

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Speaker Madigan: "The Fifth Special Session shall come to order. Is there leave to use the Attendance Roll Call of the First Special Session for this Session? Leave is granted. Representative Currie for a Motion."

Currie: "I move the House do rise and reassemble as a Committee of the Whole."

Speaker Madigan: "You've all heard the Lady's Motion. Is there leave? Leave is granted. We have now assembled as a Committee of the Whole. And for purpose of chairing the Committee of the Whole, the Chair recognizes Mr. Arthur Turner."

Chairman Turner: "The Committee of the Whole shall come to order. And we're going to continue where we were from yesterday's meeting. We have as our guests today Mr. Jon Bauman, Mr. Koch, and our own Andrew Bodewes. Mr. Bauman gave us a opening remarks yesterday and we're just going to continue with questions today. I don't see the need or Mr. Bauman, do you want to say something that you didn't say yesterday or do you want to... if there's something that we researched or do you just wanna continue with questions?"

Jon Bauman: "Mr. Chair, I'd be happy to just continue answering the Members' questions, if that be their pleasure."

Chairman Turner: "I think that's the pleasure of the Chair. The first person I'm going to recognize today is the... Representative Rose for 4 minutes. Representative Rose."

Rose: "Thank you, Mr. Chairman. Good afternoon. If we could briefly review some of your comments from yesterday, Mr. Bauman. I believe, was it accurate that you said in

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

response to these skipped payments, pension payments, of the current fiscal year, the previous fiscal year... I guess the fiscal year that just lapsed last week... that you were forced to sell assets. Is that accurate?"

Jon Bauman: "That is correct."

Rose: "About how many assets were you forced to sell after the Democrats skipped the pension payments?"

Jon Bauman: "The total assets that we had to sell over the past two (2) fiscal years was 2.4 billion dollars (\$2,400,000,000)."

Rose: "So, you roughly had to cover the difference in the... the payment that was skipped?"

Jon Bauman: "Not exactly. Remember the total reductions were about that amount for all the funds. Our share was... this sounds maybe a little cavalier... but our share was only a billion (1,000,000,000)."

Rose: "Okay. Okay."

Jon Bauman: "Or about."

Rose: "So, you sold off 2.4 billion (2,400,000,000) in response to the billion (1,000,000,000) that was skipped?"

Jon Bauman: "Yes."

Rose: "And what's your total fund base?"

Jon Bauman: "Forty-one billion (41,000,000,000) at the end of '07."

Rose: "So, you... you sold off roughly 5 percent of your assets... a little over 5... about 5 or 6 percent of your assets in response to that plan."

Jon Bauman: "Not solely in response to that plan."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Rose: "But as part of your response to that plan?"

Jon Bauman: "Correct."

Rose: "Okay. In reviewing your comments about the current plan, I believe you described something known as negative arbitrage. Could you delineate that for us once again?"

Jon Bauman: "Negative arbitrage is any financial transaction where you borrow at one rate and invest at another rate and in effect, it doesn't work. The investments that you hoped to gain the higher rate of interest on fail to achieve that higher rate..."

Rose: "And in this case, if they fail to achieve that higher rate, that will leave the taxpayers in the State of Illinois on the hook for the difference, would it not?"

Jon Bauman: "Over the long haul, yes."

Rose: "Speaking of that, you mentioned yesterday, I believe, that of your different asset classes that you hold investments in is that real estate is one of your highest class points. Is that accurate?"

Jon Bauman: "Yes."

Rose: "What percentage of your total portfolio does real estate account for?"

Jon Bauman: "Currently, it's about 11 percent. Our long-term target is 14."

Rose: "So, between 11 and 14 percent."

Jon Bauman: "Yes."

Rose: "And if you were to be given this large lump sum of money to be invested at this point in time, is it not accurate that the real estate market is sort of... the market is sort

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

of bottomed out here and sort of fallen over the last six (6) to twelve (12) months?"

Jon Bauman: "Well, I would say..."

Rose: "As I read the paper, I see everywhere about a bubble bursting in real estate. Is... I'm not a financier."

