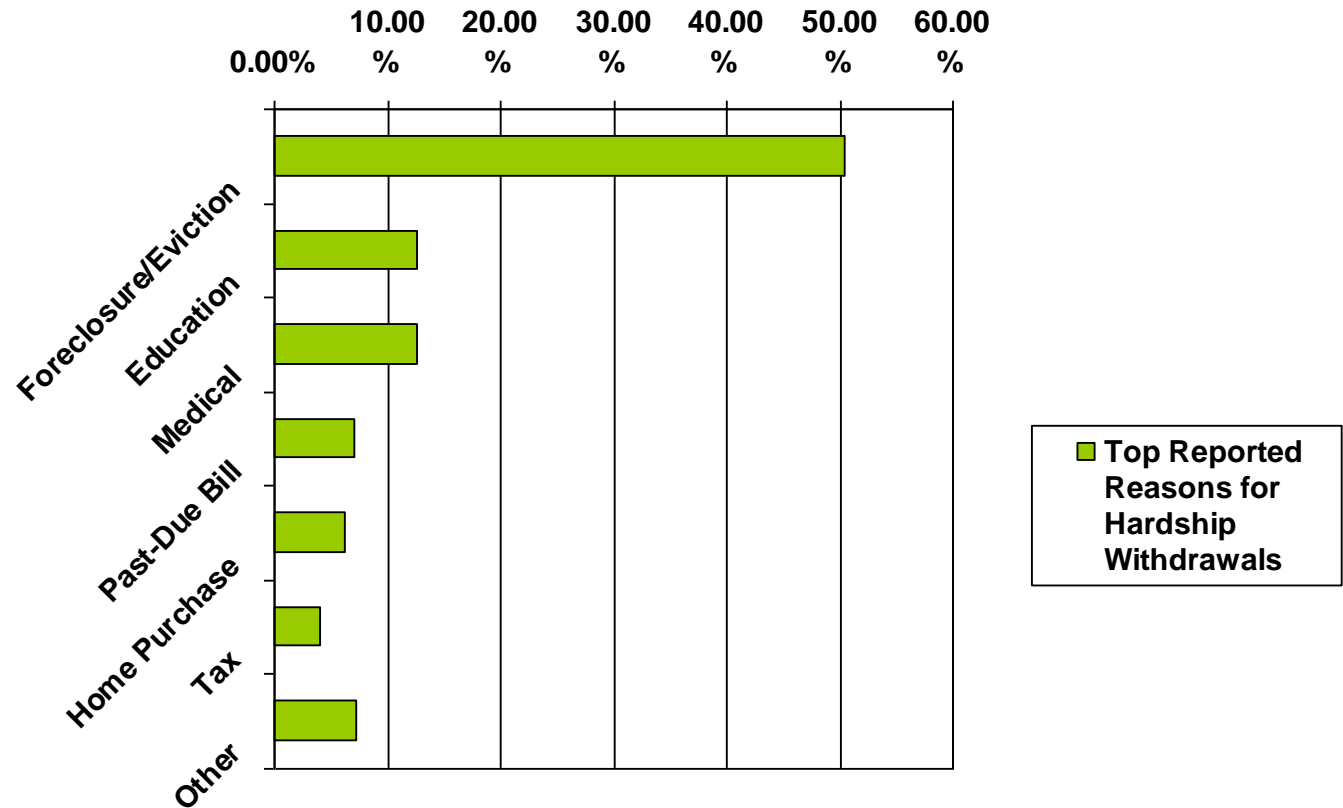
“Leakage of Participants’ DC Assets: How Loans, Withdrawals, and Cash outs Are Eroding Retirement Income”

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“Leakage of Participants’ DC Assets: How Loans, Withdrawals, and Cash outs Are Eroding Retirement Income”

Hewitt 2011



“401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups”

Ariel Investments July 2009

Examined: The results of an analysis of private sector 401k plans broken down by participant race.

- African Americans are 167% more likely to take a hardship withdrawal than white participants.
- Hispanics borrow from their 401(k) plans at a higher rate than whites, but a lower rate than African Americans.
- Asian workers are the least likely to borrow against their 401(k)

