



Village of Oak Brook

Police and Fire Pension Plans and Costs

June 17, 2014



Village of Oak Brook

Agenda

- Opening Remarks
 - President Lalmalani
 - Trustees Adler & Manzo
- Overview of Oak Brook Pensions
- Possible Village Actions
- Potential Legislative Initiatives
- Questions & Answers

Overview



Informational meeting to educate the public
on police and firefighter pensions.

Police and Firefighters' Pension Funds

- Each fund is governed by a 5 member board: 2 active members, 1 retiree, and 2 Village President appointments.
- Both funds have written investment policies, employ professional investment managers, and the 2 Presidential appointees all have significant investment experience.
- Benefits are controlled by State Statutes (Articles 3 & 4) and current benefit levels are protected by the Illinois Constitution (these benefits are not subject to local contract negotiations).
- The rate of employee contributions are fixed and set by State law (9.91% for Police and 9.455% for Fire).
- State Statute limit investments - up to 45% in Fixed Income, up to 55% in equities and an additional 10% in mutual funds.

Police and Firefighters' Pension Funds

- The Police Pension Fund covers all sworn Police personnel-40 active members and 36 retirees.
- The Firefighters' Pension Fund covers all sworn Firefighters-32 active members and 49 retirees.
- State law mandates pension plans for fire and police. The Village cannot offer replacement option, such as a 401K.

Benefit Levels for Police and Fire

Benefits	Tier I Police	Tier I Firefighters	Tier II Police and Fire (Hired after 1/1/11)
Employee Contributions	9.91% of Salary	9.455% of Salary	No Change
Final Rate of Earnings (FRE) for Pension Calculation	Salary on Final Day of Service	Salary on Final Day of Service	Highest Avg. consecutive 8 out of 10 years' Salary; Pensionable salary must be less than or equal to SS Wage Base.
Eligible for Full Retirement benefits	Age 50 with 20 yrs.	Age 50 with 20 yrs.	Age 55 with 10 yrs.
Early Retirement Deduction	(Not Applicable)	(Not Applicable)	Min. Age 50 with 10 yrs., reduced .5% FRE per month younger than 55.
Pension Formula	2.5% x FRE x Years of service	2.5% x FRE x Years of service	No Change
Maximum Pension	75% of FRE	75% of FRE	No Change
COLA's	3% Compounded	3% Compounded	Lesser of 1/2 the CPI-U or 3% of the original annuity
Spousal Benefit	100% "earned pension" at the date of death	100% "earned pension" at the date of death	66.67% "earned pension" at the date of death