Jon Bauman: "I think there are regions or communities where the bubble has burst. In other places, we're still at the top of the market and assets are overpriced."

Rose: "So, as... so, purchasing at the top of the market doesn't make a whole lot of financial sense either, does it?"

Jon Bauman: "That's absolutely correct."

Rose: "And the same would go for, say, the S&P 500, which is right now at a five (5)-year high just a couple points off of the year high actually, which also happens to be the five (5)-year high."

Jon Bauman: "Correct."

Rose: "So, if you took this lump sum of money from the pension bond sale and invested it directly into those asset classes, there's a good chance you'd suffer a decline in your overall portfolio as the bubble continue to drop from out of the real estate marketplace and/or the current five (5)-year high of the S&P were to do what it always does as the market corrects itself and recede from its high."

Jon Bauman: "Investing at the top of the market in any asset class is often risky, that's correct."

Rose: "If say, for example, you invested this money that you were given and then to promptly, not you, but the market and whether it's real estate or the S&P 500 were to collapse and

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

let's say lose 10 to 15 percent of its value overnight in a market correction, what would that do to your asset base and would you have to sell other assets to cover?"

Jon Bauman: "No, we would not have to sell other assets to cover a loss in the S&P, but it would lower the total size of the fund and it would just aggravate the negative cash flow."

Rose: "One of the reasons that the pension arbitrage seems to have worked from several years ago is the money was invested at a low point in the market. Is that your feeling?"

Jon Bauman: "Definitely. The bonds were sold at an absolute low point, which was good for the state as the issuer and they were invested at almost a market... a trough, if you will, or a bottom of both the S&P and the international market, as well."

Rose: "And this is really, I think, my last question. But since were now at the high point in the marketplace, going back to your definition of negative arbitrage. If you invest all these billions of dollars in the top of the marketplace that's been securitized against bonds and then suddenly we lose 10 to 15 percent of value, say, you still have to pay those bonds, don't you or more appropriately the taxpayers still have to pay those bonds?"

Jon Bauman: "In the short run, we pay them indirectly through reduced pension contributions, but ultimately the state and the taxpayers are on the hook for it."

Rose: "Thank you. Thank you, Mr. Bauman."

Chairman Turner: "Our next speaker is Mr. Jerry Mitchell for 2 minutes."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Mitchell, J.: "Thank you, Mr. Chairman. Good afternoon, gentlemen. I just have a quick question concerning Chicago Public Schools and maybe you can't answer this. The pension system for Chicago teachers is funded differently than the downstate fund, correct?"

Jon Bauman: "Yes."

Mitchell, J.: "Can you... can you give us an overview of how that fund is funded versus downstate teachers' funding?"

Jon Bauman: "I would probably wanna take a pass on that, if you don't mind. I know just very general details of how they're funded. I'd rather let someone who is either from that fund or very familiar with that fund..."

Mitchell, J.: "Okay."

Jon Bauman: "...detail it for ya."

Mitchell, J.: "My understanding is that it's at about a 90 percent level and continues at that level for quite some time. It's... also, I believe, in legislation that if that fund drops down below that 90 percent level then the General Assembly kicks in up to forty million dollars (\$40,000,000) in order to make sure that that fund stays at that level. Is this correct?"

Jon Bauman: "I am aware that there's state funding when they fall below 90 percent, but I don't know that there's a dollar cap. Again, I..."

Mitchell, J.: "Okay."

Jon Bauman: "...would have to defer to someone who's more knowledgeable."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Mitchell, J.: "I also understand that that fund spends down the money by offering health insurance to the retired teachers.

Now, is that... do you know whether that's true or not?"

Jon Bauman: "I know that they have a retired teachers' insurance program, but I'm not that familiar with its financing."

Mitchell, J.: "I guess my question is is that if that pension fund can use some of its assets to offer... offer health insurance to teachers retired in the City of Chicago, then why did the IRS put a ruling in that says that downstate fan... fund cannot use assets to offer health insurance unless they're 100 percent funding. I mean, they're not 100 percent funding and obviously, the IRS doesn't seem to worry about that."

