
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 12, 2023
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 their 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, 2023. Each report also includes the annual actuarial requirement for the respective 2023 pension levies, which will be accounted for in the Village's budget and financial statements for the 2024 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. Each fund experienced significant investment losses for 2022. This resulted in a decrease in the funded ratio for both the Police Pension Fund (88.09% to 87.76%) and the Firefighter's Pension Fund (80.85% to 78.53%). The proposed 2023 levies for the Police and Firefighter's Pension Funds both match the Annual Required Contribution (ARC) for each fund. The ARC is calculated on an annual basis by the Village's actuary, based on the actuarial value of assets, unfunded actuarial liability, an assumed rate of return, actual investment returns, and other assumptions. Due to the 2022 investment losses, the ARC or property tax levies for each of the public safety pension funds is increasing over the prior year's levy.

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

C: Adam Sielig, 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 2023 LEVY (2024 BUDGET)**

Source: Actuarial Valuation as of January 1, 2023, MWM Consulting Group

| | | |
|---|----------------|--------------------|
| Actuarial value of assets | | \$179,766,559 |
| Total actuarial liability | | (\$204,830,284) |
| Unfunded actuarial liability* | | (\$25,063,725) |
| Funded ratio | | 87.76% |
| Annual actuarial requirement for 2023 | | <u>\$4,189,711</u> |
| Village contribution as percent of Police participant payroll | | 34.00% |
| Projected employee contributions | | \$1,222,153 |
| Employee contribution rate per State Statute | | 9.91% |
| Actuarial assumed investment return | | 6.75% |
| Actual investment return | | -13.73% |
| Assumed investment return for 12 month period ended December 31, 2022 | | \$11,648,269 |
| Actual investment return for 12 month period ended December 31, 2022 | | (\$23,697,368) |
| Actuarial investment gain/(loss) smoothed over three years: | | |
| One-third of investment gain/(loss) for 2022 | (\$11,781,879) | |
| One-third of investment gain/(loss) for 2021 | \$5,455,305 | |
| One-third of investment gain/(loss) for 2020 | \$2,936,249 | |
| Total smoothed actuarial gain/(loss) | | (\$3,390,325) |
| Number of active members contributing to the Police Pension Fund | | 107 |
| Number of inactive members | | 12 |
| Number of members receiving benefits/expense | 124/ | \$10,296,202 |

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Total</u> |
|--------------------------------|---------------|---------------|--------------|
| Vested Active | 49 | 5 | 54 |
| Non-Vested Active | 0 | 53 | 53 |
| Terminated - Inactive | 5 | 7 | 12 |
| Retirees | 96 | 0 | 96 |
| Surviving Spouses | 16 | 0 | 16 |
| <u>Disability Participants</u> | 12 | 0 | 12 |
| Tot | 178 | 65 | 243 |

*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, 2022, the most recent audited fiscal year-end.

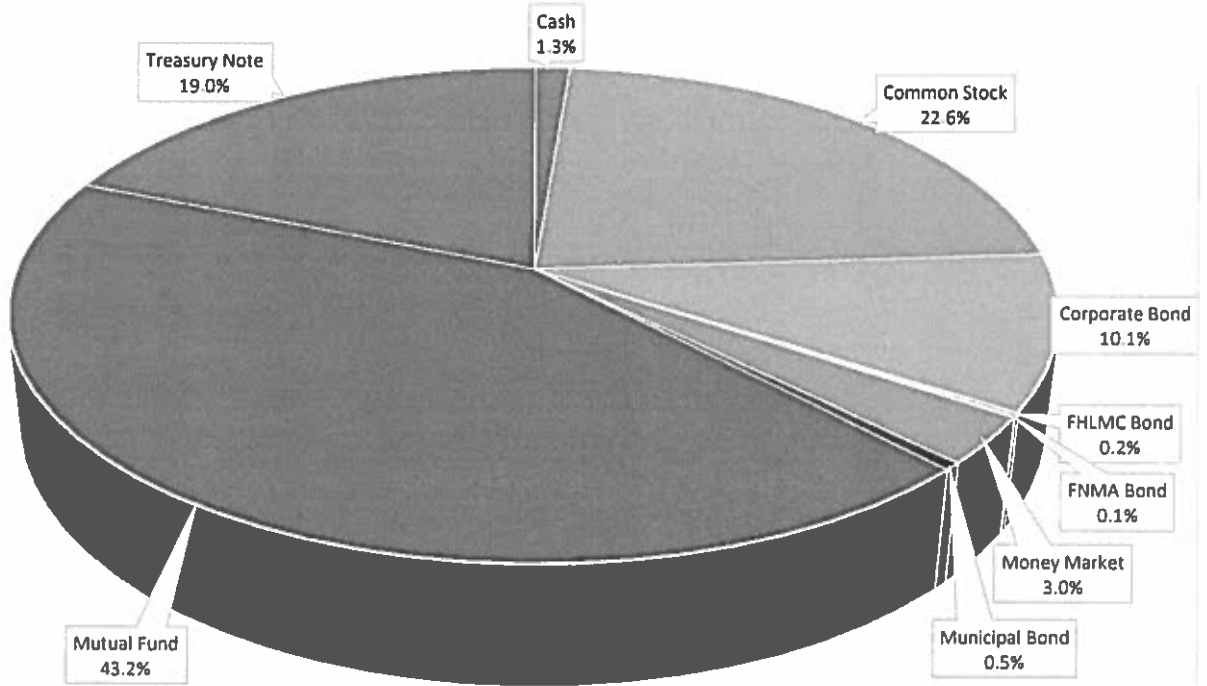
CERTIFICATION:

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 13th day of JUNE, 2023

 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 | 1,991,859.79 | 1,991,859.79 | 1.3% | 1,991,859.79 |
| Common Stock | 575,575.00 | 29,969,519.37 | 22.6% | 35,450,827.30 |
| Corporate Bond | 17,130,186.22 | 17,122,033.99 | 10.1% | 15,815,578.14 |
| FHLMC Bond | 398,298.00 | 413,883.42 | 0.2% | 355,707.64 |
| FNMA Bond | 106,125.16 | 109,015.64 | 0.1% | 102,636.83 |
| Money Market | 4,776,590.89 | 4,776,590.89 | 3.0% | 4,776,590.89 |
| Municipal Bond | 760,000.00 | 795,098.80 | 0.5% | 727,371.80 |
| Mutual Fund | 535,652.72 | 54,298,797.90 | 43.2% | 67,677,837.40 |
| Treasury Note | 33,009,000.00 | 31,469,732.36 | 19.0% | 29,746,388.17 |
| TOTAL / AVERAGE | 59,283,287.78 | 140,946,532.16 | 100% | 156,644,797.96 |

**ARLINGTON HEIGHTS FIREFIGHTERS' PENSION FUND
ANNUAL REPORT TO THE VILLAGE BOARD
FOR THE 2023 LEVY (2024 BUDGET)**

Source: Actuarial Valuation as of January 1, 2023, MWM Consulting Group

| | |
|---------------------------------------|--------------------|
| Actuarial value of assets | \$147,835,727 |
| Total actuarial liability | (\$188,260,944) |
| Unfunded actuarial liability* | (\$40,425,217) |
| Funded actuarial ratio | 78.53% |
| Annual actuarial requirement for 2023 | <u>\$5,880,365</u> |

| | |
|--|-------------|
| Village contribution as percent of Firefighter/Paramedic participant payroll | 47.30% |
| Projected employee contributions | \$1,176,133 |
| Employee contribution rate per State Statute | 9.455% |

| | |
|---|----------------|
| Actuarial assumed investment return | 6.75% |
| Actual investment return | -14.76% |
| Assumed investment return for 12 month period ended December 31, 2022 | \$9,775,088 |
| Actual investment return for 12 month period ended December 31, 2022 | (\$21,375,428) |
| Actuarial investment gain/(loss) smoothed over three years: | |

| | | |
|--|---------------|---------------|
| One-third of investment gain/(loss) for 2022 | \$10,383,505) | |
| One-third of investment gain/(loss) for 2021 | \$2,069,993 | |
| One-third of investment gain/(loss) for 2020 | \$1,811,697 | |
| Total smoothed actuarial gain/(loss) | | (\$6,501,815) |

| | | |
|---|------|-------------|
| Number of active members contributing to the Firefighters' Pension Fund | | 107 |
| Number of inactive members | | 3 |
| Number of members receiving benefits/expense | 110/ | \$7,608,141 |

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Total</u> |
|--------------------------------|---------------|---------------|--------------|
| Vested Active | 72 | 7 | 79 |
| Non-Vested Active | 0 | 28 | 28 |
| Terminated - Inactive | 1 | 2 | 3 |
| Retirees | 65 | 0 | 65 |
| Surviving Spouses | 19 | 0 | 19 |
| Minor Dependents | 1 | 0 | 1 |
| <u>Disability Participants</u> | <u>24</u> | <u>1</u> | <u>25</u> |
| Tot | 182 | 38 | 220 |

*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.