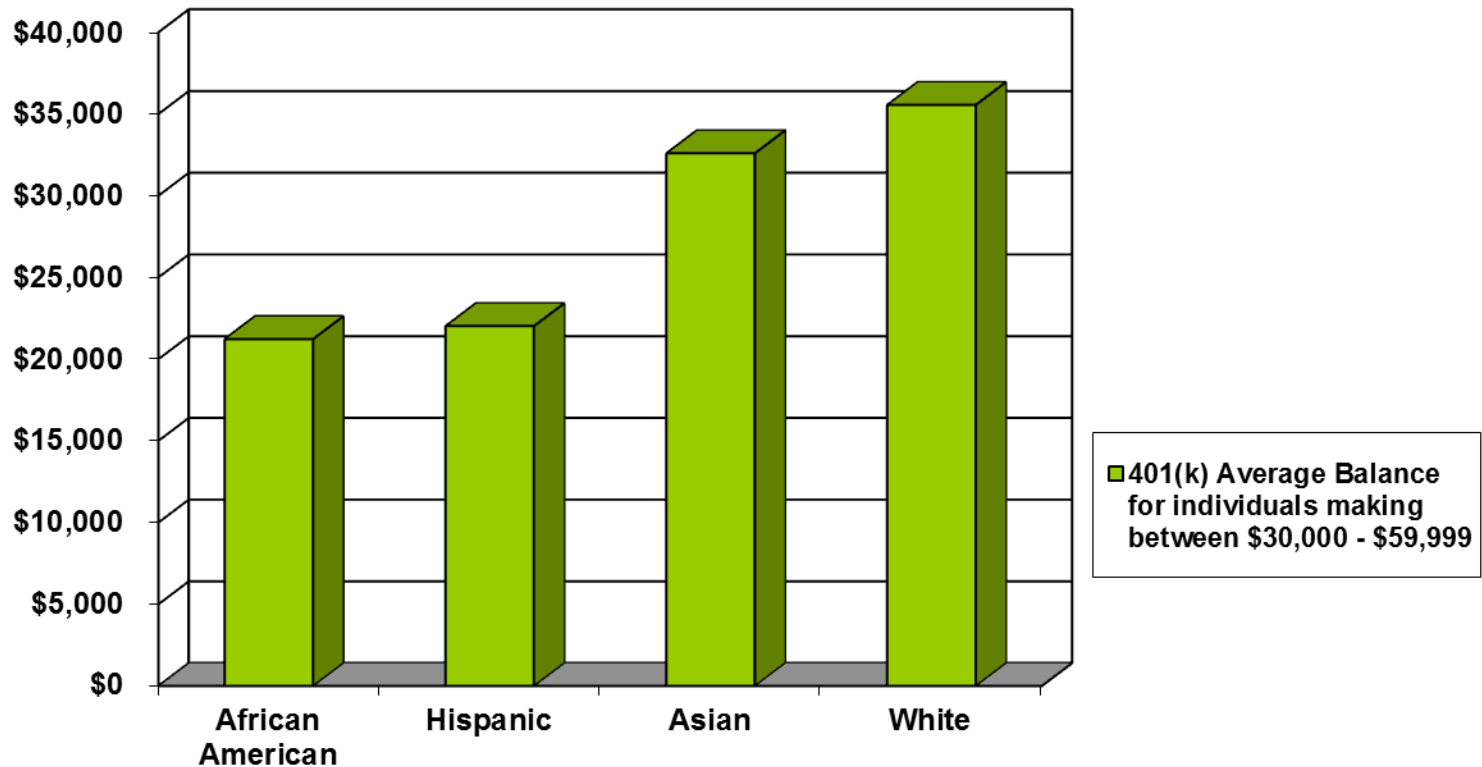
Suggestions: Implement best practices to increase retirement income security

- Encourage employers to collect and report their 401k data by race and ethnicity
- Change loan features to facilitate retirement income stability



401(k) Plans in Living Color: A Study of 401(k) Savings Disparities Across Racial and Ethnic Groups”

Ariel Investments July 2009



“Defined Contribution Pension Plans in the Public Sector: A Benchmark Analysis”

Wharton School, University of Pennsylvania 2008

- The University of Pennsylvania Wharton School comprised a list of best practices for 401(k)/Defined Contribution Pension Plans that will help provide an adequate and secure retirement income.

Eligibility and Participation	Mandatory Enrollment/Opt Out Waiting period of a year or less for participation
Vesting	100% Vested after one year of employment
Contributions (Employer and Employee)	12% of pay if covered by Social Security 18 to 20% of pay if not covered by Social Security
Investments	Mandatory/default investment into lifecycle target-date funds Limited menu of options of major asset classes
Distributions	Pre-retirement: No lump sum distributions at job change No hardship withdrawals No plan loans Retirement: Level of mandatory annuitization with inflation-protected income Limited lump-sum distribution
Administrative Structure and Fees	Single vendor recordkeeping structure Single point of contact for participants Larger plans standard: total administrative and investment costs not to exceed 100 basis points
Other Participant Services	Broad-based employee investment education Individual-specific investment advice Services delivered through multiple modes: call center, internet and in-person

“Look Before You Leap; The Unintended Consequences of Pension Freezes”

National Institute on Retirement Security Oct. 2008

West Virginia Case Study:

- In 1991, the West Virginia Teacher’s Retirement System (TRS), a DB plan, was frozen, and all newly hired teachers were put into a new plan, the Teachers Defined Contribution Retirement System (TDC).
- In 2004 the State conducted a study of teacher’s retirement 401(k) plans and determined that the average balance was \$41,478 with only 6% of participants accumulating over \$100,000.
- The State decided that allowing teachers to invest themselves was too risky and passed a law in 2005 that moved all new teachers into a DB plan.
- When given the opportunity to move from the DC plan back to the DB plan over 75% of West Virginia teachers under 40 switched into the DB.



