

# City of Des Plaines

Fire and Police Pension Fund Overview



December 7, 2009

# Background of Downstate Public Pension Funds

- » **Created to provide for the payment of retirement and disability benefits to retired and disabled Fire and Police members and their beneficiaries**
- » **Article 3 and 4 of the Illinois Pension Code covers every public fire and police pension fund in Illinois, other than the City of Chicago**
- » **There are 639 Fire and Police Pension Funds in Illinois**
- » **Total assets are \$8,479,864,673**
- » **Average Funding Level – 56.3% for Police Pension Funds and 55.07% for Fire Pension Funds**

# Statutes

**Public Pension Funds are governed by Illinois State Statues and the Illinois General Assembly.**

Article 3 – Police Pension Funds

Article 4 – Fire Pension Funds

Article 1 and 1a. – General Provisions

# Funding of the Plan

## » Three Sources

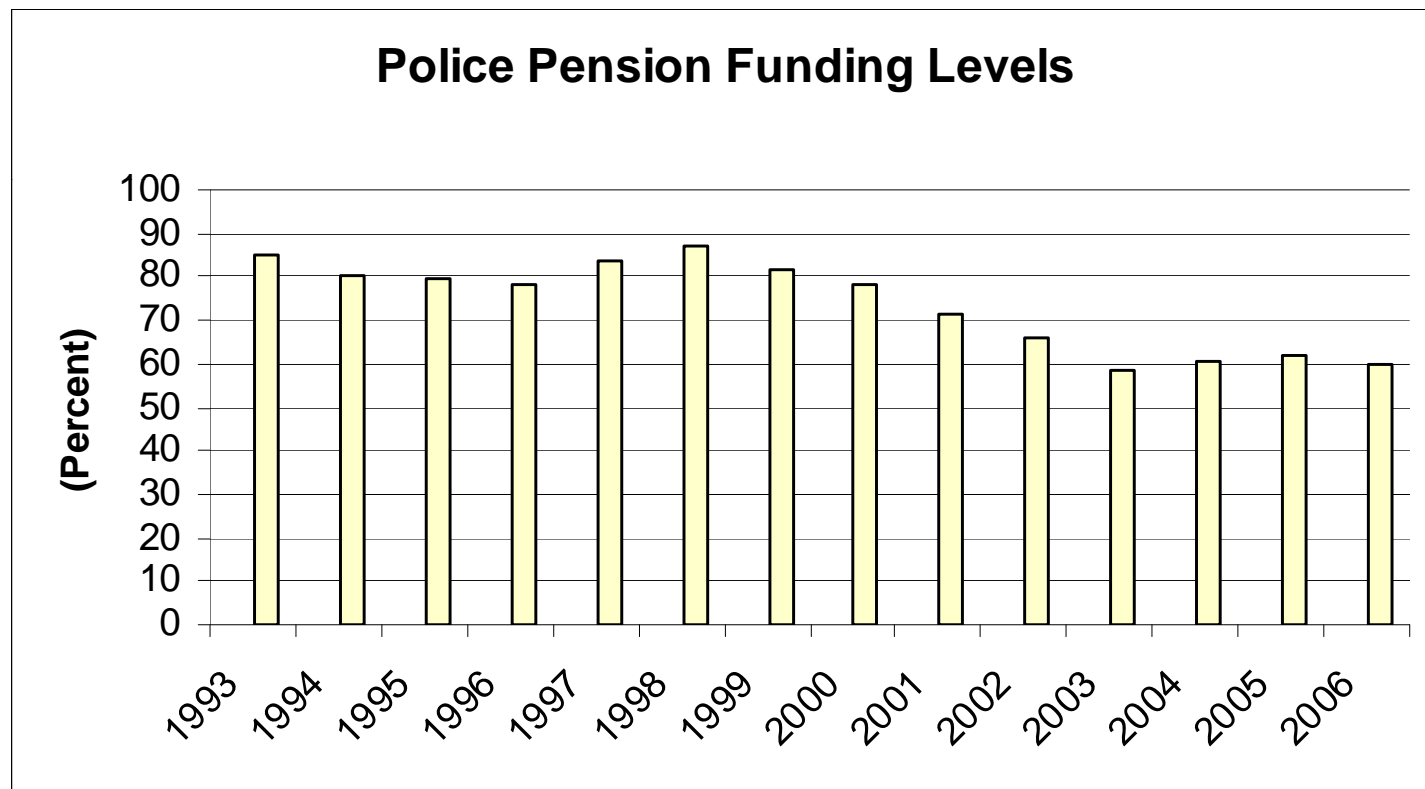
- Members - Police members contribute 9.91% of their salary and Firemen contribute 9.445%.
- City Tax Levy - Based on Actuarial studies that calculate the amount of contributions to fully fund the plan by 2033
- Investment Returns - Income from dividends and interest plus capital gains or losses

