

# City of Lake Forest Pension Primer

**December 2018**

# Three Plans

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	<i>IMRF</i>	Police	Fire
Plan Type	Agent Multiple-Employer	Single Employer	Single Employer
Benefit Type	Defined Benefit	Defined Benefit	Defined Benefit
Provisions	Retirement Disability Death	Retirement Disability Death	Retirement Disability Death
Participants	Employees>1000 Hrs/Yr 262 beneficiaries 198 active 177 inactive Includes Library	Police Officers 40 beneficiaries 40 active 8 inactive vested	Firefighters 38 beneficiaries 32 active 4 inactive vested

# Three Plans (continued)

	<i>IMRF</i>	Police	Fire
Board Membership	4 elected by employers 3 elected by participants 1 annuitant	2 Mayor appointees 2 active employees 1 retiree	2 Mayor appointees 2 active employees 1 retiree
Local Representation	None	2 Board appointees	2 Board appointees
Benefit Determinations	Illinois General Assembly	Illinois General Assembly	Illinois General Assembly
City Contribution	Actuarially Determined	Actuarially Determined	Actuarially Determined
Employee Contribution	4.5% (+ 6.2% FICA)	9.91% (no FICA)	9.455% (no FICA)

# Three Plans (continued)

	<i>IMRF</i>	Police	Fire
Vesting (Tier 1)	8 Years	8 Years	10 Years
Vesting (Tier 2)	10 Years	10 Years	10 Years
Normal Retirement:			
Max Pension (Tier1) 50% Pension (Tier1)	75%; 40 years; age 60 50%; 28 years; age 60	75%; 30 years; age 50 50%; 20 years; age 50	75%; 30 years; age 50 50%; 20 years; age 50
Max Pension (Tier2) 50% Pension (Tier2)	75%; 40 years; age 67 50%; 28 years; age 67	75%; 30 years; age 55 50%; 20 years; age 55	75%; 30 years; age 55 50%; 20 years; age 55
Basis for Pension (Tier 1)	Highest total earnings for 48 consecutive months within last 10 years of IMRF service	Annual salary on last day of service	Annual salary on last day of service
Basis for Pension (Tier 2)	Highest total earnings for 96 consecutive months within last 10 years of IMRF service (wage cap applies)	Average salary for eight consecutive years prior to retirement	Average salary for eight consecutive years prior to retirement

# Portability/Termination

- IMRF
  - All IMRF service credit is combined for purposes of service credit and pension determinations
  - Employees may elect to take a separation refund of IMRF employee contributions
- Police Pension – separate and distinct funds
  - Active member of a Police Pension Fund may: 1) apply for transfer of creditable service and related contributions in another Article 3 pension fund and 2) reinstate service in any other Article 3 pension fund terminated by receipt of a refund by paying amount of refund plus interest. (40 ILCS 5/3-110.7)
- Fire Pension – separate and distinct funds
  - Firefighters have authority to combine service from multiple Article 4 pension funds and draw benefit from each. They may reinstate refunds similar to police pension members. (40 ILCS 5/4-109.3)

# Public Safety Pension Investment Authority

- 40 ILCS 5/1-113.2 through 113.4 – List of Permitted Investments for all Article 3 and 4 pension funds – limits
- Investment authority rests with Pension Board of Trustees

Legislative limits on certain types of investments*:	Prior to 1/1/98	PA 90-507 Eff. 1/1/98	PA 96-1495 Eff. 7/1/11	PA 96-1495 Eff. 7/1/12
Combination of: Separate accounts Life insurance companies; separate accounts insurance companies <i>-qualified mutual funds added 2000</i>	10%	10%	10%	10%
Combination of: common and preferred stocks and mutual funds through investment advisor	n/a	35%	50%	55%
Qualified corporate bonds	n/a	n/a	No limit	No limit

\* Applicable to funds with net assets exceeding \$10 million.

