

ILLINOIS PUBLIC PENSION ADVISOR



Official Newsletter of the Illinois Public Pension Advisory Committee

Volume 9, Issue 2

Summer 2006

ADVISORY COMMITTEE

President

Tom Bockmann
Justice Police

First Vice President

Nick Anastos
Orland Fire

Second Vice President

Matt Williams
Alton Fire

Secretary

Joe Crimmins
Hoffman Estates Police

Treasurer

Carl Weaver
Highland Park Police

Board Members

Rich Russo, Hoffman Estates Police

Jerry Kosik, North Riverside Police

Bruce Harrison, DeKalb Fire

Tim Gleason, Pekin Police

Bob Beattie, Carpentersville Fire

Past Presidents

Myles Bell

Perry Johnson

Tim Michaels

Carmine Gioiosa

Dean Blust

Mark Hoffmeister

General Counsel

Cary J. Collins

Advisory Chairman

John T. Mitchell

Sudanese Investments

Cary J. Collins, IPPAC General Counsel

Pension funds throughout the state of Illinois have recently had two issues presented to them regarding socially responsible investing, Sudanese investments and predatory lending.

SUDANESE PROHIBITION

Public Act 94-0079 passed by the Illinois State Legislature provides for Illinois police and fire pension funds to *divest* themselves from prohibited investments. Prohibited investments are investments with companies doing business with or investing with the Sudanese Government. The Sudanese Government has been involved with extensive human rights violations which include genocide. The intent of the legislation is to force the Sudanese Government to end its human rights violations by economic pressure.

Prohibited Investments

The broad stroke of PA 94-0079 encompasses the prohibited investments many major corporations, *i.e.* Coca Cola, Proctor and Gamble, Goodyear Tire, etc. A real problem arises for mid level police and fire pension funds that have

assets under five million dollars (\$5,000,000). Police and fire pension funds with assets under five million dollars may only hold equities (stocks) through mutual funds. Most large capitalized and mid level capitalized mutual funds hold one or more of the stocks of companies which have been identified as doing business in or with the Sudanese Government. A mutual fund cannot hold any stocks of these prohibited entities; to hold stocks of such a prohibited entities (*i.e.* Coca Cola) violates Public Act 94-0079.

The law provides that after January 27, 2006 no new stocks (aforesaid mutual funds) can be purchased. As of January 27, 2007 60% of assets which hold prohibited investments must be sold. As of July 26, 2007 all holdings of prohibited investments must be sold.

What Does This Mean?

Pension Funds with assets over five million dollars will not be able to invest in international stocks (the only investment permitted in international stocks is a mutual fund) which have had the highest returns in the past few years.

Pension funds under five million dollars by July 27, 2007 will have to sell their mutual funds which hold prohibited investments. This would include all large cap funds, international funds and index funds. Next July is right around the corner and investments will be severely restricted which may adversely affect investment income and increase pension tax levys for towns, villages, cities and fire protection districts.

The fact is that all pension funds in the state of Illinois should have any entity with which they are doing business, asset manager, bank, trust company, etc., sign the

Continued on page 2

Inside this issue:

Sudanese Investments	1
Disability Benefits	2
Sudanese continued	2
Mid Cap	3
Seminar Overview	4
Predatory Lending	5
Sample Certification	5
Advisory Faculty	6

Police Disability Benefits: Duty-Related Benefits and Worker's Compensation Benefits

Joseph Crimmins

This article concerns the policies and procedures involved when a disabled police officer is eligible for both duty-related disability benefits under the Pension Code, and benefits under the Worker's Compensation Act. This article also discusses the status of pension contributions during this time period.

A police officer who is injured in the line of duty, and unable to perform police duties as a result, is entitled to receive full salary. This injury period will last for a maximum of one year. Payment is made pursuant to 5 ILCS 345 Public Employee Disability Act. The employer will pay the officer on the same basis as they paid the officer before the injury. During this injury period, there will be no deductions from sick leave hours, nor deduction of service credits in the pension fund. During this initial year that an officer is receiving full pay, the officer is considered to be in service. It is important to note that during this injury period, the officer will be

receiving pay, but it will be minus the regular pension contribution of 9.91% pursuant to 40 ILCS 3-125.1. The officer is still in service, and still accumulating creditable hours with the Pension Fund.