# How an Actuary Determines the Recommended Tax Levy

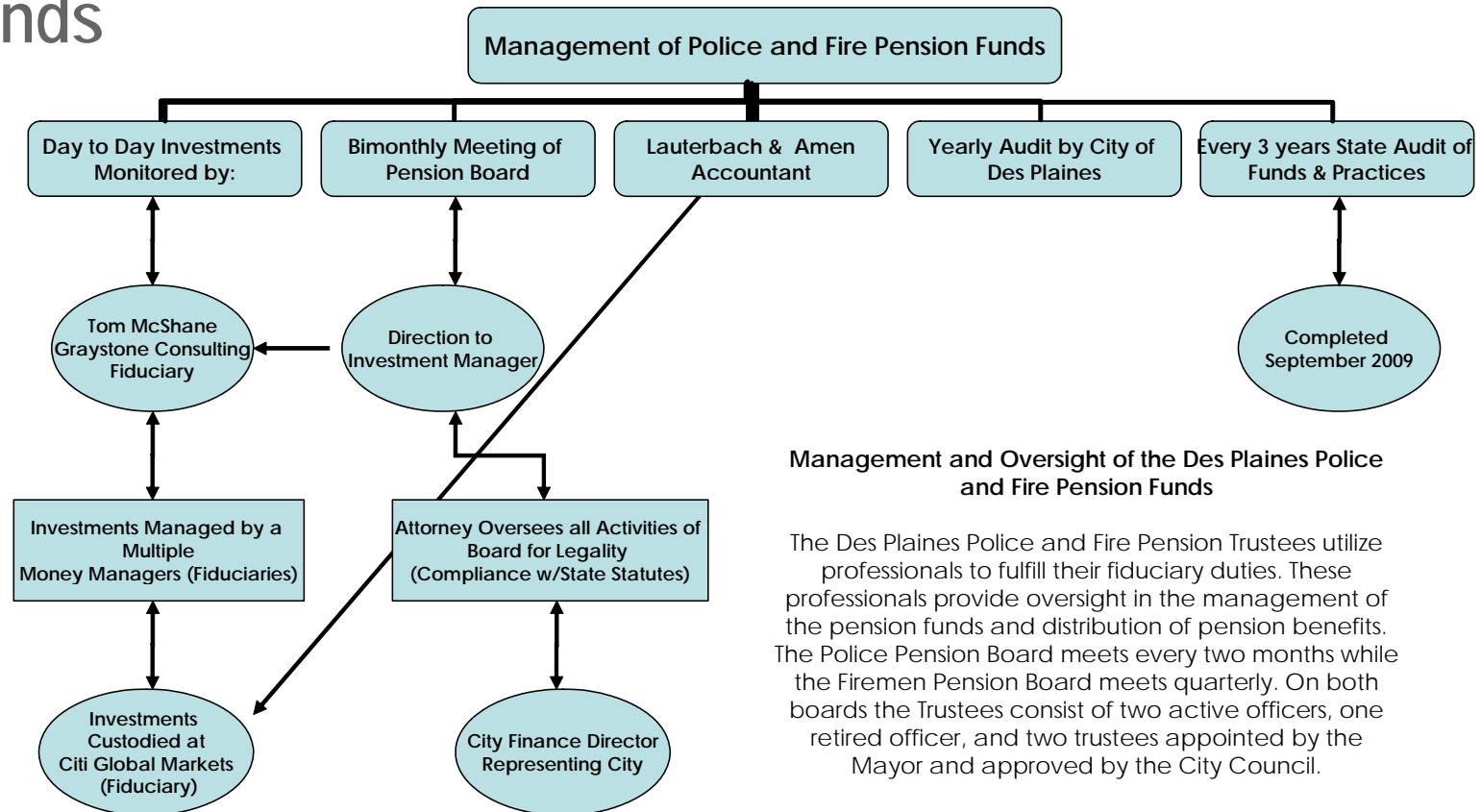
» **Determinations can be performed by an actuary employed by the Dept. of Insurance or an actuary retained by the municipality or pension board. Actuary reviews the pension's financial data and then makes certain assumptions in calculating the recommended tax levy**