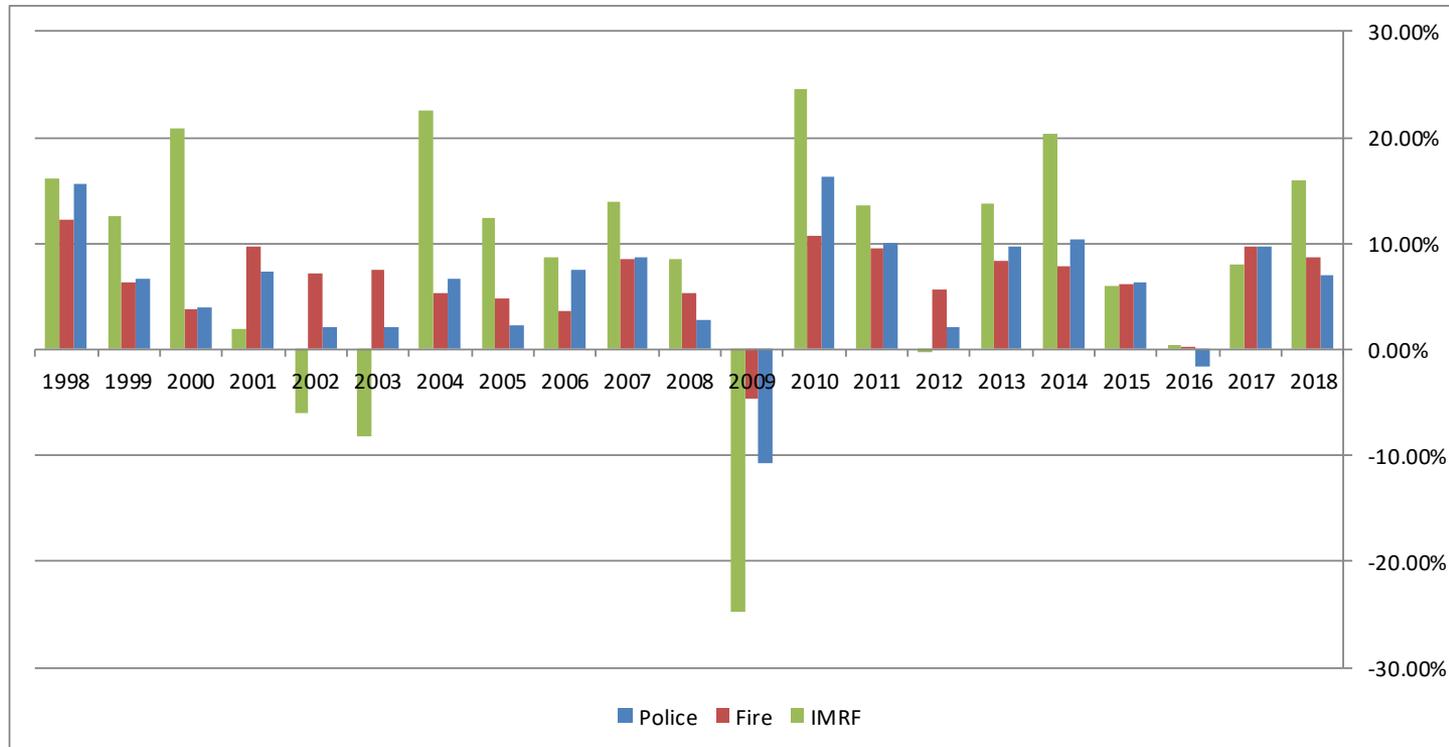
# Public Safety Pension Investment Authority

- 40 ILCS 5/1-113.2 through 113.4 – List of Permitted Investments for all Article 3 and 4 pension funds – limits

Legislative limits on certain types of investments:	Net Assets => \$2.5m	Net Assets => \$5 m	Net Assets => \$10 m
Combination of: Separate accounts Life insurance companies; separate accounts insurance companies <i>-qualified mutual funds added 2000</i>	10%	10%	10%
Combination of: Separate accounts life insurance companies; qualified mutual funds.	35%	35%	55%
Combination of: common and preferred stocks and mutual funds through investment advisor	N/A		
Qualified corporate bonds	Allowable and no limit if managed through investment advisor		

