

REIMER & DOBROVOLNY PC

A PUBLIC SAFETY LAW FIRM

RICHARD J. REIMER
JAMES L. DOBROVOLNY
BRIAN J. LABARDI
BRYAN L. STRAND
BOBBY J. GREENE
CHRIS W. POTTHOFF, JR.
MARK S. MCQUEARY

15 SPINNING WHEEL ROAD, SUITE 310, HINSDALE, ILLINOIS 60521
(630) 654-9547 (630) 654-9676 FAX
WWW.RDLABORLAWPC.COM

306 W. GREEN STREET
URBANA, ILLINOIS, 61801
217-344-2376

840 S. SPRING STREET, SUITE D
SPRINGFIELD, ILLINOIS 62704

PUBLIC ACT 101-0610 -SHORT SUMMARY

"Consolidation of Fund's Investment Assets"

December 18, 2019: Signed by Governor Pritzker

January 1, 2020: Effective Date

I. SUMMARY- P.A. 101-0610 does the following:

A. Consolidates all Article 3 and 4 Pension Fund's INVESTMENT ASSETS ONLY.

1. Amends the Illinois Pension Code by creating the Police Officers' Pension Investment Fund and the Firefighters' Pension Investment Fund ("Consolidated Funds")

B. Requires transfer of the assets and investment authority to the Consolidated Funds no later than 30 months after effective date of law (deadline-June 30, 2022).

C. Creates new consolidated "investment" boards for both Police and Fire. Creation of new boards of trustees for each Consolidated Fund and delineates powers and duties; reporting and recordkeeping; auditing of downstate police and downstate firefighter funds; management of investments; and rulemaking.

D. Reduces Training Requirements:

1. 16 hours for new board members (former subject matter remains same except basic accounting and actuarial training is eliminated)
2. 8 hours for annual renewal.
3. 4 hours of *special training* for current trustees regarding this new law.

E. Tier 2 police and firefighters pension corrections. Corrections include the calculation of "final average salary," the limitation on salary applicable to Tier 2 police and firefighters and survivor benefits.

F. Local Boards keep authority for disability, retirement, survivor benefits.

P.A. 101-0610 does not take away the local fund's exclusive authority to adjudicate and award disability benefits, retirement benefits, and survivor benefits and refunds.

- o Consolidated Funds have no authority to control, alter, modify, review or intervene in, the proceedings or decisions of the local fund;
- o The exclusive method of review remains in accordance with the Administrative Review Act.

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I. Purpose

Streamline investments and eliminate unnecessary and redundant administrative costs.

II. TRANSITION PERIOD:

Transfer of Assets and Investment Authority Timeline

- Within 30 months from January 1, 2020
 - o A CPA retained by the Consolidated Fund will audit the transferor fund's ("Local Fund) assets and generate a certified investment asset list.
 - Once asset list is received by the Local Fund, they **cannot purchase or sell any of its assets.**
 - o The Consolidated Fund must notify the Local Fund in writing of a date certain that the Consolidated Fund will take control. The Consolidated Fund must provide 30 plus days' notice.
 - Once written notice is received, the Local Fund must notify its custodian and all entities with fiduciary control of the pension assets.
 - o At the start of the business day on the transfer date.
 - **Fiduciary and statutory responsibility** for the management of pension assets **shifts exclusively to the consolidated fund;** and
 - **Local fund must no longer manage or control or exercise any investment authority regarding the assets and will cease to exercise fiduciary responsibility.**
 - o Within 30 days after the transfer, a receipt will be provided to the Local Fund funds.

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III. The Police Officers' Pension Investment Fund Board of Trustees.

- A. Transition Board.
- B. Permanent Board.

A. Transition Board:

- Appointed by the Governor by and with the consent of the Senate within 1 month from January 1, 2020.
- Serves until the initial permanent board members are selected and qualified.