- Investment return
- Mortality rates
- Disability rates
- Salary increase
- Retirement rates
- Benefit accruals
- Expenses

# Pension Funding Levels



# Management of the Des Plaines Fire and Police Pension Funds



Accountant - Sherry Lauterbach, Lauterbach and Amen

Attorney- Joseph Perkoski, Robbins Schwartz. Oversees all actions of the Board for legality.

Actuary - Thomas Sharpe. Calculates annual Pension liabilities and suggested tax levy.

Auditor, City- Virchow Krause and Co. Audits the Pension Funds yearly.

Auditor, State- Illinois Department of Insurance, Pension Division. Last audit was Sept 2009. Audits every three years

City Finance Director- Dorothy Wisniewski represents the City.

Custodian- Citi Group Global Markets

Investment Management Consultant- Thomas McShane, Graystone Consulting. Fiduciary. Provides oversight of asset allocation, Money managers, and Performance

Registered Investment Advisors- Board uses a multiple of advisors to manage stocks, bonds and cash. Fiduciary

Public Regulators- Illinois Department of Insurance, Pension Division

# Investments

## What are Permissible

- » **Investments by suburban and downstate police and firefighter pension funds are limited to those authorized by the legal list contained in Illinois Pension Code Section 1-113.1 thru 1.113.4.**
  - **Treasury Bills**
  - **Treasury Notes**
  - **Treasury Bonds**
  - **Certificates of Deposit**
  - **Government Bonds & Tax Anticipation Warrants** - issued by the United States Government, the State of Illinois, or any county, township, or municipal corporation of the State of Illinois.
  - **State of Israel Bonds**
  - **General Accounts of Life Insurance Companies.**
  - **Separate Accounts of Life Insurance Companies**
  - **Government Agencies** - Federal List of Agencies and Government Sponsored Agencies
    - » Federal Housing Administration (FHA)
    - » Government National Mortgage Association (GNMA)
    - » Public Housing Boards (HUD)
    - » Farmers Home Administration
    - » General Services Administration (GSA)
    - » Maritime Administration
    - » Small Business Administration (SBA)
    - » SBA Loan Pools
    - » Tennessee Valley Authority (TVA)
    - » Washington Metropolitan Area Transit Authority
  - In addition, Illinois law authorizes investments in the following agencies and government-sponsored agencies:
    - » Federal Land Banks
    - » Federal Intermediate Credit Banks
    - » Bank for Cooperatives
    - » Federal Farm Credit Banks
    - » Federal Home Loan Banks
    - » Federal Home Loan Mortgage Corporation
    - » Federal National Mortgage Association (FNMA)
    - » Student Loan Marketing Association (Sallie Mae)
  - **Money Market Mutual Funds**
  - **Strips** - Separate Trading of Registered Interest and Principal of Securities

## Limitations on Equity Investments

» **Pension funds with assets of \$5.0 Million or above**

- 10% Separate/Mutual
- 35% Separate/Mutual/Individual Equities through Managers
- 45% Total Equity allowed