Governance

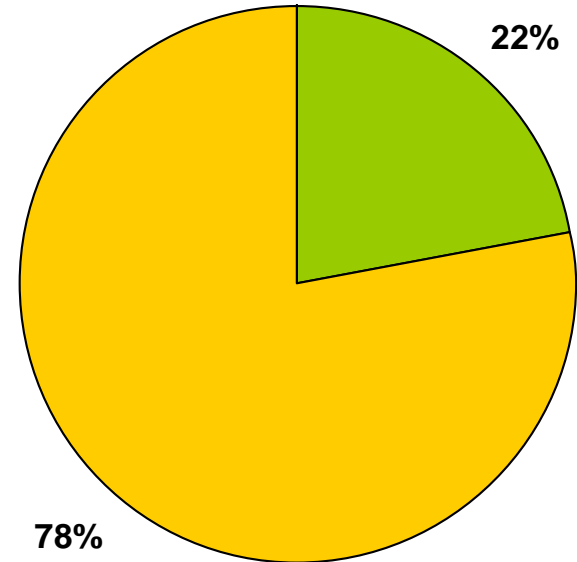
Cook County Pension Fund Board

Nine Member Board

- 4 Elected by Current Employees
 - 3 County Employees
 - 1 Forest Preserve Employee
- 3 Elected by Retirees
 - 2 County Retirees
 - 1 Forest Preserve Retiree
- 2 Appointed
 - 1 by the Treasurer
 - 1 by the Comptroller

Investment Committee

- Committee of the Whole





Types of Pension Fund Members

- **Elected Members:** Elected by active or retired members of the retirement system.
- **Ex Officio:** Members of the Board of Trustees by virtue of appointment or election to another public office. Example: County Treasurer.
- **Appointed:** Members appointed by the elected Chief Executive or Governing Body. Subject matter expertise can be required. i.e., investment, finance or actuarial. Also called “Public Appointments” based on duty to represent taxpayer interest in the performance of the pension fund, akin to independent directors on corporate boards.
- A study by the University of Michigan Found the Average Board was (Hess 2005):
 - 36% Elected
 - 15% Ex Officio
 - 44% Appointed
- The Same study found that the optimal level of elected board membership was a maximum of 47%

Board Composition: Local and National Funds

- **State of FL Retirement System:** 100% Ex Officio
- **Public Safety Retirement System AZ:** 75% appointed, 25% Elected
- **AZ State Retirement System:** 100% Appointed
- **LA County Board of Retirement:** 45% Appointed, 45% Elected, 10% Ex Officio
- **CALPERS:** 25% Appointed, 50% Elected, 25% Ex Officio
- **Iowa Public Employee Retirement Board:** 85% Appointed, 15% Ex Officio
- **NJ Public Employee Retirement System:** 35% Appointed, 65% Elected
- **TX County/District Retirement System:** 100% Appointed
- **Cook County Annuity & Benefit Fund:** 77% elected, 23% appointed
- **Municipal Employees and Benefit Fund of Chicago:** 60% Elected, 40% Ex Officio
- **Fireman's Annuity and Benefit Fund of Chicago:** 50% Elected. 50% Ex Officio: Fire Commissioner, City Treasurer, Comptroller, Clerk
- **Chicago Laborer's Pension and Welfare Fund:** 50% appointed by the Mayor, 50% appointed by the Laborers Union
- **Policeman Annuity and Benefit Fund of Chicago:** 50% Appointed, 50% Elected
- **IMRF:** 50% Elected by members, 50% elected by participating governments
- **IL State Employees:** 45% Appointed, 45% Elected, 10% Ex Officio
- **ISBI:** 55% appointed, 45% ex-officio

Other Funds Publicly Appointed Member's Qualifications

- **AZ State Retirement System:** Four of the members shall have at least ten years' substantial experience as any one or a combination of the following:
 - 1. A portfolio manager acting in a fiduciary capacity.
 - 2. A securities analyst.
 - 3. An employee or principal of a trust institution, investment organization or endowment fund acting either in a management or an investment related capacity.
 - 4. A chartered financial analyst in good standing as determined by the association for investment management and research.
 - 5. A professor at the university level teaching economics or investment related subjects.
 - 6. An economist.
 - 7. Any other professional engaged in the field of public or private finances.
- **Iowa Public Employees Retirement System:** Three public members, appointed by the Governor, who are not members of IPERS and who each have substantial institutional investment experience or substantial institutional financial experience.
- **Illinois Municipal Retirement Fund:** A nominee for executive trustee must be employed by an IMRF employer as a chief executive officer, chief finance officer, or other officer, executive or department head.



Results of Research Data

- The percentage of the board that is elected by members or serve ex-officio has a positive effect on funding level (or appearance of funding).
 - “asset allocation and the funding level decisions indicate member elected trustees are more focused on a stable, sustainable plan to provide future benefits as opposed to chasing higher returns through a riskier asset allocation.
 - The object of higher funding is strengthened by the presence of ex-officio trustees, who serve as part of their job responsibilities. (Harper 2008)
- ‘There are board characteristics that significantly correlated with investment manager outperformance..... The (greater the) length of the board term has a negative relationship with manager returns versus the benchmark.’ (Harper 2008)
- In the University of Michigan Study, “once the board consists of 47% member-elected trustees, there are diminishing returns to placing an additional member-elected trustee on the board.” (Hess 2005)
- Any board that operates effectively includes members who have a mix of skills, competencies, and behaviors, Board composition should reflect the varied interests of those responsible for funding the plan and should include plan participants and retirees, citizens of the governmental unit, and officers of the plan sponsor, as well as independent directors. This assures balanced deliberations and decision making. (GFOA 2010)



