

Police and Fire Pension Fund

Mission Statement

It is the mission of the Police and Fire Pension Funds to provide retirement benefits for retired police officers and firefighters and their beneficiaries through employer and employee contributions and investment earnings.

Primary Functions → The primary function of this non-operating budgetary unit is to finance pensions for employees by both employer and employee contributions combined with interest earnings on those contributions. These three revenue streams, if based on sound actuarial assumptions, should generate sufficient funds for employee retirement without placing either an undue burden on the employer or a risk to the pension due the employee.

Budget Summary

POLICE PENSION FUND BUDGET SUMMARY					
APPROPRIATION	2010 <u>ACTUAL</u>	2011 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2013 <u>BUDGET</u>	INCREASE (DECREASE)
PERSONNEL	\$11,640,324	\$12,387,023	\$4,463,520	\$4,770,072	\$306,552
CONTRACTUAL	350,142	358,869	383,950	371,190	(12,760)
SUPPLIES	31	0	200	70	(130)
OTHER	101,700	99,900	109,200	111,600	2,400
TOTAL	<u>12,092,197</u>	<u>12,845,792</u>	<u>4,956,870</u>	<u>5,252,932</u>	<u>296,062</u>
NON-APPROPRIATION	0	0	8,725,000	8,725,000	0
TOTAL EXPENSE	<u>\$12,092,197</u>	<u>\$12,845,792</u>	<u>\$13,681,870</u>	<u>\$13,977,932</u>	<u>\$296,062</u>
FUNDING SOURCE	2010 <u>ACTUAL</u>	2011 <u>ACTUAL</u>	2012 <u>BUDGET</u>	2013 <u>BUDGET</u>	INCREASE (DECREASE)
POLICE DEPARTMENT TRANSFER					
POLICE PENSION PROPERTY TAX	\$2,766,826	\$4,316,216	\$3,673,220	\$3,847,272	\$174,052
POLICE PENSION REPLACE TAX	<u>978,600</u>	<u>862,600</u>	<u>790,300</u>	<u>922,800</u>	<u>132,500</u>
TOTAL CITY CONTRIBUTION	3,745,426	5,178,816	4,463,520	4,770,072	306,552
INTEREST INCOME	18,324,394	11,037,385	5,800,000	3,450,000	(2,350,000)
APPRECIATION(DEPRECIATION)	<u>-3,057,997</u>	<u>(8,966,330)</u>	<u>1,500,000</u>	<u>4,000,000</u>	<u>2,500,000</u>
INVESTMENT INCOME	15,266,397	2,071,055	7,300,000	7,450,000	150,000
EMPLOYEE CONTRIBUTIONS	<u>1,975,149</u>	<u>1,986,500</u>	<u>1,981,300</u>	<u>2,000,800</u>	<u>19,500</u>
TOTAL	<u>\$20,986,972</u>	<u>\$9,236,371</u>	<u>\$13,744,820</u>	<u>\$14,220,872</u>	<u>\$476,052</u>
ACTUARY'S CONTRIBUTION					
REQUIREMENT	\$5,900,674	\$5,178,816	\$4,463,520	\$4,770,072	\$306,552
AMORTIZATION AMOUNT			\$62,950	\$242,940	

