

**BOARD OF TRUSTEES**  
**DOWNERS GROVE FIREFIGHTERS PENSION FUND MEETING**  
**Downers Grove Fire Department Station 2, 5420 Main, Conference Room**  
**October 18, 2019 – 1645 hrs.**

**Members Present**

Trustee Matt Campbell, Trustee Scott Cavenaile, Trustee Jeff Kuchta, Trustee Retired FF Earl Moy

**Members Absent:**

Non-voting Downers Grove Finance Director Judy Buttny

Trustee Campbell called the meeting to order at 1648 hrs. in the FP Conference room of the Downers Grove Fire Department Station 2, 5420 Main, Downers Grove, IL.

**Agenda Item - 1**

Discussion on possible resolution regarding pension consolidation.

Trustee Kuchta asked if all had a chance to review the resolution? All present agreed that they had.

Trustee Kuchta voiced that he was not asking that the Board make a recommendation that the Pension Fund is against consolidation. This is more of a fact finding meeting of the report that was just sent out. He noted that he felt even though the report was 20 pages in length it was short on details and full of contradictions. His feeling is the IPPFA's line (and he agrees) is that we need more time. He feels the Board should not say they are against consolidation but that the Board wants to thoroughly review the report facts. He is open to the comments and views of the other Board members regarding this issue.

For the Record, Trustee Campbell read the resolution:

**Please provide this resolution for insertion.**

Trustee Campbell then expressed his thoughts on this topic.

- 1) Do we think the Board should be involved in political action or is it the duty of the Board to just administer the Pension Fund as the law is written?

Oviously as individuals or members of other organizations we could go out and lobby on behalf of "for" legislation or not but as the DG Pension Board is it appropriate for the the Board to do so?

- 2) If we want to make a recommendation that there should not be any legislation in the veto session or any legislation?
- 3) Do we support the recommendation in the Task Force Report and where does that leave the Board with the resolution?

Trustee Kuchta voiced that to the first question that as a Board our responsibility is do what is in the best interests of the participants. He feels that the proposed savings would not actually materialize and that over the next 10 years or so there would be many problems and therefore not in the best interests of the participants. As a Board there is a duty and responsibility to weigh in on that.

As far as number 2, the wording of the resolution is such that we want all legislation to move forward he feels that it is not favorable written and that the Board could propose different wording.

As far as number 3, Trustee Kuchta expressed that personally he is not in a position to do so as he thinks this is misguided and incomplete and not a full picture.

Following are Trustee Kuchta's thoughts on specific points in this resolution.

1. Consolidation of all the downstate funds.
  - a. They are showing that all the larger pension funds have much larger rates of returns and that there is a big gap between these funds.
    - i. They are talking about a straight average of all funds. About 44% of the plans in their calculation are some 10 mil plans. These plans have a maximum of 45% equity which will skew the number by a significant number. If they were to asset weight all of the plans returns.
2. They are proposing that they are going to move everything into a bigger plan that now has a larger percentage of equity. Frankly if you took away all the specific restrictions for Article 3 and 4 Pension Funds, smaller plans would be able to do a lot of the same things. Smaller funds have the ability to invest in institutional fund shares that are at a low cost. A big portion of these sub-\$10 mil funds because of the way the requirements are written are invested in annuity products to get their equity exposure. Annuities are extremely expensive so when you look at the fee savings they are talking about from going to different products a lot of that could be done away with by saying you are not required to totally invest in annuities. Allow them to go into mutual funds and lower cost investment vehicles like everyone else. I think we are being misguided by a lot of the numbers in savings within this proposal.

3. They are really trying to push through saying this is the huge step that will save the pension system. Again, with the exception of a couple of the large plans are worse off than our plan or the downstate plans. They are getting better investment returns but they are still poorly funded. It has nothing to do with the investment returns. The fact is that it that many funds have not adhered to what is required actuarially to fund. They are therefore proposing that we hand over our money to a group who has not been as fiscally responsible in funding as our Village and many other communities to those that do not comply.

The other piece is that everyone still hangs on to their own liability yet the State has access to these funds.

Trustee Cavenaile voiced that they will still be our funds – not the State. It will still be owned individually. Still our own Fund. The State will not be able to touch it.

Trustee Kuchta voice that he would like that in writing and from a legislative point how that is protected because I feel that is a huge issue.

Trustee Campbell asked if the pooling together would there be restrictions on the sub-\$10 mil funds?

Trustee Kuchta feels that it is another important point that despite the limitations for smaller funds which have a better funded status, have a better cash flow status and can take on greater equity exposure but what they are not taking into account is that there a lot of those plans (as stated in the report) that have negative cash flow circumstances and are poorly funded. Those plans should not be in a pool that has a more aggressive stance. They have to be individually managed to account for their particular cash flow and funded circumstance.

He continued, one of the missing points in this report is significantly lacking in information regarding “cost benefit - savings”. They talk about all of the savings, by better investment return, by economies to scale, and better management fees. You will not see those savings for 10 years if they even exist because during the 10 year period there will be a significant transaction cost of moving our assets into this pool. There is market impact from being out of the markets when trying to move those. There is actual commissions and brokerage spreads when those get moved. In addition, there is a monumental actuarial cost to this. I think this is another fallacy in this report where they have mentioned that this will level the playing field for actuarial assumptions. It doesn't because every fund still has different actuarial circumstances. It will be very challenging to get them all on par. A lot of cost will be incurred over the next ten years for this transition.

Trustee Kuchta then asked, “How do you fix what they are trying to do at virtually no cost?” You change the code right now. You allow Funds of any size to operate in a similar fashion like the IMRF does and the larger plans do. Basically, you abide by the “**Prudent Man Standards**” You put the onus on your advisor and on your Board of Trustees to come in and do a proper evaluation; your cash flow circumstances; your actuarial circumstances and put together a proper asset allocation and investment program that matches that. There is not a one-size fits all. This would be a significantly less costly fix.

