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# MEMO

**To:** Randy Recklaus, Village Manager  
**From:** Tom Kuehne, Finance Director/Treasurer  
**Date:** August 8, 2018  
**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, 2018. Each report also includes the annual actuarial requirement for the respective 2018 pension levies, which will be accounted for in the Village's budget and financial statements for the 2019 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 (76.18% to 77.63%) and the Firefighter's Pension Fund (69.29% to 72.02%). The annual required contributions for the Police and Fire Pension funds will each reflect a small increase for the upcoming 2018 levy.

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 2018 LEVY (2019 BUDGET)**

Source: Actuarial Valuation as of January 1, 2018, MWM Consulting Group

Actuarial value of assets	126,390,517
Total actuarial liability	(\$162,812,081)
Unfunded actuarial liability*	(36,421,564)
Funded ratio	77.63%
Annual actuarial requirement for 2018	<u>\$4,016,824</u>

Village contribution as percent of Police participant payroll	36.80%
Projected employee contributions	\$1,081,942
Employee contribution rate per State Statute	9.91%

Actuarial assumed investment return	6.75%
Actual investment return	14.99%
Assumed investment return for 12 month period ended December 31, 2017	\$7,992,675
Actual Investment return for 12 month period ended December 31, 2017	17,098,097
Actuarial investment gain/(loss) smoothed over three years:	
One-third of investment gain/(loss) for 2017	\$3,035,141
One-third of investment gain/(loss) for 2016	(\$325,349)
One-third of investment gain/(loss) for 8-month period 2015 (\$1,970,020)	
Total smoothed actuarial gain/(loss)	\$739,772

Number of active members contributing to the Police Pension Fund		107
Number of inactive members		7
Number of members receiving benefits/expense	96/	\$6,607,120

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active	76	0	76
Non-Vested Active	1	30	31
Terminated - Inactive	7	0	7
Retirees	72	0	72
Surviving Spouses	14	0	14
<u>Disability Participants</u>	10	0	10
Total	180	30	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 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, 2017, the most recent audited fiscal year-end.

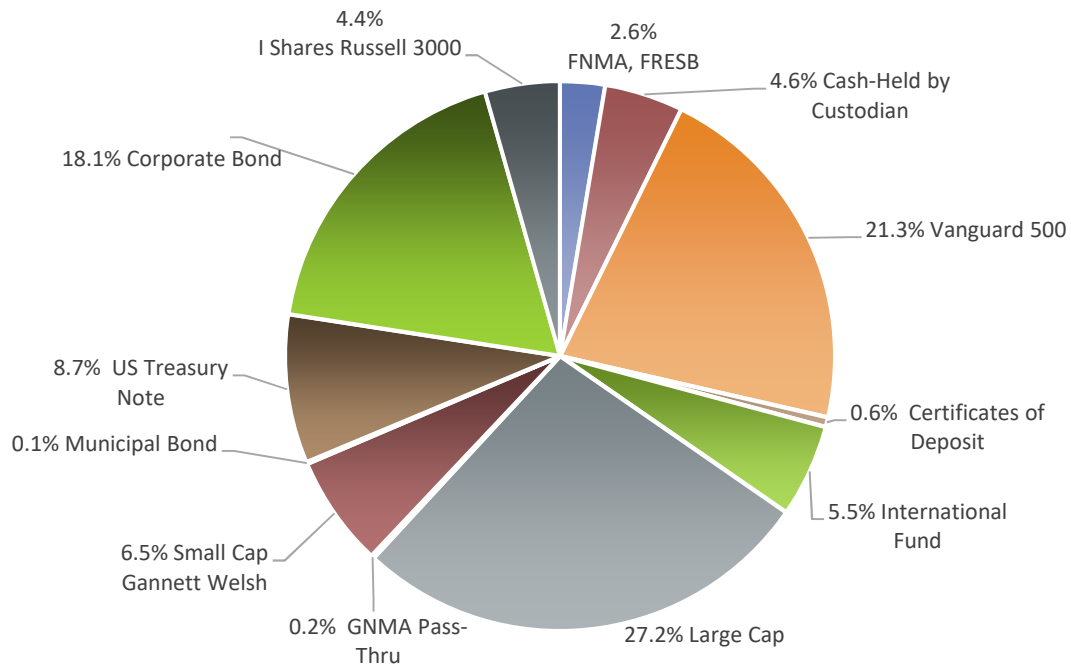
**CERTIFICATION:**

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 11 day of AUGUST, 2018.

, President  
Arlington Heights Police Pension Board

## Police Pension Fund Open Investments (Market Value) Period Ending December 31, 2017



FNMA, FRESB, Freddie Mac	3,437,885.65	2.6%
Cash Held by Custodian	6,032,937.21	4.6%
Vanguard 500	27,730,031.76	21.3%
Certificates of Deposit	758,688.18	0.6%
International Fund	7,113,817.89	5.5%
Large Cap	35,449,341.23	27.2%
GNMA Pass-Thru	242,948.18	0.2%
Small Cap Gannett Welsh	8,501,567.61	6.5%
Municipal Bond	159,389.75	0.1%
U. S. Treasury Notes	11,385,317.84	8.7%
Corporate Bond	23,625,978.33	18.1%
I Shares Russell 3000	5,735,788.46	4.4%
<b>TOTAL</b>	<b>130,173,692.09</b>	<b>100.0%</b>

