

Actuarial Funding Report

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LINCOLNWOOD POLICE  
PENSION FUND

Actuarial Valuation  
as of May 1, 2021

For the Contribution Year May 1, 2021 to April 30, 2022

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***LAUTERBACH & AMEN, LLP***

# Actuarial Valuation – Funding Recommendation

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## Lauterbach & Amen, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

### LINCOLNWOOD POLICE PENSION FUND

**Contribution Year Ending: April 30, 2022**

Actuarial Valuation Date: May 1, 2021

Utilizing Data as of April 30, 2021

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***LAUTERBACH & AMEN, LLP***



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## ACTUARIAL CERTIFICATION

This report documents the results of the Actuarial Valuation for the Lincolnwood Police Pension Fund. The information was prepared for use by the Lincolnwood Police Pension Fund and the Village of Lincolnwood, Illinois for determining the Recommended Contribution, under the selected Funding Policy and Statutory Minimum guidelines, for the Contribution Year May 1, 2021 to April 30, 2022. It is not intended or suitable for other purposes. Determinations for purposes other than the Employer's Actuarial Recommended Contribution may be significantly different from the results herein.

The results in this report are based on the census data and financial information submitted by the Lincolnwood Police Pension Fund, and may include results from the prior Actuary. We did not prepare the Actuarial Valuations for the years prior to May 1, 2018. Those valuations were prepared by the prior Actuary whose reports have been furnished to us, and our disclosures are based on those reports. An audit of the prior Actuary's results was not performed, but high-level reviews were completed for general reasonableness, as appropriate, based on the purpose of this valuation. The accuracy of the results is dependent on the precision and completeness of the underlying information.

In addition, the results of the Actuarial Valuation involve certain risks and uncertainty as they are based on future assumptions, market conditions, and events that may never materialize as assumed. For this reason, certain assumptions and future results may be materially different than those presented in this report. See the *Management Summary* section of this report for a more detailed discussion of the Defined Benefit Plan Risks, as well as the limitations of this Actuarial Valuation on assessing those risks. We are not aware of any known events subsequent to the Actuarial Valuation Date, which are not reflected in this report but should be valued, that may materially impact the results.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The Lincolnwood Police Pension Fund selected certain assumptions, while others were the result of guidance and/or judgment from the Plan's Actuary or Advisors. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used. The selected assumptions represent our best estimate of the anticipated long-term experience of the Plan, and meet the guidelines set forth in the Actuarial Standards of Practice.





To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices as prescribed by the Actuarial Standards Board. The undersigned consultants of Lauterbach & Amen, LLP, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render this Actuarial Certification. There is no relationship between the Lincolnwood Police Pension Fund and Lauterbach & Amen, LLP that impairs our objectivity.

Respectfully Submitted,  
LAUTERBACH & AMEN, LLP

Todd A. Schroeder, ASA, FCA, EA, MAAA

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## MANAGEMENT SUMMARY

Recommended Contribution  
Funded Status  
Management Summary – Comments and Analysis  
Actuarial Recommended Contribution – Reconciliation

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## MANAGEMENT SUMMARY

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### RECOMMENDED CONTRIBUTION

|  | Prior<br>Valuation | Current<br>Valuation |
|--|--------------------|----------------------|
| Recommended Contribution                                     | \$2,501,384        | \$2,566,215          |
| Expected Payroll   | \$3,065,645        | \$3,169,513          |
| Recommended Contribution as a<br>Percent of Expected Payroll | 81.59%             | 80.97%               |

*The Recommended  
Contribution has  
Increased by  
\$64,831 from the  
Prior Valuation.*

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### FUNDED STATUS

|   | Prior<br>Valuation | Current<br>Valuation |
|---|--------------------|----------------------|
| Normal Cost                                       | \$634,284          | \$672,480            |
| Market Value of Assets                            | \$21,988,943       | \$27,061,318         |
| Actuarial Value of Assets                         | \$23,247,000       | \$24,792,045         |
| Actuarial Accrued Liability                       | \$53,444,649       | \$54,408,955         |
| Unfunded Actuarial<br>Accrued Liability/(Surplus) | \$30,197,649       | \$29,616,910         |
| <u>Percent Funded</u>                             |                    |                      |
| Actuarial Value of Assets                         | 43.50%             | 45.57%               |
| Market Value of Assets                            | 41.14%             | 49.74%               |

*The Percent  
Funded has  
Increased by 2.07%  
on an Actuarial  
Value of Assets  
Basis.*



## MANAGEMENT SUMMARY

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### MANAGEMENT SUMMARY – COMMENTS AND ANALYSIS

#### Contribution Results

The Recommended Contribution is based on the selected Funding Policy and methods that are outlined in the *Actuarial Funding Policies* section of this report.

The Illinois State Statutes for Pension Funds contain parameters that are used to determine the Statutory Minimum Contribution to a public Pension Fund. Those parameters and the resulting Statutory Minimum Contribution are found in the *Illinois Statutory Minimum Contribution* section of this report.

“Contribution Risk” is defined by the Actuarial Standards of Practice as the potential for actual future contributions to deviate from expected future contributions. For example, when actual contributions are not made in accordance to the Plan’s Funding Policy, or when future experience deviates materially from assumed. While it is essential for the Actuary and Plan Sponsor to collaborate on implementing a sound and financially feasible Funding Policy, it is important to note that the Actuary is not required, and is not in the position to, evaluate the ability or willingness of the Plan Sponsor to make the Recommended Contribution under the selected Funding Policy.

As a result, while Contribution Risk may be a significant source of risk for the Plan, this Actuarial Valuation makes no attempt to assess the impact of future contributions falling short of those recommended under the selected Funding Policy. Notwithstanding the above, see the *Actuarial Recommended Contribution – Reconciliation* section of this report for the impact on the current Recommended Contribution of any contribution shortfalls or excesses from the prior year.

#### Defined Benefit Plan Risks

##### *Asset Growth:*

Pension funding involves preparing Fund assets to pay for benefits when Members retire. During their working careers, assets grow with contributions and investment earnings; and then, the Pension Fund distributes assets in retirement. Based on the Plan’s current mix of Members and Funded Status, the Plan should experience positive asset growth, on average, if the Recommended Contributions are made and expected investment earnings come in. In the current year, the Fund asset growth was positive by approximately \$5,100,000.

Asset growth is important in the long-term. Long-term cash flow out of the Pension Fund is primarily benefit payments, and expenses are a smaller portion. The Plan should monitor the impact of expected benefit payments on future asset growth. We assess and project all future benefit payments as part of the determination of liability. The assessment is made on all current Members of the Fund, both active and inactive. For active Members, the assessment includes the probability that Members terminate or retire and begin receiving benefits. In the next 5 years, benefit payments are anticipated to increase 25-30%, or approximately \$750,000. In the next 10 years, the expected increase in benefit payments is 35-40%, or approximately \$1,200,000. The estimated increase in benefit payments is being compared against the benefits paid to inactive Members during the fiscal year, excluding any refunds of Member Contributions.



