
I N T E R

O F F I C E

MEMO

To: Randy Recklaus, Village Manager
From: Tom Kuehne, Finance Director/Treasurer
Date: August 14, 2020
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 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, 2020. Each report also includes the annual actuarial requirement for the respective 2020 pension levies, which will be accounted for in the Village's budget and financial statements for the 2021 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 (78.75% to 81.88%) and the Firefighter's Pension Fund (73.83% to 77.29%). Each fund experienced investment gains for 2019. The funded ratio also increased due to the Village transferring \$1.25 million to each fund through the use of excess year-end General Fund monies. The annual required contributions for the Police and Fire Pension funds will each reflect a decrease for the upcoming 2020 levy.

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

C: Mark Aleckson, President, Firefighter Pension Fund
Tom Henderson, President, Police Pension Fund
Mary Juarez, Assistant Finance Director

**ARLINGTON HEIGHTS POLICE PENSION FUND
ANNUAL REPORT TO THE VILLAGE BOARD
FOR THE 2020 LEVY (2021 BUDGET)**

Source: Actuarial Valuation as of January 1, 2020, MWM Consulting Group

| | |
|---------------------------------------|--------------------|
| Actuarial value of assets | 143,373,215 |
| Total actuarial liability | (\$175,091,359) |
| Unfunded actuarial liability* | (31,718,144) |
| Funded ratio | 81.88% |
| Annual actuarial requirement for 2020 | <u>\$4,072,578</u> |

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| Village contribution as percent of Police participant payroll | 36.00% |
| Projected employee contributions | \$1,121,419 |
| Employee contribution rate per State Statute | 9.91% |

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| Actuarial assumed investment return | 6.75% |
| Actual investment return | 19.97% |
| Assumed investment return for 12 month period ended December 31, 2019 | \$8,824,866 |
| Actual Investment return for 12 month period ended December 31, 2019 | 17,279,259 |
| Actuarial investment gain/(loss) smoothed over three years: | |
| One-third of investment gain/(loss) for 2019 | \$5,759,753 |
| One-third of investment gain/(loss) for 2018 | (\$4,848,214) |
| One-third of investment gain/(loss) for 2017 | \$3,035,141 |
| Total smoothed actuarial gain/(loss) | \$3,946,680 |

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|--|------------------|
| Number of active members contributing to the Police Pension Fund | 107 |
| Number of inactive members | 7 |
| Number of members receiving benefits/expense | 111/ \$8,064,669 |

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Total</u> |
|--------------------------------|---------------|---------------|--------------|
| Vested Active | 61 | 0 | 61 |
| Non-Vested Active | 1 | 45 | 46 |
| Terminated - Inactive | 5 | 2 | 7 |
| Retirees | 85 | 0 | 85 |
| Surviving Spouses | 17 | 0 | 17 |
| <u>Disability Participants</u> | 9 | 0 | 9 |
| Tot | 178 | 47 | 225 |

*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, 2019, the most recent audited fiscal year-end.

