
I N T E R

O F F I C E

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: June 21, 2022
Subject: ANNUAL POLICE AND FIREFIGHTER PENSION REPORTS

In compliance with the Illinois Compiled Statutes outlined in ILCS 5/4-134, the Police and Firefighter Pension Boards are required to provide a report to the Village Board on the financial condition of the respective funds. The attached reports are in addition to the public safety pension information that is already provided in the Village's Annual Comprehensive Financial Report.

The annual pension report to the Village presents selected data from the most recent actuarial report prepared by the independent actuarial firm, MWM Consulting Group as of January 1, 2022. Each report also includes the annual actuarial requirement for the respective 2022 pension levies, which will be accounted for in the Village's budget and financial statements for the 2023 Budget. These reports will also be posted on the Village's website under the Finance Department tab.

To offset some of the volatility in the financial markets the actuarial gain or loss on investments is smoothed over three years. The funded ratio increased for both the Police Pension Fund (84.08% to 87.01%) and the Firefighter's Pension Fund (79.99% to 80.85%). Each fund experienced investment gains for 2021. This year's actuary reports reflected revised mortality tables which extended the lives of the municipal public safety pensioners. This put upward pressure on the annual required contribution (ARC), which was offset somewhat by positive interest earnings in 2021. The proposed 2022 levy for the Firefighter's Pension Fund will match the ARC for this fund. The Police Fund levy for 2022 will show a decrease, but will still be above the ARC, providing a small hedge against a future market downturn. The Police Pension Fund's investment portfolio has historically had a riskier profile that does better during positive markets, and the Firefighter's Pension Fund's more conservative investment structure has done better during market downturns.

No Board action is needed on this memo. It is provided to fulfill the aforementioned statutory provision.

C: Mark Aleckson, President, Firefighter Pension Fund
Petar Milutinovic, President, Police Pension Fund
Mary Juarez, Assistant Finance Director

**ARLINGTON HEIGHTS POLICE PENSION FUND
ANNUAL REPORT TO THE VILLAGE BOARD
FOR THE 2022 LEVY (2023 BUDGET)**

Source: Actuarial Valuation as of January 1, 2022, MWM Consulting Group

Actuarial value of assets				\$173,625,279
Total actuarial liability				(\$199,539,605)
Unfunded actuarial liability*				(\$25,914,326)
Funded ratio				87.01%
Annual actuarial requirement for 2022				<u>\$3,757,141</u>
Village contribution as percent of Police participant payroll				32.00%
Projected employee contributions				\$1,162,810
Employee contribution rate per State Statute				9.91%
Actuarial assumed investment return				6.75%
Actual investment return				17.57%
Assumed investment return for 12 month period ended December 31, 2021				\$10,209,056
Actual Investment return for 12 month period ended December 31, 2021				\$16,365,915
Actuarial investment gain/(loss) smoothed over three years:				
One-third of investment gain/(loss) for 2021	\$5,455,305			
One-third of investment gain/(loss) for 2020	\$2,936,249			
One-third of investment gain/(loss) for 2019	\$5,759,753			
Total smoothed actuarial gain/(loss)				\$14,151,307
Number of active members contributing to the Police Pension Fund				102
Number of inactive members				8
Number of members receiving benefits/expense		119/		\$8,876,971
		<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active		47	5	52
Non-Vested Active		1	52	53
Terminated - Inactive		5	3	8
Retirees		95	0	95
Surviving Spouses		16	0	16
<u>Disability Participants</u>		12	0	12
Tot		176	60	236

*The unfunded actuarial liability represents the difference between the actuarial value of pension fund assets less the actuarial liability. To avoid unnecessary market fluctuations, actuarial assets are determined by applying an assumed rate of investment return and smoothing the gains/(losses) of the last three years. The actuarial liability represents the present value of lifetime benefits earned to date of all plan participants, including current Police Officers. The unfunded actuarial liability is amortized over the years remaining through 2040.

