



**Illinois
Government
Finance
Officers
Association**

Learning • Connecting • Progressing

**A New Approach to Public Safety
Pension Funding**

Objectives

- Identify key assumptions impacting annual pension funding requirements;
- Consider alternative approaches to funding public safety pensions; and
- Assess important considerations in examining alternative funding approaches.

City of Lake Forest



- Population: 19,375
- A “North Shore” community located 30 miles north of Chicago in Lake County with land area of 17 square miles
- Home Rule – 2004 Referendum
- Aaa Bond Rating – Moody’s
- Lowest property tax rate in Lake County

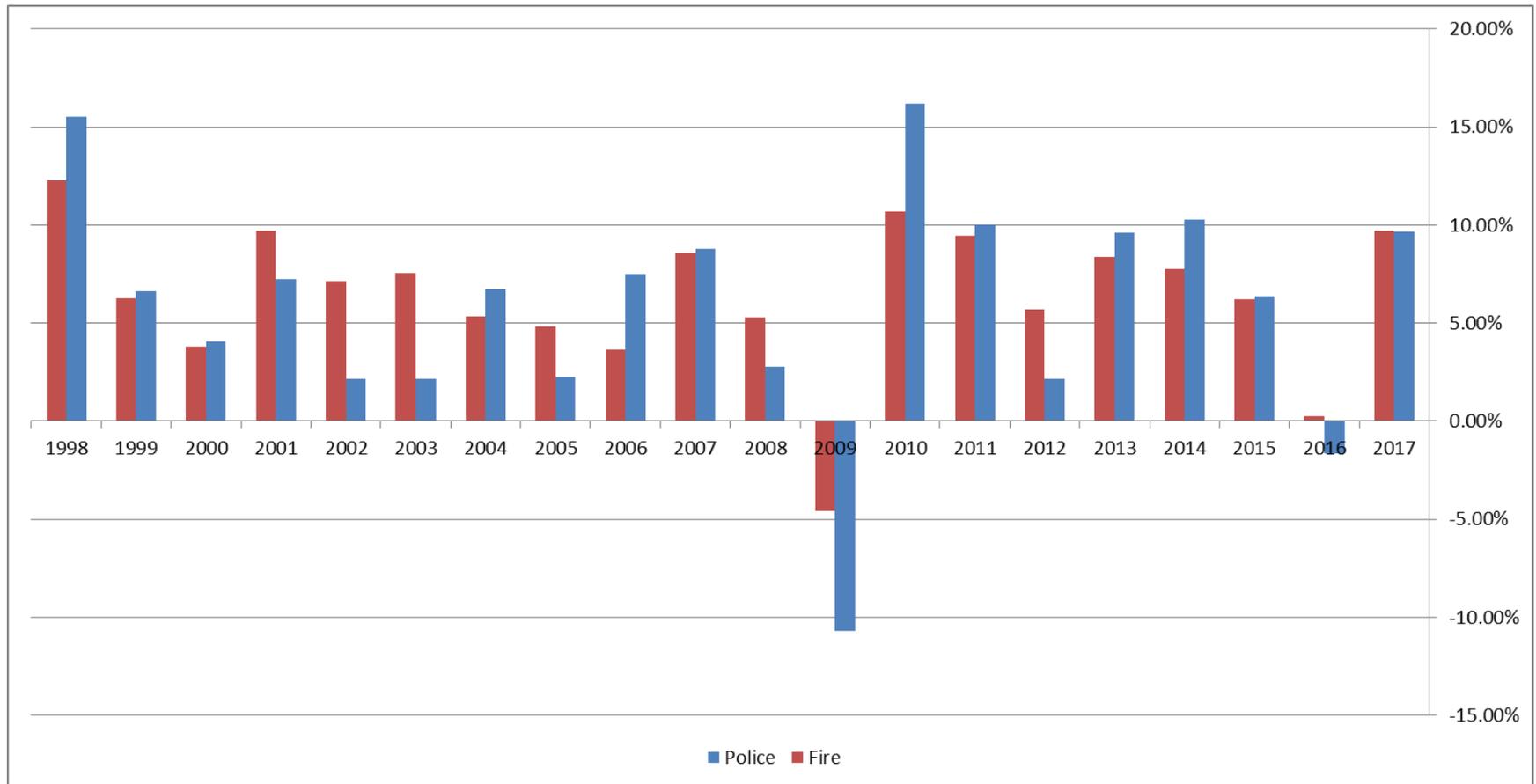
City of Lake Forest Services Include:

- Public Safety – Police and Fire
- Public Works – Streets, Water Plant, Sanitation/Recycling
- Parks and Recreation, Cemetery, Golf Course
- Library – Component Unit