## Limitations on Fixed Income Investments

» **No Corporate Bonds are Allowed**

» **No Foreign Bonds**

» **No High Yield Securities**

# How Investment Restrictions May Effect Returns

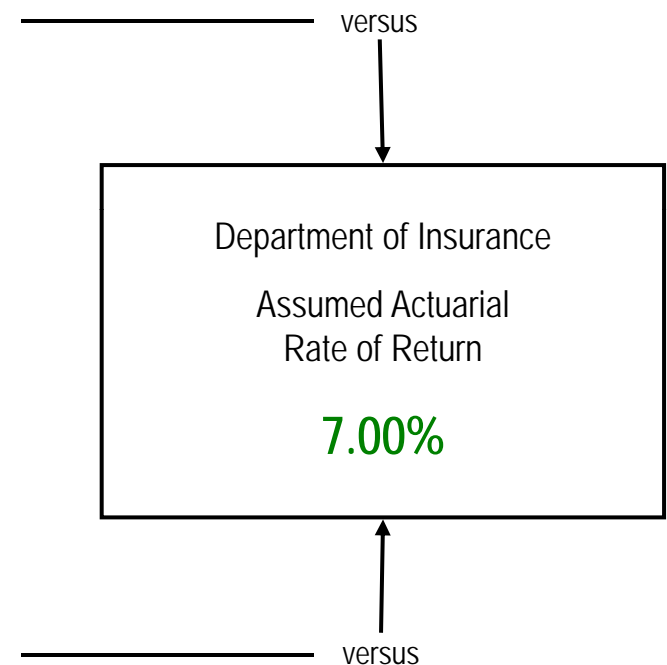
## Historical Rates: Last 50 Years

	<u>Assumed Allocation</u>		<u>Rates of Return</u>	=	
Equity	45%	x	9.10%	=	4.10%
Fixed Income	50%	x	7.10%	=	3.55%
T-Bills	5%	x	4.10%	=	<u>0.20%</u>
					<b>7.85%</b>

Are These Historical Rates Still Viable for the Future?

## Graystone Consulting's Updated Assumptions

	<u>Assumed Allocation</u>		<u>Rates of Return</u>	=	
Equity	45%	x	9.60%	=	4.32%
Fixed Income	50%	x	5.00%	=	2.50%
T-Bills	5%	x	4.20%	=	<u>0.21%</u>
					<b>7.03%</b>



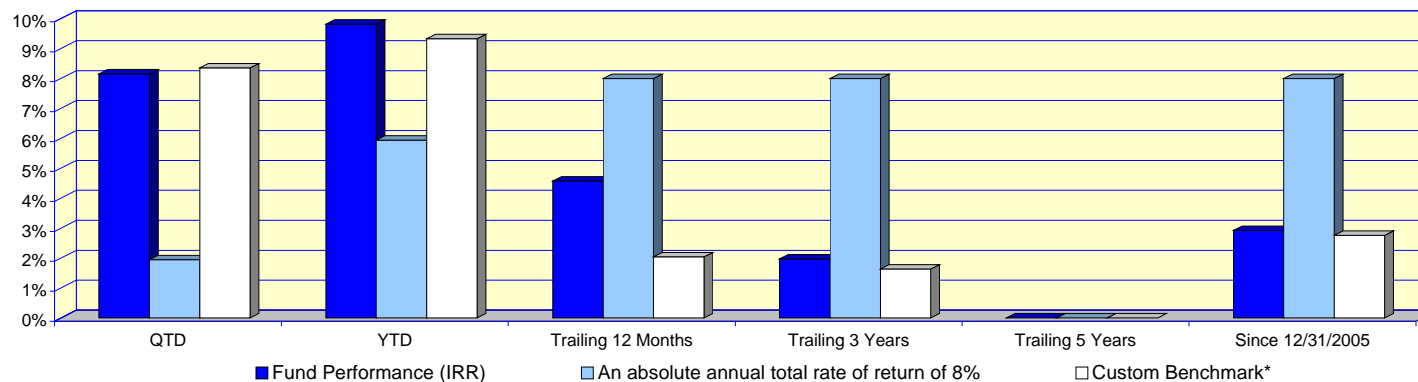
Note: All returns are annualized for the period ending 06/30/2009. Past performance does not guarantee future results. Generally, investing in equities entails greater volatility than investing in bonds. Investors cannot invest directly in an index. The performance of unmanaged indices reflects no deductions for fees, expenses or taxes which would affect performance of actively managed assets. Source: Consulting Group. **See Important disclosures at the end of the presentation.**