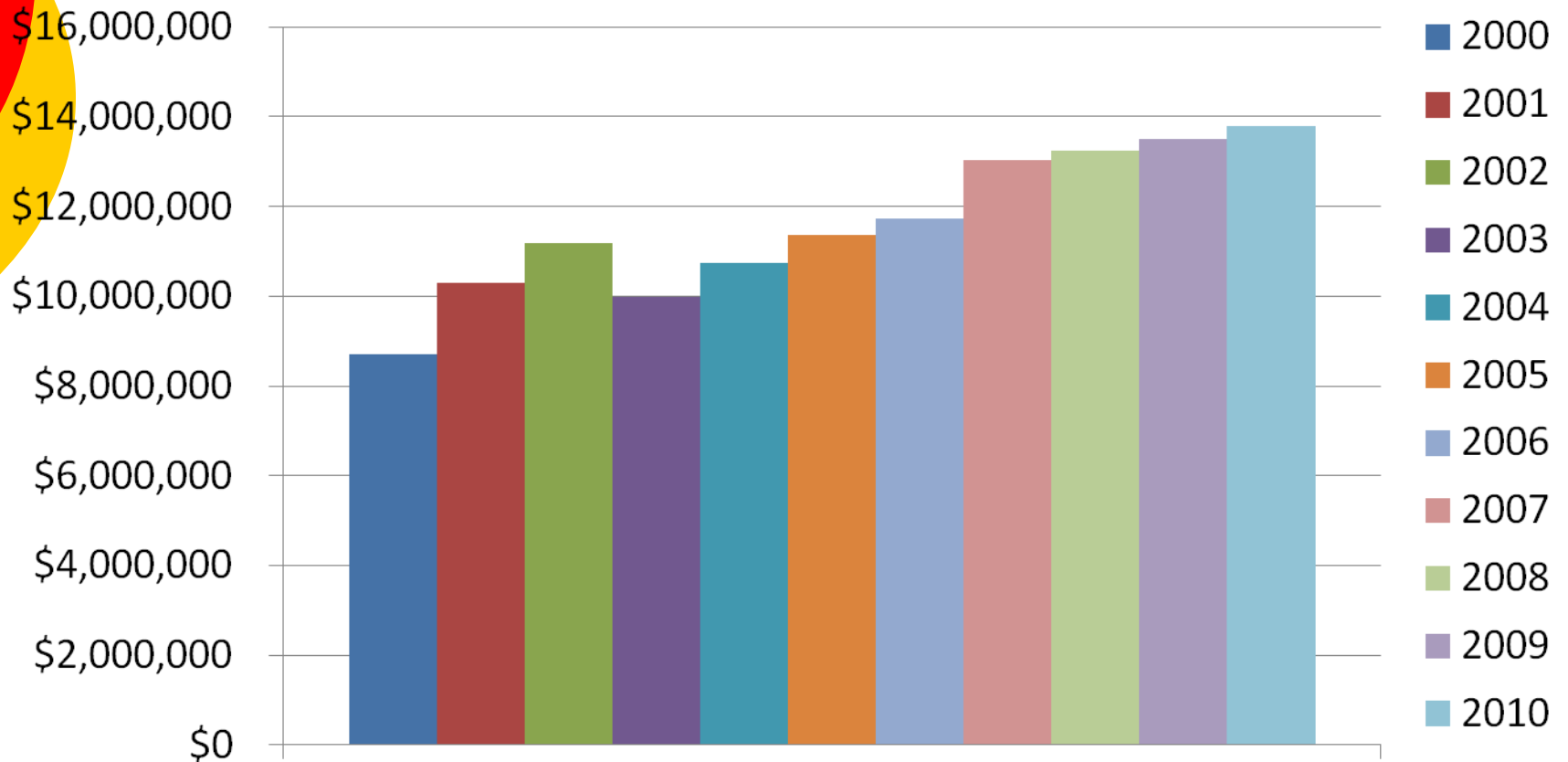
Disability Benefits



Disability and Pension

- If an employee's disability continues after the maximum ordinary disability benefit, then the employee can withdraw before age 60 from service and receive their maximum benefit allowed. There will be no penalty for withdrawal from service before age 60.
- While on disability, pensionable years of service accumulate as if the employee were working and any time spent on disability counts to overall service credit.
- In determining the final average salary, any years spent on disability are credited with the salary the worker was receiving when they were injured.

