Date: Sat, 3 Jan 2009

I thought I would share with you the email I sent out to my list of activists on campus from our local Annuitants Association. In addition to my questions about the estimates of savings, I am also concerned about the possible politicization of the pensions, one large fund is very tempting to take over, and the newly proposed control structure would have Giannoulias as a member. If anyone needs details of the proposal, I can probably find them.

Irene Rubin
irubin@niu.edu
NIU AA

Folks,

Here is an update from Giannoulias's office, and a website for the less quantitatively challenged among you to check out his proposal to merge the pension funds. Giannoulias is the state treasurer, and a potential candidate for governor. He is claiming potential savings from a merger, on both salary and benefits from fewer staff, fewer contracts, and the like, but the bulk of his savings are from "economies of scale", the idea that if you invest more you will pay smaller fees per dollar invested. It is especially this latter issue that I questioned, since the investments of the pension funds are already generally large enough to obtain the most favored investor rates, and smaller investments are mandated by public policy to go to minority, women, and handicapped owned firms, his plan cannot change this. I asked him for the underlying data and analysis, and this web site and the supporting data is what I got in return. I am sharing it with you now.

Both I, and SURs have serious questions about the proposal and its likelihood of saving the pensions money. It looks like magic, to fund the pensions, but there is no magic that I know of. I am wary of magic.

A few comments from me at this point:

You need to have a Google account to view the underlying spreadsheets, this takes a few minutes, but should not be a serious hurdle. It seems to require doing parts of the task twice, for reasons Google only knows. The data on Google seems to me to be the current investment portfolio and fees paid by each of the pension systems, though they are not carefully labeled; what they do not provide is a comparison of current rates with the rates under Giannoulias's proposal. If you take my word for that, you would not necessarily need to look at the material on the Google site, though of course you are welcome to if you wish to.

Second, the savings estimates are based on an aggregate model provided by bankers of what it would cost to invest if all the money in all the pension funds was invested at one time, with one company. Then, Giannoulias subtracts from the idealized fees the costs of administration, which seems to me to be double counting the savings, since these are part of the fees that are charged. If there is some rational for doing this, it is not made clear on the website.

The savings estimate does not seem to be based on the difference between what is currently being paid for those kinds of accounts and the amount that would have to be paid under Giannoulias's combined investment strategy, nor does his work seem to compare the rate of return with the cost of the investment, other than by controlling for more passive and more active accounts.

More expensive investments typically return higher yields. Nor does Giannoulias's cost savings estimate seem to take into consideration the requirement for hiring small minority and female and handicapped operated firms.

In my opinion, then, these savings estimates for economies of scale are highly exaggerated, theoretical, and not real.

Third, his plan is unlikely to save SURs money, though it could help the other two pension systems--I didn't track the amounts for the other funds. Surs is already well managed and inexpensive, it is mostly passively invested, which is less expensive.

I welcome any and all to work with these numbers and these explanations from his office, see what you can see, correct me if I have erred, and let me know your results...also, feel free to ask me questions, and I will see what I can figure out to answer you.

Irene Rubin <irubin@niu.edu>

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John's note: Below is the reply Irene received from Treasuer Alexi Giannoulias in response to her request for information.

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----- Original Message -----
From: Phillips, Kati
Sent: Friday, January 02, 2009 11:17 AM
Subject: ILPERS web site launched

Dear Illinois resident,

You recently contacted the State Treasurer's Office regarding a proposal to consolidate state pension investments. I invite you to learn more about the Illinois Public Employees Pensions System (ILPERS) proposal at a new website, www.ilpers.org. On the site you will find an overview of the legislation, an explanation of our savings estimates and answers to frequently asked questions. I encourage you to share this information and to contact us with any additional questions or concerns.

Thank you,

Alexi Giannoulias
Illinois State Treasurer