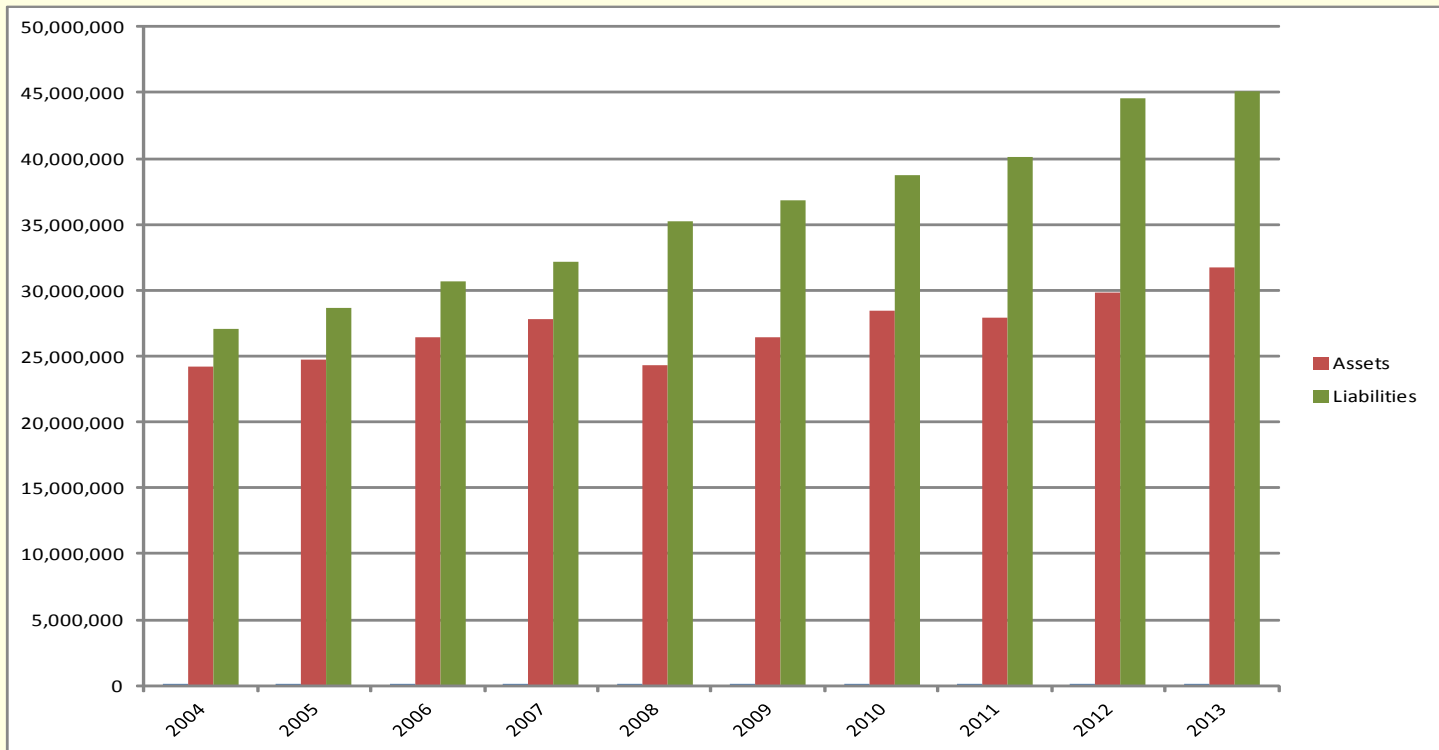
Police and Firefighters' Pension Funds

- The Village is required to finance the remainder of the program and ultimately bears the risk of investment returns, disability pensions, and changes in life expectancy, etc..
- Changes in benefits levels enacted by the State over the last 13 years has had an impact on the Village's contribution levels and funded percentages as most of the cost has been borne by the Village.
- Employees hired on or after January 1, 2011, are eligible for Tier II benefits, which requires a longer period of time for an employee to vest and benefits begin at a later age.

