



*Analysis of Investment Fee Savings  
and Transition Costs due to  
Potential Consolidation into  
Illinois Public Employees  
Retirement System (ILPERS)*

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BY:

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## EXECUTIVE SUMMARY

Aon Investment Consulting has analyzed the investment expenses of three Illinois statewide retirement systems. A consolidation of the three systems is being considered as a means of reducing investment expenses.

This analysis compared the fee savings from a consolidation with the transition costs of such a consolidation. We have modeled three different fee savings scenarios with two different transition cost scenarios. Fee savings will vary depending on exactly which investment managers are terminated and which are retained. Transition costs will vary based on how many assets are transferred and the liquidity of the equity and fixed income markets.

Our “More Likely” estimate of fee savings is \$21 million in the first year. Our range of transition costs under this scenario is from \$31 to \$48 million. This means that there will be a 1.5 to 2.5 year payback period of investment management fee savings versus transition costs.

Because of the large magnitude of the fee savings and transition costs, this analysis does not consider the dozens of other smaller or intangible savings such as staffing, rent, additional investment expertise due to larger consolidated internal staff, lower long term consulting fees, etc. Likewise, this study does not quantify other modest or intangible costs of consolidation, such as transition consulting fees, state employment, system autonomy, member ownership, etc.

We encourage readers to consider other scenarios in addition to our “More Likely” scenario. For example, in the pessimistic scenario, few assets would be consolidated, resulting in fee savings of less than \$1 million and no transition costs. In the optimistic scenario, fee savings could be \$35 million, while transition costs would be \$43 million to \$68 million.

Fee savings related to investment in alternative assets would be another \$5 million, but would not materialize for several years. Savings for staffing and investment oversight expenses would be another \$2-3 million.

## SCOPE

Illinois, like other states, is facing increasing budgetary challenges. Pension contributions are a significant cost to the State. The State is seeking ways to reduce these costs. The Illinois Treasurer has proposed an investment merger in part to reduce costs of investing the State pension fund assets.

Aon Investment Consulting (AIC) was retained by the State of Illinois Commission on Government Forecasting and Accountability (CGFA) to assist it in evaluating the potential cost savings that may result from merging the investment management functions of the Teachers Retirement System of the State of Illinois (TRS), the State Universities Retirement System of Illinois (SURS) and the Illinois State Board of Investment (ISBI) into a single investment entity, the Illinois Public Employees Retirement System (ILPERS).

Because of the magnitude of these areas relative to other cost savings identified by the Treasurer's study, this study focuses primarily on two areas:

1. Investment management fee savings attributable to consolidating the traditional investment mandates of the three pension funds. Traditional assets are those readily tradable on the public exchanges and over the counter markets both in the US and overseas. These assets are normally traded continuously during the markets' hours of operation and have publicly quoted prices.
2. Transition costs of consolidating the traditional assets of the entities into single investment pool. By transition costs, we mean brokerage and market impact costs. To quantify transition costs, we use a concept known as "implementation shortfall." This is the loss in return as a result of implementation of a change in asset allocation. Custodians and other firms specialize in minimizing these implementation shortfall transition costs.

Investment management fees represent a material expense to the three systems. In the 12 months ending June 2008, the three systems in aggregate reported a total of \$243 million in investment management fees with \$179 million paid to traditional asset managers. Based on the lower asset base as of December 2008, these fees are lower, but still significant. Since many investment managers price their services on a sliding scale, reducing the costs as the assets increase, it is presumed that the merged entity would enjoy lower fees, which would ultimately result in savings to the State. This report analyzes whether such a savings resulting from this merger would materialize as a result of these lower fees.

The material cost of merging the three systems would be the transition cost, or the costs associated with the portfolio turnover which would occur in transferring the three systems' current assets from the current managers to a new presumably reduced list of managers with larger mandates chosen to implement ILPERS' asset allocation and investment strategies.