Lake Forest Public Safety Pension Plan Snapshot

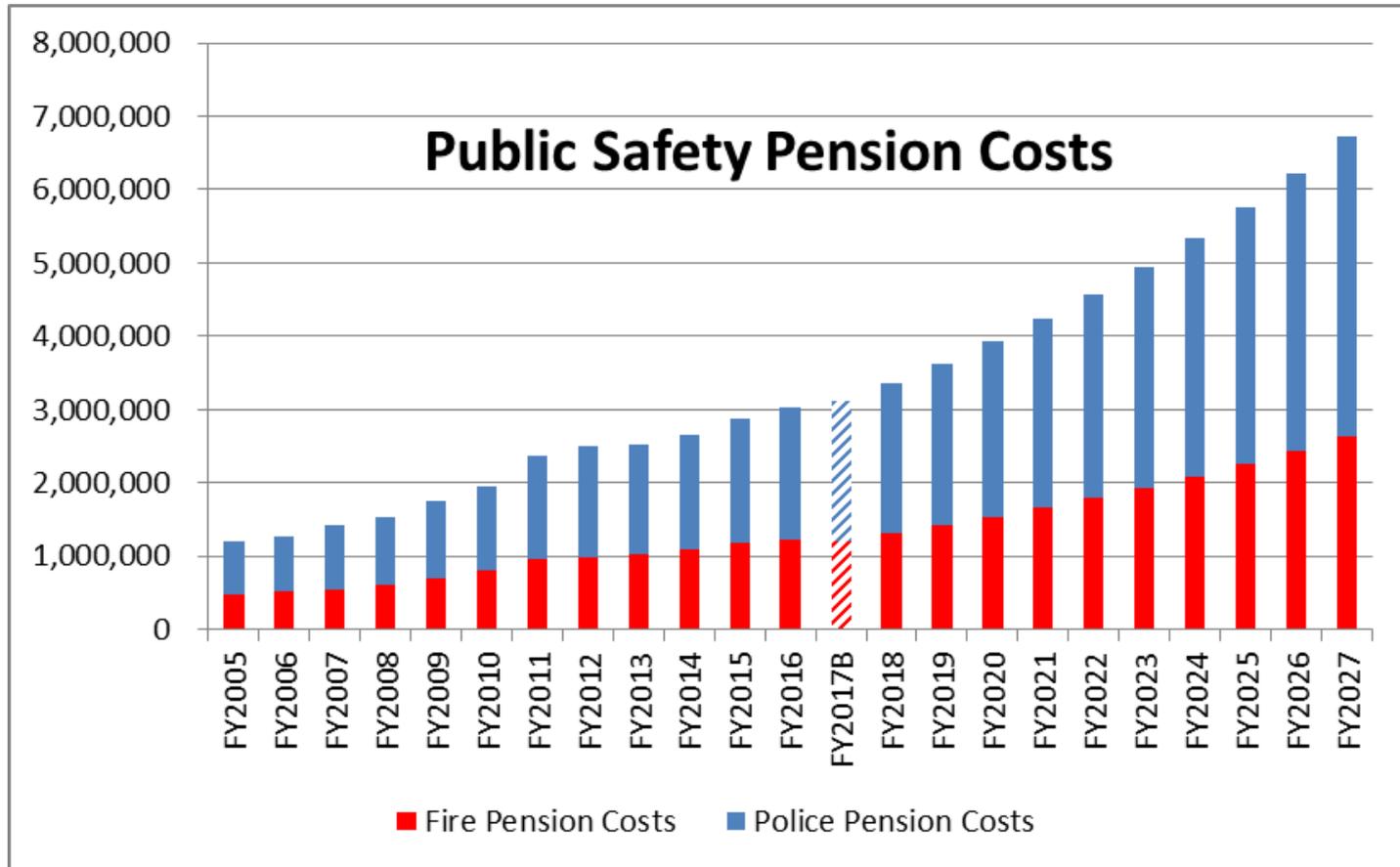
	Police			Fire		
	<u>4/30/1994</u>	<u>4/30/2016</u>		<u>4/30/1994</u>	<u>4/30/2016</u>	
Actuarial Assumptions						
Investment rate of return	7.00%	7.00%		7.00%	7.00%	
Salary increases	5.50%	5.50%		5.50%	5.50%	
Total Pension Liability (PBO)	\$12,155,696	\$52,622,210	333%	\$9,069,454	\$45,820,158	405%
Net Position (Assets)	\$8,193,396	\$27,404,163	234%	\$8,005,960	\$31,897,074	298%
Net Pension Liability	\$3,962,300	\$25,218,047	536%	\$1,063,494	\$13,923,084	1209%
% Funded Ratio	67.40%	52.08%		88.27%	69.61%	
Employer Contribution Required	\$364,341	\$1,806,270	396%	\$303,437	\$1,216,585	301%
Employer Rate as % of Payroll	17.92%	48.04%		18.74%	41.59%	
Covered Payroll	\$2,033,299	\$3,759,611	85%	\$1,619,279	\$2,924,893	81%
Unfunded PBO as % of Payroll	194.87%	670.76%		65.68%	476.02%	
Plan Membership:						
Retirees/Beneficiaries	30	39		18	37	
Terminated/Vested	incl above	7		incl above	5	
Current Employee - Vested	4	40		2	31	
Current Employee - NonVestec	39	incl above		31	incl above	
Total Plan Membership	73	86	18%	51	73	43%

Investment Returns



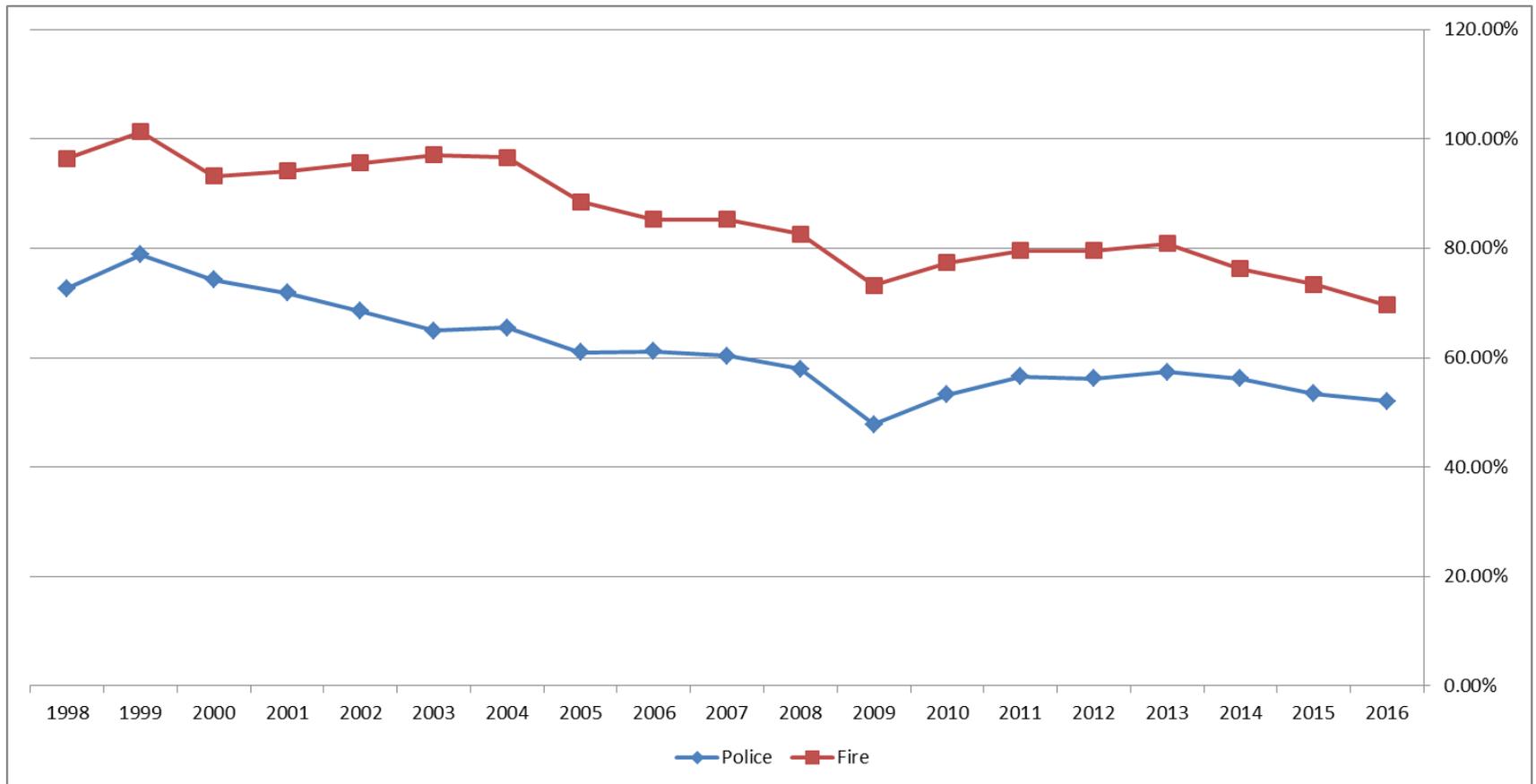
This chart depicts actual investment return for fiscal year shown. Actuarial return will differ due to smoothing.