# Investment Returns

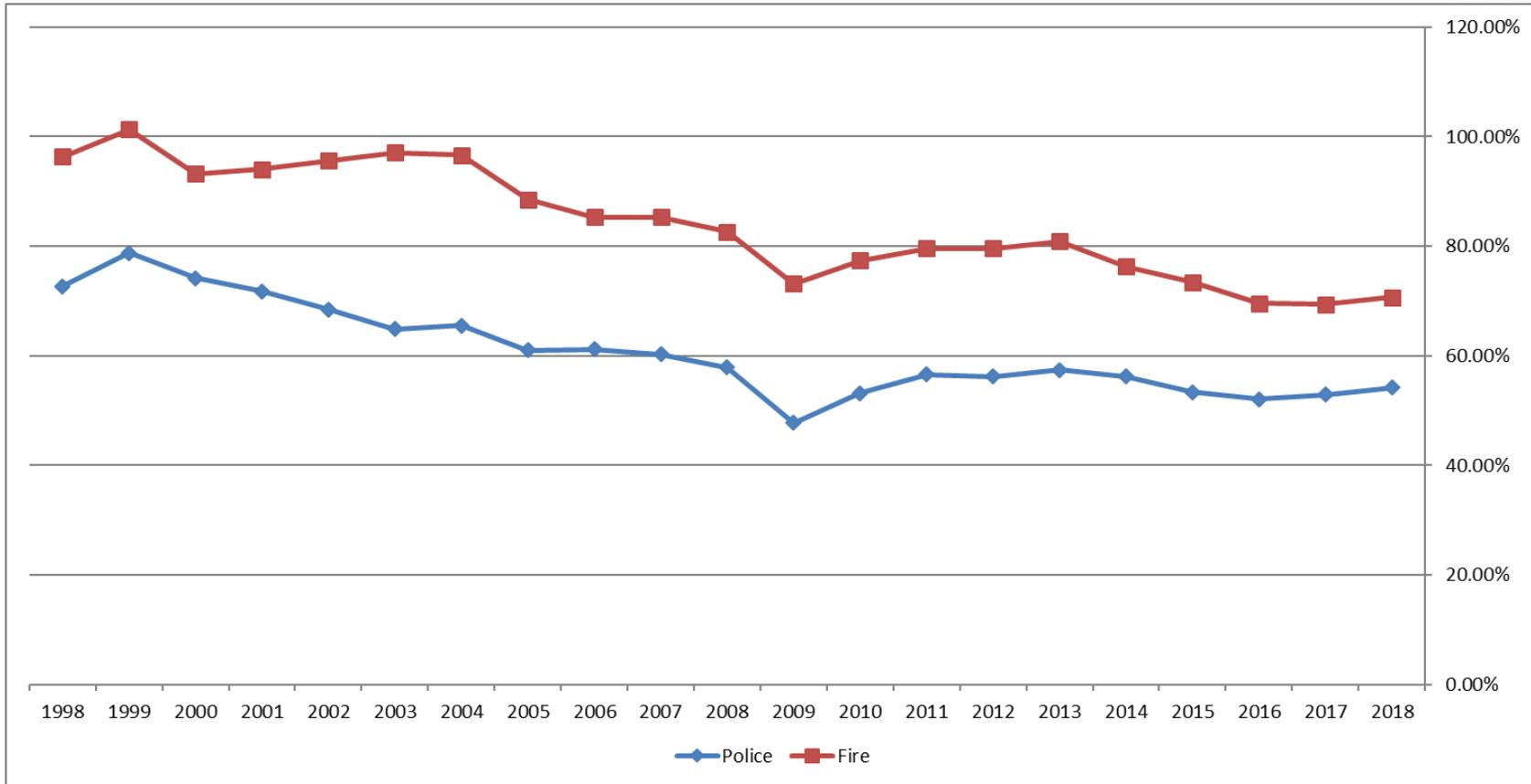
## City of Lake Forest Pension Plans Investment Returns History



Police and Fire - Year ended 4/30  
IMRF - Prior Year ended 12/31

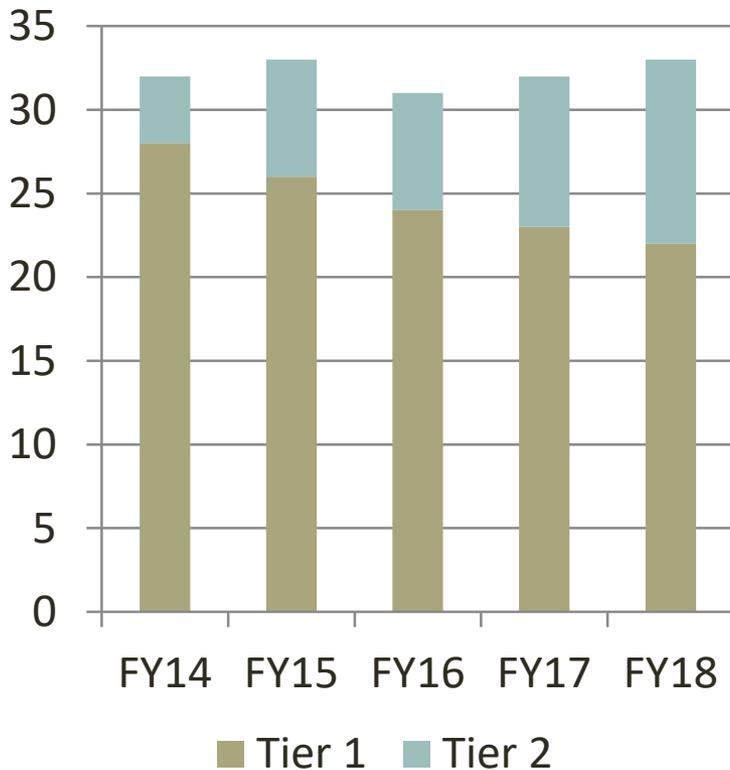
This chart depicts actual investment return for fiscal year shown. Actuarial return will differ due to smoothing.

