



Legislation Details (With Text)

**File #:** 18-642      **Version:** 1  
**Type:** Report      **Status:** Agenda Ready  
**File created:** 7/27/2018      **In control:** Financial Advisory Board  
**On agenda:** 7/30/2018      **Final action:**  
**Title:** Review the Public Safety Pension Funds Actuarial Valuations

**Sponsors:**

**Indexes:**

**Code sections:**

**Attachments:** 1. Valuation Report - Naperville Fire - 2018, 2. Valuation Report - Naperville Police - 2018

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

**FINANCIAL ADVISORY BOARD AGENDA ITEM**

**ACTION REQUESTED:**

Review the Public Safety Pension Funds Actuarial Valuations

**DEPARTMENT:** Finance Department

**SUBMITTED BY:** Rachel Mayer, Finance Director

**BOARD/COMMISSION REVIEW:**

N/A

**BACKGROUND:**

The purpose of this memorandum is to provide the Financial Advisory Board with an overview of the City's 2018 public safety pension actuarial valuations calculated by the City's actuarial consultant, Foster and Foster. The valuation report outlines the City's assumptions, plan assets, benefit projections, pension liabilities, and current funding levels. The reports also provides the required pension contributions based upon the methodologies and assumptions used by the City.

**DISCUSSION:**

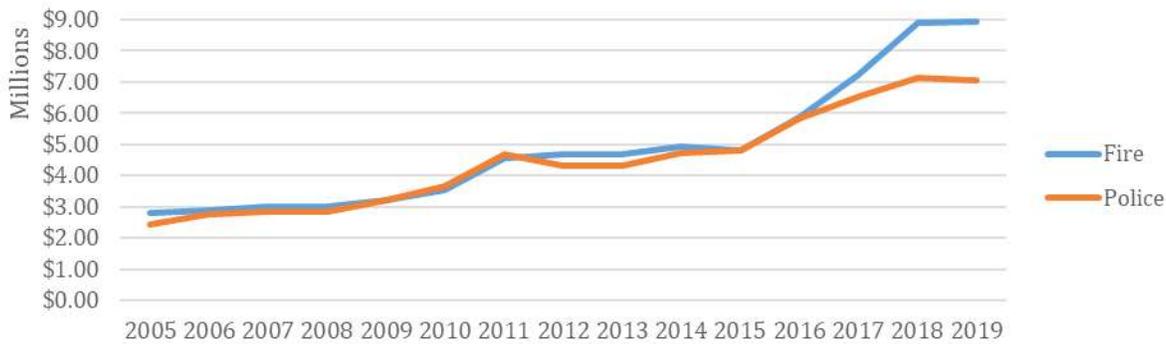
**Findings**

***Contribution Levels***

The City's overall contribution level projections for 2019 are seeing an overall decrease of \$41,508 or 0.26%. The Firefighter pension increased by \$43,716 or 0.49% and the Police pension decreased by \$85,224 or 1.20%.

<b>City Contributions</b>	<b>1/1/2017</b>	<b>1/1/2018</b>	<b>Change</b>
Firefighter Pension Fund	8,896,264	8,939,980	0.49%
Police Pension Fund	7,129,194	7,043,970	(1.20%)
<b>TOTALS</b>	<b>16,025,458</b>	<b>15,983,950</b>	<b>(0.26%)</b>