Police and Fire Pension Fund

Budget Summary

FIRE PENSION FUND BUDGET SUMMARY					
	2010	2011	2012	2013	INCREASE
APPROPRIATION	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>(DECREASE)</u>
PERSONNEL	\$12,929,522	\$13,471,483	\$5,082,279	\$5,776,061	\$693,782
CONTRACTUAL	480,220	437,045	499,400	514,975	15,575
SUPPLIES	0	300	300	100	(200)
OTHER	101,700	99,900	109,200	111,600	2,400
TOTAL	<u>13,511,442</u>	<u>14,008,728</u>	<u>5,691,179</u>	<u>6,402,736</u>	<u>711,557</u>
NON-APPROPRIATION	<u>0</u>	<u>0</u>	<u>9,275,000</u>	<u>9,275,000</u>	<u>0</u>
TOTAL EXPENSE	<u>\$13,511,442</u>	<u>\$14,008,728</u>	<u>\$14,966,179</u>	<u>\$15,677,736</u>	<u>\$711,557</u>
FUNDING SOURCE	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>INCREASE</u>
	<u>ACTUAL</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>BUDGET</u>	<u>(DECREASE)</u>
FIRE DEPARTMENT TRANSFER					
FIRE PENSION PROPERTY TAX	\$4,483,682	\$5,200,985	\$4,133,879	\$4,668,661	\$534,782
FIRE PENSION REPLACE TAX	<u>1,174,300</u>	<u>1,035,100</u>	<u>948,400</u>	<u>1,107,400</u>	159,000
TOTAL CITY CONTRIBUTION	5,657,982	6,236,085	5,082,279	5,776,061	693,782
INTEREST INCOME	6,757,037	9,142,053	4,700,000	4,000,000	(700,000)
APPRECIATION(DEPRECIATION)	<u>3,344,267</u>	<u>(6,046,886)</u>	<u>5,000,000</u>	<u>4,000,000</u>	<u>(1,000,000)</u>
INVESTMENT INCOME	10,101,304	3,095,167	9,700,000	8,000,000	(1,700,000)
EMPLOYEE CONTRIBUTIONS	<u>1,798,076</u>	<u>1,699,844</u>	<u>1,912,200</u>	<u>1,969,100</u>	56,900
TOTAL	<u>\$17,557,362</u>	<u>\$11,031,096</u>	<u>\$16,694,479</u>	<u>\$15,745,161</u>	<u>(\$949,318)</u>
ACTUARY'S CONTRIBUTION REQUIREMENT	\$6,951,034	\$7,045,842	\$5,082,279	\$5,776,061	\$693,782
AMORTIZATION AMOUNT			\$1,728,300	\$67,425	

Budget Analysis

- The City utilizes an independent actuary to determine the necessary funding for these two plans on an annual basis. Once this is determined, the City funds the plans based on the recommendations of the independent actuary. There were no changes with respect to plan provisions, actuarial methods, or actuarial assumptions from the prior year.
- For 2011, the Police plan earned \$1.8 million in interest income while the Fire plan earned \$2.6 million in interest income.
- The Police and Fire plans also realized \$10.1 and \$6.5 million respectively on the sale of investments.
- In addition, reflecting fair market value adjustments of investments, the Police Pension Fund recorded a loss of \$8.9 million while the Fire Pension Fund recorded a loss of \$6.0 million.
- Investment expenses were \$240,800 for Police and \$420,100 for Fire.
- Approximate annual rates of return were relatively small, but positive for both, 1.3% for Police and 2.2% for Fire. The rate of return assumption is 7.5%.

Police and Fire Pension Fund

- Police contribution requirement increases to \$4,770,072. The increase in the contribution requirement is due to the increase in the annual payroll. The percent funded has decreased from 75.3% to 73.8%.
- Fire contribution requirement increases to \$5,776,061. The increase in the contribution requirement is due to the increase in the annual payroll. The percent funded has decreased from 68.7% to 67.2%.

History

In 1993, the State of Illinois increased the pension benefits for these two plans. This increase not only increased costs for the future but it also significantly increased the unfunded liability for service already earned. With the member contribution rate increased only marginally, the bulk of the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization schedule begun in 1980 with a new 1993 forty year level percentage schedule. The City has elected, as long as was possible, to fund the annual contribution based on the 1980 schedule. For 2002, the last year that making this additional contribution was possible, this election added \$406,805 to the Police contribution and \$1,002,874 to the Fire contribution. Due to continuing and increasingly severe property tax cap restrictions, the City in 2003 changed and began to recognize the 1993 amortization method. The impact of this change for 2003 was estimated to be \$980,000 for the Police contribution and \$1,750,000 for the Fire contribution.