City Contribution Requirements



Public Safety pension costs have increased from \$1.2 million in FY2005 to \$3.1 million in FY2017. Current projections forecast another \$3.6 million increase to \$6.7 million annually by FY2027. Annual contributions will continue to grow through FY2040 – the current projected date for full funding.

Funded Ratios



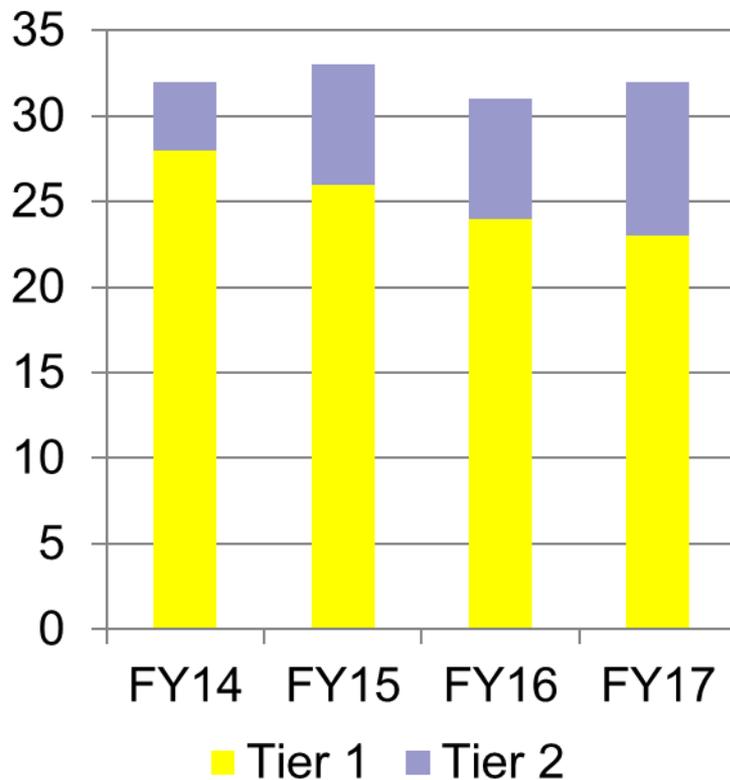
State Approves Pension Reform Effective 1/1/11

	PA 96-1495	Lake Forest 4/30/16
Target Fund Ratio	90%	100%
Deadline for Target Ratio	2040	2040
Actuarial Valuation Method	Projected Unit Credit	Entry Age Normal

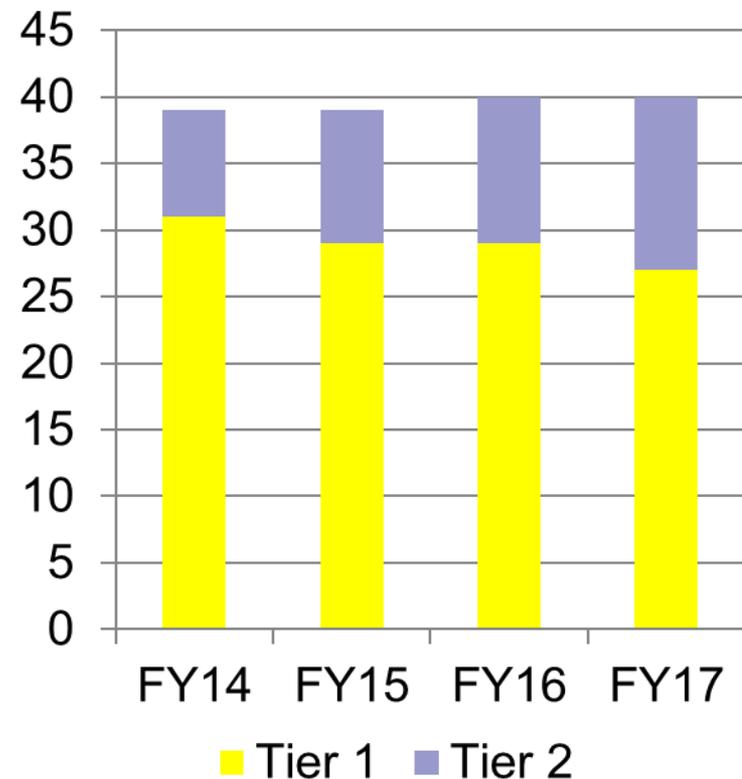
Public Act 96-1495 created a new tier of benefits for public safety employees joining public safety pension funds on or after 1/1/11. It also significantly changed employer contributions. Recognizing that this could exacerbate the pension funding challenges, the City has elected to retain more conservative assumptions in its actuarial valuations, as summarized above.