9-member board: not salaried but receive travel expenses and PTO if active member

- Composition (3 MUNI, 3 Participants, 2 Beneficiaries, 1 IML Rep =9 members).
- o (3) members representing municipalities who are mayors, presidents, chief executive officers, chief financial officers, or other officers, executives, or department heads of municipalities and appointed from among candidates recommended by the Illinois Municipal League;
- o (3) members representing participants (actives), 2 appointed from among candidates recommended by a statewide fraternal organization representing more than 20,000 active and retired police officers (FOP), and 1 appointed from among candidates recommended by a benevolent organization representing sworn police officers in Illinois;
- o (2) members representing beneficiaries (retirees), 1 appointed from among candidates recommended by a statewide fraternal organization representing more than 20,000 active and retired police officers (FOP), and 1 appointed from among candidates recommended by a benevolent organization representing sworn police officers in Illinois;
- o (1) member who is a representative of the Illinois Municipal League.

Transition Chairperson: selected from among transition board members.

Interim Executive Director

- Appointed no later than 2 months after transition board is appointed.

Meetings of the Interim Board: at minimum quarterly or upon request of chairperson or 3 members.

- **Quorum: 6 members**
 - o All actions require 5 votes; *except*
 - o 6 votes (supermajority) required for:
 - Adoption of actuarial assumptions,
 - selection of chief investment officer,
 - fiduciary counsel or a consultant, and

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- adoption of rules for conduct of elections, and
- adoption of asset allocation policies and investment policies.
- * the act is silent regarding supermajority voting if only 6 members are present*

B. Permanent Board:

- Must be seated no later than 12 months from January 1, 2020.
- Not bound by transition board's contracts.

9-member board: not salaried but receive travel expenses and PTO if active member

- **Composition (3 MUNI, 3 Participants, 2 Beneficiaries, 1 IML Rep =9 members).**
 - (3) members who are mayors, presidents, chief executive officers, chief financial officers, or other officers, executives, or department heads of **municipalities** that have participating pension funds and are elected by the mayors and presidents of municipalities that have participating funds;
 - Nominated by at least 20 mayors and presidents
 - Staggered terms for first permanent board: (1) trustee serves 2 years, (2) trustees serves 4 years
 - If trustee vacates their office, they must no longer serve, and position is vacated
 - (3) members who are **participants** elected by participants;
 - Nominated by at least 400 participants
 - Staggered terms for first permanent board: (2) trustees serve 2 years, (1) trustee serves 4 years
 - If trustee is no longer an active participate, they may serve out their term
 - (2) members who are **beneficiaries** elected by beneficiaries;
 - Nominated by at least 100 beneficiaries
 - Staggered terms for first permanent board: (1) trustee serves 2 years; (1) trustees serves 4 years
 - (1) member recommended by **Illinois Municipal League** and appointed by Governor with advice and consent of Senate.
 - Serves 2 years
- **Chairperson:** selected from amongst permanent board for 2-year terms; holder of office **must alternate** between municipal/IML member and participant/beneficiary

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Meetings of the Permanent Board: at minimum quarterly or upon request of chairperson or 3 members.

- **Quorum: 6 members**
 - o All actions require 5 votes; except
 - o 6 votes (supermajority) required for:
 - Adoption of actuarial assumptions,
 - selection of chief investment officer,
 - fiduciary counsel or a consultant, and
 - adoption of rules for conduct of elections, and
 - adoption of asset allocation policies and investment policies.
 - *Act is silent regarding supermajority voting if only 6 members are present*

Office of the Board

- To be established for meetings of the board and administrative personnel at any suitable location within the State as selected by the board

Operation and Administration of Fund

- **Executive Director:** (Transitional and Permanent)
 - o Appointed by permanent board within 6 months after 30-month transition period ends
 - o Acts subject to and under supervision of board
 - o Compensation fixed by board
 - o With Board approval, may employ other personnel, profession and clerical, and fix their compensation
- **Custodian(s)**- *not discussed in detail.*
- **External legal counsel**- *not discussed in detail.*
- **Independent auditors**- *not discussed in detail.*
- **Investment advisors**- *not discussed in detail.*
- **Consultants**- *not discussed in detail.*