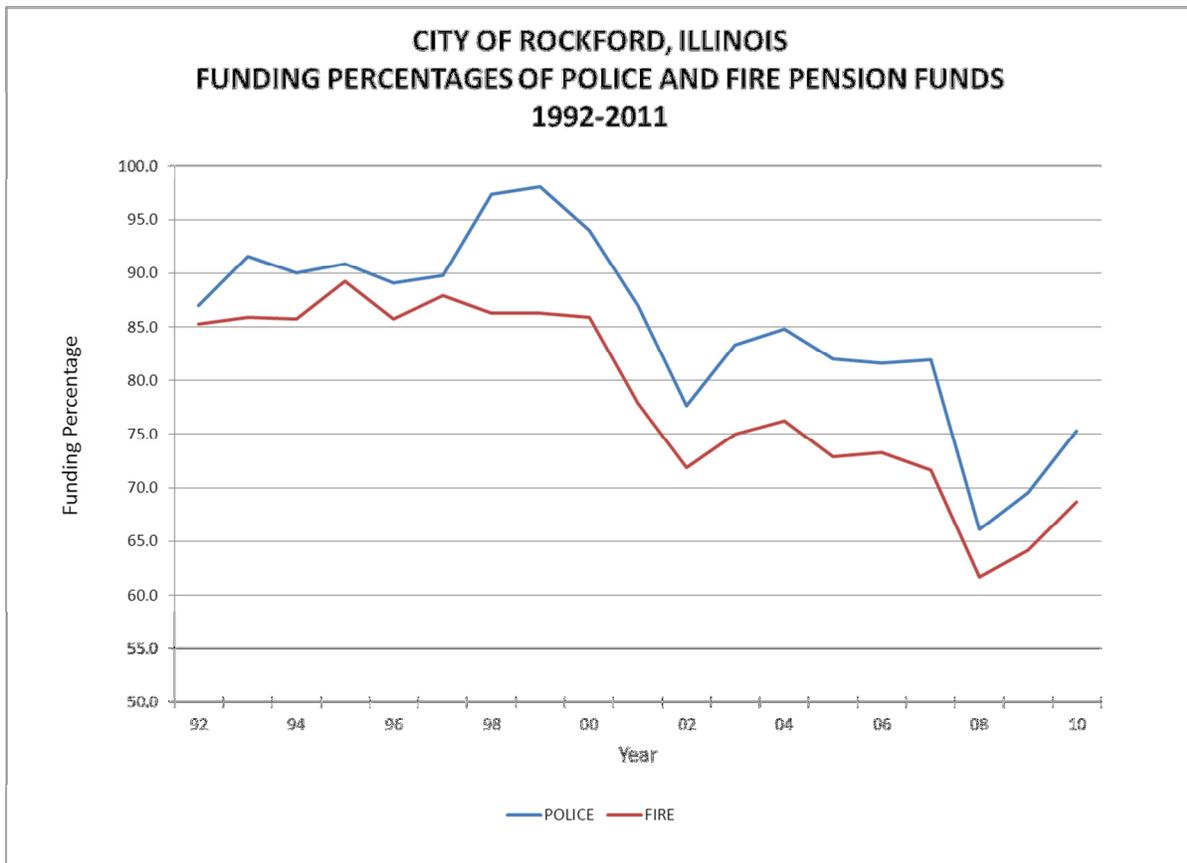
Effective July 1, 2004, the State changed the surviving spouse formula for the Fire Pension from 54% of ending salary to 100% of ending pension. To help fund this increased benefit, the firefighter contribution from salary was increased from 8.455% to 9.455%, an addition of \$166,400 and the municipal contribution was calculated at \$365,000, 2.1 cents on the tax rate. 30 of the 48 surviving spouses accounted for a first year cost increase of \$215,000. For the future, this will add an additional \$20,000 annually for each new surviving spouse. The State exempted the property tax necessary for this new benefit from the tax cap law.