Jon Bauman: "Again, I wouldn't wanna guess and give you an answer that's incorrect. I can tell you what our experience was. We were taking money right out of the bank, if you will, out of the teacher trust fund and transferring it to pay health insurance premiums. That was clearly not legal under the IRS regulations. Other pension funds that I'm more familiar with offer health insurance. They will do it legally by taking employer or member contributions and using them for insurance before the money ever gets to the pension trust fund. It's called... the jargon word for it is 'interception'. Before the money ever gets in, it goes to a health account and I believe the IRS either has said that is okay or they haven't said it's not okay."

Mitchell, J.: "All right. They just haven't examined that yet, I assume."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "That could be the case."

Mitchell, J.: "Jon, I think it'd be helpful sometime if we could have the executive director of Chicago Retirement System and you together to look at some comparisons and to kinda kick these questions around and see what are the likenesses and what are the differences in the way teachers in Chicago versus teachers downstate are actively engaged in their retirement system."

Jon Bauman: "My colleague up there is a fellow by the name of Kevin Huber. I'm sure that he and I could get together and have a talk."

Mitchell, J.: "I... I asked the Speaker yesterday and said he certainly would put out that invitation. Hopefully, if he could come and your schedule would be that you can come as well, I think that would really be helpful to many Members that... that don't deal with these retirement systems on a daily basis. Thank you, Sir."

Jon Bauman: "Thank you."

Chairman Turner: "Representative Meyer, Jim Meyer. You've been recognized for 2 minutes."

Meyer: "Thank you, Mr. Speaker. And thank you, Sir, for bringing your entourage to us and testifying today. I had a couple questions. The forty-one and a half billion dollars (\$41,500,000,000) that you now have on hand, you say that's about 62 percent funded?"

Jon Bauman: "We estimate it's about 66."

Meyer: "Sixty-six funded. And what would full funding be in terms of dollars?"



STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "About sixty... about sixty-three (63,000,000,000), I think."

Meyer: "Sixty-three billion (63,000,000,000)?"

Jon Bauman: "Yes."

Meyer: "Okay. And out of that what would you expect... what would you need actuarially to pay your ongoing ex... your ongoing pension payments?"

Jon Bauman: "Well, full funding or 100 percent funding is by definition what we would need to fund all of the current promised pensions."

Meyer: "Oh. So, the sixty-three billion (63,000,000,000) would only be 90 percent funding?"

Jon Bauman: "No, that's 100."

Meyer: "That's 100 percent. And... and what percentage of return would you need to sustain payments, if you were just spending off of the fund?"

Jon Bauman: "If we were fully funded, we would need to continue to make eight and a half percent."

Meyer: "Eight and a half percent. So, right now, what would you need to make, being only partially funded?"

Jon Bauman: "The eight and a half percent is the rate for any particular level of funding."

Meyer: "Any particular level. Do you have growth factors built in there for pension... for pensions that growing..."

Jon Bauman: "Yes. The actuaries built them into the..."

Meyer: "You have currently eighty-one thousand (81,000)... eighty-five thousand (85,000) retirees and you have three hundred and twenty-five thousand (325,000) in the pipeline?"

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "No. The total membership is three hundred and twenty-five thousand (325,000), which is..."

Meyer: "Includes..."

Jon Bauman: "...includes the eighty-five thousand (85,000) retirees, about a hundred and fifty-five thousand (155,000) active members and then the balance are what we call inactive which means they've left the classroom, but they're not yet eligible to receive the benefits."

Meyer: "But there's still a liability incurred out here, but it's not yet been paid?"

Jon Bauman: "That's correct."

Meyer: "Okay. Well, I just am simply having a hard time understanding how you're making ends meet without selling even more assets. How long do you foresee that you're gonna be starting... that you're gonna continue to sell assets, how many years in the future?"

Jon Bauman: "As far into the future as we can see."

Meyer: "Well..."

Jon Bauman: "There's not a point where..."

Meyer: "There's no end in sight for you having to spend down your assets at this point?"

Jon Bauman: "That's correct."

Meyer: "What would you need in order to live off the proceeds, so to speak?"

Jon Bauman: "If we get to a 90 percent funding level that balances us up."