Accounting of Funds

- Pension funds must be maintained in accounts held outside of the State treasury
- Board must separately calculate account balances for each participating fund
- Operations and financial conditions of each participating fund account must not affect the account balance of any other participating fund
- Investment returns earned by the consolidated fund must be allocated and distributed pro rata among each participating fund account in

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accordance with the value of the pension fund assets attributable to each fund

- *Act is silent on how costs and losses are allocated*

Investment Authority

- The consolidated fund must not be subject to limitations applicable to Article 3

Audits and Reports

- Annual audit: at least annually the consolidated investment fund must be audited by a CPA and published as part of the annual report of the consolidated fund
 - o Audit results sent to Local Fund funds and IDOI
- Quarterly reports to Local Fund funds
 - o Full description of investments acquired, showing average costs;
 - o Full description of the securities sold or exchanged, showing average proceeds or other conditions of an exchange;
 - o Gains or losses realized during the period;
 - o Income from investments; and
 - o Administrative costs
- Annual report to Local Fund funds and IDOI
 - o Listing of all investments held by the consolidated fund at the end of the year, showing their book values and market values;
 - o Comments on the pertinent factors affecting such investments;
 - o Review of the policies maintained by the consolidated fund and any changes that occurred during the year;
 - o Copy of audited financial statement for the year;
 - o Recommendations for possible changes in this Article or otherwise governing the operations of the Fund; and
 - o Listing of the names of securities brokers and dealers dealt with during the year showing the total amount of commissions received by each on transactions with the Fund.

Budget:

- Board must annually adopt a budget to support its operations and administration and apply monies derived from Local Fund funds to pay costs and expenses
- Board must from time to time transfer monies and other assets to the Local Fund funds as required for the Local Fund funds to pay expenses, benefits and other required beneficiary payments
 - o Local fund encouraged to maintain a local bank interest bearing account for payment of benefits and expenses

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Startup Costs:

- The Illinois Finance Authority is authorized to lend the consolidated fund up to \$7,500,000 with an interest rate tied to the Federal Funds Rate (current target rate 1.5-1.75%) or equivalent market established variable rate

Training Changes:

- All newly appointed or elected trustees after January 1, 2020 must complete 16-hour initial trustee training program at a training facility that is accredited and affiliated with a State of Illinois certified college or university.
- All trustees who previously completed the initial 32-hour training are not required to complete the new, initial 16-hour initial trustee training.
- Training must include:
 - o Duties and liabilities of a fiduciary with respect to the administration and payment of pension benefits;
 - o Adjudication of pension claims;
 - o Trustee ethics
 - o The Illinois Open Meetings Act; and
 - o The Illinois Freedom of Information Act.
- Any trustee who has completed the training requirements under Section 1.05 of the OMA need not participate in training concerning the OMA.
- Annual training is reduced from 16 hours to 8 hours.
- All trustees appointed before the effective date of this Act must participate in 4 hours of training on the changes made by P.A. 101-0610.

Tier II Changes:

- **Final Average Salary:** greater of (1) the average monthly salary obtained by dividing the total salary of the police officer during the 48 consecutive months of service within the last of 60 months in which the total salary was the highest by the number of months in that period; or (2) the average monthly salary obtained during the 96 consecutive months of services within the last 120 months of service for which the total salary was the highest by the number of months of service in that period.
- **C.O.L.A.:**
 - o Annual salary for calculation of benefits must not exceed \$106,800; however, this amount must increase annually thereafter increase by the lesser of 3% or unadjusted percentage increase in CPI-U for last 12 months
 - o No retroactive adjustment

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- **Pension to Survivors:**
 - o Spouse, children are entitled to an amount equal to the greater of 54 % of the police officer's monthly salary at the time of death or 66 2/3 % of the police officer's earned pension at the date of death; and
 - o If there is a surviving spouse, 12% of such monthly salary must be granted to the guardian of any minor child or children, including a child who has been conceived but not yet born, for each child until attainment of age 18;
 - o Upon the death of the surviving spouse leaving one or more minor children, or upon the death of a police officer leaving one or more minor children but no surviving spouse, a monthly pension of 20 % of the monthly salary must be granted to the duly appointed guardian of each such child for the support and maintenance of each such child until the child reaches 18.
 - o The total pension must not exceed 75% of the monthly salary of the deceased police officer when paid to the survivor of a police officer who dies as a result of illness or accident, when paid to the survivor of a police officer who dies from any cause while in receipt of a disability pension, or when paid to the survivor of a deferred pensioner.
 - o The changes made to this subsection apply without regard whether the deceased police officer was in service on or after the effective date