Police Pension Fund

Assets = Owned

Liabilities = Owed

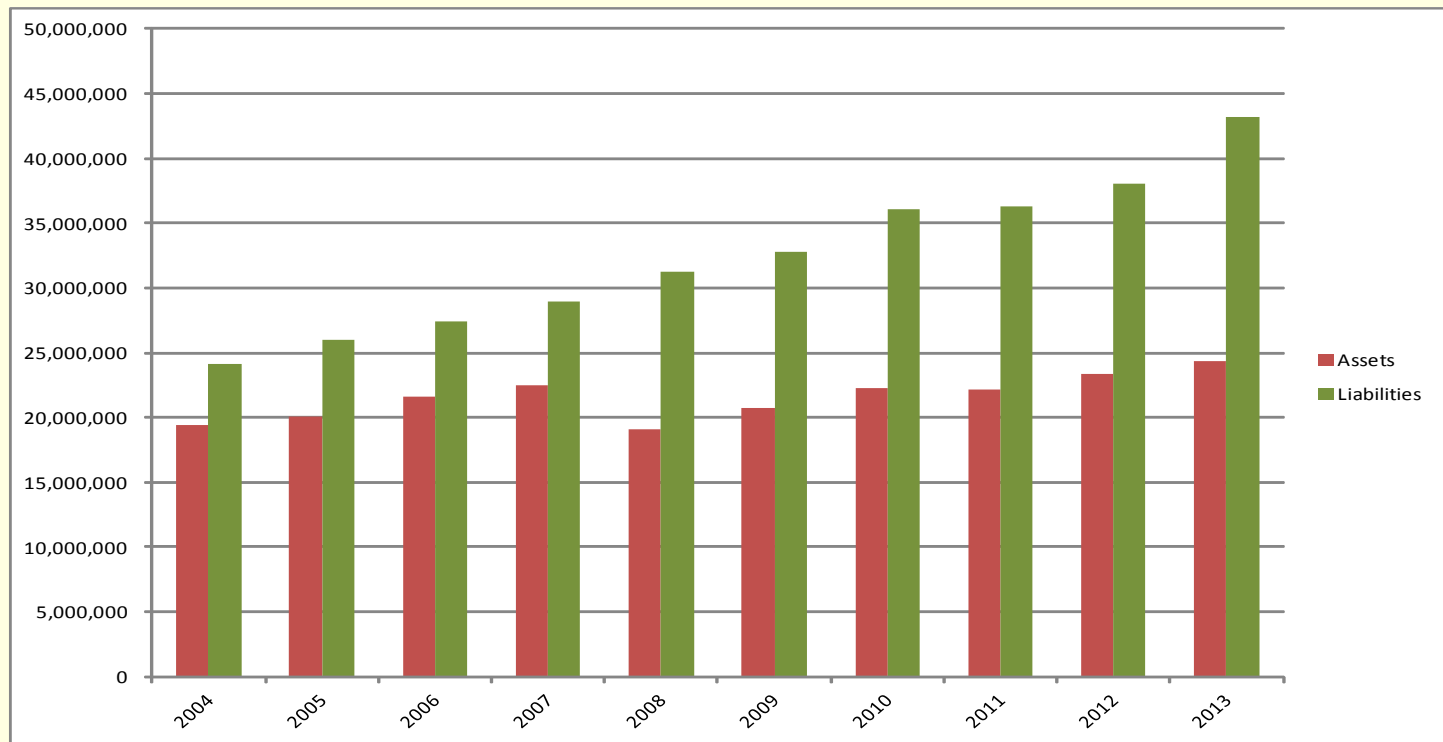


Funded Ratio

89% 86% 86% 87% 69% 72% 73% 70% 67% 70%

Firefighter's Pension Fund

Assets = Owned
Liabilities = Owed

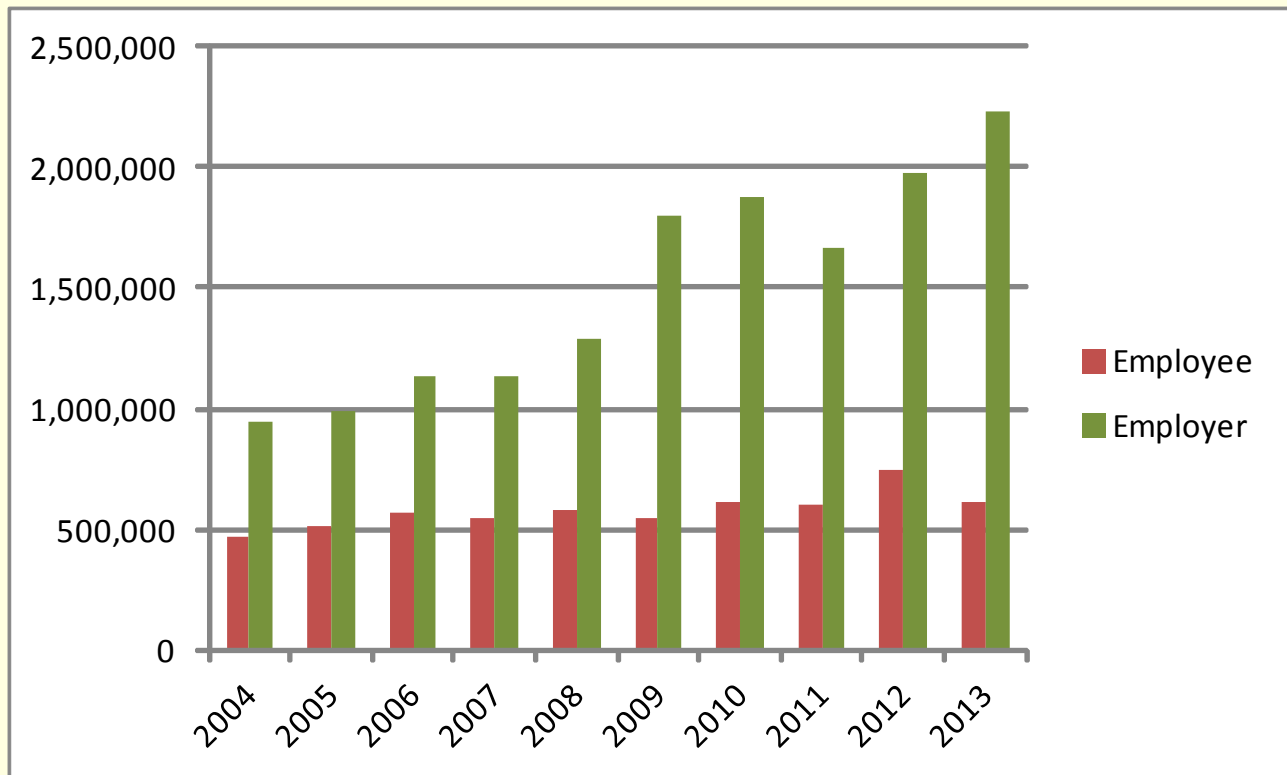


Funded Ratio

80% 77% 79% 76% 61% 63% 62% 61% 61% 56%

Police and Firefighter's Pension Fund

Employee and Employer Contributions



Employee rate is fixed and set by State Statute while the employer rate varies based on changes of benefits at the state level, risk of investment returns, disability pensions, etc..

Police and Firefighters' Pension Funds

	<u>10 Years Ago Employer</u>	<u>5 Years Ago Employer</u>	<u>2013 rate Employee</u>	<u>2013 rate Employer</u>	<u>Expected 2014 rate Employer</u>
Police	16.46%	18.60%	9.91%	33.06%	33% - 41%
Fire	21.80%	25.10%	9.455%	38.83%	44% - 67%

Note: Rate = % of salary

For employees who qualify and are not part of the police and fire pension plan, the Village's 2014 contribution is 21% (IMRF 14.8% + 6.2% to Social Security).

Legislative Causes

- Expensive “legislated enhancements”. Between 1993 and 2013, eight were passed. Here are a few:

1993: Compounded 3% COLA’s for police officer retirement benefits were granted. (PA 87-1265)

1999: For Police the law was changed from 35 years to 30 years to get 75% of pension. However, the police employee contribution was increased from 8.50% to 9.91%. (PA 91-0939)