The officer may subsequently request to leave employment permanently and apply for a disability pension. On the date the Pension Board approve the application for pension, the officer will no longer be required to make contributions to the Fund. This will be the case regardless of when pension benefits will begin. The officer may plan on returning to full duty at some time in the future. According to the Department of Insurance in their letter dated February 23, 2004, the officer in that case may continue to pay contributions for an additional three years and accumulate additional creditable service credits.

"An officer who is injured in the line of duty, and unable to perform police duties as a result, is entitled to receive a full salary."

The officer may also qualify for worker's compensation benefits during this injury period. Under 3/114.5 of the Pension Code, if benefits are paid under the Code and under the Worker's Compensation Act (WCA), there

will be a reduction of pension benefits for the loss or partial loss of a body part, and payments made under the WCA that were utilized to pay attorney fees.

It is also worth noting that if an officer incurs attorney fees in establishing a right to a disability pension, the reduction in benefits described above shall itself be reduced by these attorney fees. In other words, the officer will receive a credit for attorney fees related to the application for a pension, thereby lowering the amount of the WCA offset. ■

Sudanese Investments

Continued from page 1

certification prepared by the Illinois Department of Insurance Pension Division that will not hold prohibited investments.

What the Future Holds

There have been many discussions as to changing the statute to permit the holding of mutual funds, to exempt Article 3 (police pension funds) and Article 4 (firefighter pension funds). A lawsuit based upon the fact that the Illinois statute is unconstitutional

as it is setting foreign trade policy and foreign trade is the exclusive venue of the Federal Government.

Which of these will ultimately occur is subject to debate and conjecture. It is reasonable to believe that the state legislators will arrive at a reasonable understanding which will permit downstate police and fire pension's to continue investing in equities which yield a reasonable rate of return. ■



Money doesn't grow on trees, so invest wisely.

Mid Cap: The Undiscovered Opportunity

Michael Santelli, CFA, Senior Director and Portfolio Manager, Mid Cap Value

Many investors use a “barbell” structure to manage their stock portfolios, investing in large cap and small cap stocks, and omitting mid cap. Hence mid cap stocks suffer from the “middle-child syndrome” of neglect. Looking back over the past few years, however, investors would have been much better off if they had paid more attention to the oft-neglected middle child.

Why Mid Cap?

Historically, mid cap stocks have provided higher returns with lower risk than small cap, while outperforming large cap stocks with modestly higher risk. That historical outperformance can be seen in the following table.

What is Mid Cap?

The U.S. equity market is often broken down by market capitalization, with large cap stocks being the largest corporations and small cap being the smallest. Mid cap consists of the “midsized” companies. Thus, mid cap lies “in between” large and small. The capitalization range for mid cap is between \$1 billion and \$15 billion, and includes many well-known companies: Barnes & Noble, Goodrich, Wendy’s, et al.

	20-Year Return	20-Year Risk
Large Cap Stocks	11.9%	17.3%
Mid Cap Stocks	15.0%	19.5%
Small Cap Stocks	10.8%	20.8%

Source: Ibbotson, Standard & Poors, S&P 500, S&P 400 Mid Cap Index, S&P 600 Small Cap Index.
Risk is the standard deviation of returns. January 1986 through December 2005.

Why Has Mid Cap Done So Well?

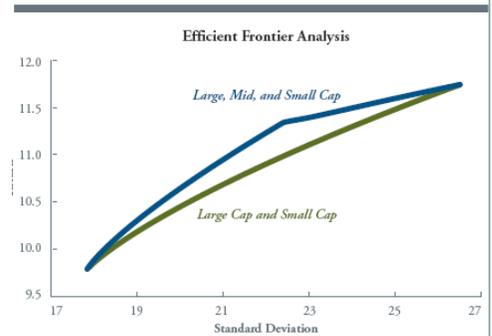
Several possible factors can explain mid cap’s outperformance over both large and small cap stocks:

- **Lack of research.** Fewer analysts follow mid cap stocks than large cap stocks, so more opportunities are left to be discovered by investors.
- **Fewer investors.** Most investors focus on large cap and small cap, so there are more opportunities for inefficiencies. And, we all know investors thrive on inefficient markets.
- **More “upside” than large cap, less “downside” than small caps.** Mid caps have survived the small cap stage and have the potential to become tomorrow’s large caps. They tend to be seasoned companies with room to grow, offering much of the growth potential of smaller companies, combined with some of the financial strength and stability of larger companies.