The study also touches on two other areas where savings could potentially result from a merger. The first is the potential savings resulting from consolidating the management and oversight of

the assets into ILPERS and eliminating the redundancies that exist by having TRS, SURS and ISBI separately providing these management and oversight services. As we indicated in previous communications to the CGFA, we do not believe that these costs will be significant enough to substantially influence a decision to proceed or not with the proposed merger. In addition, any estimates of these costs without knowing the strategies eventually adopted by ILPERS makes these savings estimates tenuous. For example, a movement toward more indexed strategies increases the potential savings. Conversely, seeking the diversification and value added of alternative strategies is likely to decrease or even eliminate potential savings. Our goal in this study is to provide a reasonable range of expected savings resulting from a merger.

A second area where savings could potentially be realized is a reduction in fees for alternative investments resulting from ILPERS ability to place larger mandates. As a larger investor, ILPERS would be able to negotiate better terms for some of these investments, but for many it will not. It is difficult to estimate these potential savings due to the fee structures of most of these investments. Most alternative managers charge a base fee plus a percent of the gain often over a certain amount. However, most private equity managers do not scale down their fees for larger assets. Because of the illiquidity of most of these alternative investments, these savings would only be realizable over a period of years. Although not quantifiable, two potential advantages of merging the plans are:

- Larger investors will sometimes enjoy better access to alternative managers, and
- Internal staff expertise to oversee these investments is better leveraged.

## ESTIMATING TRADITIONAL MANAGER FEE SAVINGS

AIC developed its estimates primarily from two sources of information. The first was a survey of the systems of current managers of publicly traded securities. Using the information provided in cooperation with the three systems, AIC surveyed the traditional asset managers of the three systems to collect the current fee schedules, the fee schedule that the manager would apply to an investment mandate with materially more assets and the December 31, 2008 value of each manager's portfolio. We asked each of the systems to forward this survey to each of the system's managers of traditional assets (real estate and alternative managers were excluded from the survey) and to provide us a list of those managers. The systems and their managers were very cooperative. We double checked the survey responses against the lists provided by the systems and directly contacted any managers that did not respond and were able to get information from all but one of the managers identified to us by the systems.

In addition to this basic information, we also collected other information to assist us in developing our fee estimates, such as capacity constraints. For example, a manager may not be able to accept an increase in the amount invested, or may only accept a small increase, due to either investment capacity issues or business diversification reasons. Where this is the case, fee reductions from consolidation could be limited. In addition to capacity constraints set by the managers, ILPERS may also reasonably set limits on what portion of its assets are managed by a single manager. This is simply a way of diversifying ILPERS' manager risk, but again can limit the savings. We set this constraint at 20% of the firm's total assets. We applied some constraints, described later, to achieve this diversification in our More Likely scenario. This is simply a way of diversifying ILPERS' manager risk, but again can limit the savings.

The nature of this project required that the information collected in our survey would be public. As a result, a few of the managers expressed some concerns surrounding their responses regarding fees for larger mandates. This caused some concern that we would not be receiving fee information which truly captured the full savings of consolidation. However, most investment managers utilize "most favored nation clauses" (MFN), where the manager agrees that it will provide the sponsor the lowest fee schedule offered to any of its clients. Consequently, we believe that the responses capture most of the savings ILPERS could expect.

Our discussions with larger pension systems confirm that this would likely be the case. However, given the concerns expressed by a few managers, it is reasonable to believe that some marginal savings could be achieved with hard negotiations at actual time of awarding mandates. We estimate that in aggregate this does not represent more than 1-2% of fees across the traditional investment mandates.

To project potential future fees for ILPERS, AIC (out of necessity) made certain assumptions. AIC assumed that the aggregate asset allocation of the three systems would be the asset allocation of ILPERS. Without this assumption, AIC's future fee estimates could capture savings (or additional costs) not attributable to a merger. For example, if in ILPERS more assets were invested in less expensive index mandates, this would result in a savings. However, investing more assets in index mandates could be accomplished without a merger and these savings could not rightly be attributed to a merger.