Meyer: "Well, there's a plan in place and certainly in 1995 we put a plan in place to get you there, so that's not as far

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

into the future. As you can see, I guess, there was an end in sight at one point."

Jon Bauman: "Yes."

Meyer: "How far off did that move you when the Governor broke off of that plan?"

Jon Bauman: "That plan still gets us to 90 percent by 2045."

Meyer: "But accelerated payments over and above what the '95 plan did?"

Jon Bauman: "Yeah, it just changed the payments."

Meyer: "I'm sorry?"

Jon Bauman: "It changed the... the flow of the payments."

Meyer: "Okay. And that's exactly what we're talking about."

Chairman Turner: "Last question, Representative."

Meyer: "Okay. I wanna go back to the type of assets that you're selling. You're talking about making a great deal of return on real estate, yet it's seems like when you gave us illustrations of what you were selling that's what you were selling. Is that correct?"

Jon Bauman: "No. When we sell to pay benefits, it's typically something out of an index fund. We don't sell a building to pay..."

Meyer: "Did I misunderstand you then on the real estate?"

Jon Bauman: "Probably."

Meyer: "Okay. You have not sold real estate to make payments."

Jon Bauman: "That's correct."

Meyer: "No hard assets like that?"

Jon Bauman: "Correct."

Meyer: "Okay. Thank you."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Chairman Turner: "Representative Tryon for 2 minutes."

Tryon: "Thank you, Mr. Chairman. I appreciate you coming down.

I know it's been a long, long couple of days for you here and a lot of questions. But you know, one of the things that I'm trying to establish in my mind is the 90 percent versus maybe a lesser percent. It seems to me you could hardly ever design a scenario that the pension system would need 100 percent of its money. If you did, we'd be in a tremendously difficult economic collapse of not only our economy but of State Government. And the 100 percent or the 90 percent is basically so you can manage your assets, some... some years you could actually see 105 percent other years you might see 90 percent. But it's basically just to allow you to manage, based on the performance of the plan. So, my question to you is at what percentage do you... are you... could you be at and still manage the plan without threatening the future to a point where you didn't feel comfortable?"

Jon Bauman: "To clarify your question a little bit. Would that include eliminating the negative cash flow and..."

Tryon: "Absolutely."

Jon Bauman: "I think 90 percent's probably that number."

Tryon: "So, at any time if you fall under 90 percent you can never manage..."

Jon Bauman: "Oh, it's not saying that we're not able to manage, but on that specific question, I think we need to get to that level."

Tryon: "I mean, part of it's based on the performance of your plan. I mean, obviously, if you're making 14 percent, 20

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

percent one year, 8.8 the next year, there's different dollar needs and part of our problem, that I see, is the strategic approach at which we've taken to get to the 90 percent. Right now is a very difficult obligation for us to meet and I'm wondering if there's maybe not another strategic approach we could implement maybe tying the amount of dollars that we put directly into the system with the performance of the system. If the system performs at 8.8 percent or above, we put less money in... in that ramp up period and if you put in... if you make less than 8 percent, maybe we could put less... more money in. That's... Would that have any kind of impact?"

Jon Bauman: "Well, the only problem with that is essentially you'd be putting in less money when the markets are good and more money when the markets are bad and maybe that's the opposite of what you wanna do. I think we talked about that."

Tryon: "I don't know. Real estate isn't good, if you're a seller, but it's probably a great time to buy, if you buy the right kind of real estate."

Jon Bauman: "Mmm mmm."

Tryon: "I mean, you don't necessarily wanna put all your eggs in one basket. I look at this as a strategic approach to the future and the time period we're in with the ramp up and so forth, it's making it very difficult. And I'm wondering if there's a way to restructure that commitment so that we can deal with the budget that we have and still get you to where you need to be, which is to operate without selling... putting

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

yourself in a negative cash flow. I mean, we're married to this ramp up."

Jon Bauman: "Yes."

Tryon: "And I'm wonderin' if you might have suggestions for how we might be able to do that."