# Funded Ratios

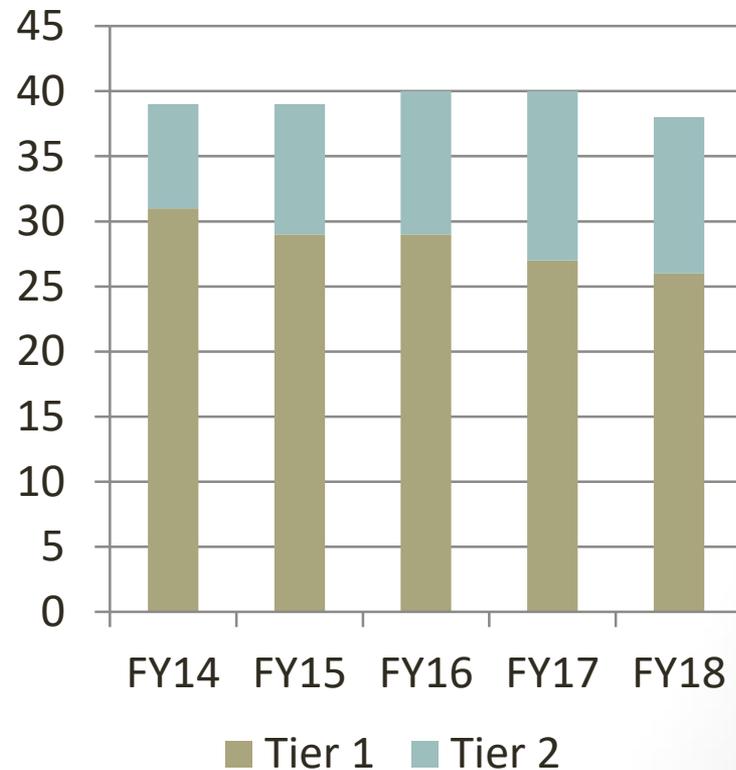


# Tier 1 vs. Tier 2 Participation

## Fire Pension



## Police Pension



Tier 2 employees are those entering the system on or after 1/11/11.

# Pension Fund Actuarial Valuations

- The City contracts annually for an actuarial valuation of the police and fire pension funds
  - Results of valuations as of April 30, 2018 determine the property tax levy requirements for the 2018 Levy/FY2020 Budget
- IMRF provides employer contribution rates on a calendar year basis
  - 2017 actuarial valuation determines employer contribution rate for calendar year 2019/FY2020 Budget

# Plan Data

	IMRF	Police	Fire
Valuation Date	12/31/17	4/30/18	4/30/18
Plan Net Position	\$89,012,730	\$31,650,935	\$36,256,485
Total Pension Liability	\$90,081,074	\$58,400,246	\$51,327,313
<b>Net Pension Liability</b>	<b>\$1,068,344</b>	<b>\$26,749,311</b>	<b>\$15,070,828</b>
Percent Funded	98.83%	54.2%	70.6%
Assumed Rate/Return	7.50%	7.00%	7.00%
Investment Return	15.96%	7.03%	8.65%
5-year average	10.13%	6.35%	6.52%
7-year average	9.16%	6.22%	6.67%
City Contribution		\$2,594,845	\$1,826,568
Employer Rate	9.53%		
% Change – Prior Year	(22.9)%*	3.55%	6.08%

\*IMRF rate for 2019 is 9.53% compared to 12.36% for 2018, a 22.9% rate decrease.

# Contribution Required as % of Covered Payroll for FY2019

- IMRF (calendar year 2018) 12.36%
  - (plus 6.2% FICA – total 18.56%)
- Police Pension\* 66.10%
- Fire Pension\* 56.10%

\* Based on covered payroll as of 4/30/17

# 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
  - 4/30/16 (Fire/Police) – No changes due to actuary transition

# Questions?