

**Outline of Remarks**  
**Illinois Pension Modernization Task Force**  
**August 26, 2009**  
**Steve Wood**  
**Jefferies & Company, Inc.**

**Pension Funding Strategies**

- Greater contributions – Employer and/or Employee
- Greater investment returns
- Benefit control
- Pre-funding – deposit of bond proceeds or other assets

**Rating Agency and Credit Analyst Perspective**

- Review the whole picture – each component will be viewed in the context of all components (contributions, investments, benefit control, pension bonds, asset transfer, etc.)
- Does the new initiative or program bolster greater fiscal discipline over the long run?
- Assess the feasibility and viability of the plan assumptions

**Pension Bonds**

- Diversity of Risk (from the perspective of the Pension systems)– exposure to Illinois vs. exposure to markets
- Overall benefit will depend upon the borrowing cost vs. long term investment returns
- What the use of bonds means to the overall plan
  - Does it mean greater discipline?
  - Is it the result of a public consensus to address the overall funding picture?
  - What is the effect on the State's debt burden?

**Transferring Ownership of a State Asset (such as the Lottery System) to the Pension System**

- Certain revenue-generating assets, such as the State Lottery, could be transferred into the State's pension systems. Under this concept, stock in the Lottery Company could be owned by the Pension systems and some of it could be sold to other public pension systems. Bonds could be sold by the Lottery Company to provide more funds.
- Diversity of Risk – outside shareholders and bondholders are supplying capital

Outline of Remarks – Steve Wood  
Illinois Pension Modernization Task Force  
August 26, 2009

Page 2

**Transferring Ownership of a State Asset (continued)**

- Advocacy for running Lottery as a business is more clear
- Civic purpose for the Lottery is still maintained
- Valuation is dependent upon growth in revenues
- Discipline is still key – the new governance structure should embed business-like incentives for performance

**Summary**

- A program that addresses all of the funding strategies will be viewed more favorably than any single initiative undertaken in isolation
- A comprehensive program of initiatives will have a greater chance to build momentum and support for reform among all stakeholders – everyone modifies their ambition for the collective success of the program

Stephen A. Wood  
Managing Director  
212-284-4674  
[swood@jefferies.com](mailto:swood@jefferies.com)