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CERTIFIED PUBLIC ACCOUNTANTS

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Consolidation Update

Consolidation Progress as 2022 Approaches

Actuarial

Audit


Financial Services


Pension

Tax


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Presenters






A.J. Weber
(630) 393-1483 ext 241
aweber@lauterbachamen.com





Todd Schroeder
(630) 393-1483 ext 222
tschroeder@lauterbachamen.com

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Consolidation Update

- Consolidation
 - Completed Initiatives
 - Upcoming Initiatives
- Actuarial Update
 - Current Process
 - Changes
 - Unknowns
- Things to Consider

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Consolidation Update

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Public Act 101-610

- Signed into law December 18, 2019, Effective January 1, 2020
- Interim Board Appointed by the Governor on January 31, 2020
- Elect a Permanent Board
- Transfer Consolidated Pension Assets into IFPIF/IPOPIF Portfolios
- Provide Statutorily Required Training
- Communicate With Local Pension Funds, Municipalities, and Stakeholders

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Current Board of Trustees - IFPIF

Chuck Sullivan, Chair
 Brad Cole, Vice Chair
 Kevin Bramwell, Active-Duty Firefighter, Bolingbrook
 Tom Dailly, Mayor, Schaumburg
 Matt Kink, Active-Duty Firefighter, Springfield
 Greg Knoll, Retired Firefighter, Homewood
 John Perry, Treasurer, Lisle-Woodridge FPD
 Herb Roach, Mayor, O'Fallon
 George Schick, Active-Duty Firefighter, Orland FPD

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Current Board of Trustees - IPOPIF

Shawn Curry, Participant Representative, Peoria, Chair
 Lee Catavu, Participant Representative, Aurora
 Paul Swanlund, Participant Representative, Bloomington
 Daniel Hopkins, Beneficiary Representative, Collinsville
 Mark Poulos, Beneficiary Representative, Rock Island
 Elizabeth Holleb, Municipal Representative, Lake Forest
 Michael Inman, Municipal Representative, Macomb
 Phil Suess, Municipal Representative, Wheaton
 Brad Cole, Illinois Municipal League Representative



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Staff

IPOPIF

- RichWhite, Executive Director
- Kent Custer, Chief Investment Officer
- Steve Yoon, Investment Officer
- Shaun Ivey, Administrative Manager
- Website: <https://www.ipopif.org/>

IFPIF

- William Atwood, Executive Director
- Steve Zahn, Chief Operating Officer
- David Zaloga, Chief Financial Officer
- Mitchell Green, Portfolio Officer
- Robina Amato, Member Services
- Website: <https://ifpif.org/>



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Elements for Investments Transition

- External Auditor
 - Perform independent audit
 - Sikich & Baker Tilly
- Investment Consultant
 - Advise on custodian oversight
 - Develop and implement investment policy
 - Marquette & Associates, Verus



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Elements for Investments Transition

- Internal Audit/Audit Consultant
 - Advise on development of systems and procedures and best practice
 - Ernst & Young chosen by IFPIF
- Custodian
 - Transition and hold portfolio assets
 - Interface with constituent pension funds
 - Advise and build systems and procedures
 - Northern Trust & State Street
- Retention of Actuary
 - Foster & Foster has been selected by IFPIF



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Transition Process

- Consolidated Funds to provide written notice of a transfer date
- IFPIF's first tranches occurred October 1st and November 1st
 - At least three more tranches planned
- IPOPIF expects their first tranche to occur January/February 2022
- Tranche considerations given to fiscal year ends, prior custodians and amount of assets
- Each local pension fund will go through the Certified Asset List process

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Certified Asset List

- Each transition of investment assets from an Article 3/4 pension fund will be completed based on Certified Assets Lists prepared by independent CPAs and delivered no less than 10 days prior to the pension fund's Transfer Date.
- The Certified Asset Lists will each contain a Transferable Asset List (assets that will transition to the consolidated funds on the Transfer Date) and a Non-Transferable asset List (assets that will remain with the Local Fund on and after the Transfer Date).
- Trading will be frozen on assets included on the Transferable Asset List portion of the Certified Asset List during the period between the delivery of the Certified Asset list and the Transfer Date.