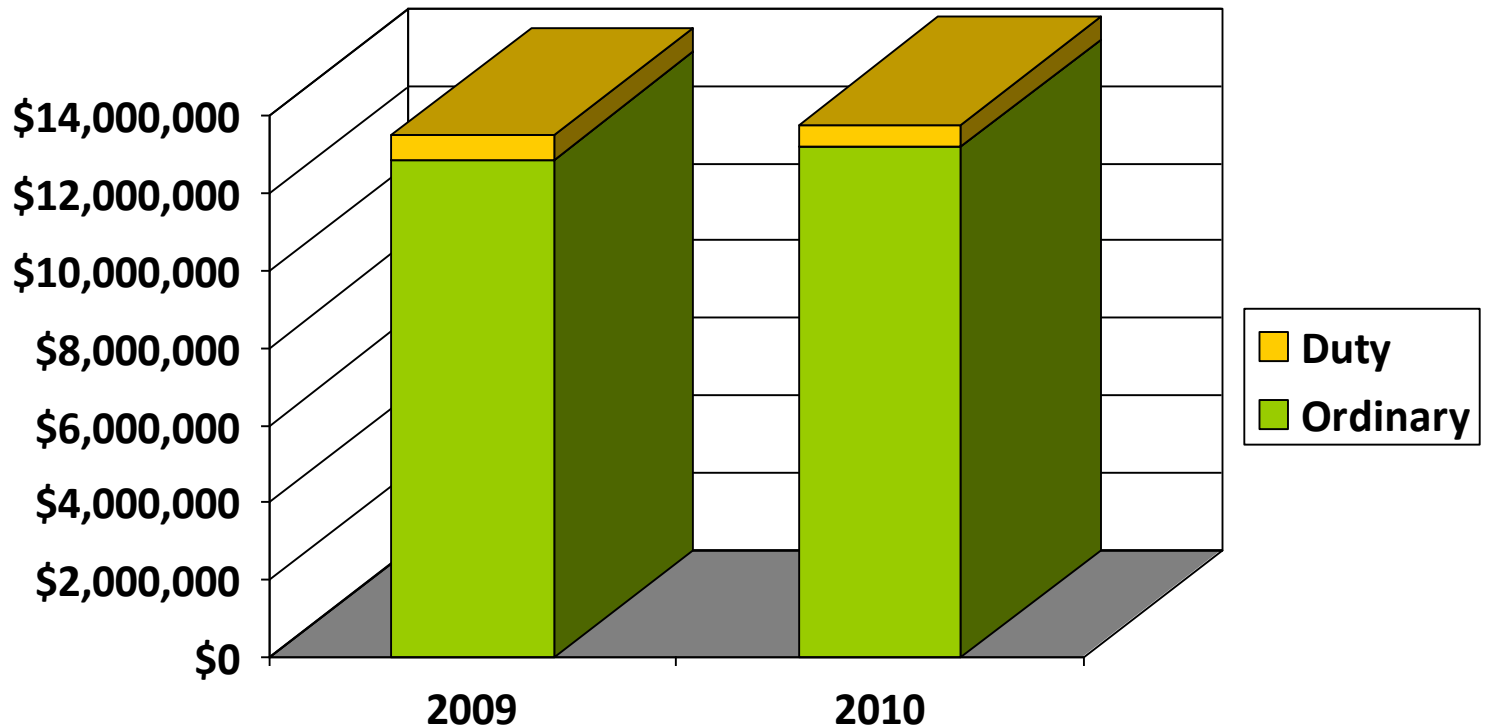
Annual Cash Outflow from the Pension Fund for Disability Payments