## MANAGEMENT SUMMARY

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Furthermore, plans with a large number of inactive Members have an increased “Longevity Risk”. Longevity Risk is the possibility that inactive Members may live longer than projected by the Plan’s mortality assumption. As shown in the previous paragraph, benefit payments are expected to increase over the next 5-year and 10-year horizons. The projected increases assume that current inactive Members pass away according to the Plan’s mortality assumption. To the extent that current inactive Members live longer than expected, the future 5-year and 10-year benefit projections may be larger than the amounts disclosed in the previous paragraph. Higher levels of benefit payments, payable for a longer period of time, may cause a significant strain to the Plan’s cash flow, future Recommended Contributions, and may lead to Plan insolvency.

### *Unfunded Liability:*

Unfunded Liability represents the financial shortfall of the Actuarial Value of Assets compared to the Actuarial Accrued Liability. To the extent that Unfunded Liability exists, the Plan is losing potential investment earnings due to the financial shortfall. Contributions towards Unfunded Liability pay for the lost investment earnings, as well as the outstanding unfunded amount. If payments towards Unfunded Liability are not made, the Unfunded Liability will grow.

In the early 1990s, many Pension Funds in Illinois adopted an increasing payment towards Unfunded Liability due to a change in legislation. The initial payment decreased, and future payments are anticipated to increase annually after that. In many situations, payments early on were less than the interest on Unfunded Liability, which means that Unfunded Liability increased even though contributions were made at the recommended level.

The current Recommended Contribution includes a payment towards Unfunded Liability that is approximately \$100,000 greater than the interest on Unfunded Liability. All else being equal, and contributions being made, Unfunded Liability is expected to decrease. The Employer and Fund should anticipate that improvement in the current Percent Funded will be mitigated in the short-term. The Employer and Fund should understand this impact as we progress forward to manage expectations.

### *Actuarial Value of Assets:*

The Pension Fund smooths asset returns that vary from expectations over a 5-year period. The intention over time is that asset returns for purposes of funding recommendations are a combination of several years. The impact is intended to smooth out the volatility of Recommended Contributions over time, but not necessarily increase or decrease the level of contributions over the long-term.

When asset returns are smoothed, there are always gains or losses on the Market Value of Assets that are going to be deferred for current funding purposes, and recognized in future years. Currently, the Pension Fund is deferring approximately \$2,300,000 in gains on the Market Value of Assets. These are asset gains that will be recognized in upcoming periods, independent of the future performance of the Market Value of Assets.



## MANAGEMENT SUMMARY

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### *Cash Flow Risk:*

Assets, liabilities, and Funded Status are good metrics to monitor over time to assess the progress of the Funding Policy. However, these metrics may provide limited forward-looking insights. Specifically, the maturity of a Pension Fund can pose certain risks that often cannot be assessed with a point-in-time metric such as Percent Funded.

For example, two different Pension Funds could have the same Percent Funded, but have completely different risk profiles. One Fund might mostly cover active Members with little to no Members in pay status, whereas a second Fund might mostly cover inactive Members with a significant level of annual benefit payments. The latter Fund has a greater “Cash Flow Risk”, i.e. a more significant chance that negative cash flows could lead to a deteriorating, rather than improving, Percent Funded over time.

It is important to note that, in general, positive net cash flows are good, but also need to be sufficient to cover the growth in the liabilities (i.e. the Normal Cost as well as interest on the Actuarial Accrued Liability). Typically, when cash flows are assumed to be insufficient to cover the growth in liabilities, the Percent Funded will decline, while future Recommended Contributions will increase.

For this Plan, the Market Value of Assets is less than the Actuarial Accrued Liability for inactive Members. The Fund assets and anticipated investment earnings are not sufficient to cover the benefits payable to the current inactive Members. In addition, there is currently no money set aside for active Member liability. There are two consequences. First, we are limiting the impact of investment earnings on accruing money for the active Members due to utilizing those dollars to pay for the current inactive Members. Second, there is Cash Flow Risk that exists in that a higher portion of the assets is needed to keep up with cash flow out for benefit payments, and a higher relative investment return is required to keep cash flow positive in any given year.

### *Benefit Payment Risk:*

Ideally, plans in a sound financial position will have the ratio of annual benefits payments to the Market Value of Assets to be less than the Expected Rate of Return on Investments assumption (i.e. 7.00%). Theoretically, in this case it can be considered that investment returns will fully cover the annual benefit payments, and therefore, all Employer and Member Contributions made to the Fund will be used to pay for future benefit accruals and pay down the existing Unfunded Liability. To the extent that the ratio of the annual benefit payments to the Market Value of Assets increases to above the Expected Rate of Return on Investments assumption, the Plan may experience some additional risks, such as the need to keep assets in more liquid investments, inability to pay down Unfunded Liability, and may lead to Plan insolvency.

As of the Valuation Date, the Lincolnwood Police Pension Fund has a ratio of benefit payments to the Market Value of Assets of 10.84%. In this case, a portion of the Employer Contributions are being used to pay the annual benefit payments creating Benefit Payment Risk and Cash Flow Risk. The Percent Funded of the Plan may not grow as quickly as expected under the current Funding Policy, since the amortization payment towards the Unfunded Liability is not being fully realized. As shown in the *Asset Growth* section of this report, the 5-year and 10-year horizons of future benefit payments are expected to increase. The Plan Sponsor should monitor the percentage of annual benefit payments to the Market Value of Assets and consider changing the Funding Policy if this ratio continues to increase.



## MANAGEMENT SUMMARY

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### Fund Assets

The results in this report are based on the assets held in the Pension Fund. Assets consist of funds held for investment and for benefit payments as of the Actuarial Valuation Date. In addition, assets may be adjusted for other events representing dollars that are reasonably expected to be paid out from the Pension Fund or deposited into the Pension Fund after the Actuarial Valuation Date as well.

The current Fund assets are audited.

The Actuarial Value of Assets under the Funding Policy is equal to the Market Value of Assets, with unexpected gains and losses smoothed over 5 years. More detail on the Actuarial Value of Assets can be found in the *Actuarial Funding Policies* section of this report.

*The Fund  
Assets Used in  
this Report  
are Audited.*



## MANAGEMENT SUMMARY

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### Demographic Data

Demographic factors can change from year to year within the Pension Fund. Changes in this category include hiring new Members, Members retiring or becoming disabled, inactive Members passing away, and other changes. Demographic changes can cause an actuarial gain (contribution that is less than expected compared to the prior year) or an actuarial loss (contribution that is greater than expected compared to the prior year).