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Certified Asset List

- The statute requires that a receipt for investment assets transferred to the consolidated boards be prepared and delivered to the local pension funds within 30 days of the Transfer Date.
- The consolidated funds, their custodians and CPA firms that complete the Certified Asset Lists will complete this receipt and deliver it to pension funds in advance of the statutory deadline.
- IFPIF receipts will be delivered to pension funds via email with an additional hard copy delivered via mail.

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Transition Plan – Statutory Audit

- The statute requires that an audit of the entire transition process be completed by an independent CPA firm within 6 months of the end of the Statutory Transition Period. (Audit completed by 12/31/22 for transition completed by the Statutory Deadline of 06/30/22).

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Cash Management – IFPIF Policy

- IFPIF has established a Cash Management Policy which is available on their website.
- The purpose of this Cash Management Policy is to setup the procedures and best practices for interaction between Participating Pension Funds and IFPIF. The Policy aims to ensure an efficient working process that allows Participating Pension Funds to meet monthly benefit obligations and transfer excess funds to IFPIF for investment while also allowing IFPIF to effectively plan for the liquidity needs of Participating Pension Funds.
- The IPOPIF cash management policy is pending

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Cash Management – IFPIF Policy

- IFPIF will process all transfer requests and transfers properly submitted by Account Representatives of Participating Pension Funds through the IFPIF custodian. Account Representatives of Participating Pension Funds shall include the Authorized Agents and Treasurer of the Participating Pension Fund. Participating Pension Funds may name an additional Account Representative who is not required to be a voting member to facilitate transfers.
- Account Representatives who are not the Authorized Agents or the Treasurer of the Participating Pension Fund shall be appointed by board resolution.

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Cash Management – IFPIF Policy

- Each Participating Pension Fund shall keep no less than 60 days of expenses in a local account for payment of benefits and other expenses during the 60-day period following the Pension Fund's Transfer Date. IFPIF shall not make transfers to Participating Pension Funds during the 60-day period following the Pension Fund's Transfer Date.
- "Transfer Date" means the date at which IFPIF will assume fiduciary control of a pension fund's assets included on a certified investment asset list.

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Cash Management – IFPIF Policy

- IFPIF recommends that pension funds keep an estimated 3 months of expenses in a local account. The amount of cash kept in the local account will fluctuate and will necessitate transfers to and from IFPIF.
- **Cash Redemptions.** Requests to redeem cash from IFPIF can be made on a monthly basis. Requests for transfers from IFPIF to a Participating Pension Fund must be sent to IFPIF by 5:00 pm central time on the 1st of each month. Requests properly submitted on or before the 1st of each month, will be processed for transfer by the 1st of the *following* month.
- **Cash Contributions.** If a Participating Pension Fund has a surplus of dollars in the local account, it should transfer the funds to IFPIF for investment. Transfers from a Participating Pension Fund to IFPIF will be invested on the 7th, 14th, 21st, and 28th of each month. Pension funds shall initiate the transfer of funds to IFPIF at least three business days in advance of an investment date in order to ensure the transfer of funds is invested on the investment date.

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Cash Management – IFPIF Policy

- It is the responsibility of the Participating Pension Fund to ensure enough money is kept on hand to meet benefit obligations and to act in their fiduciary capacity as board members in the administration and payment of monthly retirement benefits and expenses.
- If a Participating Pension Fund believes an unforeseen circumstance dictates an expedited transfer from IFPIF in a manner inconsistent with this Policy, the Participating Pension Fund shall submit a request for an expedited transfer in the manner prescribed by IFPIF.
- A request for an expedited transfer shall include a detailed explanation of the need for an expedited transfer and IFPIF shall, in its sole discretion, determine whether the reason provided is sufficient cause for an expedited transfer.
- Northern Trust will maintain an online portal to for local funds to request transfers from IFPIF

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Cash Management – Local Considerations

- How much cash is prudent to keep post-transition?
- IFPIF has asked for a 12 month local cash flow projection.
- Should you keep a formal cash management policy for your local board?
- Where should local cash be kept and what about FDIC Insurance considerations?

