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I N T E R

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# MEMO

**To:** Randy Recklaus, Village Manager  
**From:** Tom Kuehne, Finance Director/Treasurer  
**Date:** October 26, 2017  
**Subject:** ANNUAL POLICE AND FIREFIGHTER PENSION REPORTS

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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 Comprehensive Annual 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, 2017. Each report also includes the annual actuarial requirement for the respective 2017 pension levies, which will be accounted for in the Village's budget and financial statements for the 2018 Budget. These reports will also be posted on the Village's website under the "Budget & Financial Reports" 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 (75.41% to 76.18%) and the Firefighter's Pension Fund (68.75% to 69.29%). The annual required contributions for the Police and Fire Pension funds will decrease slightly for the upcoming 2017 levy, as the Village's 2014 levy included a full year contribution to the Police and Fire Pension Funds for the 8 month period, which paid down a portion of the unfunded liability.

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

C: Doug Ruhnke, President, Firefighter Pension Fund  
Tom Henderson, President, Police Pension Fund

# **ARLINGTON HEIGHTS POLICE PENSION FUND** **ANNUAL REPORT TO THE VILLAGE BOARD** **FOR THE 2017 LEVY (2018 BUDGET)**

Source: Actuarial Valuation as of January 1, 2017, MWM Consulting Group

Actuarial value of assets	119,161,930
Total actuarial liability	(\$156,420,715)
Unfunded actuarial liability*	(37,258,785)
Funded ratio	76.18%
Annual actuarial requirement for 2018	<u>\$3,878,094</u>
Village contribution as percent of Police participant payroll	36.20%
Projected employee contributions	\$1,062,558
Employee contribution rate per State Statute	9.91%
Actuarial assumed investment return	6.75%
Actual investment return	6.18%
Assumed investment return for 12 month period ended December 31, 2016	\$7,661,255
Actual Investment return for 12 month period ended December 31, 2016	6,685,208
Actuarial investment gain/(loss) smoothed over three years:	
One-third of investment gain/(loss) for 2016	(\$325,349)
One-third of investment gain/(loss) for 8-month period 2015 (\$1,970,020)	
One-third of investment gain/(loss) for fiscal year 2014	\$373,036
Total smoothed actuarial gain/(loss)	(\$1,922,333)
Number of active members contributing to the Police Pension Fund	110
Number of inactive members	6
Number of members receiving benefits/expense	96/ \$6,053,746

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active	79	0	0
Non-Vested Active	2	29	29
Terminated - Inactive	6	0	0
Retirees	71	0	0
Surviving Spouses	16	0	0
<u>Disability Participants</u>	<u>9</u>	<u>0</u>	<u>0</u>
Total	183	29	29

\*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. Since the unfunded actuarial liability represents future benefits earned to date paid through 2040, the projected liability is not shown in the Police Pension Fund's balance sheet, but is shown as required supplementary information in the Village's Comprehensive Annual Financial Report.

## 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, 2016, the most recent audited fiscal year-end.

### CERTIFICATION:

I, THOMAS HENDERSON, 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.