The State of Illinois enacted a reform package for Illinois police and fire pension plans in 2010. Benefit changes, for new hires beginning January 1, 2011, included the following: (1) normal retirement age of 55 (currently 50); (2) early retirement at age 50 with 6% reduction for each year prior to 55; (2) pensionable salary cap of \$106,800 indexed to ½% of CPI-U; (3) final average salary calculated using the last 8 of 10 years (currently final day's salary); (4) survivor benefit of 66 2/3% of pension earned at date of death (currently 100% of pension); and (5) cost of living adjustments beginning the year after a retiree or survivor turns age 60 with annual increases equaling the lesser of 3% simple or ½ of CPI-U (currently 3% compounded each year after pension becomes payable).

In addition, the following changes were made to public safety pension funding: (1) 30 year closed amortization period with a funding target of 90% by the end of 2040 (currently expires in 2033 with a funding target of 100%); (2) state shared revenue diversions to pension funds beginning in 2016 equaling the difference between the employer contribution and the required

Police and Fire Pension Fund

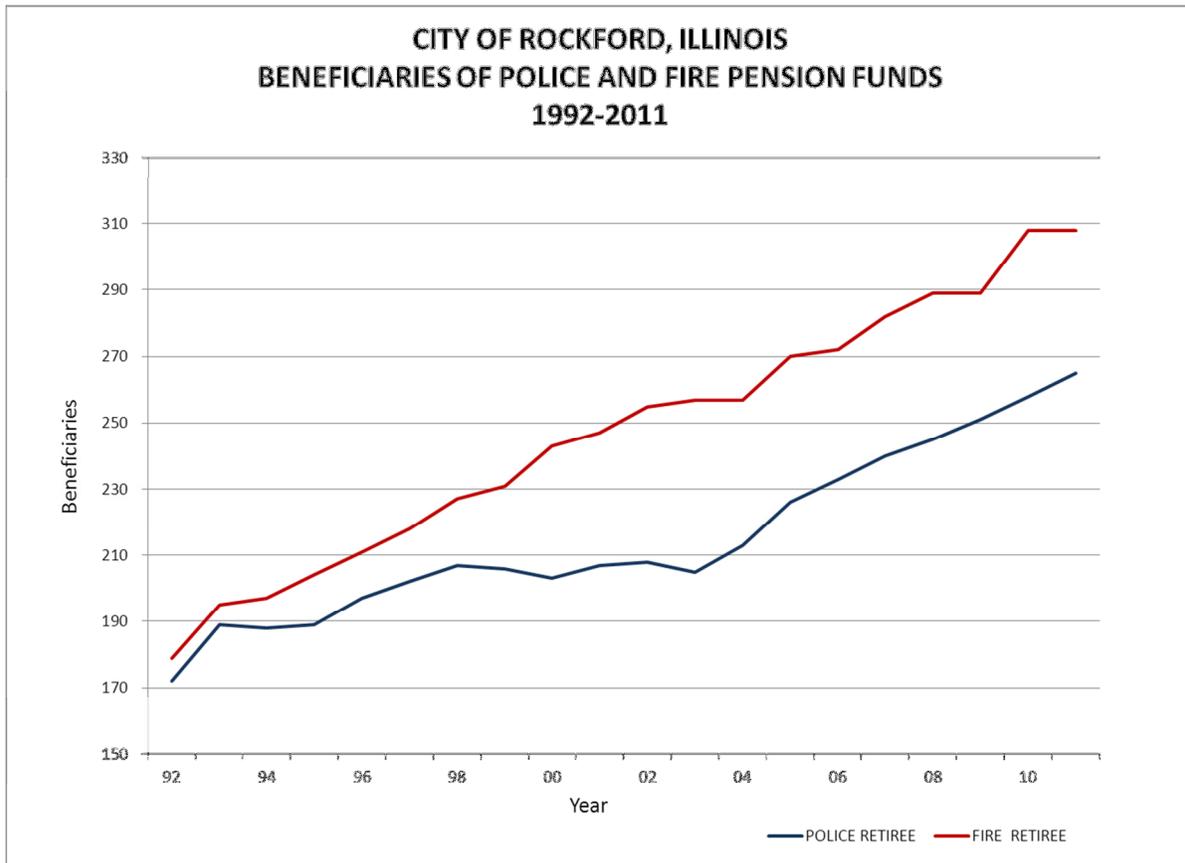
actuarial contribution. Three year phase in with up to 1/3 of state shared revenue diverted in 2016, up to 2/3 in 2017, and up to the full contribution difference beginning in 2018; (3) expanded investment authority including corporate bonds for all funds and greater equity investments for funds with assets of at least \$10 million; and (4) 5 year smoothing of actuarial gains and losses. The first actuarial study to be performed using these changes was completed in the spring of 2011 for the year ended 2010 for the 2012 budget levy and the 2013 budget expense.