To determine the annual required contribution or pension property tax amount for the Village, the normal cost of the Police pension plan is added to the amortized value of the fund's unfunded liability.

Police Pension Fund Report (page 2)

The investment policy of the Police Pension Fund is established in accordance with Illinois State Statutes, 40 ILCS 5/1-113.2-4, and is available upon request. The attached pie chart depicts the fund's assets at market value as of December 31, 2021, the most recent audited fiscal year-end.

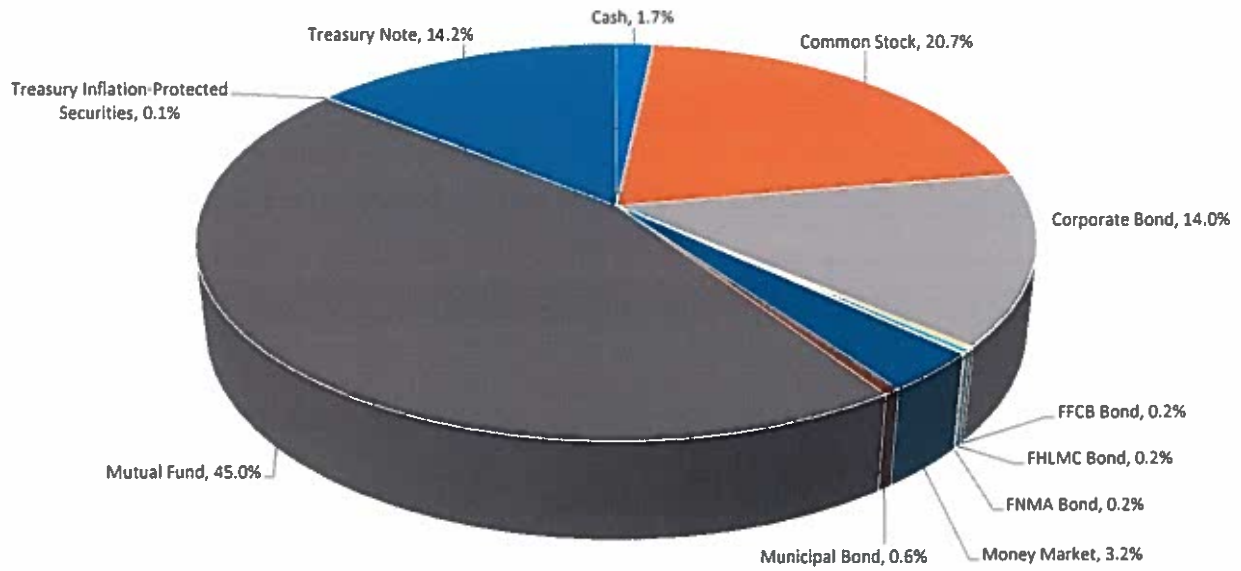
CERTIFICATION:

I, PETAR MILUTINOVIC, President of the Police Pension Board, Village of Arlington Heights, Illinois, do hereby certify that this document is a true and correct copy of: "Required Reporting to Municipality By Pension Board" as outlined in 40 ILCS 5/4-134.

Witness my hand this 21 day of JUNE, 2022.

, President
Arlington Heights Police Pension Board

Police Pension Portfolio Holdings Distribution by Security Type



Security Type	Face Amount/Shares	Cost Value	% of Portfolio	Market Value
Cash	3,105,664.44	3,105,664.44	1.7%	3,105,664.44
Common Stock	510,903.00	27,442,143.94	20.7%	38,430,450.80
Corporate Bond	25,381,480.45	25,797,026.06	14.0%	25,898,064.04
FFCB Bond	370,000.00	370,010.00	0.2%	403,307.40
FHLMC Bond	415,586.98	431,253.94	0.2%	442,462.64
FNMA Bond	275,371.75	282,610.06	0.2%	280,856.69
Money Market	5,951,623.51	5,951,623.51	3.2%	5,951,623.51
Municipal Bond	980,000.00	1,013,458.80	0.6%	1,043,308.80
Mutual Fund	524,767.35	53,173,998.62	45.0%	83,511,242.29
Treasury Inflation-Protected Securities	175,218.00	173,221.62	0.1%	202,605.77
Treasury Note	26,647,000.00	26,493,280.37	14.2%	26,280,900.99
TOTAL / AVERAGE	64,337,613.48	144,234,291.36	100.0%	185,550,487.37