Jon Bauman: "Well, I think it's important to remember that the ramp goes away in three (3) years for the most part. And perhaps there's some solution that would involve a short-term supplemental funding source, and I don't know what that would be, that would help carry us over that hump of the FY 2008 through FY 2010. After that, the funding increases are smaller per year and they're more predictable."

Tryon: "What if... for instance, IMRF operates by each unit of government and each unit of government takes a different actuarial liability to the future and if that unit of government falls lower than that unit of government has to pay a higher amount. If that unit of government is overfunded than that unit of government pays a lower amount. Would it be possible if we put some of that cost on an employer contribution because each school district may have different actuarial needs?"

Jon Bauman: "I think that is theoretically possible. I don't know how much support that would get from the school districts."

Tryon: "Probably..."

Jon Bauman: "It is theoretically possible."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Tryon: "All right. Why don't... I mean, have we ever looked. I mean, where are we at in employer contributions compared to other states our size?"

Jon Bauman: "When the contributions are made, we're about middle of the pack."

Tryon: "On employer contributions?"

Jon Bauman: "Yes."

Tryon: "We'd be... we'd say top five (5) states, we'd be in the middle."

Jon Bauman: "Yeah."

Tryon: "Or on the downside of what employer contributions?"

Jon Bauman: "About medium, yeah."

Tryon: "Okay. Let me ask you, is there... we closed some loopholes in the pension system a couple years ago with Senate Bill 27. There were some benefit loopholes that we closed. Have we looked at other loopholes? And one of the loopholes I wanna ask you about, to me is a loophole, is a superintendent or a teacher can retire with a substantial salary and they can go back and they can work for that school district or another school district for up to a hundred and twenty (120) days. But... when they're doing that neither the employer or the employee make a contribution into the pension system in a position that was once generating revenue for the pension system. And I'm wondering if we were to look at some loopholes like that, maybe require at least the employer to pay the benefit into the system and maybe not the employee, if we could see some revenue enhancements that would lower that ramp up period.

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Are there other loopholes in your system like that that you might be able to look at?"

Jon Bauman: "Well, I can give you two observations on that issue. TRS and the school districts are prescribed by Federal Law from collecting contributions from retirees. That's why this has never been brought up, not that it's not meritorious, but we can't do it."

Chairman Turner: "Bring your remarks to a close, Representative."

Tryon: "The employer could... we could require that because that position... that employer's also saving money too by hiring them, correct?"

Jon Bauman: "Ahh... sometimes."

Tryon: "I guess my point overall is, is if we're gonna... if we look at funding education and we're looking at putting a lot of money in education, maybe if we're on the down... backside of what employer contributions should be, that may be an angle we could look at along with any position that they're not paying into the system for, we could have a contribution from the employer for that as well, correct?"

Jon Bauman: "Let me review that and get back to you on the employer side."

Tryon: "Okay."

Jon Bauman: "Thank you."

Tryon: "Thank you."

Chairman Turner: "Representative McCarthy for 2 minutes."

McCarthy: "Thank you, Mr. Chairman. Mr. Bauman, in response to Representative Tryon and many other questioners... over here



STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

on the far right... the... Thank you. You've mentioned that you think our benefits are kind of in the middle of the pack that our... the amount that our employees are paying is on the upper end because people ask about reduction in benefit packages. You didn't think it was mandated at the time. Does your group or could they create like a chart of maybe the top six (6) or seven (7) states showing what those employees pay, showing what their employer pays? You know, maybe you put California, Pennsylvania, Ohio, the states that are, ya know, somewhat the same size, the larger states. Would you be willing to commit to the group producing such a chart for us so we can see, instead of just hearing anecdotes, we know that this is the actual facts?"

Jon Bauman: "Representative, I believe we have that in some material we put together for the Governor's Pension Commission and when we get back to the office, we'll get you a copy."

McCarthy: "I'd appreciate that. Now, even though you said you don't think some of these reductions are mandated, do you still look at some of them? For example, if a person... you said your average person has about twenty-eight (28) years, if it's not these short-termers that we talked a little bit about yesterday, but for those people that they... there's no penalty if they're sixty (60) or older. Do you know if we made it sixty-two (62) or older, what kind of monetary difference that would make?"