Tier 1 vs. Tier 2 Participation

Fire Pension



Police Pension



Tier 2 not the answer – benefit too far into the future!

GASB 68

- GASB 68
 - Effective for the City's April 30, 2016 financials
 - Net Pension Liability now recorded as liability on entity-wide financial statements
 - Previously only a footnote disclosure
- Efforts taken to mitigate impact of GASB 67 and 68:
 - 4/30/13 (Fire/Police) – Adjusted mortality table to RP2000
 - 4/30/14 (Fire/Police) – Reduced interest rate assumption from 7.50% to 7.00%
 - 4/30/15 (Fire/Police) – Adjusted mortality, disability, turnover and retirement rates to IDOI rates published September 2012; extended amortization period to 2040 (previously 2033)
 - 4/30/16 (Fire/Police) – No changes due to actuary transition

Who's in the same boat?



- We thought we were doing things right, but the problem keeps growing!
- Are you talking about it or waiting for the Illinois Legislature to fix the problem?

New Direction: Starting The Conversation

- September 2016 City Council Workshop
- Invited all Fire/Police Pension Board Members and Actuary
- Topics:
 - Pension Primer
 - 4/30/16 Pension Fund Summaries/2016 Levy
 - Report and Recommendation of Fire Service Vision 2020 Committee

2016 Tax Levy Requirement

	2015 Levy Required	2016 Levy Required	Percent Increase
Fire	\$1,137,826	\$1,298,188	14.1%
Police	1,737,445	1,832,059	5.4%
Combined	\$2,875,271	\$3,130,247	8.9%
PTELL (Tax Cap)			.7%

Funding Requirement Increases \$254,976

Alternatives for \$254,976

		Annual Revenue
Property Tax Levy	Each .25% increase over 2015 levy	\$73,822
Public Safety Pension Fee	\$10 fee/quarter; approx. 6600 accounts	264,000
Increase EMS Fees	Increase ambulance transport fees	minimal
Home Rule Sales Tax	Increase rate .25%	325,000
Local Taxes – home rule	Restaurants, motor fuel, packaged liquor	TBD
Stormwater Utility Fee	Allows General Fund revenue to be allocated to pensions	TBD

The City could increase existing taxes/fees or implement new ones to address growing obligations for public safety pensions.

October 2016

- City Council Finance Committee
 - Tentative Tax Levy Estimate
 - .98% overall increase/\$34 to average household
 - Options for Public Safety Pension Fee
 - To be added to quarterly utility bill
 - Option 1 – Flat Fee
 - Option 2 – Fee based on water meter size
 - Option 3 – Fee based on type of account

Continuing the Dialogue

- New Actuary 4/30/16
- December 2016 meeting of City Manager, Finance Director and Actuary
- Actuary Recommendations:
 - Mortality
 - Salary increase assumptions
 - Payroll growth assumptions
 - Amortization period

4/17/17 Finance Committee

- Growth in pension costs driven in large part by amortization of unfunded liability
- Currently, amortized based on percentage of payroll
- Alternate strategy is level dollar amortization
 - Amortization amount is same for all remaining years
- Requires increased contribution initially but eliminates “ramp” over remaining years

4/17/17 Finance Committee

- Recommendation
 - City Council workshop in June
 - Present preliminary 4/30/17 actuarial data
 - Alternate scenarios to be presented

June 2017 City Council Workshop

- Police/Fire Pension Board encouraged to attend
- Pension Primer update
- Summary of 4/30/17 preliminary valuations
- Actuary presentation of alternate scenarios

Alternate Scenarios

	Police	Fire
4/30/16 funding requirement	\$ 1,832,059	\$ 1,298,188
4/30/17 STATUS QUO	1,928,236	1,364,837
\$ change prior year	96,177	66,649
% change prior year	5.25%	5.13%
Alternatives:		
Reduce IR assumption 7.0% to 6.75%	Liability + \$1.7m & contribution + 113,000	Liability + \$1.5m & contribution + 111,000
Mortality RP-2000, but projected to valuation date using Scale BB	Liability + \$2.4m & contribution + 155,000	Liability + \$2.1m & contribution + 135,000
Salary increase (individual) from 5.5% to DOI service-based table (11% - 4%)	Liability - \$1.2m & contribution - 120,000	Liability - \$676k & contribution - 75,000
Payroll growth (department) assumption determines the annual amortization of unfunded liability (currently 5.5%)	The higher the payroll growth, the lower the current amortization payment	

Level Dollar or Level Percentage?

- Level dollar approach involves amortizing the same amount each year
- Level percentage of pay is designed to amortize over time using a constant percentage of payroll
- 0% payroll growth assumption = level dollar

Amortization Period

- Current amortization period per State Statute is 2040
- Who remembers 2033?
- 2020?



Open or Closed Amortization?

City Council Direction – June 2017

- Accept Mortality Table Recommendation
- Accept Salary Increase Assumption
- More information on Payroll Growth Needed
- Examine impact of additional contribution from fund balance reserves

July 2017 Finance Committee

- Presentations by Fire and Police pension boards regarding investment policy and procedures

September 2017 City Council Workshop

- Continued discussion on alternate scenarios and recommendations
- Actuary Modeler