Demographic gains and losses occur when the assumptions over the one-year period for Member changes do not meet our long-term expectation. For example, if no Members become disabled during the year, we would expect a liability gain. If more Members become disabled than anticipated during the year, we would expect a liability loss. Generally, we expect short-term fluctuations in demographic experience to create gains or losses of 1%-3% of the Actuarial Accrued Liability in any given year, but to balance out in the long-term.

“Demographic Risk” occurs when Plan demographic experience differs significantly from expected. Similar to Longevity Risk discussed previously, additional risk is created when demographic experience differs from the assumed rates of disability, retirement, or termination. Under the chosen assumptions, actuarial gains and/or losses will always occur, as the assumptions will never be exactly realized. However, the magnitude of the gain and/or loss and its influence on the Recommended Contribution largely depends on the size of the Plan.

Based on the number of active Members in the Plan, the Recommended Contribution has a moderate risk of having a significant increase due to demographic experience. For example, 1 new disabled Member would typically generate a substantial increase to the Actuarial Accrued Liability, which in turn, may increase the Recommended Contribution.

In the current report, the key demographic changes were as follows:

*New Hires:* There was 1 Member of the Fund who was hired during the year. When a Member is admitted to the Pension Fund, the Employer Contribution will increase to reflect the new Member. The increase in the Recommended Contribution in the current year due to the new Member experience is approximately \$3,000.

*Termination:* There was 1 Member of the Fund who terminated employment during the year. The Fund may be obligated to pay a benefit or a refund of Employee Contributions to the Member in the future. The decrease in the Recommended Contribution in the current year due to the termination experience is approximately \$6,000.

*Mortality:* There were 3 retirees who passed away during the year, 1 of whom had an eligible surviving spouse. When a retiree passes away, the Fund liability will decrease as the Pension Fund no longer will make future payments to the retiree. If there is an eligible surviving spouse, the Fund liability will increase to represent the value of the expected payments that will be made to the spouse. When a surviving spouse passes away, the Fund liability will decrease as the Pension Fund no longer will make future payments to the surviving spouse.



## MANAGEMENT SUMMARY

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As inactive Members age and continue to collect benefits, the Fund liability will also increase. In the current year, there were 38 inactive Members who maintained their benefit collection status throughout the year. The net decrease in the Recommended Contribution in the current year due to the mortality experience is approximately \$94,000.

*Salary Increases:* Salary increases were greater than anticipated in the current year. This caused an increase in the Recommended Contribution in the current year of approximately \$7,000.

### Assumption Changes

In the current valuation, we have reviewed the individual pay increases assumption to reflect the Collective Bargaining Agreement between the Village of Lincolnwood, Illinois and the Illinois Fraternal Order of Police Labor Council, Lincolnwood Lodge #23 for the period May 1, 2020 through April 30, 2023. The year over year step increases dictated by the wage schedule did not change significantly from the prior Collective Bargaining Agreement; therefore, we have not updated the individual pay increases assumption.

The above stated assumption changes were made to better reflect the future anticipated experience of the Fund. See the *Actuarial Recommended Contribution – Reconciliation* section of this report for the impact of these changes on the current valuation.

### Funding Policy Changes

The Funding Policy was not changed from the prior valuation.

### Other Considerations

After careful consideration, we have elected to transition our client reporting to a new valuation platform. Our new platform, ProVal, is an industry standard tool that encompasses a multitude of actuarial best practices. The driving reason behind our decision to transition to this platform is that it will give us the opportunity to provide additional capabilities to our clients in the near future, including stochastic prediction modeling and sensitivity capabilities. Because this software has slightly different parameters in the underlying coding, there may be a minor variation in actuarial calculations. These variations are well within the acceptable ranges developed for actuarial standards. For example, a Pension Fund that is 100% funded in one software, may actually show as 98%-102% funded across different software platforms. This is routine in nature and is a regular part of running estimates and projections. As we strive for “best estimates” in the actuarial funding process, the best due diligence continues to be the process of setting and reviewing assumptions in the actuarial profession. Our commitment to reviewing new information regularly continues to be at the forefront of our reporting.



## *MANAGEMENT SUMMARY*

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### ACTUARIAL RECOMMENDED CONTRIBUTION – RECONCILIATION

Actuarial Accrued Liability is expected to increase each year for both interest for the year and as active Members earn additional service years towards retirement. Similarly, Actuarial Accrued Liability is expected to decrease when the Fund pays benefits to inactive Members.

Contributions are expected to increase as expected pay increases under the Funding Policy for the Fund.

|                                    | Actuarial<br>Liability | Recommended<br>Contribution |
|------------------------------------|------------------------|-----------------------------|
| Prior Valuation                    | \$ 53,444,649          | \$ 2,501,384                |
| Expected Changes                   | 1,291,246              | 81,293                      |
| Initial Expected Current Valuation | \$ 54,735,895          | \$ 2,582,678                |

Other increases or decreases in Actuarial Accrued Liability (key changes noted below) will increase or decrease the amount of Unfunded Liability in the Plan. To the extent that Unfunded Liability increases or decreases unexpectedly, the contribution towards Unfunded Liability will also change unexpectedly.

|  | Actuarial<br>Liability | Recommended<br>Contribution |
|--|------------------------|-----------------------------|
| Salary Increases Greater than Expected | \$ (55,449)            | \$ 7,149                    |
| Actuarial Experience                   | (271,491)              | (4,287)                     |
| Assumption Changes                     | -                      | -                           |
| Funding Policy Changes                 | -                      | -                           |
| Asset Return Greater than Expected*    | -                      | (36,150)                    |
| Contributions Less than Expected       | -                      | 16,825                      |
| Total Increase/(Decrease)              | \$ (326,940)           | \$ (16,463)                 |
| <br>Current Valuation                  | <br>\$ 54,408,955      | <br>\$ 2,566,215            |

\*Impact on the Recommended Contribution due to asset return is on an Actuarial Value of Assets basis.

In the current valuation, we have updated the Actuarial Valuation software used to determine Actuarial Liability. The Actuarial Experience can be attributable to several factors including Actuarial Valuation software changes, demographic changes, and benefit payment experience compared to expectation.

Key demographic changes were discussed in the *Demographic Data* section of this report.