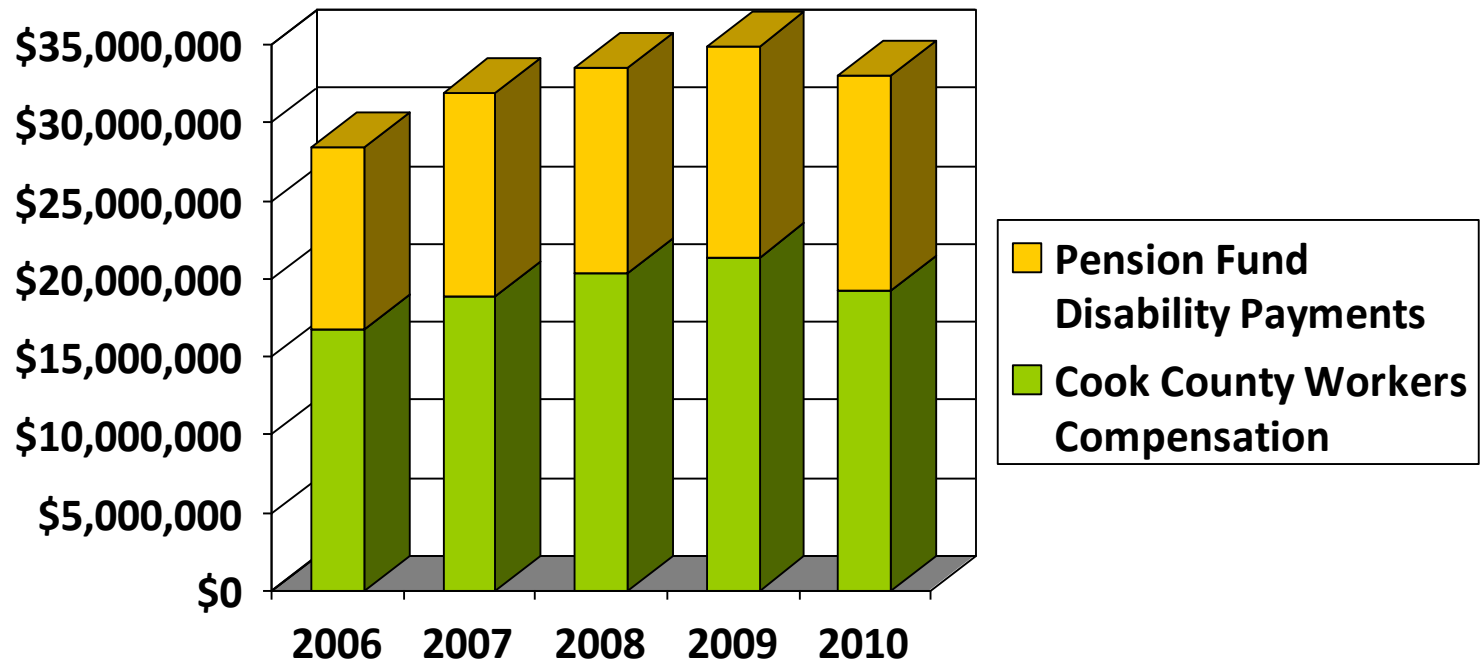
Annual Disability Payment

Disability Benefits
Commissioner Gainer

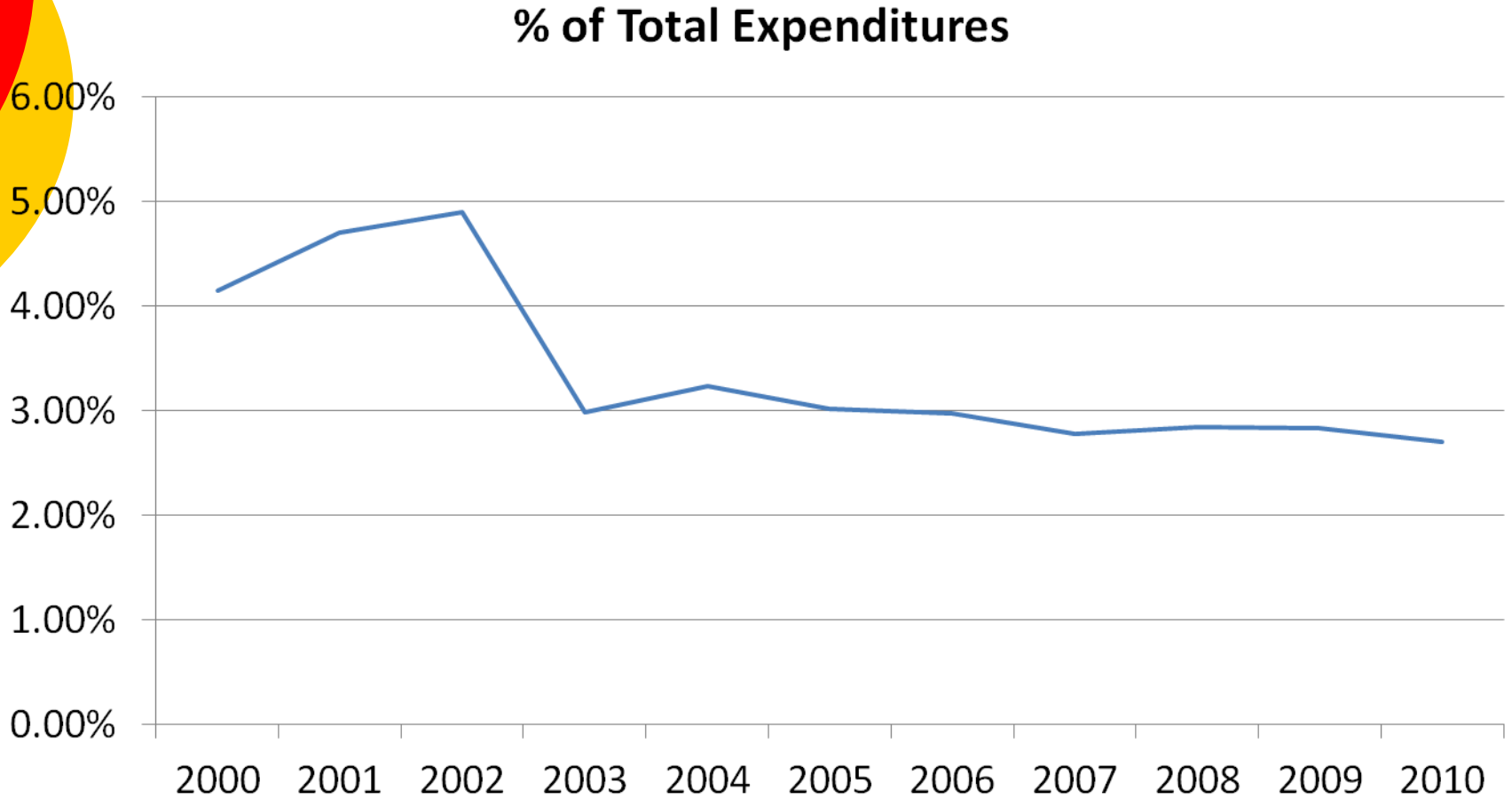
Pension Fund Disability Cost Breakdown



County + Pension Fund Disability Costs



Disability Annual Cost as % of Total Fund Expenditures





Recent Changes and Comparisons to Pension Funds Across the Country



Recent Changes New Jersey Pension Fund

- Retirement Age increased to 65 for all future employees. Current retirement age is either 60 or 62 depending on date of hire.
- EE Contribution: Increase 1% now and a 1% increase over the next 7 years. State Employees currently paying 5.5%.
- Benefit Formula
 - Current Employees: 65% of Final Average Salary, plus 1% for every year over 25 years of service up to 30 years of service.
 - Future Employees: 60% of Final Average Salary, plus 1% for every year over 25 years and up to 30 years of service.
- ER Contribution: 2018 begins a 30 year amortization plan.
- COLA: No additional COLA for current retirees, Eliminates COLA for all future retirees.
- Reported to save \$300 Million next year and over \$3 Billion in the next 10 years.