Our analysis uses the system's current managers to project future expected fees. Clearly there is no reason to expect that ILPERS will limit its managers to just those already employed by one of the systems. Changes in investment strategy or the size of mandates could, and probably will, result in other managers being added to the mix. We focused on the current managers for two reasons. First, each of the current managers has been vetted by one of the systems indicating that it meets the criteria for selection by a larger Illinois public fund in whatever space it operates. Second, we know that the manager's fees have already been scrutinized and that at least one of the systems has determined that there is value at that price. Based on these criteria we believe that the current managers represent a reasonable sample on which to base our future fee estimates.

Approximately 20 managers use performance fees. Most of the firms operate under an annual schedule tied to the benchmark plus the base fee with an annual measurement period. Unlike the normal arrangement for alternative asset classes, there are neither high water marks nor claw backs in these contracts. In order to provide a consistent methodology to compare managers with asset based fees and performance fees, we assumed each manager earned the peer median return for its asset class as calculated in eVestment Alliance's database. Although this method generates trailing returns that are different than the median trailing returns, the difference was less than 50 basis points annually, and was more consistent with likely performance fee calculations. We also felt that this approach was fairer than using the manager's actual returns, since this would penalize managers with higher returns and reward underperforming managers when focusing on just investment fees. We reviewed the investment returns of managers with performance fee contracts. For the past five years, the majority has underperformed the median.



## PEER COMPARISONS

We interviewed three large state systems to get a sense for the expenses those systems incur for the management of their traditional investment mandates.

- California State Teachers' Retirement System (CalSTRS) – larger than ILPERS would be
- New York State Teachers' Retirement System (NYSTRS) – larger than ILPERS would be
- Colorado Public Employees Retirement System (CO PERA) – larger than TRS, SURS & ISBI, but smaller than ILPERS would be

From these conversations, we were able to learn more about the investment expenses of larger systems as compared with smaller systems. We compared the fee schedules of these large systems with those reported by the managers of TRS, SURS & ISBI and found them to be consistent. One system explained that because of the MFN provisions in their contracts as well as those of most managers and public funds, we were not likely to be misled by managers reporting fees greater than or less than those under their MFN terms.

One large fund cautioned against consolidating the investment management responsibility but not consolidating the investment allocation decision making. Two examples of this were discussed, one of which works reasonably well and one which is more complex. In North Dakota, for example, the State Investment Board (SIB) manages investments in about ten asset classes. Each of the two pension funds (Teachers Fund For Retirement and Public Employees' Retirement System) as well as other state investors makes broad asset allocation decisions, but leaves the selection of investment managers to the SIB. Although this limits investment discretion somewhat, the management of the investment allocations is not cumbersome.

In New York City, five pension systems each make their asset allocation decisions, like North Dakota, but are not limited to a small choice of asset classes. Consequently, the consolidated investment function is required to maintain elaborate records of each of the five pension systems' investment allocations. This undermines much of the fee savings that ILPERS is designed to create.

We understand that under the ILPERS model, the new ILPERS board will have sole authority for asset allocation decisions for each of the five Illinois pension systems, much like ISBI now has investment authority for the State Employees' Retirement System (SERS), the Judges' Retirement System (JRS) and the General Assembly Retirement System. This model will maximize the investment consolidation impact, and is consistent with the approach used in South Carolina, Washington State, Alaska, Vermont, and several other states.

In the discussions with peers, we also obtained qualitative information. The larger systems tend to be much more heavily passive than the typical \$10-\$30 billion public fund. They believe that this generates additional savings where they are able to manage the passive assets internally. They also believe that the "idea generation" was stronger by being part of a larger fund with a larger investment management operation.