Implications

Based on the efficient frontier analysis in the chart below, historical evidence suggests that adding mid cap to an existing portfolio of small and large cap stocks has the potential of increasing the expected return while holding the expected risk level constant. Alternatively, adding

mid cap to an existing portfolio could potentially reduce expected risk while keeping the expected return constant. So, adding mid cap could give your portfolio more potential. ■



Source: Ibbotson, CRSP 1926-2005

Allegiant Asset Management Company is registered with the Securities and Exchange Commission (“SEC”) as an investment advisor under the Investment Advisers Act of 1940, as amended. Allegiant Asset Management Company is a wholly owned, indirect subsidiary of National City Corporation (NYSE:NCC). The views expressed in this investment report represent the opinions of Allegiant Asset Management Company and are not intended to predict or depict performance of any investment. Past performance does not guarantee future results. These views are as of the date of this publication and are subject to change based on subsequent developments. This material is not intended as investment advice, for which a financial advisor should be consulted.

This article was submitted by:

*Kelly Weller & Steve Eitel
Allegiant Asset Management Company*

Overview: IPPAC 11th Annual Spring Seminar

For those who missed the seminar or just need a refresher, here's what happened...

THE JERRY KOSIK AWARD

Last year at the 10th annual Spring Seminar Jerry Kosik was presented with an award recognizing his great contributions to the Illinois Public Pension Advisory Committee. This award, the *Jerry Kosik Award* is now given to members of IPPAC annually at the Spring Seminar. Last year Tom Jones was presented with the first annual *Jerry Kosik Award*.

This year at the 11th Annual Spring Seminar Carmine Gioiosa was presented with the second annual *Jerry Kosik Award*. Carmine has been a loyal IPPAC member since it's creation in 1995. He has helped recruit a number of current IPPAC members. We would like to thank Carmine for everything he has done in helping make IPPAC a great organization.



Carmine Gioiosa (middle) accepting the second Jerry Kosik Award from Jerry Kosik (right). Current IPPAC President Thomas Bockmann (left).

continue to have panel discussions at the seminar and would greatly appreciate any feed-back.

SPEAKERS

This year we tried something a little different. In place of speakers, we had panel discussions. Panel's included the Sudan Issues, Investments, Constructing Your Pension Board and Post Retirement Issues. IPPAC would like to

GOLF

The golf outing has previously been held at the Weaver Ridge Country Club, however, since we moved the date of the seminar forward by one week, we were unable to have our event there. As a result, we held the golf outing at the Coyote Creek Country Club. Also, we substituted a shot-gun start for tee times.

PRIZES

This year Ron Dutner from the Schaumburg Police Pension Board won our grand prize giveaway, a 2GB iPod Nano complete with a carrying case and \$15.00 iTunes gift card!

NEW ADVISORY COMMITTEE

Every year IPPAC holds a meeting to rotate the Advisory Committee. Mark Hoffmeister is now a past president as Tom Bockmann takes his place. For other new Advisory Committee members check page one. 

Photos



Above: IPPAC Members lounging during a break. *And the Pension Board pays for this!?*



Left: Kelly Zabinski, Danielle Taylor and Cary Collins during a panel discussion.

Above: IPPAC members with Jon Willhite.

Right: Speaker Paul Froehlich.



Predatory Lending

Cary J. Collins

Police and fire pension boards throughout the state of Illinois have been receiving phone calls from the Illinois Speaker of the House of Representatives, Michael Madigan. The phone calls have not been personal, but have been on his behalf asking police and fire pension boards to pass a resolution that they will not deal with entities which are considered “predatory lenders.”

Action is Voluntary

The fact is that Speaker Madigan is requesting fire and police pension board to take this action. The state of Illinois has not passed legislation requiring fire and police pension boards to take this action and there is nothing which requires fire and police pension boards to pass such a resolution.

Resolution

The Speaker’s office originally did not prepare any specific

“The state of Illinois has not passed legislation requiring fire and police pension boards to take action...”

language for the resolution, it merely asked that pension funds make such a resolution and to submit it to the Speaker’s office. In the last few months Speaker Madigan’s office has prepared a multi-page resolution which sets forth the definition of a “predatory lender” and indicates that the policy created by the resolution will prohibit the purchase of investments through the secondary market place.

The state of Illinois in the year 2003 passed legislation which prohibits predatory lending in Illinois. This legislation affects banks which have state charters but does not affect banks that have a national charter and therefore are exclusively controlled by the Federal Government. The presumed intent is that fire and police pension funds which control billions of dollars will apply pressure to

nationally chartered banks to comply with the predatory lending ban.