Jon Bauman: "Raising the retirement age to sixty-two (62)..."

McCarthy: "Or a penalty..."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "...from sixty (60)?"

McCarthy: "...a penalty up until sixty-two (62) instead of a penalty up until sixty (60)?"

Jon Bauman: "I would have to review that. I don't know that we ever tested sixty-two (62). We did test sixty-five (65) for the Governor's Pension Commission and I can share those results with you."

McCarthy: "If you could that information with us, that would be helpful as well."

Jon Bauman: "Yes. Okay."

McCarthy: "And do you have any idea how much of the... I think, you said twenty-eight thousand (28,000)... eighty-five thousand (85,000) annuitants, do you have any idea how many of those annuitants are under the age of sixty-five (65)? Or what percentage of the total out... Like if we changed it to say..."

Jon Bauman: "Yes."

McCarthy: "...retirement income up to age sixty-five (65) would be taxed. Would you be able to say how much of your... was it 3.1 billion (3,100,000,000) you pay out during the year, goes to people under sixty-five (65)?"

Jon Bauman: "I would want to not guess. Let me research that."

McCarthy: "Okay. If you could get it back to us."

Jon Bauman: "Yes, not a problem."

McCarthy: "I certainly would appreciate it."

Jon Bauman: "Okay."

McCarthy: "Thank you, Mr. Chairman."

Chairman Turner: "Representative Riley for 2 minutes."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Riley: "Thank you for being here. I once read something in a investment prospectus where the fund manager talked about being prudent yet aggressive. It sounds like a contradiction in terms, maybe something you would, you know, see in a wine spectator magazine or someone who's talking about characteristics of a wine. But looking at that prudent yet aggressive, let's say we plotted out the S&P 500 or the Dow, say, over a twenty (20) -year period. We smoothed out all of the noise, I mean, essentially, wouldn't that curve still be going up, but you would have ebbs and flows, you'd have peaks and troughs in that curve?"

Jon Bauman: "For the Dow or the S&P..."

Riley: "Yes."

Jon Bauman: "...over time? Yes."

Riley: "Either... either. Okay."

Jon Bauman: "Yes."

Riley: "Taking... and taking that into consideration, we've had peaks in both of those indices over the last twenty (20) years. I mean, it's sort of, ya know, market... typical market fluctuations. So, to what extent would during that time investments still take that perspective of being prudent yet aggressive? I mean, you didn't, ya know, stop being aggressive in terms of investing or a money manager would not still be aggressive in the face of looking at a particular market peak. Isn't that correct?"

Jon Bauman: "That's correct. It's not generally wise to try to time the market and say, oh, it looks like the top. We're gonna take all the money out of stocks..."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Riley: "Could you get a little closer to the mike?"

Jon Bauman: "I'm sorry. It's generally not wise to, what we call, time the market or based on the potential for more volatility or a potential drop, pull all the assets out of the particular investment and convert them to cash. In fact, we require all of our stock and bond managers to be fully invested at all times to hold at most 10 percent in cash."

Riley: "But my point is..."

Jon Bauman: "Uh huh."

Riley: "...we've seen peaks over the last twenty (20) years, so it's not like we've let a peak in one of the market indicators stop us from... from being prudent yet still aggressive."

Jon Bauman: "That's correct."

Riley: "Okay."

Jon Bauman: "But the issue I think you have to keep in mind is without being market timers there is risk associated with investing at the peak."

Riley: "That's..."

Jon Bauman: "That's the point we're trying to make."

Riley: "Okay. One other question, real quick, get a lot of questions from my constituents. I'm sure the rest of us here have done the same thing where essentially folks are trying to establish blame, you know, when did you know that this problem was occurring? You know, why didn't you do something about it in the past? I think this problem has occurred over time, irrespective of the Party in power. But

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

let me just ask you a question. How much of the problem that we face right now is based on policy decisions that might not have been maybe the best and some were based on, say, demographic changes or macro economic changes, for example, ya know, pensioners, ya know, staying on the rolls longer, ya know, getting older, et cetera, et cetera? How would you characterize those kinds of factors versus bad policy? I'll put you on the spot."