## VALUATION OF FUND ASSETS

Market Value of Assets  
Market Value of Assets (Gain)/Loss  
Development of the Actuarial Value of Assets  
Actuarial Value of Assets (Gain)/Loss  
Historical Asset Performance

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## VALUATION OF FUND ASSETS

### MARKET VALUE OF ASSETS

#### Statement of Assets

|                                      | Prior<br>Valuation   | Current<br>Valuation |
|--------------------------------------|----------------------|----------------------|
| Cash and Cash Equivalents            | \$ 1,963,449         | \$ 1,920,794         |
| Money Market                         | 1,559                | -                    |
| State and Local Obligations          | -                    | 4,522,564            |
| US Government and Agency Obligations | 3,761,199            | 3,984,749            |
| Corporate Bonds                      | 4,922,792            | -                    |
| Mutual Funds                         | 11,129,260           | 16,422,959           |
| Receivables (Net of Payables)        | 210,684              | 210,252              |
| Total Market Value of Assets         | <u>\$ 21,988,943</u> | <u>\$ 27,061,318</u> |

*The Total Market Value of Assets has Increased by Approximately \$5,072,000 from the Prior Valuation.*

#### Statement of Changes in Assets

|  |                      |
|--|----------------------|
| Total Market Value of Assets - Prior Valuation   | \$ 21,988,943        |
| Plus - Employer Contributions                    | 2,265,476            |
| Plus - Member Contributions                      | 310,853              |
| Plus - Return on Investments                     | 5,594,949            |
| Less - Benefit Payments and Refunds              | (3,065,759)          |
| Less - Other Expenses                            | <u>(33,144)</u>      |
| Total Market Value of Assets - Current Valuation | <u>\$ 27,061,318</u> |

*The Rate of Return on Investments on a Market Value of Assets Basis for the Fund was Approximately 25.58% Net of Administrative Expense.*

The Rate of Return on Investments shown above has been determined as the Return on Investments from the Statement of Changes in Assets, as a percent of the average of the prior and current Market Value of Assets. The Rate of Return on Investments is net of Other Expenses, and has been excluded from the Total Market Value of Assets at the end of the Fiscal Year for this calculation.



## *VALUATION OF FUND ASSETS*

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### MARKET VALUE OF ASSETS (GAIN)/LOSS

#### Current Year (Gain)/Loss on Market Value of Assets

|   |                       |
|---|-----------------------|
| Total Market Value of Assets - Prior Valuation            | \$ 21,988,943         |
| Employer and Member Contributions                         | 2,576,329             |
| Benefit Payments and Refunds                              | (3,065,759)           |
| Expected Return on Investments                            | <u>1,522,096</u>      |
| Expected Total Market Value of Assets - Current Valuation | \$ 23,021,609         |
| Actual Total Market Value of Assets - Current Valuation   | <u>27,061,318</u>     |
| Current Market Value of Assets (Gain)/Loss                | <u>\$ (4,039,709)</u> |
|   |                       |
| Expected Return on Investments                            | \$ 1,522,096          |
| Actual Return on Investments (Net of Expenses)            | <u>5,561,805</u>      |
| Current Market Value of Assets (Gain)/Loss                | <u>\$ (4,039,709)</u> |

*The Actual Return  
on Investments on a  
Market Value of  
Assets Basis was  
Greater than  
Expected for the  
Current Year.*

The (Gain)/Loss on the current Market Value of Assets has been determined based on the Expected Rate of Return on Investments as shown in the *Actuarial Assumptions* section of this report.



## VALUATION OF FUND ASSETS

### DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

|   |                |               |
|---|----------------|---------------|
| Total Market Value of Assets - Current Valuation      |                | \$ 27,061,318 |
| Adjustment for Prior (Gains)/Losses                   |                |               |
|   | Full Amount    | Deferral      |
| FYE 2021  | \$ (4,039,709) | (3,231,767)   |
| FYE 2020  | 1,481,531      | 888,919       |
| FYE 2019  | 148,293        | 59,317        |
| FYE 2018  | 71,288         | 14,258        |
| Total Deferred (Gain)/Loss                            |                | (2,269,273)   |
| Initial Actuarial Value of Assets - Current Valuation |                | \$ 24,792,045 |
| Less Contributions for the Current Year and Interest  |                | -             |
| Adjustment for the Corridor                           |                | -             |
| Total Actuarial Value of Assets - Current Valuation   |                | \$ 24,792,045 |

*The Actuarial Value of Assets is Equal to the Market Value of Assets with Unanticipated (Gains)/Losses Recognized Over 5 Years. The Actuarial Value of Assets is 91.61% of the Market Value of Assets.*

### ACTUARIAL VALUE OF ASSETS (GAIN)/LOSS

|   |  |               |
|---|--|---------------|
| Total Actuarial Value of Assets - Prior Valuation   |  | \$ 23,247,000 |
| Plus - Employer Contributions                       |  | 2,265,476     |
| Plus - Member Contributions                         |  | 310,853       |
| Plus - Return on Investments                        |  | 2,067,619     |
| Less - Benefit Payments and Refund                  |  | (3,065,759)   |
| Less - Other Expenses                               |  | (33,144)      |
| Total Actuarial Value of Assets - Current Valuation |  | \$ 24,792,045 |

*The Rate of Return on Investments on an Actuarial Value of Assets Basis for the Fund was Approximately 8.84% Net of Administrative Expense.*

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.



## VALUATION OF FUND ASSETS

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### HISTORICAL ASSET PERFORMANCE

The chart below shows the historical Rates of Return on Investments for both Market Value of Assets and Actuarial Value of Assets.

|          | Market Value<br>of Assets | Actuarial Value<br>of Assets |
|----------|---------------------------|------------------------------|
| FYE 2021 | 25.58%                    | 8.84%                        |
| FYE 2020 | 0.27%                     | 4.42%                        |
| FYE 2019 | 6.30%                     | 5.38%                        |
| FYE 2018 | 6.65%                     | 5.45%                        |

The historical Rates of Return on Investments shown above were calculated based on the annual Return on Investments, as a percentage of the average value of the assets for the year.

For purposes of determining the average value of assets for the year, the ending Market Value of Assets has been adjusted to net out to the portion related to the Return on Investments themselves. All other cash flows are included.

For purposes of determining the annual Return on Investments we have adjusted the figures shown on the preceding pages. The figures shown on the preceding pages are net of Investment Expenses. We have made an additional adjustment to net out Administrative Expenses. Netting out Administrative Expenses allows us to capture returns for the year that can be used to make benefit payments as part of the ongoing actuarial process.

The adjustments we made are for actuarial reporting purposes only. By netting out Administrative Expenses and capturing Return on Investments that are available to pay benefits, it provides us a comparison to the Expected Rate of Return on Investments, but does not provide a figure that would be consistent with the rates of return that are determined by other parties. Therefore, this calculated Return on Investments should not be used to analyze investment performance of the Fund or the performance of the investment professionals.



## *VALUATION OF FUND ASSETS*

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### Expected Rate of Return on Investments Assumption

The Expected Rate of Return on Investments for this valuation is 7.00%. Lauterbach & Amen, LLP does not provide investment advice. We look at a variety of factors when reviewing the Expected Rate of Return on Investments assumption selected by the Board. These factors include: historical Rates of Return on Investments, capital market projections performed by the Fund's investment advisors, the Fund's investment policy, capital market forward-looking benchmark expected returns by independent investment companies, rates used by comparable pension systems, and other factors identified in the Actuarial Standards of Practice.