## ESTIMATING TRANSITION COSTS

For estimating transition costs AIC contacted three large transition managers and collected data on actual transitions that occurred in recent markets, i.e., more volatile markets, as well as during a period of less volatility – the early part of 2008. We used the implementation shortfall in these transitions as the measure of the cost of transitioning. The implementation shortfall is a measure of the transition process incorporating all costs, both explicated and implicit. It compares the actual value of the portfolio at the end of the transition process with the value of a theoretical portfolio transitioned instantaneously at the beginning of the transition period at no cost. Our report provides two estimated ranges for transition costs, one in volatile markets as experienced recently and one in less volatile markets.

There are primarily two costs driving the total transition cost.

- Commissions, and
- Market impact cost

Commission costs are simply the brokers' charges for buying and selling of securities, usually expressed in cents per share or a bid/ask spread. Market impact is what happens to the price of the security during the time you are either selling it or buying it. A demand to sell usually depresses the price, which adversely affects the seller, and a demand to buy usually raises the price, which adversely affects the buyer. Clearly the cost of transitioning these portfolios is highly dependent on market conditions at the time of transition and should be managed carefully to minimize the cost.

We needed to make certain assumptions when estimating transition cost. We assumed that indexed strategies would transfer in-kind and therefore incur no transition costs. We also assumed that for enhanced index strategies there would be a very significant overlap of holdings and that they would transfer in-kind 70% of their assets, again at no cost.

We used the following estimates of the implementation shortfall in basis points (bp) in volatile and less volatile market for this study. This is one of the facts that we can vary to test different scenarios, if needed.

<b>Asset Type</b>	<b>Less Volatile Markets</b>	<b>Volatile Markets</b>
US Large Cap	10 bp	23 bp
US Mid Cap	15 bp	30 bp
US Small Cap	20 bp	45 bp
Real Estate	20 bp	45 bp
Int'l Equity	30 bp	45 bp
Global Equity	20 bp	34 bp
Emerging Markets	50 bp	75 bp
Fixed Income	35 bp	50 bp

Note that a basis point is 0.01%. So for example, 10 basis points is 0.10% and 75 basis points is 0.75%.

## SAVINGS RESULTING FROM STAFF REDUCTIONS AND ASSOCIATED COSTS

A consolidation of TRS, SURS and ISBI into ILPERS would result in some redundancies of staff. Eliminating these staff redundancies and the cost associated with maintaining that staff would provide some savings. As we indicated in prior discussions, without knowing the structure of ILPERS and its investment strategies estimating these potential savings is tenuous. We also do not believe that these potential savings will materially impact the economics of this decision. Investment management fee savings are the primary economic factor in this decision. These potential savings dwarf the other potential savings, such as:

- Custody
- Investment Consulting Contract (ongoing)
- Legal Fees
- Salaries
- Benefits

To develop our estimates of the savings attributable to merging the systems for investment purposes into ILPERS, we used the data in each system's annual report on expenses. Each system was asked to provide a breakout of what percent of each expense category in the report was attributable to activities directly relating to the management and oversight of the system's investments. In addition to salaries and benefits, the systems were reminded to include in their estimates such items as, rent, utilities, office supplies, phones and other miscellaneous costs associated with maintaining their investment oversight staff. We treated custody and investment consulting expenses separately, but the other costs were lumped together to create a baseline for estimating savings.

## SAVINGS ON ALTERNATIVE ASSET CATEGORIES

AIC’s mandate includes a cursory review of the potential investment manager fee savings for alternative asset categories. These categories include real estate, private equity, hedge funds, infrastructure, etc. As stated earlier, we believe that the investment manager fee savings realized from merging the three entities due to the ability to make larger investments will be modest in these categories. In addition, due to the liquidity constraints of many of these investments, only the new commitments would enjoy any immediate savings, and the ability to make new commitments would presumably be constrained by the allocations already in place. We anticipate that there would probably be little transition cost associated with consolidating these investments, because the most economical process for transitioning is probably to let these contracts work out naturally. We believe that these contracts will be assignable from the prior fund to ILPERS. For hedge funds there is an additional consideration of high water marks. Where these assets are currently underwater, the transition would need to be managed to avoid losing the fee advantage provided by a high water mark. High water mark protection simply means that if a manager’s portfolio loses money, then no incentive fee is paid on the subsequent gains in the portfolio until the portfolio’s value exceeds its previous high.