**ARLINGTON HEIGHTS FIREFIGHTERS' PENSION FUND
ANNUAL REPORT TO THE VILLAGE BOARD
FOR THE 2022 LEVY (2023 BUDGET)**

Source: Actuarial Valuation as of January 1, 2022, MWM Consulting Group

Actuarial value of assets	\$145,069,772
Total actuarial liability	(\$179,441,272)
Unfunded actuarial liability*	(\$34,371,500)
Funded actuarial ratio	80.85%
Annual actuarial requirement for 2022	<u>\$5,255,147</u>

Village contribution as percent of Firefighter/Paramedic participant payroll	43.30%
Projected employee contributions	\$1,147,187
Employee contribution rate per State Statute	9.455%

Actuarial assumed investment return	6.75%
Actual investment return	11.52%
Assumed investment return for 12 month period ended December 31, 2021	\$8,786,291
Actual Investment return for 12 month period ended December 31, 2021	\$14,996,271
Actuarial investment gain/(loss) smoothed over three years:	

One-third of investment gain/(loss) for 2021	\$2,069,993	
One-third of investment gain/(loss) for 2020	\$1,811,697	
One-third of investment gain/(loss) for 2019	\$3,151,331	
Total smoothed actuarial gain/(loss)		\$7,033,021

Number of active members contributing to the Firefighters' Pension Fund		106
Number of inactive members		3
Number of members receiving benefits/expense	107/	\$7,608,141

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active	75	4	79
Non-Vested Active	0	27	27
Terminated - Inactive	1	3	4
Retirees	62	0	62
Surviving Spouses	20	0	20
Minor Dependents	2	0	2
<u>Disability Participants</u>	23	0	23
Tot	183	34	217

*The unfunded actuarial liability represents the difference between the actuarial value of pension fund assets less the actuarial liability. To avoid unnecessary market fluctuations, actuarial assets are determined by applying an assumed rate of investment return and smoothing the gains/(losses) of the last three years. The actuarial liability represents the present value of lifetime benefits earned to date of all plan participants, including current Firefighters/Paramedics. The unfunded actuarial liability is amortized over the years remaining through 2040.

To determine the annual required contribution or pension property tax amount for the Village, the normal cost of the Firefighters' pension plan is added to the amortized value of the fund's unfunded liability.

Firefighters' Pension Fund Report (page 2)

The investment policy of the Firefighters' Pension Fund is established in accordance with Illinois State Statutes, 40 ILCS 5/1-113.2-.4, and is available upon request. The attached pie chart depicts the fund's assets at market value as of December 31, 2021, the most recent audited fiscal year-end.