Generally speaking, the ideal assumption for Expected Rate of Return on Investments is one that has a 50% chance of being met over the long-term. If actual returns going forward come in less than expected, the pension system risks deferring contributions to the future that should be made today, and creating additional contribution volatility. Reducing the Expected Rate of Return on Investments by 25 basis points produces a Recommended Contribution that is 6.63% higher than currently shown.

We recommend the Board review the Expected Rate of Return on Investments, and consider whether or not the assumption is a reasonable representation of future expected asset returns, and review their options prior to the completion of the next Actuarial Valuation.

“Investment Risk” is the potential that actual Return on Investments will be different from what is expected. The selected Expected Rate of Return on Investments assumption is chosen to be a long-term assumption, producing a return that, on average, would produce a stable rate of return over a long-term horizon. Actual asset returns in the short-term may deviate from this long-term assumption due to current market conditions. Furthermore, establishing the Expected Rate of Return on Investments assumption may be dependent on the Illinois State Statutes pertaining to the limitations on types of investments Plan Sponsors may use. If the actual annual rates of return are less than the Expected Rate of Return on Investments, actuarial losses will be produced, thus increasing the Plan's Unfunded Liability and, subsequently, future Recommended Contributions.

“Asset/Liability Mismatch” risk is a similar concept as Investment Risk, as it relates to setting the Expected Rate of Return on Investments assumption compared to the actual Return on Investments achieved. The Interest Rate used to discount future Plan liabilities is set equal to the Expected Rate of Return on Investments. It is expected that the selected Interest Rate be a rate that is reasonably expected to be achieved over the long-term. To the extent that the selected Interest Rate to value Plan liabilities is unreasonable, or significantly different than the actual Return on Investments earned over an extended period of time, additional Interest Rate risk is created. For example, determining Plan liabilities at an Interest Rate higher than what is expected to be achieved through investment returns results in Unfunded Liability that is not a true representation of the Plan's condition and Percent Funded. As a result, the Actuarial Accrued Liability determined is an amount smaller than the liability that would be produced with an Interest Rate more indicative of future Expected Rate of Return on Investments. Therefore, the Recommended Contributions under the established Funding Policy may not be sufficient to appropriately meet the true pension obligations.





## RECOMMENDED CONTRIBUTION DETAIL

Actuarial Accrued Liability  
Funded Status  
Development of the Employer Normal Cost  
Normal Cost as a Percentage of Expected Payroll  
Recommended Contribution Breakdown  
Schedule of Amortization – Unfunded Actuarial Accrued Liability  
Actuarial Methods – Recommended Contribution

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## *RECOMMENDED CONTRIBUTION DETAIL*

### ACTUARIAL ACCRUED LIABILITY

|                                   | Prior<br>Valuation | Current<br>Valuation |
|-----------------------------------|--------------------|----------------------|
| Active Members                    | \$ 11,750,992      | \$ 10,965,050        |
| Inactive Members                  |                    |                      |
| Terminated Members*               | -                  | 1,187,820            |
| Retired Members                   | 36,691,156         | 36,811,571           |
| Disabled Members                  | 2,052,382          | 2,149,363            |
| Other Beneficiaries               | 2,950,119          | 3,295,151            |
| Total Inactive Members            | 41,693,657         | 43,443,905           |
| Total Actuarial Accrued Liability | \$ 53,444,649      | \$ 54,408,955        |

*The Total Actuarial  
Accrued Liability  
has Increased by  
Approximately  
\$964,000 from the  
Prior Valuation.*

\*Terminated Members Actuarial Accrued Liability for the current valuation includes non-vested terminated Members entitled to a refund of Employee Contributions that was not included in the prior valuation.

### FUNDED STATUS

|                                      | Prior<br>Valuation | Current<br>Valuation |
|--------------------------------------|--------------------|----------------------|
| Total Actuarial Accrued Liability    | \$ 53,444,649      | \$ 54,408,955        |
| Total Actuarial Value of Assets      | 23,247,000         | 24,792,045           |
| Unfunded Actuarial Accrued Liability | \$ 30,197,649      | \$ 29,616,910        |
| Total Market Value of Assets         | \$ 21,988,943      | \$ 27,061,318        |
| <u>Percent Funded</u>                |                    |                      |
| Actuarial Value of Assets            | <u>43.50%</u>      | <u>45.57%</u>        |
| Market Value of Assets               | <u>41.14%</u>      | <u>49.74%</u>        |

*The Percent Funded  
as of the Actuarial  
Valuation Date is  
Subject to Volatility  
on Assets and  
Liability in the  
Short-Term.*



## *RECOMMENDED CONTRIBUTION DETAIL*

### DEVELOPMENT OF THE EMPLOYER NORMAL COST

|                                | Prior<br>Valuation | Current<br>Valuation |
|--------------------------------|--------------------|----------------------|
| Total Normal Cost              | \$ 634,284         | \$ 672,480           |
| Estimated Member Contributions | (303,805)          | (309,076)            |
| Employer Normal Cost           | \$ 330,479         | \$ 363,404           |

*At a 100%  
Funding Level,  
the Normal Cost  
Contribution is  
Still Required.*

### NORMAL COST AS A PERCENTAGE OF EXPECTED PAYROLL

|                           | Prior<br>Valuation | Current<br>Valuation |
|---------------------------|--------------------|----------------------|
| Expected Payroll          | \$ 3,065,645       | \$ 3,169,513         |
| Member Normal Cost Rate   | <u>9.910%</u>      | <u>9.910%</u>        |
| Employer Normal Cost Rate | <u>10.78%</u>      | <u>11.31%</u>        |
| Total Normal Cost Rate    | <u>20.69%</u>      | <u>21.22%</u>        |

*Ideally, the  
Employer  
Normal Cost  
Rate will Remain  
Stable.*

### RECOMMENDED CONTRIBUTION BREAKDOWN

|   | Prior<br>Valuation | Current<br>Valuation |
|---|--------------------|----------------------|
| Employer Normal Cost*                                   | \$ 353,613         | \$ 388,842           |
| Amortization of Unfunded Accrued<br>Liability/(Surplus) | 2,147,772          | 2,177,373            |
| Recommended Contribution                                | \$ 2,501,384       | \$ 2,566,215         |

*The  
Recommended  
Contribution has  
Increased by  
2.59% from the  
Prior Valuation.*

\*Employer Normal Cost Contribution includes interest through the end of the Fiscal Year.