Jon Bauman: "I was... Based on some actuarial analysis that we had done just about a year ago, the overwhelming majority of the change in our unfunded liability was caused by underfunding. The demographic factors were a tiny percentage of that. And I would be glad to give you a chart we've shared previously with appropriations committees that shows each factor and how much it contributed positively or negatively to our unfunded change."

Riley: "But wouldn't you say that essentially public pension plans are sort of representing a larger share of... of governmental budgets across the country and these problems are not, of course, just germane to Illinois? Or would you say that?"

Jon Bauman: "I would say Illinois is relatively unique as far as the dollar amount in percentage of its unfunded. The other issues that we're dealing with as far as the demographic-type changes, absolutely, are present across the country."

Riley: "Thank you for your testimony."

Chairman Turner: "Representative... Representative Flider, for 2 minutes."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Flider: "Thank you. This question relates to Social Security and the Teachers Retirement System. Many times we're approached, as Legislators, gee, I've worked so many years, so many quarters and I can't get my Social Security benefits, yet I pay in whether it's during the summer, whether it's prior work. And so, my question has to do with why other states allow... have a system that differs from ours where Social Security can be received? And secondly, are those states better off or are our teachers better off?"

Jon Bauman: "Without comparing us to any specific state and limiting that comment to teacher systems, each state had the opportunity a number of years ago to make a statewide election for its groups of employees whether to be in or out of Social Security. And in Illinois, the only group that opted in were the state employees outside of the public safety group, the alternative formula group and the teachers and universities systems opted out. Most teacher groups across the nation also opted out. Yeah, there are a few teacher systems across the country that get Social Security, but by and large they're getting Social Security with a lower teacher pension."

Flider: "Is there a way or has there been... ever been an analysis to determine who made the right decision in terms of, ya know..."

Jon Bauman: "The information I've seen, and again it's limited to teacher pensions not state employees or others, indicates that the people who stayed out of Social Security got the

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

better deal. Definitely the employers, who stayed out, got the better deal."

Chairman Turner: "The next witness is Representative Pritchard for 2 minutes."

Pritchard: "Thank you, Mr. Speaker. And thank you, Mr. Bauman for coming today. If I remember correctly when you were testifying yesterday, you mentioned that you didn't see our current pension situation as a crisis for the TRS. Is that correct?"

Jon Bauman: "That's correct."

Pritchard: "And you later went on to indicate that you were drawing down on your assets valued at some forty-one billion dollars (\$41,000,000,000) at the rate of about 1.2 billion dollars (\$1,200,000,000) a year. Is that correct?"

Jon Bauman: "Correct."

Pritchard: "So, if I do the math, and tell me if I'm doing the math wrong, that means that in about twenty (20) years we will deplete our assets."

Jon Bauman: "Umm..."

Pritchard: "Excuse me. Forty (40) years we'll deplete our assets."

Jon Bauman: "Well, that would assume that we never got any more money in or that we ceased making money on the forty-one billion (41,000,000,000). The reason that I feel that we're not yet at a point of crisis is that we continue to make excellent returns on the money we already have."

Pritchard: "But... but you indicated that we still had to draw down assets..."

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "Mmm mmm."

Pritchard: "...to the tune of 1.2 billion (1,200,000,000) each year for the last two (2) years, so that indicates that we're not putting sufficient funds into the system or getting high enough rates of return."

Jon Bauman: "Investment return is not the problem."

Pritchard: "I know. It's our contributions. But the point is we're still drawing down assets at a rate that's going to deplete the fund at current levels of contribution."

Jon Bauman: "Not as long as we continue to meet the actuarial assumption or better and the funding stays in place at at least the '95 law levels."

Pritchard: "Okay. Thank you very much."

Chairman Turner: "Representative Black for 5 minutes."

Black: "Thank you, Mr. Chairman. Gentlemen, thank you for being with us. Jon, let me ask you a question. When you prepared your remarks and I appreciate Andrew dropping off a copy of them, I've enjoyed reading it this morning. Are your remarks subjected to a review by the Executive Branch before you give them?"