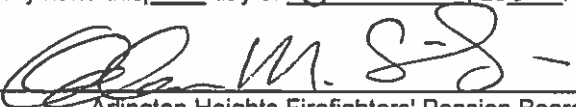
Firefighters' Pension Fund Report (page 2)

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, 2022, the most recent audited fiscal year-end.

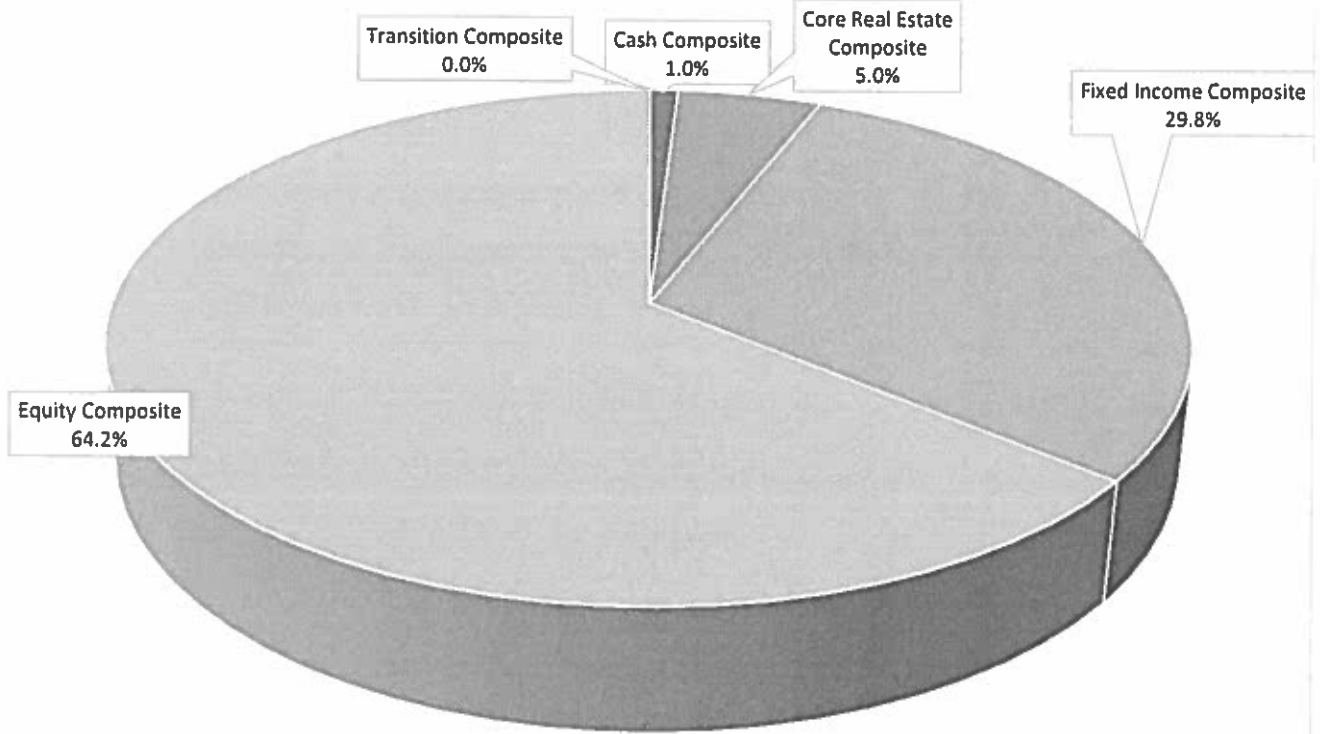
CERTIFICATION:

I, ADAM SIELIG, 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 20th day of June, 2023.

, President
Arlington Heights Firefighters' Pension Board

Fire Pension Portfolio Holdings Distribution by Security Type



| Security Type | % of Portfolio | Market Value |
|----------------------------|----------------|-----------------------|
| Cash Composite | 1.0% | 1,148,866.41 |
| Core Real Estate Composite | 5.0% | 6,050,574.09 |
| Fixed Income Composite | 29.8% | 35,815,647.95 |
| Equity Composite | 64.2% | 77,120,315.76 |
| Transition Composite | 0.0% | 899.56 |
| TOTAL / AVERAGE | 100% | 120,136,303.78 |

*Based on December 31, 2022 IFPIF Quarterly Statement and the Arlington Heights Firefighter's Pension Fund ownership portion.