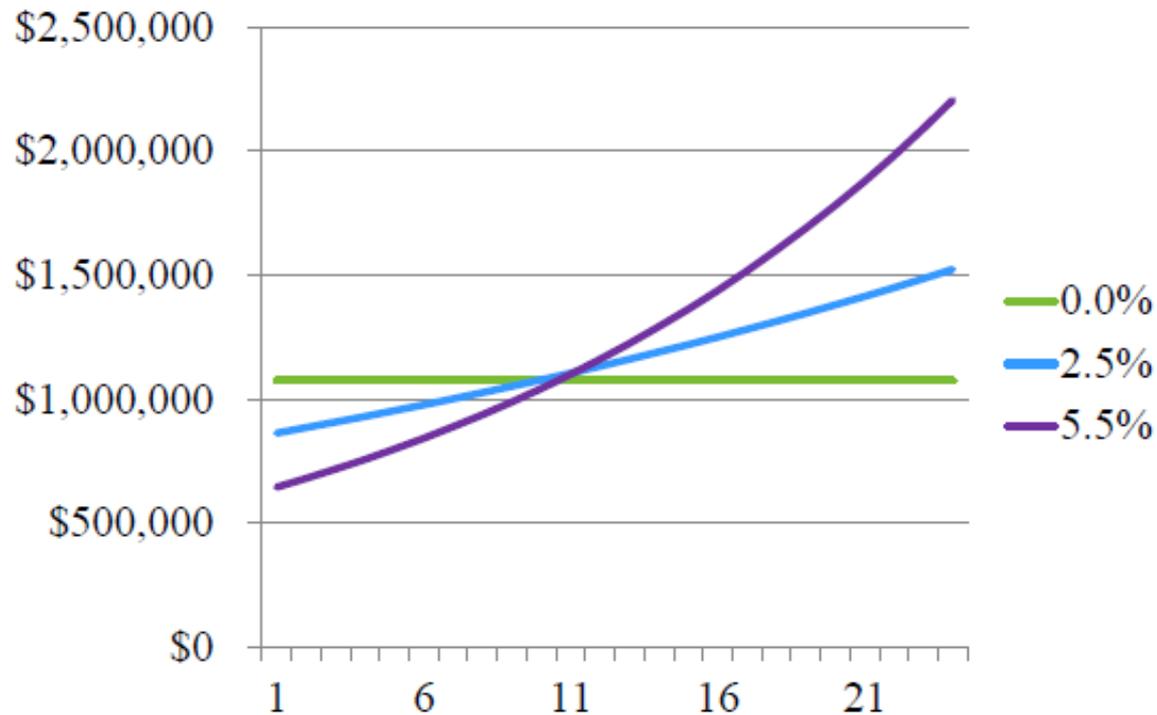
CURRENT APPROACH – FIRE PENSION PLAN

- 24-Year Closed Amortization ending in 2041
- Current Payroll Growth Assumption = 5.5%
- 2017 Unfunded Accrued Liability = \$13,192,039
- 2017 Amortization Payment = \$643,486
 - Payments in future years increase annually by the payroll growth assumption
 - Impact of various payroll growth assumptions are below:

Payroll Growth Rate	UAL Payment
0.0% (Level \$)	\$1,074,954
2.5%	\$862,281
5.5%	\$643,486

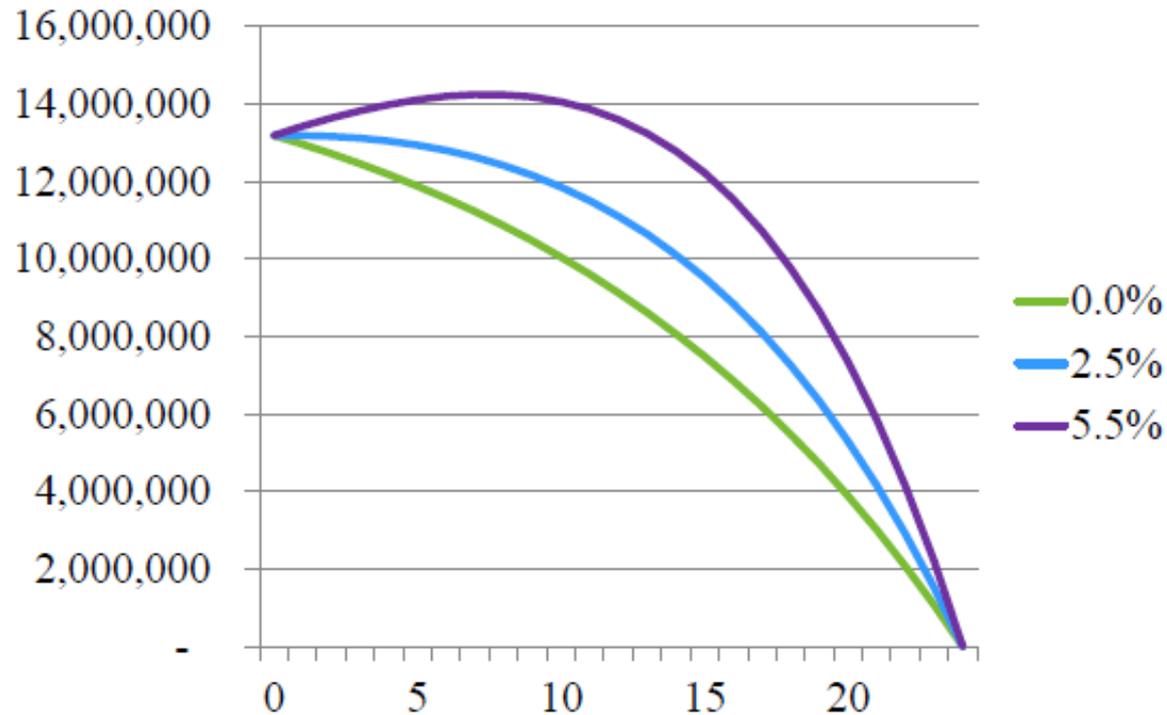
AMORTIZATION OF UNFUNDED LIABILITIES – FIRE

- How do the amortization payments change over the 24-year period?