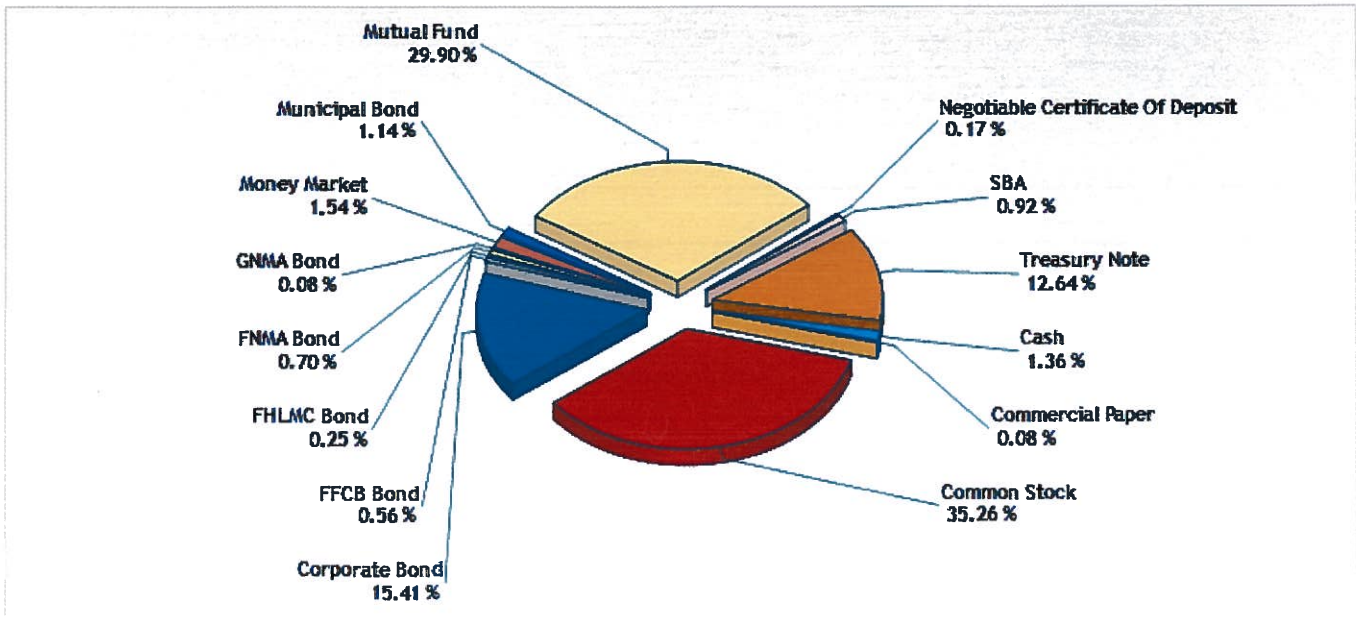
CERTIFICATION:

I, THOMAS AEMERSON, 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 10 day of AUGUST, 2020.

, President
Arlington Heights Police Pension Board

Portfolio Holdings Distribution by Security Type



| Security Type | Face Amount/Shares | YTM @ Cost | Cost Value | Days To Maturity | % of Portfolio | Market Value | Book Value | Duration To Maturity |
|-----------------------------------|----------------------|--------------|-----------------------|------------------|----------------|-----------------------|-----------------------|----------------------|
| Cash | 1,991,860.35 | 0.000 | 1,991,860.35 | 1 | 1.36 | 1,991,860.35 | 1,991,860.35 | 0.00 |
| Commercial Paper | 100,000.00 | 3.303 | 100,596.33 | 2,297 | 0.08 | 113,302.40 | 100,537.99 | 5.72 |
| Common Stock | 622,483.00 | | 42,354,300.29 | | 35.26 | 51,727,836.25 | 42,354,300.30 | |
| Corporate Bond | 21,954,556.03 | 3.217 | 22,142,650.73 | 2,268 | 15.41 | 22,606,514.76 | 22,095,358.55 | |
| FFCB Bond | 815,000.00 | 1.288 | 815,020.00 | 3,677 | 0.56 | 816,578.40 | 815,019.18 | 9.50 |
| FHLMC Bond | 360,000.00 | 1.165 | 375,683.30 | 4,271 | 0.25 | 373,559.40 | 374,866.09 | |
| FNMA Bond | 1,004,215.97 | 2.707 | 1,008,186.10 | 2,642 | 0.70 | 1,029,190.30 | 1,003,114.41 | |
| GNMA Bond | 110,521.64 | 2.140 | 110,427.41 | 1,323 | 0.08 | 110,227.21 | 110,434.59 | |
| Money Market | 2,261,968.40 | 0.300 | 2,261,968.40 | 1 | 1.54 | 2,261,968.40 | 2,261,968.40 | 0.00 |
| Municipal Bond | 1,620,000.00 | 3.906 | 1,660,894.08 | 3,090 | 1.14 | 1,674,304.15 | 1,646,527.88 | 6.57 |
| Mutual Fund | 451,754.88 | | 35,217,311.11 | | 29.90 | 43,859,619.40 | 35,217,311.11 | |
| Negotiable Certificate Of Deposit | 250,000.00 | 1.948 | 250,015.00 | 244 | 0.17 | 250,356.00 | 250,003.34 | 0.66 |
| SBA | 1,332,907.02 | 3.017 | 1,353,191.99 | 2,539 | 0.92 | 1,350,432.88 | 1,347,797.35 | |
| Treasury Note | 18,591,000.00 | 1.977 | 18,533,819.31 | 1,344 | 12.64 | 18,545,558.06 | 18,587,313.09 | 3.48 |
| TOTAL / AVERAGE | 51,466,267.29 | 2.466 | 128,175,924.40 | 1,811 | 100 | 146,711,307.96 | 128,156,412.63 | |