Recent Changes New York Pension Fund

- Creates the 6th tier of pension benefits in the NYS system.
- Retirement Age: Increased to 65, currently 62 for most and 57 for teachers.
- Vesting: Increased to 12 years from 10.
- EE Contribution: Increases to 6% from 3%
- ER Contribution: Maintains the Current Actuarially Required Contribution.
- Reported to save \$93 Billion over the next 30 years.



Recent Changes Atlanta Pension Fund

- Current Employees can remain in their current plan, but contributions will increase from 8% to 13% of Salary.
- New Employees now participate in a Hybrid Plan
 - 1% Defined Benefit Multiplier for every year of service
 - Employees contribute 8% for their Defined Benefit Portion
 - Employees contribute a minimum of 3.75% to a Defined Contribution, 401(k) style plan. Employees can opt to contribute an additional 4.25%.
 - ER matches the Employee Defined Contribution 100%.
 - 15 years to vest in Defined Benefit Portion, 5 years to vest in Defined Contribution Portion
 - Retirement age for police and fire is increased to 57 from 55
 - Retirement age for other employees is increased to 62 from 60.
- Reported to save the city \$25 million over the first year and over \$300 million over the next 30 years.



Recent Changes Florida Pension Fund

- Current Employees
 - No COLA increase after July 1, 2011, was 3% annually.
 - Contribution increased to 3% from 0%

- Future Employees
 - Same changes as current Employees, plus
 - Vesting increased to 8 years, from 6 years
 - Final Average Salary determination is 8 highest fiscal years average, was the 5 highest average.
 - Normal Retirement age is 65 for most employees, 60 for special risk employees (police, fire, etc.)

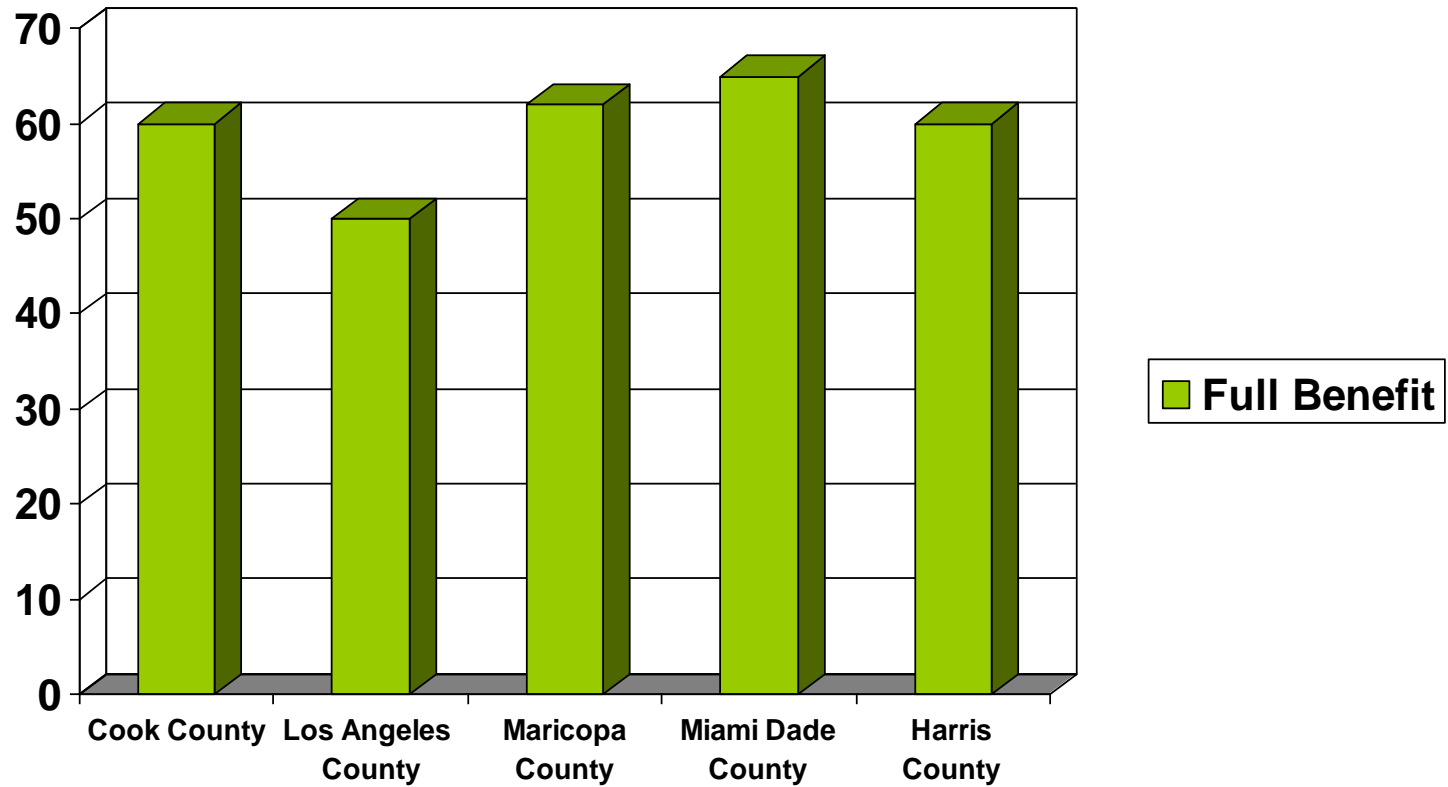
- All employees will continue to participate in the Social Security System