Unless ILPERS elected to access the secondary markets, a work-out of these investments would require several years. Accessing the secondary markets is normally expensive. It is outside the scope of this analysis, so we have not looked at any of the system’s contracts for alternative investments, but based on typical seasoned alternative program we estimate the following time frames for a *substantial* transition of these assets.

Alternative	Transition Period
Hedge Funds	3-4 years, but highly dependent on markets. Many hedge funds currently have gates <sup>1</sup> due to a lack of liquidity
Private Equity	5-7 years with some dependency on the markets providing exit strategies
Infrastructure	7-9 years with some dependency on the markets providing exit strategies
Private or Direct Real Estate	5-7 years with some dependency on the markets providing exit strategies
Commingled Real Estate	Usually 90 day liquidity with notice, although in illiquid markets, managers will impose constraints

<sup>1</sup> Gates are restrictions on withdrawing assets from the pool. Normally imposed to prevent the forced selling of holdings when the manager believes their current prices are well below actual values or when liquidity limited or non-existent.

Since the systems invest in some assets that do not enjoy short or intermediate term liquidity, this study focuses on the savings resulting from the merging of the systems' traditional assets. Traditional assets are portfolios of readily marketable securities that trade on public exchanges or in the over counter markets in the US or overseas. Other investments that the systems may be locked into contractually or that are simply illiquid by their nature are not a focus in the report. These illiquid investments may include hedge funds, private equity, real estate, infrastructure, etc. While some savings could be realized eventually in the merged entity by consolidating these illiquid investments, we expect those saving to be modest.

## OTHER FACTORS OFFSETTING POTENTIAL SAVINGS

Most of the other factors relate to the start-up costs associated with ILPERS. We expect that these would mostly be incurred in the first 18-24 months and include such things as:

- Developing an investment strategy for the combined assets of the three systems. Decisions regarding indexing versus active, level and type of alternative exposures, etc., are just some of the significant issues the new board and staff will have to decide. We would anticipate an asset-liability modeling exercise as a part of this process and developing a broad written investment policy statement for ILPERS. This effort will likely include both actuarial and investment consulting costs and could be range from \$1-2 million of dollars.
- ILPERS will need to address custody issues. At a minimum this would involve a fee negotiation with one (or both) of the current custodians, but could prompt a review of other custodians. ILPERS may involve an investment consultant in this process.
- Once board policies are determined, ILPERS will need to review its current investment manager line-up and begin consolidating, adding and deleting managers to meet the new objectives. This likely would involve an investment consultant and continued use of current ISBI, TRS and SURS investment staff for a transition period.
- Depending on board policies, there may be travel expenses for staff associated on site reviews of the managers ILPERS wishes to retain and/or hire.

## FINDINGS

We have developed three estimates for the savings on investment fees paid on ILPERS traditional assets: an optimistic, a more likely and a pessimistic case. Inherent in all of these cases is our assumption that the current asset allocations and investment strategies of the plans will approximate the asset allocation and investment strategy of ILPERS. Of course this is not likely to be the case, but to assume otherwise would cause us to capture savings (or costs) due to changes in asset allocation or strategy, which could be implemented without a merger, although probably not as efficiently. Based on the December 31, 2008 traditional asset values of \$32.4 billion and once the portfolio changes are fully implemented, our three estimates, in millions, are:

Scenarios	Savings
Optimistic	\$35
More Likely	\$21
Pessimistic	\$0.5

**The Optimistic scenario** is based on the assumption that fees are the primary criteria in re-allocating the portfolio's traditional mandates. Given the difficulty of producing alpha in the traditional asset space, fees should be a very important consideration to ILPERS, but not the only consideration. In this case we simply allocated the assets in the mandate first to the cheapest manager up to its capacity, then to the second cheapest and so on. This results in what would probably be undesirable manager concentrations and gives no consideration to perceived manager ability to add alpha. Clearly there will be situations when ILPERS determines, based on its evaluation of active managers, that the expected alpha justifies a higher fee.