1999: Increased pension benefits for firefighters, including COLA’s, disability benefits, and dependent benefits. (PA 91-0466)

2004: For Fire the law was changed for the spouse to receive 100% of pension.

Police and Fire Pension Funds

Other towns funded status for 2013:

	<u>Police</u>	<u>Fire</u>
Oak Brook	70.3%	56.3%
Hinsdale	72.3%	59.2%
Downers Grove	59.0%	58.0%
Wheaton	65.0%	76.0%
Elmhurst	68.1%	70.9%
Naperville	68.8%	70.6%
Small Town Avg.	62.0%	64.0%

Police Pension

	Foster & Foster Village's actuary	Lauterbach & Amen Police pension actuary	IL Dept. of Insurance recommended
Contribution Recommendations	1,521,081	1,219,075	1,238,658
2014 Budget	1,219,075	1,219,075	1,219,075
Amount Over (Under) Budget	302,006	-	19,583

Assumptions used:

Funding method	Projected Unit	Entry Age	Projected Unit
Amortization method	100% by end of year 2040	100% by end of year 2040	90% by end of year 2040
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Interest rate	6.75%	6.75%	6.75%
Mortality table	RP 2000	2012 IL Police	RP 2000
Payroll growth	2.75%	4.00%	4.50%
Salary increase	3.75%	4.00%	11% to 4% at 30 years of service

The Village contribution must be based on an actuarial study-can not arbitrarily set a specific dollar amount. Can be more than, but not less than an actuarial amount.