# Des Plaines Firemen's Pension Fund

## Investment Policy Monitor (Dollar Weighted IRR)

Des Plaines Firemen's Pension Fund

Performance for the period 12/31/2005 to 09/30/2009



Asset Class Investment Manager	QTD	YTD	Trailing 12 Months	Trailing 3 Years	Trailing 5 Years	Since 12/31/2005
<b>Fund Performance (IRR)</b>	<b>8.15</b>	<b>9.81</b>	<b>4.57</b>	<b>1.97</b>	<b>N/A</b>	<b>2.92</b>
<u>Investment Policy Objectives</u>						
An absolute annual total rate of return of 8%	1.94	5.94	8.00	8.00	N/A	8.00
Custom Benchmark*	8.35	9.33	2.04	1.63	N/A	2.76

\*Custom Benchmark composed of: 25% BC Gov't Bond Index / 25% BC GNMA Index / 40% Russell 3000 Index / 5% MSCI EAFE Index / 5% Citigroup 3-Month T-Bill Index

### Investment Policy Objective

The overall investment objective is to achieve a total return balanced between capital appreciation and current income preservation of the purchasing power of the Fund.

An absolute annual total rate of return of 8%

### Dollar-Weighted Returns

(Internal Rate of Return)

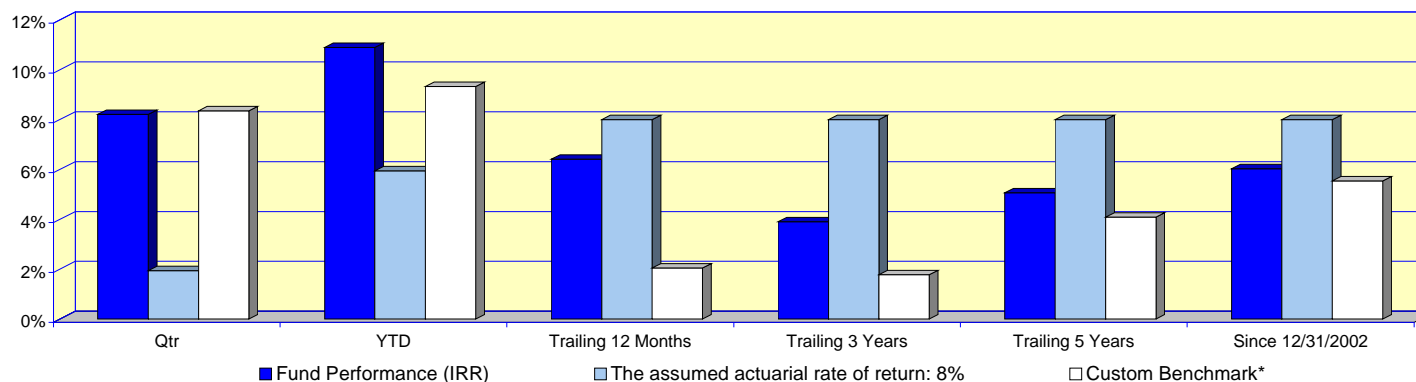
The investment policy monitor is calculated on a dollar-weighted basis, accounting for deposits and cash flows upon receipt. The dollar-weighted or "internal rate of return - IRR" is the actual rate earned by the Fund. The dollar-weighted return is the appropriate measurement to evaluate the fund's performance in relation to the statement of investment policy and guidelines.