## *RECOMMENDED CONTRIBUTION DETAIL*

### SCHEDULE OF AMORTIZATION – UNFUNDED ACTUARIAL ACCRUED LIABILITY

Below is the schedule of remaining amortization balances for the Unfunded Liability.

| Unfunded Liability Base    | Initial<br>Balance          | Date<br>Established | Current<br>Balance          | Years<br>Remaining | Payment                    |
|----------------------------|-----------------------------|---------------------|-----------------------------|--------------------|----------------------------|
| Investment (Gain)/Loss     | \$ (491,716)                | 4/30/2021           | \$ (491,716)                | 20                 | \$ (36,150)                |
| Actuarial (Gain)/Loss      | 29,081                      | 4/30/2021           | 29,081                      | 20                 | 2,138                      |
| Contribution Experience    | (84,168)                    | 4/30/2021           | (84,168)                    | 20                 | (6,188)                    |
| Investment (Gain)/Loss     | 500,223                     | 4/30/2020           | 499,661                     | 20                 | 36,734                     |
| Actuarial (Gain)/Loss      | 581,916                     | 4/30/2020           | 581,261                     | 20                 | 42,732                     |
| Contribution Experience    | (426,667)                   | 4/30/2020           | (426,188)                   | 20                 | (31,332)                   |
| Assumption Changes         | 1,232,301                   | 4/30/2020           | 1,230,916                   | 20                 | 90,494                     |
| Plan Changes               | 470,370                     | 4/30/2020           | 469,842                     | 20                 | 34,542                     |
| Investment (Gain)/Loss     | 290,664                     | 4/30/2019           | 290,640                     | 20                 | 21,367                     |
| Actuarial (Gain)/Loss      | 709,963                     | 4/30/2019           | 709,906                     | 20                 | 52,191                     |
| Contribution Experience    | (216,791)                   | 4/30/2019           | (216,773)                   | 20                 | (15,937)                   |
| Assumption Changes         | 60,126                      | 4/30/2019           | 60,121                      | 20                 | 4,420                      |
| Investment (Gain)/Loss     | 236,817                     | 4/30/2018           | 237,511                     | 20                 | 17,461                     |
| Actuarial (Gain)/Loss      | 528,980                     | 4/30/2018           | 530,532                     | 20                 | 39,004                     |
| Contribution Experience    | (456,830)                   | 4/30/2018           | (458,169)                   | 20                 | (33,684)                   |
| Assumption Changes         | 793,325                     | 4/30/2018           | 795,650                     | 20                 | 58,495                     |
| Initial Unfunded Liability | <u>\$ 25,783,256</u>        | 4/30/2018           | <u>\$ 25,858,803</u>        | 20                 | <u>\$ 1,901,086</u>        |
| <b>Total</b>               | <b><u>\$ 29,540,850</u></b> |                     | <b><u>\$ 29,616,910</u></b> |                    | <b><u>\$ 2,177,373</u></b> |

The Actuarial (Gain)/Loss can be attributable to several factors including Actuarial Valuation software changes, demographic changes, Employer Contribution timing, Member Contribution experience, benefit payment experience, and salary increase experience compared to expectation.



## ***RECOMMENDED CONTRIBUTION DETAIL***

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### **ACTUARIAL METHODS – RECOMMENDED CONTRIBUTION**

|                          |                                |
|--------------------------|--------------------------------|
| Actuarial Valuation Date | May 1, 2021                    |
| Data Collection Date     | April 30, 2021                 |
| Actuarial Cost Method    | Entry Age Normal (Level % Pay) |
| Amortization Method      | Level % Pay (Closed)           |
| Amortization Target      | 100% Funded Over 20 Years      |
| Asset Valuation Method   | 5-Year Smoothed Market Value   |

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described. The Actuarial Cost and Amortization Methods allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

The Recommended Contribution amount shown in this report is based on the methods summarized above. The *Actuarial Funding Policies* section of this report includes a more detailed description of the Actuarial Funding Methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way contributions are made towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.





## ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Statutory Minimum Contribution  
Funded Status – Statutory Minimum  
Actuarial Methods – Illinois Statutory Minimum Contribution

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## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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### STATUTORY MINIMUM CONTRIBUTION

|  | Prior<br>Valuation | Current<br>Valuation |
|--|--------------------|----------------------|
| Statutory Minimum Contribution                                     | \$2,156,194        | \$2,174,501          |
| Expected Payroll   | \$3,065,645        | \$3,169,513          |
| Statutory Minimum Contribution as a<br>Percent of Expected Payroll | 70.33%             | 68.61%               |

*The Statutory  
Minimum  
Contribution has  
Increased by  
\$18,307 from the  
Prior Valuation.*

### FUNDED STATUS – STATUTORY MINIMUM

|   | Prior<br>Valuation | Current<br>Valuation |
|---|--------------------|----------------------|
| Normal Cost                                       | \$691,207          | \$591,066            |
| Market Value of Assets                            | \$21,988,943       | \$27,061,318         |
| Actuarial Value of Assets                         | \$23,247,000       | \$24,792,045         |
| Actuarial Accrued Liability                       | \$52,152,648       | \$54,863,334         |
| Unfunded Actuarial<br>Accrued Liability/(Surplus) | \$28,905,648       | \$30,071,289         |
| <u>Percent Funded</u>                             |                    |                      |
| Actuarial Value of Assets                         | 44.57%             | 45.19%               |
| Market Value of Assets                            | 42.16%             | 49.32%               |

*The Statutory  
Minimum Percent  
Funded has  
Increased by 0.62%  
on an Actuarial  
Value of Assets  
Basis.*



## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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The Statutory Minimum Contribution is based on Actuarial Funding Methods and funding parameters in the Illinois State Statutes for pension funding. The resulting contribution is lower than the Recommended Contribution for the current year. The lower contribution amount is not recommended because it represents only a deferral of contributions when compared to the Recommended Contribution method.

Actuarial Funding Methods for pensions are best applied to provide a balance between the long-term goals of a variety of stakeholders:

1. Members – the Members are interested in benefit security and having the funds available to pay benefits when retired
2. Employers – cost control and cost stability over the long-term
3. Taxpayers – paying for the services they are receiving from active Members

The Statutory Minimum Contribution methods are not intended to provide a better system in any of the above categories long-term. The parameters are not recommended for a long-term funding strategy.

The Statutory Minimum methods put into place in 2011 were intended to provide short-term budget relief for Employer Contributions. An Employer using the Statutory Minimum parameters for current funding should view the contributions as short-term relief. Our recommendation in this situation is for a Pension Fund and an Employer to work towards a long-term funding strategy that better achieves the long-term funding goals, over a period that does not exceed 3-5 years.

The Securities and Exchange Commission in 2013 used the phrase “Statutory Underfunding” to describe situations where contributions appear to be more manageable in the short-term, but set up future Recommended Contributions that are less likely to be manageable.



## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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### **ACTUARIAL METHODS – ILLINOIS STATUTORY MINIMUM CONTRIBUTION**

|                          |                              |
|--------------------------|------------------------------|
| Actuarial Valuation Date | May 1, 2021                  |
| Data Collection Date     | April 30, 2021               |
| Actuarial Cost Method    | Projected Unit Credit        |
| Amortization Method      | Level % Pay (Closed)         |
| Amortization Target      | 90% Funded Over 19 Years     |
| Asset Valuation Method   | 5-Year Smoothed Market Value |

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described. The Actuarial Cost and Amortization methods allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way contributions are made towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.