Firefighter Pension

	Eisenberg Village's actuary	Foster & Foster Fire pension actuary	IL Dept. of Insurance recommended
Contribution Recommendations	1,867,004	1,887,408	1,231,704
2014 Budget	1,102,405	1,102,405	1,102,405
Amount Over (Under) Budget	764,599	785,003	129,299

Assumptions used:

Funding method	Projected Unit	Entry Age	Projected Unit
Amortization method	100% by end of year 2040	100% by end of year 2040	90% by end of year 2040
Asset valuation method	5 year smoothing	5 year smoothing	5 year smoothing
Interest rate	6.75%	6.75%	6.75%
Mortality table	RP 2000	RP 2000	RP 2000
Payroll growth	2.75%	3.25%	4.50%
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What happened in 2014?

- The Village hired new actuaries Foster & Foster (Police) and Eisenberg Associates (Fire).
- More precise assumptions were utilized than in the past (i.e. mortality table, factoring in administrative expenses, payroll growth, and marital, retirement and disability assumptions.) This caused the recommended increase in contributions for both the Police and Fire Pension Funds.

2014 Contribution Options

1. Add \$1,066,605
2. Add \$764,599
3. Add \$148,882

The Village's current reserve has \$1,094,236 more than the 6 month operating minimum including \$224,878 specifically set aside for pension shortfalls. This amount can be used to offset all or a portion of the increased funding.

A range of payment levels are allowed, however, "Pay me now or pay me more later" holds true (i.e. postponed liability does not go away, it grows exponentially).

Note that as of 12/31/13, the police earned 11.4% and fire 8.4% returns vs. < 1% for village investments due to different investment restrictions.

Five Year Projection

	2014	2015	2016	2017	2018
Beginning of Year Cash Balance	\$12,635,619	\$10,420,829	\$9,363,067	\$8,318,646	\$7,045,774
Estimated Income	\$21,326,200	\$24,983,519	\$22,370,489	\$22,867,563	\$23,374,526
Estimated Expenditures	22,514,710	22,070,481	22,742,410	23,700,435	24,430,922
Estimated Net Operating Income	(1,188,510)	2,913,038	(371,921)	(832,872)	(1,056,396)
Less Capital Improvement Program	1,026,280	3,970,800	672,500	440,000	347,500
Unrestricted Cash Available at Year-End	\$10,420,829	\$9,363,067	\$8,318,646	\$7,045,774	\$5,641,878
<i>6 Months Operating</i>	\$10,393,198	\$10,444,910	\$10,787,831	\$11,245,627	\$11,614,782
Over/(Under) 6 month Reserve Requirement	\$27,631*	(\$1,081,843)	(\$2,469,184)	(\$4,199,853)	(\$5,972,904)

*Reflects the maximum additional amount of \$1,066,605 added to 2014 pension funding. If a lower amount is chosen, the reserves will be higher, but the pension liability will grow larger.

Possible Village Actions

- Freeze hiring
- Postpone capital projects
- Utilize Reserves
- Privatization and/or Consolidation
- New Revenues

Potential Legislative Initiatives

- Adjust Tier 1 cost-of-living-increases from the current 3 percent so they are “right sized” and not compounded annually.
- Reset the retirement age for Tier 1 public safety employees from 50 to 55.
- Require 35 years of employment to take advantage of maximum pension benefit for Tier 1 employees.
- Grant pension funds wider latitude in how they can invest their money.

Potential Legislative Initiatives

- Change the makeup of the boards that govern police and fire pension funds. (Municipal groups are currently in the minority during all local pension fund votes.)
- Allow smaller pension funds to pool their assets and invest them together.
- Require public safety employees to contribute more toward the cost of their pension.

Note: While much discussed, there are no current bills pending and recent changes are being litigated.

Future Developments

- GASB No. 68, Accounting and Financial Reporting for Pensions, will be effective for 2015. Statement 68 will report the net pension liability on the Village's financial statement with other long term obligations. Unfunded liabilities will increase due to computational methodology required.
- Possible implementation of the RP 2014 mortality table will increase costs due to longer life expectancies.

Q & A

Decision on funding for 2014 contributions is requested at the July 8th Village Board meeting.

Actuarial firm is in attendance to answer any questions.