Police and Fire Pension Fund

ROCKFORD PENSION PLANS			
	<u>Police</u>	<u>Fire</u>	<u>IMRF/SS</u>
Employees	Sworn	Sworn	All Other
2013 Employer Rate	23.63%	27.73%	19.87%
2013 Employee Rate	9.910%	9.455%	10.70%
Social Security Included	No	No	Yes (6.2%)
Plan Administration	Local	Local	State
Retirement Age	50	50	55/60
Vesting (Years)	10	10	8
Pension (20 Years Service)	50%	50%	35%
Pension Limit	75%	75%	75%
Years To Achieve Limit	30	30	40
Pension Based On	Last Pay	Last Pay	Average of (4) Highest Consecutive Years In Last (10)

Trends for the two funds include active member percentage decreasing as the number of retirees increase as well as dollar costs rising.



Police and Fire Pension Fund

Approximately one-half of the annual revenues for these two plans are generated from investment earnings. While member contributions have increased to 9.91% for Police in 2000 and 9.455% for Fire in 2005, employee contributions are still the smallest element of the financing equation.

The City contributions are funded from property taxes and state replacement taxes. Pension property taxes are unlimited; however, property tax extension limitations (tax caps) do apply on a total city basis except for the new benefit provision for Fire Pension surviving spouses. For 2013, estimated rates are 20.9 cents for the Police plan and 23.5 cents for the Fire plan. 2011 rates are estimated at 25.7 and 31.8 cents respectively. The property tax rate decrease is due to the plan cost decrease. For the Fire plan, 3.4 cents for 2011 and 2.5 cents for 2012 are exempt from tax caps.

Both plans utilize the Finance Department's staff. The Police pension fund will also utilize a consultant, \$40,000, and a custodian, \$2,200, as well as five money managers at an estimated cost of \$199,000 (2011-\$192,258). The Fire pension uses a consultant, \$60,000, a custodian, \$8,800, and nine money managers at an estimated cost of \$401,000 (2011-\$384,923). Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

Five Year Financial Forecast

The 2014-2018 five-year forecast on a traditional basis, assumes five percent City and employee contribution increases as well as a 7.5% return on investments. The combined impact for the two plans of this increase on the property tax rate would be approximately four cents annually. Costs are assumed to rise annually due to three percent pension increases and an annual new retiree group of five. This forecast does not address a number of issues such as mortality, disability, and withdrawal that an actuary would. In addition, it makes no assumptions as to the likelihood of additional benefits gained through the legislative process in Springfield.