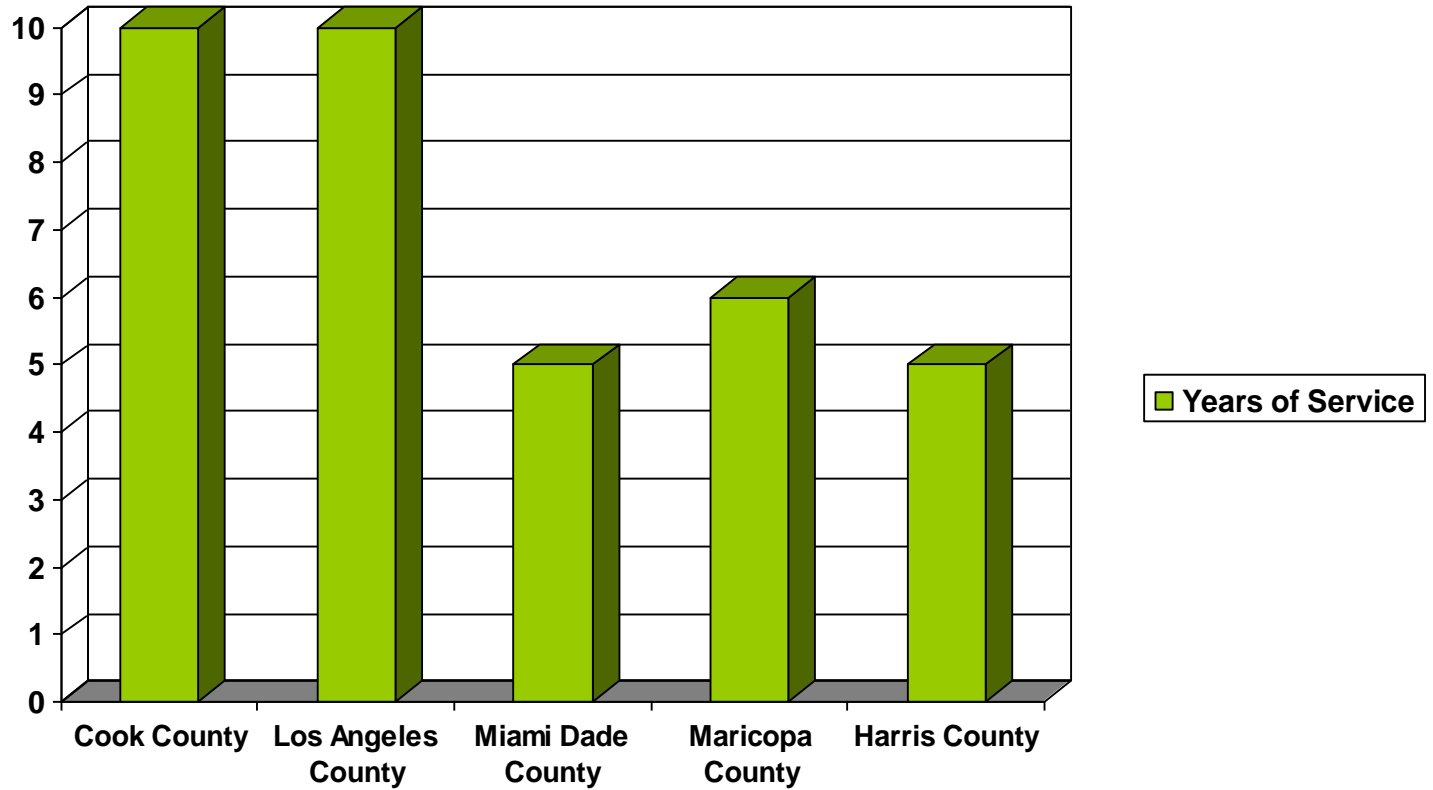
County Comparison

- The following charts outline a Comparison between the Cook County Pension Fund and the following Counties:
 - Los Angeles County CA
 - Maricopa County AZ, A member of the Arizona Retirement System
 - Miami Dade County FL, A member of the Florida Retirement System
 - Harris County TX, A member of the Texas County and District Retirement System
- Cook County and Los Angeles County do not participate in Social Security, the other funds do participate in Social Security

County Comparison Retirement Age



County Comparison Vesting



Recent Changes and Comparisons
Commissioner Gainer



County Comparison Multiplier and Final Average Salary (FAS)

Multiplier

- Cook County: 2.4%
- Los Angeles County: Between 11.82% of FAS and 100% depending on years of service when retired
- Miami Dade County: 1.6%
- Maricopa County: 2.1% to 2.3% depending on years of service
- Harris County Texas: Not a DB plan

Final Average Salary

- Cook County: 48 Highest consecutive months in the last 10 years
- Los Angeles County: Highest Monthly average of any 12 consecutive months
- Miami Dade County: Average of five highest years of creditable service
- Maricopa County: Highest 36 months of last 10 years
- Harris County: Not a DB plan