Certification

The Speaker’s office requests the fire and police pension boards pass the resolution and require any financial institution the pension boards deal with to execute a certification (sample below) that they do not engage in or deal with predatory lenders.

Socially Responsible Investing

The action taken by Speaker Madigan’s office is another example of the state of Illinois having the state created pension funds exercise socially responsible investing by not dealing with entities which take advantage of individuals and societies which are vulnerable to predatory practices. We ask that fire and police pension boards take a look at the resolution and give it consideration at its current and next pension board meeting. ■

Sample Certification

This is a sample Certification. To request a certification for your pension board please contact your pension board attorney.

I, [name], on behalf of [financial institution] and any of its affiliates and operating subsidiaries, being first duly sworn under oath, and having personal knowledge of all matters set forth herein, state and certify as follows:

1. I am a representative of [financial institution] and am duly authorized to make this certification on its behalf.
2. I hereby certify that [financial institution] and nay of its affiliates and operating subsidiaries are in compliance with the policy of the [pension board] Pension Fund prohibiting deposits or investments in institutions that engage in predatory lending practices.
3. [name of representative] will immediately notify the [pension board] Pension Fund if we become aware of any activities that would be in violation of the [pension board] Pension Fund’s policy.

Date: _____

Subscribed and sworn before me by [name] as Representative of [financial institution] this ____ day of [month], 2006.

Notary Public

Signature of Company Representative

Printed Name & Title of Representative

Company Name and Address

Illinois Public Pension Advisory Committee

2200 West Higgins Road
Suite 155
Hoffman Estates, Illinois 60169

Phone: 847-519-1648
Fax: 847-519-0016
E-mail: IPPACToday@yahoo.com

IPPAC's mission is to provide a forum to educate its members on a continuing basis about legal issues, investment strategies and governmental regulation.

To request an application for IPPAC membership please email IPPACToday@yahoo.com or call 847-519-1648.



We're on the web!

RealIPPAC.com

IPPAC ADVISORY FACULTY

Please be sure to contact our Advisory Faculty. They are selected for their expertise in the pension investment field.
They are always available to help IPPAC members!

Allegiant Asset Management

1 N. Franklin, Suite 750
Chicago, IL 60606

312-384-8259

*Steve Eitel, Kelly Weller &
Curtis Pence*

Apple Hill Consulting

303 N. Second Street, Suite 24
St. Charles, IL 60174

630-762-8185

Craig Larson

Bank of Edwardsville

330 West Vandalia
Edwardsville, IL 62025

618-654-6675

*Bryan Gorman, Darren Wright
& Kevin Doak*

Benefit Planning Associates

721 Iaa Drive
Bloomington, IL 62701

309-661-2049

Mike Johnson & Jenny Denham

CIBC Oppenheimer & Co.

1600 Smith St., Suite 3100

Houston, TX 77002

713-650-2051

Jon Willhite

Edward Jones

245 W. Roosevelt Road, #137
West Chicago, IL 60185

630-231-6303

John Cahill

Illinois Funds Office of the State Treasurer

300 W. Jefferson Street

Springfield, IL 62702

217-782-8981

Rick Hackler & Bob Kogut

LaSalle Street Consulting

30 N. LaSalle Street

Chicago, IL 60602

312-332-8881

*Jeff Kowalczyk & Terese
Madigan*

Lauterbach & Amen

PO Box 4106

Wheaton, IL 60189

630-393-1483

*Sherrie Lauterbach &
Allison Barrett*

Marquette & Associates

150 N. Wacker Dr., Suite 1900
Chicago, IL 60606

312-527-5500

*Patrick Krolak, Brett
Christiansen & Trevor Henry*

Mesirow Financial

350 N. Clark Street

Chicago, IL 60610

312-595-6486

Laleen Doerrer

Mitchell, Vaught & Taylor

300 N. State St., Suite 3132

Chicago, Illinois 60610

312-923-9350

*John Mitchell, David Vaught
& Danielle Taylor*

Oak Brook Bank

1400 16th Street

Oak Brook, IL 60523

630-571-1050

*John Falduto, Tom Sawyer
& Terese Krafcheck*

Rowe Consulting Group

30 N. LaSalle Street

Suite 2700

Chicago, IL 60602

312-543-5304

*Robert Rowe, Joseph Lotysz
& Daniel Dawson*

Tree City Investments

950 N. Western Ave.

Lake Forest, IL 60045

847-735-9522

Carol Digman