POLICE PENSION FUND 2014-2018 FINANCIAL FORECAST (IN 000'S)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues	\$22,000	\$23,066	\$24,225	\$25,448	\$26,757
Expenditures	14,633	15,177	15,738	16,315	16,909
Excess (Deficit)	7,367	7,889	8,487	9,133	9,848
Beginning Balance	175,287	182,654	190,543	199,030	208,163
Ending Balance	<u>\$182,654</u>	<u>\$190,543</u>	<u>\$199,030</u>	<u>\$208,163</u>	<u>\$218,011</u>
Property Tax Rates (in cents)	25.8	27.8	30.0	32.4	34.8

FIRE PENSION FUND 2014-2018 FINANCIAL FORECAST (IN 000'S)

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Revenues	\$21,006	\$21,932	\$22,903	\$23,939	\$25,033
Expenditures	15,903	16,485	17,085	17,702	18,338
Excess (Deficit)	5,103	5,447	5,818	6,237	6,695
Beginning Balance	156,300	161,404	166,851	172,669	178,906
Ending Balance	<u>\$161,404</u>	<u>\$166,851</u>	<u>\$172,669</u>	<u>\$178,906</u>	<u>\$185,601</u>
Property Tax Rates (in cents)	28.9	31.1	33.5	36.1	38.8

**CITY OF ROCKFORD
NEXT YEAR/CURRENT YEAR BUDGET ANALYSIS
POLICE PENSION FUND**

	2011 ACTUAL	2012 BUDGET	7 MO ACTUAL	2013 BUDGET	CHANGE 13-12
71276 Pension Payment	12,236,726	4,463,520	-	4,770,072	306,552
71277 Contribution Refund	150,297	-	-	-	-
TOTAL PERSONNEL	12,387,023	4,463,520	-	4,770,072	306,552
72212 Postage	1,630	2,250	-	2,250	-
72214 Travel	1,404	2,500	-	2,740	240
72215 Dues	775	2,650	-	2,650	-
72218 Service Contracts	232,818	287,200	-	249,200	(38,000)
72221 Admin Srvc Fee	-	-	-	-	-
72281 Legal	79,199	50,000	-	75,000	25,000
72290 Education	1,937	2,150	-	2,150	-
72299 Misc Contracts	8,000	200	-	200	-
72284 Medical Expenses	33,106	37,000	-	37,000	-
TOTAL CONTRACTUAL	358,869	383,950	-	371,190	(12,760)
75560 Office Supplies	-	200	-	70	(130)
TOTAL OFFICE SUPPLIES	-	200	-	70	(130)
77725 P/S-GF	99,900	109,200	-	111,600	2,400
TOTAL OTHER	99,900	109,200	-	111,600	2,270
TOTAL POLICE PENSION FUNI	12,845,792	4,956,870	-	5,252,932	296,062

**CITY OF ROCKFORD
NEXT YEAR/CURRENT YEAR BUDGET ANALYSIS
FIRE PENSION FUND**

	2011 ACTUAL	2012 BUDGET	7 MO ACTUAL	2013 BUDGET	CHANGE 13-12
71276 Pension Payment	13,427,350	5,082,279	-	5,776,061	693,782
71277 Contribution Refund	44,133	-	-	-	-
TOTAL PERSONNEL	13,471,483	5,082,279	-	5,776,061	693,782
72212 Postage	1,848	2,200	-	2,200	-
72214 Travel	111	1,300	-	1,300	-
72215 Dues	1,550	2,000	-	2,275	275
72218 Service Contracts	412,184	477,800	-	491,500	13,700
72281 Legal	10,636	10,000	-	12,100	2,100
72290 Education	985	3,100	-	2,800	(300)
72299 Misc Contracts	8,000	500	-	300	(200)
72284 Medical Expenses	1,731	2,500	-	2,500	-
TOTAL CONTRACTUAL	437,045	499,400	-	514,975	15,575
75560 Office Supplies	300	300	-	100	(200)
TOTAL OFFICE SUPPLIES	300	300	-	100	(200)
77725 P/S-GF	99,900	109,200	-	111,600	2,400
TOTAL OTHER	99,900	109,200	-	111,600	2,400
TOTAL FIRE PENSION FUND	14,008,728	5,691,179	-	6,402,736	711,557