**ARLINGTON HEIGHTS FIREFIGHTERS' PENSION FUND
ANNUAL REPORT TO THE VILLAGE BOARD
FOR THE 2020 LEVY (2021 BUDGET)**

Source: Actuarial Valuation as of January 1, 2020, MWM Consulting Group

| | |
|---------------------------------------|--------------------|
| Actuarial value of assets | 122,886,218 |
| Total actuarial liability | (\$159,001,921) |
| Unfunded actuarial liability* | (36,115,703) |
| Funded actuarial ratio | 77.29% |
| Annual actuarial requirement for 2020 | <u>\$4,912,161</u> |

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|--|-------------|
| Village contribution as percent of Firefighter/Paramedic participant payroll | 43.50% |
| Projected employee contributions | \$1,066,641 |
| Employee contribution rate per State Statute | 9.455% |

| | |
|---|---------------|
| Actuarial assumed investment return | 6.75% |
| Actual investment return | 15.11% |
| Assumed investment return for 12 month period ended December 31, 2019 | \$7,636,665 |
| Actual Investment return for 12 month period ended December 31, 2019 | 9,453,993 |
| Actuarial investment gain/(loss) smoothed over three years: | |
| One-third of investment gain/(loss) for 2019 | \$3,151,331 |
| One-third of investment gain/(loss) for 2018 | (\$3,645,187) |
| One-third of investment gain/(loss) for 2017 | \$1,951,083 |
| Total smoothed actuarial gain/(loss) | \$1,457,227 |

| | | |
|---|------|-------------|
| Number of active members contributing to the Firefighters' Pension Fund | | 103 |
| Number of inactive members | | 5 |
| Number of members receiving benefits/expense | 106/ | \$7,210,277 |

| | <u>Tier 1</u> | <u>Tier 2</u> | <u>Total</u> |
|--------------------------------|---------------|---------------|--------------|
| Vested Active | 75 | 0 | 75 |
| Non-Vested Active | 3 | 25 | 28 |
| Terminated - Inactive | 2 | 3 | 5 |
| Retirees | 62 | 0 | 62 |
| Surviving Spouses | 16 | 0 | 16 |
| Minor Dependents | 2 | 0 | 2 |
| <u>Disability Participants</u> | <u>26</u> | <u>0</u> | <u>26</u> |
| Tot | 186 | 28 | 214 |

*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, 2019, the most recent audited fiscal year-end.