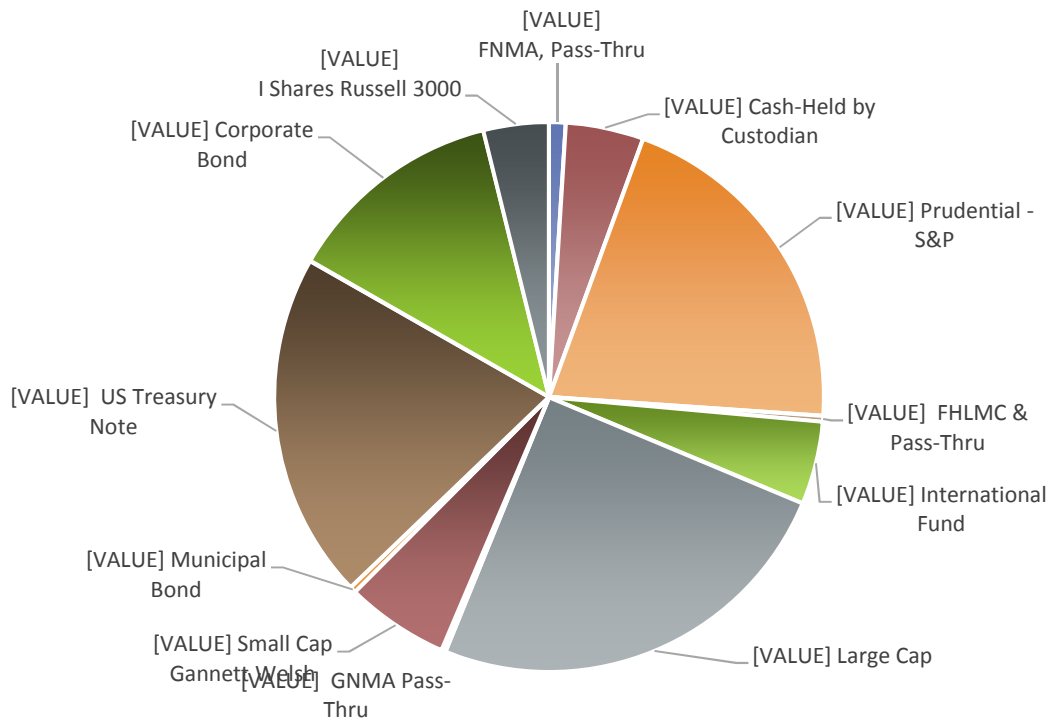
Witness my hand this 2 day of NOVEMBER, 2017.

T. Henderson, President  
Arlington Heights Police Pension Board

# Police Pension Fund

## Open Investments (Market Value)

### Period Ending December 31, 2016



FNMA,Pass-Thru	1,123,777.57	1.0%
Cash Held by Custodian	5,259,635.09	4.6%
Prudential - S & P	23,547,553.66	20.5%
FHLMC & Pass-Thru	392,242.18	0.3%
International Fund	5,596,599.91	4.9%
Large Cap	28,504,457.44	24.8%
GNMA Pass-Thru	255,845.77	0.2%
Small Cap Gannett Welsh	6,987,957.25	6.1%
Municipal Bond	409,046.60	0.4%
U. S. Treasury Notes	23,415,385.56	20.4%
Corporate Bond	14,797,553.70	12.9%
I Shares Russell 3000	4,421,974.80	3.9%
<b>TOTAL</b>	<b>114,712,029.53</b>	<b>100.0%</b>

# ARLINGTON HEIGHTS FIREFIGHTERS' PENSION FUND

## ANNUAL REPORT TO THE VILLAGE BOARD

### FOR THE 2017 LEVY (2018 BUDGET)

Source: Actuarial Valuation as of January 1, 2017, MWM Consulting Group

Actuarial value of assets	101,476,212		
Total actuarial liability	(\$146,448,364)		
Unfunded actuarial liability*	(44,972,152)		
Funded ratio	69.29%		
Annual actuarial requirement for 2018	<u>\$4,852,674</u>		
Village contribution as percent of Firefighter/Paramedic participant payroll	45.70%		
Projected employee contributions	\$1,004,442		
Employee contribution rate per State Statute	9.455%		
Actuarial assumed investment return	6.75%		
Actual investment return	7.60%		
Assumed investment return for 12 month period ended December 31, 2016	\$6,542,481		
Actual Investment return for 12 month period ended December 31, 2016	6,914,615		
Actuarial investment gain/(loss) smoothed over three years:			
One-third of investment gain/(loss) for 2016	\$124,045		
One-third of investment gain/(loss) for 8-month period 2015 (\$2,246,089)			
One-third of investment gain/(loss) for fiscal year 2014	\$195,761		
Total smoothed actuarial gain/(loss)		(\$1,926,283)	
Number of active members contributing to the Firefighters' Pension Fund		106	
Number of inactive members		2	
Number of members receiving benefits/expense	99/	\$6,222,695	
	<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active	70	0	70
Non-Vested Active	21	18	39
Terminated - Inactive	2	0	2
Retirees	59	0	59
Surviving Spouses	15	0	15
<u>Disability Participants</u>	<u>25</u>	<u>0</u>	<u>25</u>
Total	192	18	210

\*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. Since the unfunded actuarial liability represents future benefits earned to date paid through 2040, the projected liability is not shown in the Firefighters' Pension Fund's balance sheet, but is shown as required supplementary information in the Village's Comprehensive Annual Financial Report.