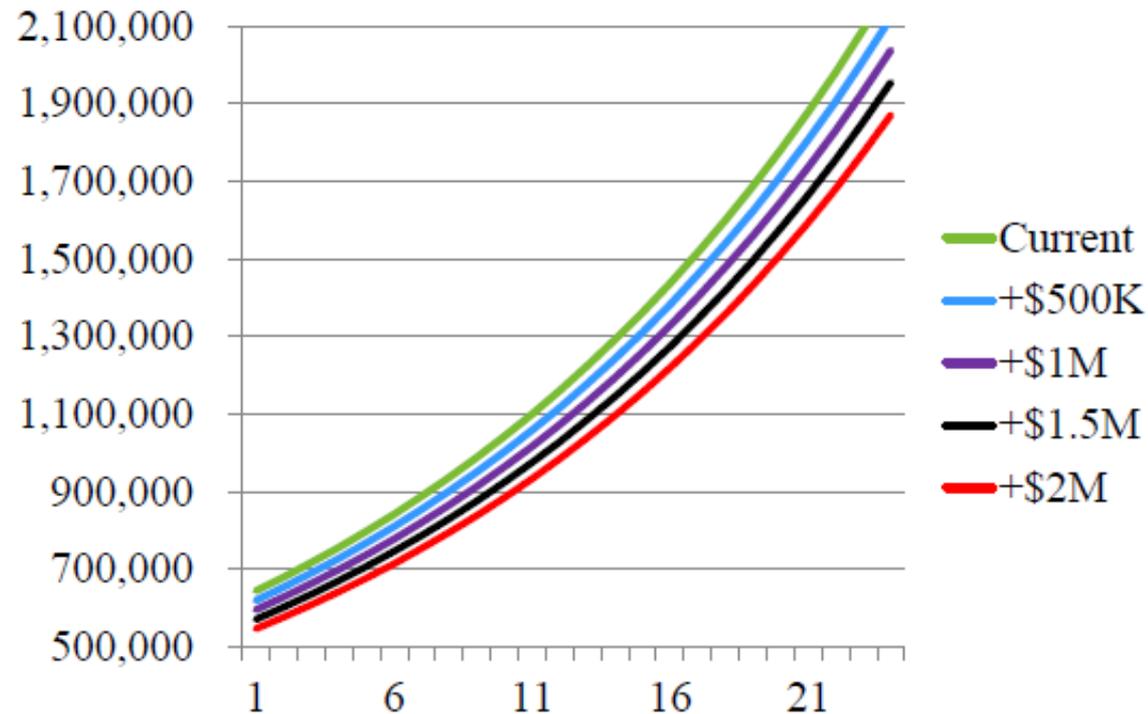
AMORTIZATION OF UNFUNDED LIABILITIES - FIRE

- What happens to the unfunded liabilities?



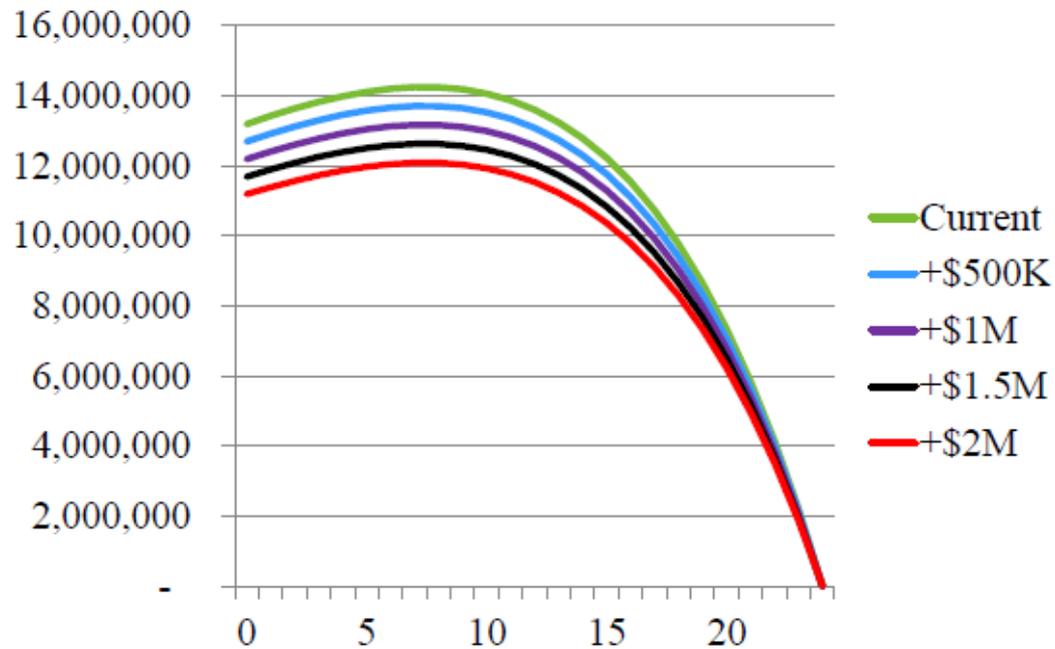
AMORTIZATION OF UNFUNDED LIABILITIES – FIRE

- How do additional contributions in 2017 change the results?



AMORTIZATION OF UNFUNDED LIABILITIES - FIRE

- Unfunded liabilities after additional 2017 contribution?



City Council Direction:

- Reduce payroll growth assumption from 5.5% to 2.0% for 4/30/17
- Mayor established pension subcommittee to review alternative long-term funding of public safety pensions
 - City Council Finance Chair, Alderman, City Manager, Finance Director, Actuary

Pension Subcommittee

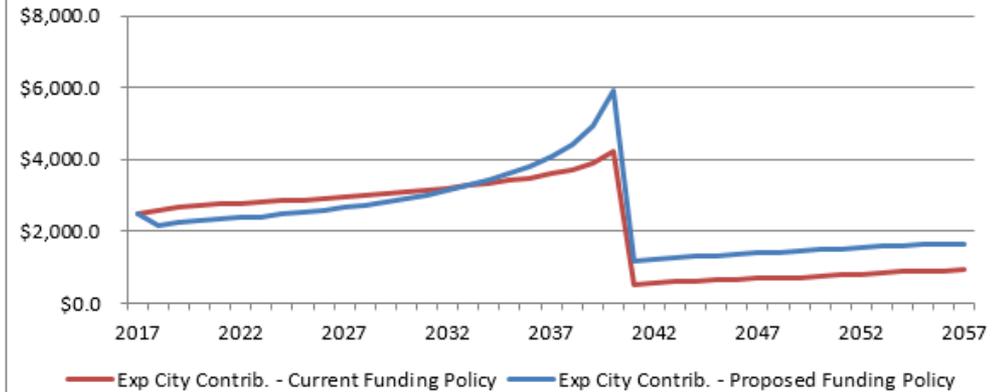
October 2017

- Police pension modeler
- Examined:
 - Differing investment rate assumptions
 - Differing percentage of funding by date
 - 100% vs 90%
 - Impact of open amortization period
 - Impact of additional contributions