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Cash Management – Local Considerations

Local Expenses

- Benefit Payments (Monthly)
 - Approximately 75% regular monthly payments are service retirees
- Administration – Approximately 2% of total expenses
 - Regular annual expenses
 - Unknown annual expenses
- Refunds – Unknown timing

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Conclusion of Transition

- Audit Services**
 - The consolidated funds will now be responsible for compliance audits of all downstate police and firefighter pension plans on a three year cycle in cooperation with DOI
- Actuarial Services**
 - Full actuarial update to follow
- Financial Reporting**
 - The consolidated funds will provide account statements to pension funds that include their value in the consolidated funds as well as other key information

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Actuarial Update

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Actuarial Update

- Current Process
- Actuarial Updates
- Still to be Determined

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Actuarial Update – Prior Process

Illinois Department of Insurance (IDOI) - Mandates

- Annual Statement Filings from Each Pension Board (Typically due 6/30 or 10/31 each year)
- House Software
 - Calculate Minimum Contribution based on State Legislated Benefits
 - Prepare Report to send to Local Pension Boards
- Hire an Actuary to Review Results (Since the January 1, 2011 Legislation)
- Intercept – Working with Comptroller to Secure Minimum Funding

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Actuarial Update – Prior Process

Local Responsibilities – Actuary Process

- Reviewing Alternative Funding Policies – Private Actuary
 - 100% Targets
 - Volatility Management
- Alternative Assumptions
 - Local Pay Contracts
- Government Accounting Standards Board (Since GASB 67/68)
 - Requires Alternative Liability Measurements
- Make Recommendation for Funding (Pension Board)
- Issue Levy/Budget/Alternative Sources of Funding (Employers)

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Actuarial Update – Updated Process

Data

- Similar: Local Boards will Maintain Records
 - Pensionable Pay Determination
 - Service Determination
- Similar: Data Submitted to Illinois Department of Insurance
 - Pension Boards are Required to Review/Attest
 - Submission Dates are Unchanged
- Assets
 - Local Assets will be Submitted
 - Consolidated Board will Report on the Portion of the Assets for each Community

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Actuarial Update – Updated Process

Plan Provisions

- Similar: State of Illinois Legislates Benefits Payable
 - Retirement Benefits
 - Disability Benefits
 - Termination Benefits
 - Death Benefits
- Similar: State of Illinois Legislates Other Parameters
 - Tier 1 vs Tier 2 Benefits
 - Pensionable Pay Definition
 - Service Transfers
- Similar: Local Pension Boards work with Attorneys on Interpretations

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Actuarial Update – Updated Process

Funding Policy

- Similar: State of Illinois Legislates Minimum Funding Policy
 - Projected Unit Credit
 - 90% Funding by 2040
 - Any Future Changes

Issues with Minimum Funding are well documented and are unchanged.

- Similar: Alternative Funding Policy
 - Still no Specific Mandate
 - Local Communities – Can Continue to Review (Your Contributions are Your Assets)
 - Consolidated Boards – No Formal Discussion

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Actuarial Update – Updated Process

Assumptions

- Revised: Consolidated Boards will Assess/Review/Approve Assumptions
 - Expected Return on Consolidated Assets
 - Other Economic Assumptions
 - Demographic Assumptions

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Actuarial Update – Updated Process

Other Procedures

- Intercept/Statutory Minimum
 - Consolidated Board – Will Determine a Statutory Minimum
 - Unknown: Is this the Absolute Minimum
- GASB 67/68 Reporting
 - Unaddressed by Prior or Current Mandates
 - GASB is Tied Closely to Local Funding
 - Funding Policy
 - Adherence to Funding Policy
 - Past Amounts Expensed
- Service Purchases/Transfers

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Conclusion

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Consolidation Update

Next Steps

- IFPIF continues to work through the certified asset list process and IPOPIF intends to start this process early in 2022
- The IFPIF and IPOPIF websites contain all the rules and policies that have been approved by the respective boards
- There is still quite a bit of work to do by both funds and both funds will need continued cooperation by the local boards and their representatives
- The current statutory deadline to complete this process is June 30, 2022

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Consolidation Update

Actuarial

- Much of the Process looks the Same Currently
- Local Boards and Communities Still Need to Levy, Budget and Plan ahead for Efficient/Effective Funding
- Funding – Different from IMRF Process
 - Starting Point
 - Annual Contribution
- Additional Information and Discussion can Still Come from the Consolidated Boards

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