**In More Likely case** we added constraints to prevent overly concentrating in just a few managers, but we still did not attempt to recognize alpha potential. For investment spaces, defined by market capitalization and investment style, where there are currently across the three systems 5 or more managers, we restricted any manager's post merger allocation to 33% of the merged entities total. If there were less than five managers we allowed up to 50% of the asset to go to one manager. We allocated to the cheaper manager first, up to the manager's capacity or to 33% or 50%, then to the next cheapest as we did in the Optimistic case. No restrictions were placed on passive or enhanced mandates.

**The Pessimistic case** only assumes that the assets are pooled and that to the extent the systems hold the same mandates with the same managers, these are at the lowest fee available to the larger pool. This is the make no changes scenario, but takes advantage of the existing duplications among the three systems.

Although in the long run our findings suggest that Illinois can realize savings by merging these systems, in the short run transition costs will have a major impact on any immediate savings and materially effect the pay back period. We looked at transitioning the system's traditional assets in two market scenarios, volatile markets and less volatile markets. As a proxy for volatile markets we used the first quarter of 2009, although it should be noted that markets, as measured by the VIX, were actually more volatile in the fourth quarter of 2008. Specifically, the VIX is a

measure of the implied volatility of S&P 500 options, but it is a reasonable proxy for market volatility. For the less volatile markets we used the first quarter of 2008. For the first quarter of 2008, the VIX averaged about 26, in the first quarter of 2009 it averaged about 43, or about 74% more volatile. The non-US markets and fixed income markets have been similarly impacted by increased volatility. In the fixed income market liquidity for certain credit issues is practically non-existent. This has significantly increased the cost of trading issues in these markets.

Assuming the systems are merged, ILPERS will need to closely manage the transition process. For purposes of programming convenience, we have front loaded all of the transition costs into the first year even though that may not actually occur. With specific asset allocation and investment strategies in place and depending on market conditions, it could be prudent for ILPERS to transition over a longer period.

We have developed a transition cost estimate for each of the traditional investment manager fee savings scenarios developed above. They are presented in millions in the table below.

<b>Market</b>	<b>Optimistic</b>	<b>More Likely</b>	<b>Pessimistic<sup>2</sup></b>
Volatile	\$68	\$48	\$0
Less Volatile	\$43	\$31	\$0

Transition costs are clearly a very material factor.

We have only developed one estimate for the other savings that can potentially be achieved by merging the three systems. As previously noted, compared to the savings on traditional manager fees and the cost of transitioning the system's assets, these are relatively small numbers. We have also developed an estimate for other one-time costs such as additional actuarial and/or investment consulting cost specifically relating to developing ILPERS strategies and merging the plans. Again these are relatively minor costs that only impact the payback period marginally.

We believe that the fee savings on alternative investments, as previously noted, will be modest. This is primarily because for many of these investments the fee schedules do not offer break points as assets increase. They are typically priced as a flat basis point fee plus some percent of the profit, for example, 80 basis points plus 10% of the investment's eventual gain above some hurdle rate<sup>3</sup>. This applies to all of the limited partners in the investment and it is difficult for the general partner to make fee concessions to larger investors. The advantages of a merger are most likely to be that 1) as a larger investor ILPERS may enjoy better access to alternative managers, and 2) the internal staff's expertise will be leveraged over more of these investments. We held discussions with a number of persons that are active in the alternative investment space, both investors and managers, and concluded that a 5-15% fee savings might be possible. For our estimates we used the midpoint in this range, 10%.