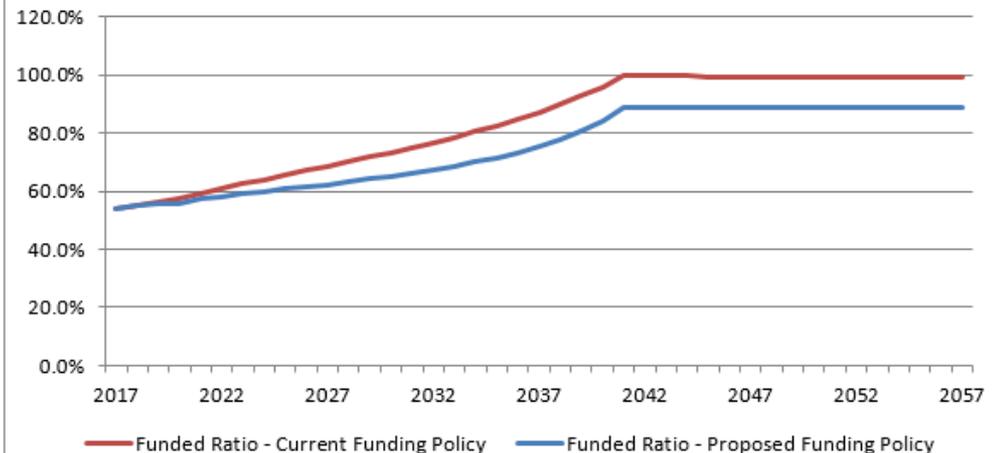
Lake Forest Police Pension Fund
Projection Based on May 1, 2017 Valuation Results

Variable Inputs		
Assumed Investment Return		7.00%
Salary Scale Adjustment to Current Assumption		0.00%
Salary Scale Assumption Modeled		SS + 0.00%
Payroll Growth		2.00%
Cost Method		EAN
Mortality		RP2000BCprj
Assumed Investment Experience		Assumed Investment Return
Funding Policy		
	<i>Current</i>	<i>New</i>
Target Funded %	100%	90%
Year Target Funded % Reached	2041	2041
Year of Change		2018
Amortization Type		Closed
Additional Contribution Amounts (millions)		
Year Made		Amount
2017		\$0.0
2020		\$0.0
2050		\$0.0
Additional Regular Contribution Initial Amount:		\$0
% Annual Increase in Additional Regular Contribution:		0.00%
Year Additional Regular Contribution Begins:		2017

Expected City Contribution - Police



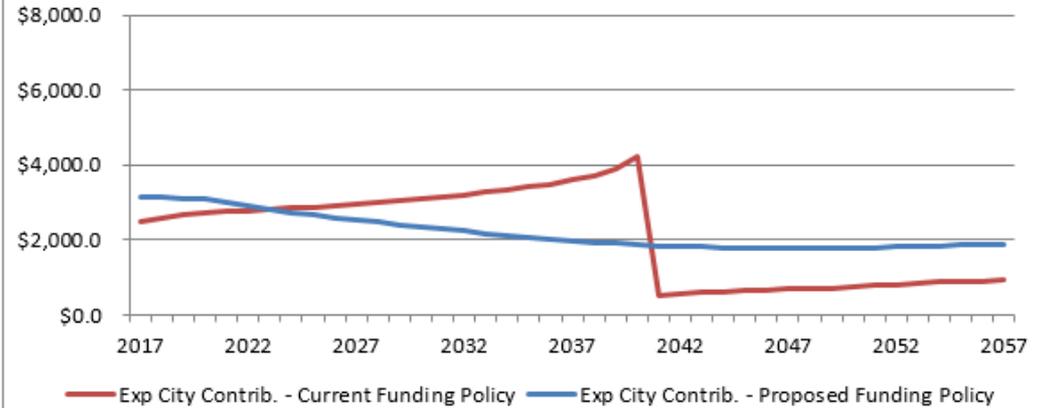
Funded Ratio - Police



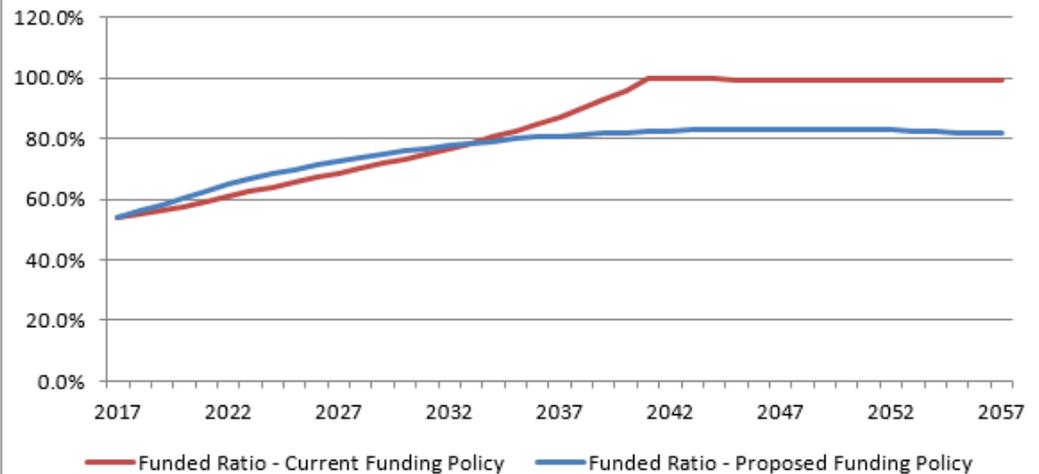
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Payroll Growth		2.00%
Cost Method		EAN
Mortality		RP2000BCprj
Assumed Investment Experience		Assumed Investment Return
Funding Policy		
	<i>Current</i>	<i>New</i>
Target Funded %	100%	
Year Target Funded % Reached	2041	
Year of Change		
Amortization Type		Open
Open Amortization Period		15
Additional Contribution Amounts (millions)		
Year Made		Amount
2017		\$0.0
2020		\$0.0
2050		\$0.0
Additional Regular Contribution Initial Amount:		\$0
% Annual Increase in Additional Regular Contribution:		0.00%
Year Additional Regular Contribution Begins:		2017

Expected City Contribution - Police



Funded Ratio - Police



2017 Tax Levy Estimate 11/13/17

	Estimate	Change PY \$	Change PY %
General Fund - Operating	14,205,814	292,186	2.10%
IMRF/Social Security	1,198,046	24,641	2.10%
Police Pension*	2,305,888	405,859	21.36%
Fire Pension*	1,631,953	410,169	33.57%
Park and Recreation	5,674,057	129,554	2.34%
Library	4,048,822	83,276	2.10%
Capital Improvements	816,750	(5,250)	-.64%
Debt Service	1,521,588	91,784	6.42%
New Growth	184,959	184,959	N/A
TOTAL	31,587,878	1,617,180	5.40%

* Increased funding requirement may be funded from sources other than property tax levy.