Trustee Kuchta then talked about Tier II. If the State violates provisions in what they did with Tier II a while back they are going to have to fix this anyway. So we will have to eat that cost no matter as a municipality no matter what goes on with this proposal of consolidation.

He continued that he feels that it is too costly up front then what is saved in the long run for what could be a very simple fix of amending the Code.

Trustee Campbell voiced that valid points have been made by Trustee Kuchta. One of his concerns with the actual Resolution will be should we be passing Resolutions and not attaching in the Veto session. This is a Task Force recommendation and clearly the State intends that those recommendations will be written into Legislation, prepared for a vote, and stated in the Veto Session but it is not yet. If we were to pass a resolution based on the recommendations that have been made but there is no proposed Legislation that is written as of yet.

Trustee Kuchta advised that the Report clearly states that the intention is to get the Resolution passed at the Veto Session with limited information. Limited information on any record or documentation of how this was put together. This was done behind closed doors with no access to minutes. His feeling is that it does not really address the problem of allowing municipalities and city who have not properly funded their pension funds. Our own has been fiscally responsible but I don't see how handing over investment responsibilities to a group who is highly politicized is in the best interest of the participants.

Trustee Campbell voiced that we are talking about Legislation that has not been proposed. That the intent of the Task Force is to produce recommendations for this Legislation. It does not necessarily mean it will end up as law. What I find odd because they are asking me to pass a Resolution saying not to consider any Legislation in the Fall Veto Session. We do not even have any Legislation to consider if we think it is a good idea or not. That is separate from the fact that is not appropriate for a Board to Lobby one way or does the Board think it is their job to just administrate as it is already written.

Trustee Cavenaile agreed with Trustee Campbell and voiced that he does not feel that passing a resolution on something that does not exist is necessary. But he feels they may be an opportunity to lobby on behalf of the Board members. When something is drafted we should have access to it and study it but at this point he does not see the point of passing a Resolution on something they do not have all the facts. All we have is the recommendation of the Task Force.

Trustee Kuchta voiced that his feeling is that he must look at this whole matter with what is in the best interest of the Fund. He feels that the way the Resolution is presently outlined it is not in the best interest of the DGFDFund.

He also voiced that he feels this should not be rushed Legislation and that all have an adequate amount of time to evaluate the proposal.

Trustee Campbell voiced that he felt the other side was not to do something that we think was going to happen as opposed to not considering a Resolution that we would support the proposed recommendation of the Task Force. They are not considering a Resolution that would adopt any changes that are recommended.

He continued that this particular one is requested that the Fund not consider any Resolution in the 2020 Vesto session.

Trustee Kuchta advised that what he is seeking is to let the Legislature and the Governor know that the Fund is watching, they have a voice and they want it to be done the right way. Frankly, his feeling that trying to rush this through off of a Task Force recommendation that just dropped days ago, without giving anyone the ability to really dig into it (because it was the lawmakers who put this through – the same lawmakers that put together the current Illinois Pension Code written by lawmakers and not investment professionals). We should make a statement that we want this to be done the correct way. Not a resolution opposing this but a thorough investigation.

Trustee Cavenaile voiced that he does not oppose seeking ample time to review said Legislation.

Trustee Kuchta asked how could they amend the proposal to read how they would like to vote. Before making a motion we might want to look at how is it written and how could it be amended?

Trustee Campbell voiced it is almost like we are not taking it verbatim. If the goal of the IPPFA is wanting to say that we have all these Funds signed on, then we passing our own Resolution.

Trustee Kuchta voiced that he felt that was correct but our goal would be to forward it to McCanney and advise him that our Board would like to have more time on the Resolution. We are not opposing this we are watching that it is being done the right way.

Another thing is that they are taking the average return numbers for every plan from the Illinois Department of Insurance annual reports. The return they put in there and they realize it is that not all Funds have the same Fiscal Year End. Their internal rate of return calculations is significantly different from a time weighted return and do not take into account benefits paid therefore bringing the asset value down or that because of a contribution the asset value increased.

For the Record, the Proposed Resolution regarding Consolidation of Pension Funds.

Whereas the Governor has appointed a Task Force to examine the issues relating to the possible consolidation of Illinois Pension Code, Article 3 and Article 4, Downstate Police and Fire Pension Funds and whereas from the report from the Task Force is completed and as presented in October 2019, and whereas the possible consolidation of the Article 3 Article 4 Pension Funds is a complex financial economic undertaking and such an undertaking should not proceed without proper and comprehensive analysis and review by all stake holders most notably the asset owners and representatives of the participating members.

Therefore be it resolved that the Board of Trustees of the Downers Grove Firefighters Pension Fund hereby request that the Illinois General Assembly withhold action until stake holders have ample time to review proposed legislation even if such time will take action into the following year's

regular session.

Adopted by the Trustees of the Downers Grove Firefighters Pension Fund to be presented to the Illinois House of Representatives and Illinois State Senators and to the Illinois Pension Fund Association.

**MOTION:** A motion was made by Trustee Kuchta to approve the proposed response. Seconded by Trustee .-----  
**Motion carried by a vote of 4-0.**

**PUBLIC COMMENT**

None

**ADJOURN**

**MOTION:** Trustee Campbell made a motion to adjourn  
Trustee Cavenaile seconded the motion.  
**Motion carried 4-0.**

The meeting adjourned at 1726 hrs.  
Respectfully submitted.

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Firefighter/Paramedic Scott Cavenaile, Secretary

SC:pp All Files/Pension/2019 – 10-18-19 Quarterly Meeting Minutes