## ACTUARIAL VALUATION DATA

Active Members  
Inactive Members  
Summary of Monthly Benefit Payments

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## *ACTUARIAL VALUATION DATA*

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### ACTIVE MEMBERS

|                      | Prior<br>Valuation | Current<br>Valuation |
|----------------------|--------------------|----------------------|
| Tier I               | 13                 | 13                   |
| Tier II              | 19                 | 19                   |
| Total Active Members | 32                 | 32                   |
| Total Payroll        | \$ 3,016,625       | \$ 3,118,832         |

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### INACTIVE MEMBERS

|                        | Prior<br>Valuation | Current<br>Valuation |
|------------------------|--------------------|----------------------|
| Terminated Members*    | 0                  | 5                    |
| Retired Members        | 31                 | 28                   |
| Disabled Members       | 2                  | 2                    |
| Other Beneficiaries    | 8                  | 9                    |
| Total Inactive Members | 41                 | 44                   |

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\*Terminated Members for the current valuation includes non-vested terminated Members entitled to a refund of Employee Contributions who were not included in the prior valuation.

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### SUMMARY OF MONTHLY BENEFIT PAYMENTS

|                        | Prior<br>Valuation | Current<br>Valuation |
|------------------------|--------------------|----------------------|
| Retired Members        | \$ 209,256         | \$ 202,385           |
| Disabled Members       | 9,166              | 9,166                |
| Other Beneficiaries    | 29,118             | 33,839               |
| Total Inactive Members | \$ 247,541         | \$ 245,391           |

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## ACTUARIAL FUNDING POLICIES

Actuarial Cost Method  
Financing Unfunded Actuarial Accrued Liability  
Actuarial Value of Assets

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## *ACTUARIAL FUNDING POLICIES*

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### **ACTUARIAL COST METHOD**

The Actuarial Cost Method allocates the projected obligations of the Plan over the working lifetimes of the Plan Members.

In accordance with the Pension Fund's Funding Policy the Actuarial Cost Method for the Recommended Contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is a method under which the Actuarial Present Value of the projected benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this Actuarial Present Value allocated to a valuation year is called Normal Cost. The portion of the Actuarial Present Value not provided at an Actuarial Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

The Entry Age Normal method attempts to create a level cost pattern. In contrast to other Actuarial Cost Methods which inherently lead to uneven or less predictable cost patterns, the Entry Age Normal method is generally understood to be less risky in terms of contribution stability from year to year.

The Conference of Consulting Actuaries Public Plans Community produced a "white paper" detailing Funding Policy model practices for public sector pension plans. Under the Level Cost Actuarial Methodology ("LCAM"), one of the principal elements to a Funding Policy is the Actuarial Cost Method. When deciding which Actuarial Cost Method to use, several objectives may be considered, such as the following:

- Each Member's benefit should be funded under a reasonable allocation method by the expected retirement date
- Pay-related benefit costs should reflect anticipated pay at retirement
- The expected cost of each year of service (i.e. Normal Cost) for each active Member should be reasonably related to the expected cost of that Member's benefit
- The Member's Normal Cost should emerge as a level percent of Member compensation
- No gains or losses should occur if all assumptions are met.

Following these criteria, the use of the Entry Age Normal Cost Method (Level Percent of Pay) is a model practice.

### **FINANCING UNFUNDED ACTUARIAL ACCRUED LIABILITY**

The Unfunded Actuarial Accrued Liability may be amortized over a period either in level dollar amounts or as a level percentage of payroll.

When amortizing the Unfunded Actuarial Accrued Liability as a level percentage of payroll, additional risk is incurred since the amortization payments in the early years of the payment period may not be large enough to cover the interest accrued on the existing Unfunded Liability. As a result, the Unfunded



## *ACTUARIAL FUNDING POLICIES*

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Liability may increase initially, before the amortization payments grow large enough to cover all interest accruals. Generally speaking, the Plan Sponsor will be required to contribute a larger total contribution amount over the course of the funding period under a level percentage of payroll basis as compared to a level dollar payroll schedule.

The Government Finance Officers Association notes that best practices in public pension finance include utilizing amortization periods that do not exceed 20 years. Longer amortization periods elevate the risk of failing to reduce any Unfunded Liability. For example, when the amortization payment in full only covers interest on the Unfunded Liability, but does not reduce the existing Unfunded Liability, the required contribution will increase in future years.

A second principal element under the Level Cost Actuarial Methodology described above is to establish an Amortization Policy that determines the length of time and the structure of the increase or decrease in contributions required to systematically fund the Unfunded Actuarial Accrued Liability. When deciding on the Amortization Policy, several objectives may be considered, such as the following:

- Variations in the source of liability changes (i.e. gains or losses, Plan changes, assumption changes) should be funded over periods consistent with an appropriate balance between the policy objectives of demographic matching and volatility management
- The cost changes in Unfunded Actuarial Accrued Liability should emerge as a level percentage of Member compensation

The LCAM model practices for the Amortization Policy include the following:

- Layered fixed period amortization by source
- Level percent of pay amortization
- An amortization period ranging from 15-20 years for experience gains or losses
- An amortization period of 15-25 years for assumption changes

In accordance with the Pension Fund's Funding Policy for the Recommended Contribution, the Unfunded Actuarial Accrued Liability is amortized by level percent of payroll contributions to a 100% funding target over the remaining 20 years. See the *Actuarial Methods – Recommended Contribution* section of this report for more detail.

We believe that the amortization period is appropriate for the purposes of this valuation.



## *ACTUARIAL FUNDING POLICIES*

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### **ACTUARIAL VALUE OF ASSETS**

The Pension Fund is an ongoing plan. The Employer wishes to smooth the effect of volatility in the Market Value of Assets on the annual contribution. Therefore, the Actuarial Value of Assets is equal to the Market Value of Assets with unanticipated gains/losses recognized over a five-year period.

The Asset Valuation Method is intended to create an Actuarial Value of Assets that remains reasonable in relation to the Market Value of Assets over time. The method produces results that can fall either above or below the Market Value of Assets. The period of recognition is short.

It is intended that the period of recognition is short enough to keep the Actuarial Value of Assets within a decent range of the Market Value of Assets. In the event that the Actuarial Value of Assets exceeds or falls below a 10% corridor of the Market Value of Assets, the additional gain or loss will be recognized immediately.





## ACTUARIAL ASSUMPTIONS

Nature of Actuarial Calculations  
Actuarial Assumptions in the Valuation Process  
Assessment of Risk Exposures  
Limitations of Risk Analysis  
Assessment and Use of Actuarial Models  
Actuarial Assumptions Utilized

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# *ACTUARIAL ASSUMPTIONS*

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## **NATURE OF ACTUARIAL CALCULATIONS**

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain Plan Provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about census data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the Actuarial Accrued Liability or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

## **ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS**

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described in the *Actuarial Funding Policies* section of this report.