**ARLINGTON HEIGHTS FIREFIGHTERS' PENSION FUND  
ANNUAL REPORT TO THE VILLAGE BOARD  
FOR THE 2018 LEVY (2019 BUDGET)**

Source: Actuarial Valuation as of January 1, 2018, MWM Consulting Group

Actuarial value of assets	107,468,475
Total actuarial liability	(\$149,223,600)
Unfunded actuarial liability*	(41,755,125)
Funded actuarial ratio	72.02%
Annual actuarial requirement for 2018	<u>\$4,952,007</u>

Village contribution as percent of Firefighter/Paramedic participant payroll	45.50%
Projected employee contributions	\$1,028,220
Employee contribution rate per State Statute	9.455%

Actuarial assumed investment return	6.75%
Actual investment return	13.01%
Assumed investment return for 12 month period ended December 31, 2017	\$6,827,234
Actual Investment return for 12 month period ended December 31, 2017	12,680,484
Actuarial investment gain/(loss) smoothed over three years:	
One-third of investment gain/(loss) for 2017	\$1,951,083
One-third of investment gain/(loss) for 2016	\$124,045
One-third of investment gain/(loss) for 8-month period 2015 (\$2,246,089)	
Total smoothed actuarial gain/(loss)	(\$170,961)

Number of active members contributing to the Firefighters' Pension Fund		106
Number of inactive members		3
Number of members receiving benefits/expense	102/	\$6,552,553

	<u>Tier 1</u>	<u>Tier 2</u>	<u>Total</u>
Vested Active	76	0	76
Non-Vested Active	8	22	30
Terminated - Inactive	2	1	3
Retirees	60	0	60
Surviving Spouses	15	0	15
<u>Disability Participants</u>	<u>27</u>	<u>0</u>	<u>27</u>
Total	188	23	211

\*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, 2017, the most recent audited fiscal year-end.

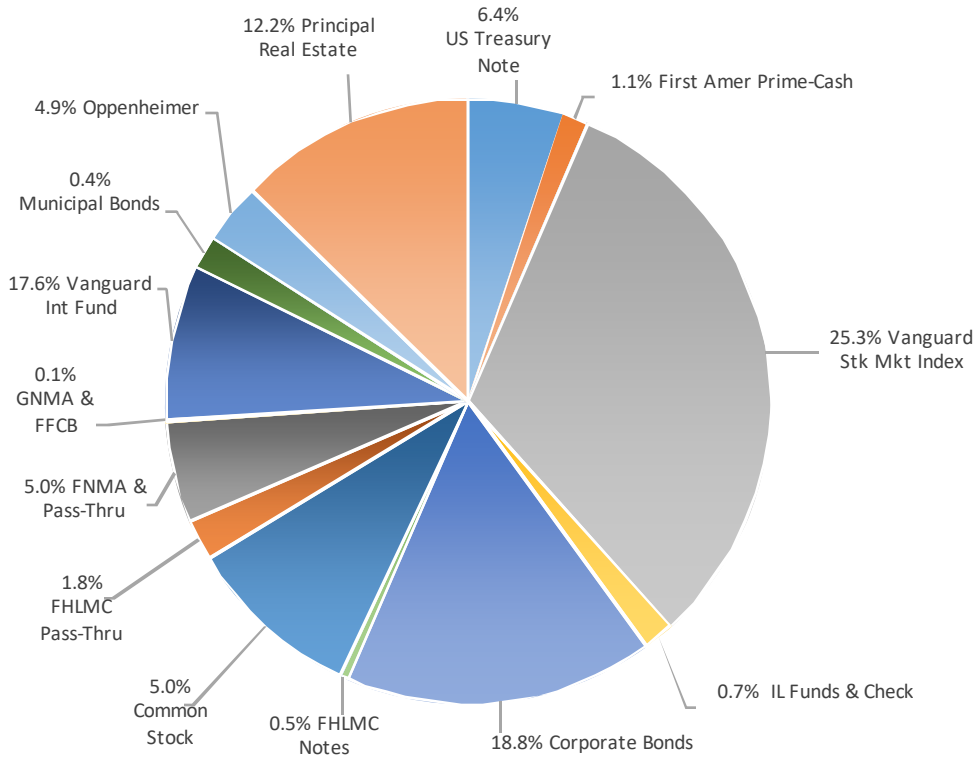
**CERTIFICATION:**

I, Douglas M. Runke, 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 17 day of Aug, 2018.

, President  
Arlington Heights Firefighters' Pension Board

**Fire Pension Fund**  
**Open Investments (Market Value)**  
**Period Ending December 31, 2017**



U.S. Treasury Notes	7,026,183.50	6.4%
First Amer Prime-Cash	1,224,104.97	1.1%
Vanguard Stk Mkt Index	27,768,919.45	25.3%
IL Funds & Checking	744,066.59	0.7%
Corporate Bonds	20,622,880.09	18.8%
FHLMC Notes	583,435.41	0.5%
Common Stock	5,503,476.16	5.0%
FHLMC Pass-Thru	2,026,404.15	1.8%
FNMA & Pass-Thru	5,468,738.39	5.0%
GNMA & FFCB	158,394.52	0.1%
Vanguard Int Fund	19,266,572.09	17.6%
Municipal Bonds	450,684.30	0.4%
Oppenheimer	5,391,645.42	4.9%
Principal Real Estate	13,320,164.86	12.2%
<b>TOTAL</b>	<b>109,555,669.90</b>	<b>100.0%</b>