# Des Plaines Police Pension Fund

## Investment Policy Monitor (Dollar Weighted IRR)

Des Plaines Police Pension Fund

Performance for the period from 12/31/2002 to 09/30/2009



Asset Class Investment Manager	QTD	YTD	Trailing 12 Months	Trailing 3 Years	Trailing 5 Years	Since 12/31/2002
<b>Fund Performance (IRR)</b>	<b>8.20</b>	<b>10.89</b>	<b>6.41</b>	<b>3.90</b>	<b>5.06</b>	<b>6.03</b>
<i>Investment Policy Objectives</i>						
The assumed actuarial rate of return: 8%	1.94	5.94	8.00	8.00	8.00	8.00
Custom Benchmark*	8.35	9.33	2.04	1.77	4.09	5.54

\*Custom benchmark is composed of: 50% BC Gov't Bond Index / 40% Russell 3000 Index / 5% MSCI EAFE Index / 5% Citigroup 3 Month T-Bill Index

### Investment Policy Objective

The overall investment objective is to achieve a total return balanced between capital appreciation and current income preservation of the purchasing power of the Fund.

The assumed actuarial rate of return of 8%

### Dollar-Weighted Returns

(Internal Rate of Return)

The investment policy monitor is calculated on a dollar-weighted basis, accounting for deposits and cash flows upon receipt. The dollar-weighted or "internal rate of return - IRR" is the actual rate earned by the Fund. The dollar-weighted return is the appropriate measurement to evaluate the fund's performance in relation to the statement of investment policy and guidelines.

## Resources

» **IPPFA – Illinois Public Pension Fund Association**

- [www.ippfa.org](http://www.ippfa.org)

» **Illinois Department of Insurance**

- [www.insurance.illinois.gov/Pension/Pension.asp](http://www.insurance.illinois.gov/Pension/Pension.asp) (also the newsletter, “Siren”)

» **IGFOA – Illinois Government Finance Officers Association**

- [www.igfoa.org](http://www.igfoa.org)

» **Des Plaines Police Pension Fund Website**

- [www.dppolicepension.org](http://www.dppolicepension.org)

» **Des Plaines Firemen’s Pension Fund Website**

- [www.dpfirepension.org](http://www.dpfirepension.org)

## Important Disclosures

To the extent the investments depicted herein represent international securities, you should be aware that there may be additional risks associated with international investing, including foreign economic, political, monetary and/or legal factors, changing currency exchange rates, foreign taxes, and differences in financial and accounting standards. These risks may be magnified in emerging markets. International investing may not be for everyone. Small capitalization companies may lack the financial resources, product diversification and competitive strengths of larger companies. In addition, the securities of small capitalization companies may not trade as readily as, and be subject to higher volatility than, those of larger, more established companies.

Bonds are subject to interest rate risk. When interest rates rise bond prices fall; generally the longer a bond's maturity, the more sensitive it is to this risk. Bonds may also be subject to call risk, which allows the issuer to retain the right to redeem the debt, fully or partially, before the scheduled maturity date. Proceeds from sales prior to maturity may be more or less than originally invested due to changes in market conditions or changes in the credit quality of the issuer.

Investing in alternative investments is speculative, not suitable for all clients, and intended for experienced and sophisticated investors who are willing to bear the high economic risks of the investment, which can include:

- loss of all or a substantial portion of the investment due to leveraging, short-selling or other speculative investment practices;
- lack of liquidity in that there may be no secondary market for the fund and none expected to develop;
- volatility of returns;
- restrictions on transferring interests in the fund;
- potential lack of diversification and resulting higher risk due to concentration of trading authority with a single advisor;
- absence of information regarding valuations and pricing;
- delays in tax reporting;
- less regulation and higher fees than mutual funds; and
- advisor risk.

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Actual returns would be reduced by expenses that may include management fees and costs of transactions. Expected return and risk (standard deviation) calculations are based on historical data for periods indicated.

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