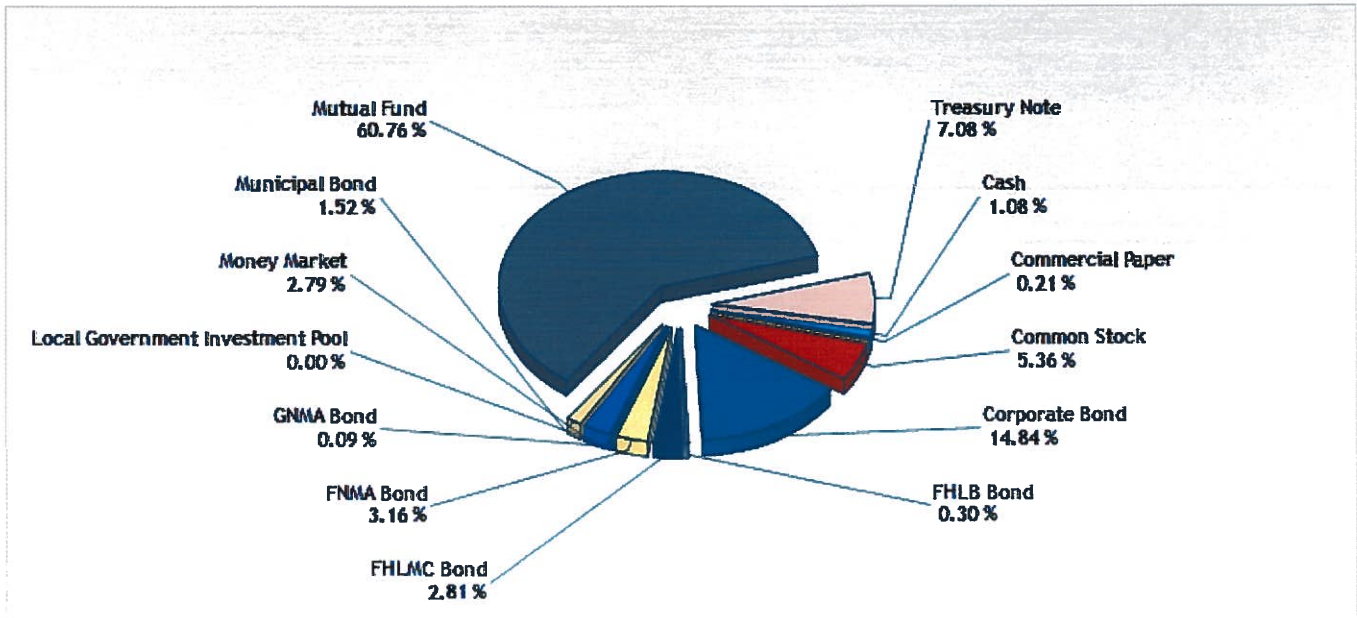
CERTIFICATION:

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 10 day of August, 2020.

Mark D. Aleckson, President
Arlington Heights Firefighters' Pension Board

Portfolio Holdings Distribution by Security Type



| Security Type | Face Amount/Shares | YTM @ Cost | Cost Value | Days To Maturity | % of Portfolio | Market Value | Book Value | Duration To Maturity |
|----------------------------------|----------------------|--------------|----------------------|------------------|----------------|-----------------------|----------------------|----------------------|
| Cash | 1,319,311.93 | 0.000 | 1,319,311.93 | 1 | 1.08 | 1,319,311.93 | 1,319,311.93 | 0.00 |
| Commercial Paper | 240,000.00 | 3.447 | 241,264.75 | 2,266 | 0.21 | 253,982.40 | 241,580.41 | 5.59 |
| Common Stock | 155,209.00 | | 5,710,424.62 | | 5.36 | 6,558,394.15 | 5,710,424.62 | |
| Corporate Bond | 17,433,348.31 | 2.924 | 17,844,213.97 | 1,398 | 14.84 | 18,146,912.03 | 17,676,962.16 | |
| FHLB Bond | 330,000.00 | 1.894 | 367,186.80 | 3,243 | 0.30 | 360,891.30 | 366,311.95 | 7.81 |
| FHLMC Bond | 3,318,298.18 | 2.984 | 3,399,491.44 | 2,829 | 2.81 | 3,438,498.28 | 3,391,928.53 | |
| FNMA Bond | 3,766,619.18 | 2.719 | 3,797,634.57 | 2,976 | 3.16 | 3,862,784.97 | 3,791,142.37 | |
| GNMA Bond | 100,038.94 | 4.800 | 99,733.55 | 2,392 | 0.09 | 106,027.15 | 99,774.27 | |
| Local Government Investment Pool | 0.72 | 0.000 | 0.72 | 1 | 0.00 | 0.72 | 0.72 | 0.00 |
| Money Market | 3,406,046.76 | 0.358 | 3,406,046.76 | 1 | 2.79 | 3,406,046.76 | 3,406,046.76 | 0.00 |
| Municipal Bond | 1,825,000.00 | 2.971 | 1,838,173.30 | 699 | 1.52 | 1,857,364.05 | 1,835,187.64 | 1.80 |
| Mutual Fund | 1,479,725.13 | | 47,917,639.94 | | 60.76 | 74,286,077.48 | 47,917,639.94 | |
| Treasury Note | 8,470,000.00 | 2.253 | 8,466,812.61 | 2,111 | 7.08 | 8,655,382.86 | 8,475,529.56 | 5.36 |
| TOTAL / AVERAGE | 41,843,598.15 | 2.467 | 94,407,934.96 | 1,646 | 100 | 122,251,674.08 | 94,231,840.86 | |