IV. THE FIREFIGHTERS' PENSION INVESTMENT FUND BOARD OF TRUSTEES

Transition Board:

- Appointed by the Governor by and with the consent of the Senate within 1 month from January 1, 2020
- Serves until the initial permanent board members are selected and qualified

9-member board: not salaried but receive travel expenses and PTO if active member; may be appointed to permanent board

- **Composition (3 MUNI, 3 Participants, 1 Beneficiary from Labor Org., 1 IML Rep, 1 Participant from Labor Org. =9 members).**
 - o (3) members representing municipalities and fire protection districts who are mayors, presidents, chief executive officers, chief financial officers, or other officers, executives, or department heads

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- of municipalities or fire protection districts and appointed from among candidates recommended by the Illinois Municipal League;
- (3) members representing participants (actives) and appointed from among candidates recommended by the statewide labor organization representing firefighters employed by at least 85 municipalities that is affiliated with the Illinois State Federation of Labor (AFFI);
- (1) member representing beneficiaries (retirees) who is a beneficiary and appointed from among the candidate or candidates recommended by the statewide labor organization representing firefighters employed by at least 85 municipalities that is affiliated with the Illinois State Federation of Labor (AFFI);
- (1) member recommended by the Illinois Municipal League; and
- (1) member who is a participant recommended by the statewide labor organization representing firefighters employed by at least 85 municipalities that is affiliated with the Illinois State Federation of Labor (AFFI);

Transition Chairperson: selected from among transition board members

Meetings of the Interim Board: at minimum quarterly or upon request of chairperson or 3 members.

- **Quorum: 6 members**
 - All actions require 5 votes; except
 - 6 votes (supermajority) required for:
 - Adoption of actuarial assumptions,
 - selection of chief investment officer,
 - fiduciary counsel or a consultant, and
 - adoption of rules for conduct of elections, and
 - adoption of asset allocation policies and investment policies.
 - *Act is silent regarding supermajority voting if only 6 members are present*

Permanent Board: must be seated no later than 12 months from the effective date; not bound by transition board's contracts

- **Composition (3 MUNI, 3 Participants, 1 Beneficiary from Labor Org., 1 IML Rep, 1 from Labor Org. =9 members).**

9-member board: not salaried but receive travel expenses and PTO if active member

- (3) members who are mayors, presidents, chief executive officers, chief financial officers, or other officers, executives, or department heads of **municipalities** or fire protection districts that have participating

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pension funds and are elected by the mayors and presidents of municipalities or fire protection districts that have participating pension funds;

- Nominated by at least 20 mayors and presidents
- Staggered terms for first permanent board: (1) trustee serves 2-year term; (2) trustee serve 4-year term; 4-year terms thereafter
- If trustee vacates their office, they must no longer serve, and position is vacated
- (3) members who are **participants** elected by participants;
 - Nominated by at least 400 participants
 - Staggered terms for first permanent board: (1) trustee serves 2-year term; (2) trustee serve 4-year term; 4-year terms thereafter
- (1) member who is a **beneficiary** elected by beneficiaries;
 - Nominated by at least 100 beneficiaries
 - Initial trustee serves 2-year term; 4-year terms thereafter
- (1) member recommended by the **IML** appointed by Governor with advice and consent of Senate;
 - Initial trustee serves 4-year term
- (1) member **recommended by the statewide labor organization** representing firefighters employed by at least 85 municipalities that is affiliated with the Illinois State Federation of Labor (AFFI) appointed by the Governor with the advice and consent of the Senate.
 - Initial trustee serves 4-year term
- Chairperson: selected from amongst permanent board for 2-year terms; holder of office must alterative between municipal/IML member and participant/beneficiary/labor member

Meetings of the Permanent Board: at minimum quarterly or upon request of chairperson or 3 members.