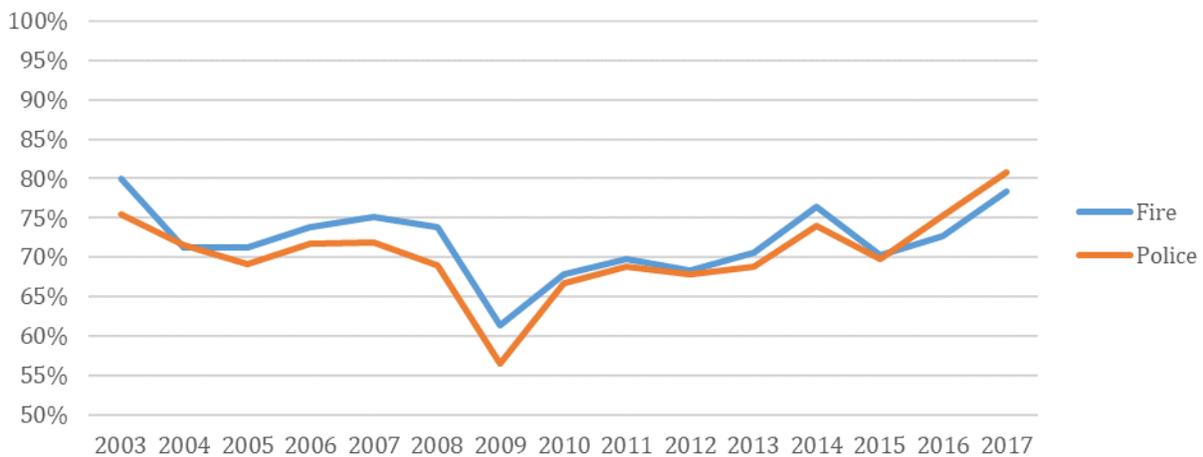
The 2018 valuation reports provide a positive change in course from the City’s historical pension funding requirements. Over the last 15 years the City has seen total pension requirements increase from \$5.2 million in 2005 to a projected \$15.9 million in 2019, at an average annual increase of 8.7%, which has significantly outpaced inflation and growth of other City expenditures. A more focused look will show that from 2015 to 2018, pension requirements grew by \$6.4 million, a 66.4% increase in a 3-year timeframe. The recent performance combined with City Council actions have helped to mitigate the unsustainable growth that has placed pressure on the City’s recent annual budgets.



**Funding Levels**

**CAFR Reporting**

Overall, the City’s pension funding practices have led the City to have the highest funding percentage level of comparable public safety pensions, with a combined funding ratio of 79.5%, which is the actuarial value of assets versus actuarial accrued liabilities. This is the highest funding level for the City’s public safety pensions over the past 15 years.



**Current Funding Ratio**

One of the new reporting features since contracting with Foster and Foster for actuarial services two years ago is the current funding ratio. This ratio compares the current market value of the pension funds assets compared to present value of the current benefits. This is an important figure because it is looking at what the City’s current obligations and assets as opposed to looking at estimated future obligations and assets. This measures what the City’s obligations would be if the City were to cease operations right now. Overall the City’s current funding ratio grew from 89.7% to 94.5%.

		<b>2017</b>			<b>2018</b>	
--	--	-------------	--	--	-------------	--

	Market Value	Current Benefits	Funded Ratio	Market Value	Current Benefits	Funded Ratio
Police	152.15	165.06	92.2%	173.94	176.23	98.7%
Fire	152.66	174.62	87.4%	174.44	192.29	90.7%
<b>Total*</b>	<b>\$304.82</b>	<b>\$339.68</b>	<b>89.7%</b>	<b>\$348.38</b>	<b>\$368.52</b>	<b>94.5%</b>

*\*In Millions*

### City Assumptions

Below is a layout of the assumptions utilized by the City's actuary in the valuation calculations:

- *Funding Policy Amortization Method* - 15-year amortization of unfunded liability. In 2018, City Council made the decision to move to an open methodology that would consistently amortize the City's unfunded liability over a 15-year timeframe. For the current valuation, there is no financial impact of moving to the open methodology compared to the closed methodology as the City is 15 years out from the 2032 date.
  - The City's overall amortization method is significantly more aggressive in reducing pension liability than the State's statutory minimum of 90% funded by 2040 method.
- *Actuarial Cost Method* - Entry-Age Normal (EAN), this methodology means that the cost of each retiree's benefit is based on a level percent of payroll between the time employment started (entry age) and the assumed retirement date.
  - The Illinois Pension Code allows for the use of Projected Unit Credit (PUC) whereby, the cost of each retiree's benefits is based on each period of service separately to accumulate the final obligation.
- *Mortality Table* - RP-2000 Mortality Table with Blue Collar Adjustments. This table is updated based upon experience reports provided by Illinois Department of Insurance
- *Asset Valuation Method* - Market Based with gains and losses smoothed over 5-years
- *Interest Rate* - The City utilizes a 7.00% interest rate
- *Salary Increases* - 4.00% to 12.00%; range determined by age and years of experience
- *Cost of Living Adjustment* - 3.00% Tier 1 and 1.25% Tier 2
- *Inflation* - The City utilizes a 2.50% inflationary rate