Public Safety Pension Fee

Established May 1, 2017:

- \$10/Quarter – Residential
- \$35/Quarter – All Other
- Currently generates \$290,000 annually

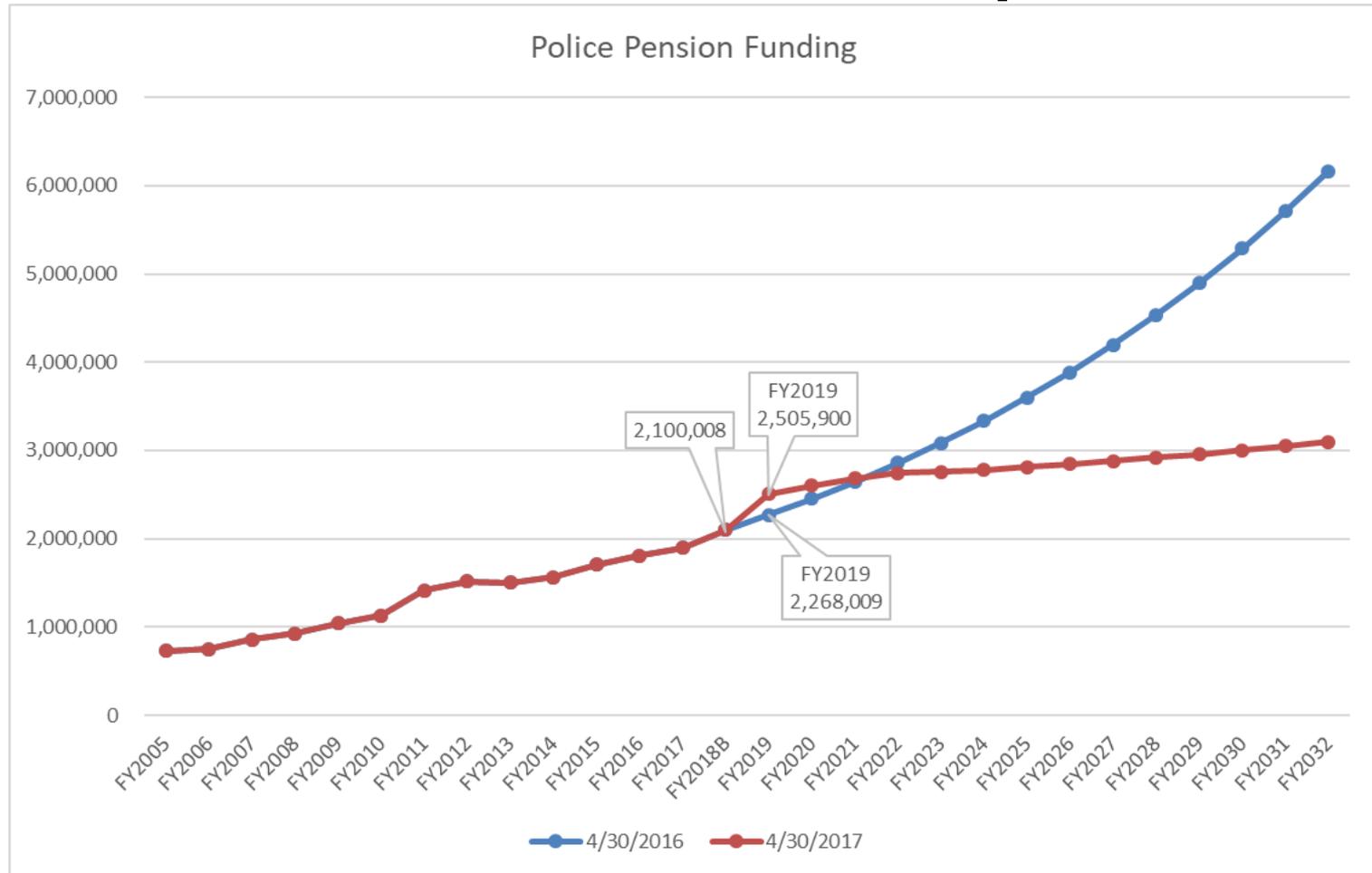
Adjustment to fee desired for FY2019 to offset a portion of the increased public safety pension funding requirement?

2017 Property Tax Levy

FUND	2017 LEVY	2016 Extension	\$ CHANGE	% CHANGE	
<u>Pension Funds</u>					
IMRF/SS - Funded Ratio 88%	1,198,046	1,173,405	24,641	2.10%	
Police Pension - Funded Ratio 52.9%	2,105,888	1,900,029	205,859	10.83%	Double PS Pension
Fire Pension - Funded Ratio 69.4%	1,455,855	1,156,874	298,981	25.84%	Fee 5/1/18
Sub-Total Pension Funds	4,759,789	4,230,308	529,481	12.52%	

Combined levy increase for 2017 = 4.43%

What have we accomplished?



Projections based on pension modeler forecast; 4/30/17 assumptions

Looking ahead...

- Pension Subcommittee to reconvene February 22, 2018
- Further examination of move to open amortization period

Impact of Open Amortization



Projections based on pension modeler forecast; 4/30/17 assumptions

Key Success Factors

- City Council willing to address long-term issue today
- Home Rule Status – greater flexibility
- No property tax freeze

Lessons Learned

- Lots of time needed!
- Engage all stakeholders in discussions
 - Fire and Police Pension Boards
 - Actuary
- Examine alternative funding options to property tax levy
- **COMMUNICATION!**

Questions?

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