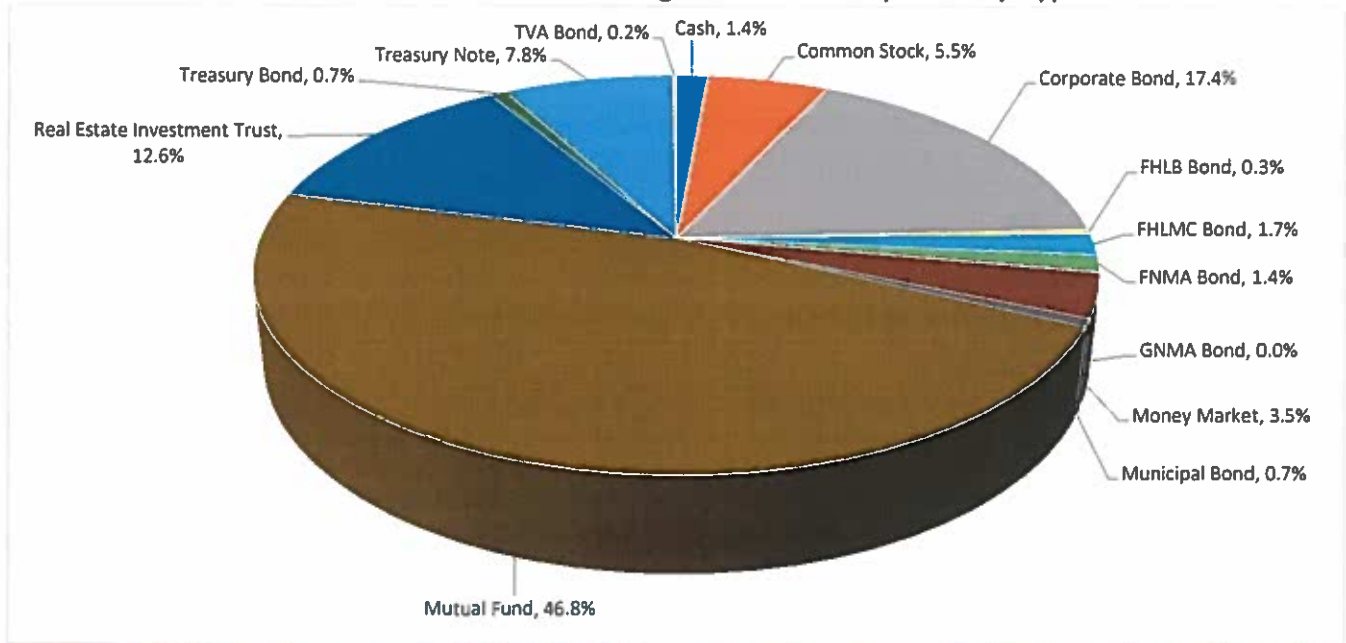
CERTIFICATION:

I, Mark Aleckson, President of the Firefighters' Pension Board, Village of Arlington Heights, Illinois, do hereby certify that this document is a true and correct copy of: "Required Reporting to Municipality By Pension Board" as outlined in 40 ILCS 5/4-134.

Witness my hand this 27 day of June, 2022.

, President
Arlington Heights Firefighters' Pension Board

Fire Pension Portfolio Holdings Distribution by Security Type



Security Type	Face Amount/Shares	Cost Value	% of Portfolio	Market Value
Cash	2,104,137.73	2,104,137.73	1.4%	2,104,137.73
Common Stock	134,967.00	6,441,251.45	5.5%	8,215,780.15
Corporate Bond	24,776,265.05	26,067,685.74	17.4%	25,893,158.62
FHLB Bond	420,000.00	467,419.50	0.3%	469,203.00
FHLMC Bond	2,445,107.44	2,519,074.38	1.7%	2,552,309.19
FNMA Bond	2,162,209.48	2,131,888.60	1.4%	2,126,758.47
GNMA Bond	28,268.93	28,191.32	0.0%	31,173.60
Money Market	5,265,952.87	5,265,952.87	3.5%	5,265,952.87
Municipal Bond	985,000.00	998,173.30	0.7%	996,905.30
Mutual Fund	1,207,619.70	38,615,548.63	46.8%	69,720,117.45
Real Estate Investment Trust	264,316.28	71.08	12.6%	18,788,299.40
Treasury Bond	1,165,000.00	1,121,720.49	0.7%	1,086,455.70
Treasury Note	11,245,000.00	11,439,213.27	7.8%	11,610,584.60
TVA Bond	250,000.00	252,555.00	0.2%	246,552.50
TOTAL / AVERAGE	52,453,844.48	97,452,683.36	100.0%	149,107,386.78