- **Quorum: 6 members**
 - All actions require 5 votes; except
 - 6 votes (supermajority) required for:
 - Adoption of actuarial assumptions,
 - selection of chief investment officer,
 - fiduciary counsel or a consultant, and
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- *Act is silent on how costs and losses are allocated*

Investment Authority

- The consolidated fund must not be subject to limitations applicable to Article 3

Audits and Reports

- Annual audit: at least annually the consolidated investment fund must be audited by a CPA and published as part of the annual report of the consolidated fund
 - o Audit results sent to Local Fund funds and IDOI
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- Gains or losses realized during the period;
- Income from investments; and
- Administrative costs
- Annual report to Local Fund funds and IDOI
 - Listing of all investments held by the consolidate fund at the end of the year, showing their book values and market values;
 - Comments on the pertinent factors affecting such investments;
 - Review of the policies maintained by the consolidated fund and any changes that occurred during the year;
 - Copy of audited financial statement for the year;
 - Recommendations for possible changes in this Article or otherwise governing the operations of the Fund; and
 - Listing of the names of securities brokers and dealers dealt with during the year showing the total amount of commissions received by each on transactions with the Fund.

Budget

- Board must annually adopt a balance to support its operations and administration and apply monies derived from Local Fund funds to pay costs and expenses
- Board must from time to time transfer monies and other assets to the Local Fund funds as required for the Local Fund funds to pay expenses, benefits and other required beneficiary payments
 - Local fund encouraged to maintain a local bank interest bearing account for payment of benefits and expenses

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- All newly appointed or elected trustees after January 1, 2020 must complete 16-hour initial trustee training program at a training facility that is accredited and affiliated with a State of Illinois certified college or university.
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- Training must include:

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- Duties and liabilities of a fiduciary with respect to the administration and payment of pension benefits;
- Adjudication of pension claims;
- Trustee ethics
- The Illinois Open Meetings Act; and
- The Illinois Freedom of Information Act.
- Any trustee who has completed the training requirements under Section 1.05 of the OMA need not participate in training concerning the OMA.
- Annual training is reduced from 16 hours to 8 hours.
- All trustees appointed before the effective date of this Act must participate in 4 hours of training on the changes made by P.A. 101-0610.

Tier II Changes

- **Final Average Salary:** greater of (1) the average monthly salary obtained by dividing the total salary of the firefighter during the 48 consecutive months of service within the last of 60 months in which the total salary was the highest by the number of months in that period; or (2) the average monthly salary obtained during the 96 consecutive months of services within the last 120 months of service for which the total salary was the highest by the number of months of service in that period.
- **C.O.L.A.**
 - Annual salary for calculation of benefits must not exceed \$106,800; however, this amount must annually thereafter increase by the lesser of 3% or unadjusted percentage increase in CPI-U for last 12 months
 - No retroactive adjustment
- **Pension to Survivors:**
 - Spouse, children are entitled to an amount equal to the greater of 54 % of the firefighter's monthly salary at the time of death or 66 2/3 % of the firefighter's earned pension at the date of death; and
 - If there is a surviving spouse, 12% of such monthly salary must be granted to the guardian of any minor child or children, including a child who has been conceived but not yet born, for each child until attainment of age 18;
 - Upon the death of the surviving spouse leaving one or more minor children, or upon the death of a firefighter leaving on or more minor children but no surviving spouse, a monthly pension of 20 % of the monthly salary must be granted to the duly appointed

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guardian of each such child for the support and maintenance of each such child until the child reaches 18.

- The total pension must not exceed 75% of the monthly salary of the deceased firefighter when paid to the survivor of a firefighter who dies as a result of illness or accident, when paid to the survivor of a firefighter who dies from any cause while in receipt of a disability pension, or when paid to the survivor of a deferred pensioner.
- The changes made to this subsection apply without regard whether the deceased firefighter was in service on or after the effective date