



Legislation Text

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FINANCIAL ADVISORY BOARD AGENDA ITEM

ACTION REQUESTED:

Review the Public Safety Pension Fund's Actuarial Experience Studies

DEPARTMENT: Finance Department

SUBMITTED BY: Rachel Mayer, Finance Director

BOARD/COMMISSION REVIEW:

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BACKGROUND:

The amount that the City contributes to the Public Safety Pension Plans is defined by the annual Actuarial Valuation Report prepared by Foster & Foster, Inc. The 2019 contributions are: \$9,030,567 and \$7,110,130, for Fire and Police, respectively. The deciding factors to determine the contributions come from assumptions made on many factors related to the demographics of the Plan Members and to the economic environment, as a whole.

On an annual basis, the assumptions are reviewed to ensure that they are consistent with the anticipated experience of the plan and provide an accurate representation of the Plan's financial status. In addition, as new information becomes available, it can be incorporated into the valuations.

DISCUSSION:

Foster & Foster, Inc. has prepared an Experience Study to evaluate the assumptions used to calculate the 2020 contribution to the Public Safety Pension Plans.

The result of the study is a recommendation to increase the 2020 contribution by \$916,230 and \$410,527 for Fire and Police, respectively. Of the 16 assumptions evaluated, the following seven have been revised.

- The return on assets is currently being calculated assuming a 7.0% rate of return. While the seven-year average is 6.93% (Fire) and 6.89% (Police), the future expectation based on capital market assumptions is 6.58%. Therefore, it is recommended that the rate of return be decreased to 6.75%. This rate change will be implemented over three (3) years, with the rate decreasing from 7.00% to 6.90% in 2020. The impact is to increase the contribution by \$352,086 (Fire) and \$328,870 (Police).
- The Salary Increase Assumption determines how an individual's salary will increase over the member's career. Foster & Foster recommendations are modeled after the Department of

Insurance September 2012 table and is modified to reflect Naperville's policies. This will result in a decrease in the required contribution by (\$1,007,903) (Fire) and (\$1,138,291) (Police).

- Payroll Growth estimates how the Department's payroll will be impacted as higher paid members retire and are replaced with lower paid new members. Based on the City's historical data, it is recommended that the growth estimate decrease from 4.50% to 3.50%. Decreasing the rate shifts more of the funding responsibility from the member to the City. This results in an increase in the City's contribution. It is possible to phase this revision in over four (4) years. The first year impact is \$81,182 (Fire) and \$69,139 (Police).
- The Mortality Rate is being re-evaluated using a Society of Actuaries 2019 table that is based entirely on public safety pension data. This table more accurately represents the members in the pension plan than the prior source. The impact is an increase to the total contributions by \$957,677 (Fire) and \$776,574 (Police).
- The Retirement Rate determines the average age of the member at retirement. Based on the City's data, it is recommended that the contribution increase by \$594,243 (Fire) and \$340,609 (Police).
- The Withdrawal Rate estimates the number of members who terminate prior to retirement. Based on the City's experience, it is recommended that the Department of Insurance's 2017 study be used. The contribution impact is an increase of \$8,717 (Fire) and \$54,192 (Police).
- The Disability Rate determines the impact of members who become disabled prior to retirement. Once again, the 2017 study is recommended as the estimate source. The result is a minor decrease in the contribution of (\$69,772) (Fire) and (\$20,566) (Police).

The accumulation of these revisions is to increase the pension contributions made in 2020 by \$916,230 for the Firefighter's Pension and \$410,527 for the Police Pension. Staff will revisit these assumptions on an annual basis to ensure that the pension contribution estimates are conservative and provide an accurate picture of the Plan's financial status.