Jon Bauman: "No."

Black: "So, nobody has to review your remarks or what you are to say?"

Jon Bauman: "No."

Black: "Is that true across all sections of State Government or do you know?"

Jon Bauman: "I wouldn't know."



STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Black: "Okay. I have had people call my office and tell me that their remarks are often subject to review by the Office of Management and Budget or the Executive Branch. I don't know whether that's true or not, but that's what they tell me. Let me ask you a question that had to do with what you said yesterday. If I heard correctly, Senate Bill... well, no... the Bill that we passed in 199... that became law in 1995 under then Governor Edgar has not proven to be a disaster. Is that a fair statement?"

Jon Bauman: "Correct."

Black: "In fact, it's proven to be somewhat as it was indicated in 1995 contributions were made, perhaps corrections needed to be made, but it seemed to be working."

Jon Bauman: "I believe so. It's not perfect, but it's worked as it was intended to work back then."

Black: "All right. In 2005, Senate Bill 27, has that been a boon or something less as far as contributions to the pension system?"

Jon Bauman: "The loss of contributions was not a positive thing for us."

Black: "So, for all of the hoopla, Senate Bill 27 actually diminished contributions to the pension system, correct?"

Jon Bauman: "Correct."

Black: "I'll be darned. Also, you said the other day that an infusion of money, a large infusion of money, at this particular time when the market appears to be in somewhat a state of flux and I noticed that crude oil closed last night at almost seventy-three dollars (\$73) a barrel, which could

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

be a record high, which will impact the market today if not certainly in the next few days. If I heard you correctly, that influx of several billion dollars may not generate the desired interest rate and therefore, the debt service rate may be very close to what you're making. So the net gain may not be anywhere near what we hope it would be, correct?"

Jon Bauman: "I think what I said yesterday and I'll say it again, is that the likelihood of achieving the returns that we've achieved so far on the 2003 pension bond is not as likely this year and you've hit on one of the factors. Energy prices tend to make the stock market more volatile."

Black: "So, could we find ourselves perhaps in a situation where the debt service on... pick a figure... ten billion (\$10,000,000,000), sixteen billion dollars (\$16,000,000,000) in bonds could put us in a situation where we once again were not able to make GRF contributions to the pension system and it may precipitate a crisis where today we may only have a problem."

Jon Bauman: "That's theoretically possible."

Black: "I... I find that... find that very, very interesting. One question and Representative Mitchell touched on it and I have this in my files in the district office. Why did the Internal Revenue Service, and I think it goes back ten (10) years, we used to subsidize retired teachers health insurance... I don't know whether it was on an interest income or assets... but it's my understanding when that crisis hit the Internal Revenue Service said we could no longer do that. What was that based on?"

STATE OF ILLINOIS  
95th GENERAL ASSEMBLY  
HOUSE OF REPRESENTATIVES  
TRANSCRIPTION DEBATE  
FIFTH SPECIAL SESSION

2nd Legislative Day / Comm. of the Whole

7/9/2007

Jon Bauman: "It was based on a section of the Internal Revenue Code that said, essentially, only overfunded pension plans can use pension assets or excess interest income.."

Black: "Okay."

Jon Bauman: "...for their health insurance."

Black: "So, it... in other words, we have to make up the benefits then through General Revenue Funds where as we used to be able to take it out of the Pension Fund?"

Jon Bauman: "That's correct."

Black: "Okay. Thank you very much."

Speaker Madigan: "Representative Currie moves that the Committee of the Whole be dissolved... I'm not sure of the correct language... arise. Representative Currie moves that the Committee of the Whole arise. Those in favor say 'aye'; those opposed say 'no'. The 'ayes' have it. The Committee of the Whole arises and we are now in the... the Fifth Special Session shall be recessed."

Speaker Madigan: "The Fifth Special Session shall be called to order. Representative Currie moves that the House stand adjourned until tomorrow afternoon at 1 p.m. Those in favor signify by saying 'aye'; those opposed by saying 'no'. The 'ayes' have it. The House does stand adjourned until tomorrow afternoon at 1 p.m."