<sup>2</sup> There are no transition costs associated with the Pessimistic scenario because it only consolidates the duplicate portfolios currently held by the systems.

<sup>3</sup> Hurdle rates may be absolute, 8% for example, or some premium above a benchmark, LIBOR plus 4% for example.



Like traditional investments the values of alternative investments are down in the current market, although in some cases not as sharply. Since the valuations for many of these investments tend to lag and we did not collect information on the alternative investments, we opted to estimate current fees based on a 20% decline in the value of alternative investments. Based on this a 10% fee savings would be about \$5.1 million per year. Of course this is based on a fully implemented merger and as previously stated this will take several years. Also, when fully implemented, the value of the alternative portfolio will presumably be higher, which means that this estimate is slightly low. For example, if we reduce the alternative fees paid by the three systems in FY 2008, the savings is \$6.4 million.

There are clearly some redundancies that result from having separate systems providing investment oversight. This is another area where we developed only one estimate of the potential savings. Most of the savings will result from staff reductions and the cost associated with maintaining staff. Salaries and benefits are the major portion of these costs, although phones, office supplies and other things are also included. We asked each of the systems to provide us with a breakout of the costs directly associated with investment oversight from their FY 2008 reports. Working with the information provided by the systems, we determined that the aggregated cost for investment oversight was about \$5.25 million. A reasonable expectation for savings in this area is between 60% and 40%. For our purposes we focused on the midpoint and used 50%, which give an annual savings when fully implemented of \$2.6 million.

Custody and investment consulting services were handled separately. For estimating custody services we contacted State Street which provides custody for two of the systems and worked with them to develop an estimate of the potential savings if the three systems were merged. For investment consulting we developed our own estimate, although without any specific scope of work.

In addition to these savings and the transition costs, we also developed what we have called a start-up cost for ILPERS. This is mostly additional actuarial and investment consulting costs that are likely to result to develop ILPERS asset allocation and investment strategies and manage the consolidation. We estimated this cost at just \$1.5 million and, like the transition cost, it is for convenience of programming all included in year one.

The savings and costs outlined above are all based on current assets and assume any consolidation is fully implemented. Clearly as assets grow either with contributions or earnings, the fees paid for investment managers will grow. See the table below.

<b>Projected Total (Fees &amp; Other) Net Saving Under Baseline Assumptions</b>					
Up to	Optimistic		More Likely		Pessimistic
Year	Volatile	Less Volatile	Volatile	Less Volatile	N/A
1	(\$25.23)	(\$0.32)	(\$19.30)	(\$2.34)	\$8.09
2	\$46.49	\$46.49	\$31.77	\$31.77	\$10.02
3	\$49.09	\$49.09	\$33.61	\$33.61	\$10.48
4	\$51.84	\$51.84	\$35.58	\$35.58	\$10.97
5	\$54.73	\$54.73	\$37.68	\$37.68	\$11.49
6	\$57.77	\$57.77	\$39.88	\$39.88	\$12.04
7	\$60.94	\$60.94	\$42.18	\$42.18	\$12.61
8	\$64.27	\$64.27	\$44.63	\$44.63	\$13.23
9	\$67.80	\$67.80	\$47.23	\$47.23	\$13.90
10	\$71.49	\$71.49	\$49.99	\$49.99	\$14.61

## SUMMARY

We understand that this decision will not be made purely on its economics, but our analysis suggests that a merger of the systems would result in modest savings. As indicated in prior discussions, we have built a spreadsheet which allows us to vary certain of the assumptions in this exercise and we will be glad to work with CGFA to test different scenarios.

## **BACKGROUND**

**The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:**

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

**The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.**

These reports are available from:

Commission on Government Forecasting and Accountability  
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