## 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, 2016, the most recent audited fiscal year-end.

### CERTIFICATION:

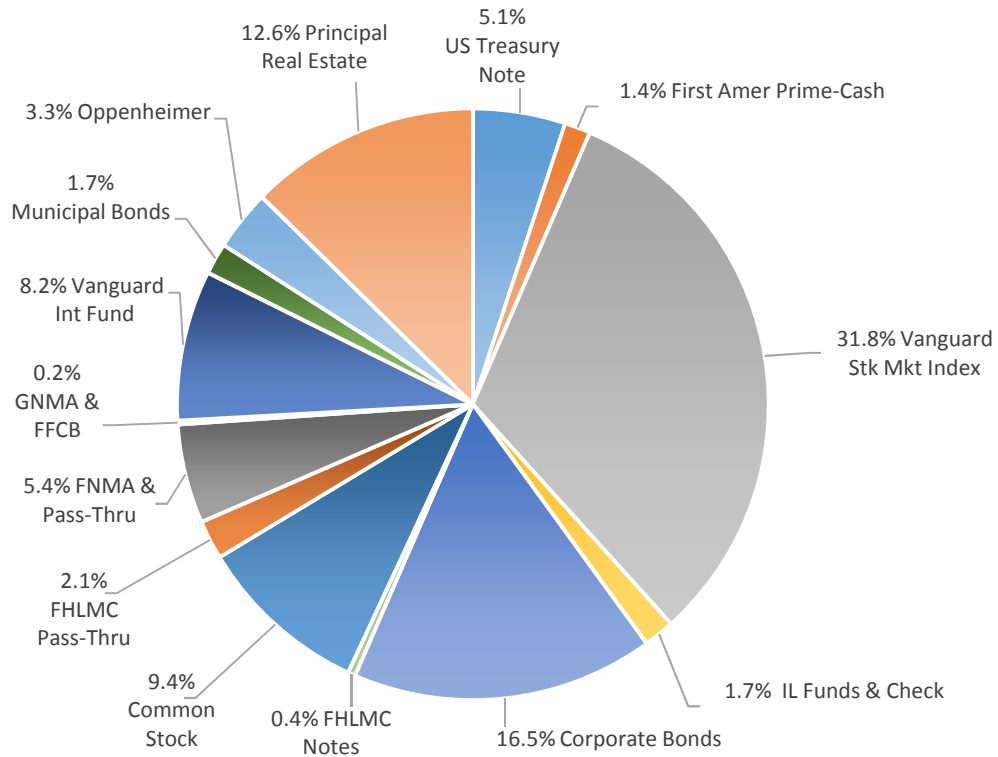
I, *Joseph M. Anthon*, President of the Firefighters' Pension Board, Village of Arlington Heights, Illinois, do hereby certify that this document is a true and correct copy of: "Required Reporting to Municipality By Pension Board" as outlined in 40 ILCS 5/4-134.

Witness my hand this 30 day of OCTOBER, 2017.

*Joseph M. Anthon*, President  
Arlington Heights Firefighters' Pension Board



Fire Pension Fund  
Open Investments (Market Value)  
Period Ending December 31, 2016



U.S. Treasury Notes	4,938,683.05	5.1%
First Amer Prime-Cash	1,374,806.00	1.4%
Vanguard Stk Mkt Index	31,075,034.08	31.8%
IL Funds & Checking	1,662,568.24	1.7%
Corporate Bonds	16,122,336.62	16.5%
FHLMC Notes	397,660.00	0.4%
Common Stock	9,198,853.87	9.4%
FHLMC Pass-Thru	2,086,077.33	2.1%
FNMA & Pass-Thru	5,284,207.97	5.4%
GNMA & FFCB	203,811.41	0.2%
Vanguard Int Fund	8,033,478.73	8.2%
Municipal Bonds	1,671,421.45	1.7%
Oppenheimer	3,234,410.33	3.3%
Principal Real Estate	12,331,294.94	12.6%
<b>TOTAL</b>	<b>97,614,644.02</b>	<b>100.0%</b>