The principal areas of financial risk which require assumptions about future experience are:

- Expected Rate of Return on Investments
- Patterns of Pay Increases for Members
- Rates of Mortality Among Active and Inactive Members
- Rates of Termination Among Active Members
- Rates of Disability Among Active Members
- Age Patterns of Actual Retirements

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed Recommended Contribution.

Details behind the selection of the actuarial assumptions can be found in the Actuarial Assumption Summary document provided to the client upon request. The client has reviewed and approved the assumptions as a reasonable expectation of the future anticipated experience under the Plan.



# ACTUARIAL ASSUMPTIONS

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## ASSESSMENT OF RISK EXPOSURES

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). In addition, Actuarial Standards of Practice require that the Actuary minimally perform a qualitative assessment of key financial and demographic risks as part of the risk assessment process with each annual Actuarial Valuation. The risk assessments we perform include, but are not limited to, the following:

- Periodic demographic experience studies every 3 to 5 years to confirm the ongoing appropriateness of actuarial assumptions
- Highlight the impact of demographic experience over the past year, as well as other sources of change and volatility in the *Actuarial Recommended Contribution – Reconciliation* section of this report
- Detail year-over-year changes in contribution levels, assets, liabilities, and Funded Status in the *Recommended Contribution* and *Funded Status* sections in the *Management Summary* section of this report
- Review any material changes in the census as summarized in the *Actuarial Valuation Data* section of this report
- Provide and discuss the Actuarial Assumption Summary document highlighting the rationale for each key assumption chosen by the Board
- Identify potential Cash Flow Risk by highlighting expected benefit payments over the next 5-year and 10-year periods in the *Asset Growth* section in the *Management Summary* section of this report
- Describe the impact of any assumption, method, or policy change in the *Management Summary* section of this report
- Utilize supplemental information, such as the GASB Discount Rate sensitivity disclosures to understand, for example, what impact an alternative Expected Rate of Return on Investments assumption might have on the estimation of Actuarial Accrued Liability and Funded Status
- Utilize supplemental information, such as the GASB solvency test, to better understand the Cash Flow Risk and long-term sustainability of the Plan.

## LIMITATIONS OF RISK ANALYSIS

Since future experience may never be precisely as assumed, the process of selecting funding methods and actuarial assumptions may inherently create risk and volatility of results. A more detailed evaluation of the above risk exposures is beyond the scope and nature of the annual Actuarial Valuation process. For example, scenario tests, sensitivity tests, stress tests, and/or stochastic modeling for multi-year projections to assess the impact of alternative assumptions and methods, or modeling future experience different from the assumptions in these results, are not included in this Actuarial Valuation.

The Lincolnwood Police Pension Fund and/or the Village of Lincolnwood, Illinois should contact the Actuary if they desire a more detailed assessment of any of these forward-looking risk exposures.



## ACTUARIAL ASSUMPTIONS

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### ASSESSMENT AND USE OF ACTUARIAL MODELS

Actuarial Valuations rely upon the use of actuarial modeling software to predict the occurrence of future events, which include specific demographic and financial potential outcomes. Actuarial assumptions are established to provide a guideline to use for such modeling.

- The model used in this Actuarial Valuation is intended to determine the Recommended Contribution, under the selected Funding Policy. The actuarial assumptions used were developed with this goal in mind.
- There are no known material limitations or inconsistencies among the actuarial assumptions or methods.
- The output from the model is reasonable based on the individual actuarial assumptions and based on the actuarial assumptions in the aggregate.
- The actuarial software used to calculate plan liabilities has been purchased from an outside vendor. We have performed thorough testing of the software, including review of sample participants, to ensure the intended purpose of the model, the operation of the model, sensitivities and dependencies, and strengths and limitations of the model are sufficient for this purpose.
- Census data and financial information have been provided by client professionals, financial advisors, and/or auditors, who are known to be experts in their respective fields. We rely on the fact that the information provided by these experts has been given for the intended purpose of this Actuarial Valuation.
- Where applicable, certain actuarial assumptions and Funding Policy may be required as prescribed by law. In such instances, we have followed legal guidance to ensure conformity.
- The Expected Rate of Return on Investments assumption has been chosen using input from several sources; including, but not limited to: client professionals, financial advisors, auditors, and other capital market outlooks. We have relied on the information provided, in the aggregate, to settle on the selected Expected Rate of Return on Investments assumption.

As stated in the *Limitations of Risk Analysis* section, future experience may never be precisely as assumed. As a result, the funding methods and actuarial assumptions used in the model may create volatility in the results when compared year after year. A more detailed evaluation of this volatility is beyond the scope and nature of the annual Actuarial Valuation process. In such cases, additional scenario tests, sensitivity tests, stress tests, and/or stochastic modeling for multi-year projections to assess the impact of alternative assumptions and methods, or modeling future experience different from the assumptions in these results, may be performed to determine a range of reasonable results.



## *ACTUARIAL ASSUMPTIONS*

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### ACTUARIAL ASSUMPTIONS UTILIZED

|   |                                     |
|---|-------------------------------------|
| <b>Expected Rate of Return on Investments</b> | 7.00% Net of Administrative Expense |
| <b>CPI-U</b>                                  | 2.25%                               |
| <b>Total Payroll Increases</b>                | 3.25%                               |
| <b>Individual Pay Increases*</b>              | 3.75% - 10.57%                      |

Individual pay increases include a long-term average increase for inflation, average annual increases for promotions, and any additional increases for a step program. Sample rates are as follows:

| Service | Rate   | Service | Rate  |
|---------|--------|---------|-------|
| 0       | 10.56% | 8       | 3.75% |
| 1       | 10.56% | 9       | 3.75% |
| 2       | 10.57% | 10      | 3.75% |
| 3       | 10.57% | 15      | 3.75% |
| 4       | 10.57% | 20      | 3.75% |
| 5       | 3.75%  | 25      | 3.75% |
| 6       | 3.75%  | 30      | 3.75% |
| 7       | 3.75%  | 35      | 3.75% |

\*Individual pay increases for active Members hired at age 40 or older are assumed annual increases at the ultimate rate reduced by 50 basis points, without adjustments in early service years.



## *ACTUARIAL ASSUMPTIONS*

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### **Retirement Rates**

100% of the L&A Assumption Study for Police 2020 Cap Age 65.  
Sample rates are as follows:

| Age | Rate   | Age | Rate    |
|-----|--------|-----|---------|
| 50  | 11.00% | 58  | 16.25%  |
| 51  | 11.55% | 59  | 16.25%  |
| 52  | 12.13% | 60  | 16.25%  |
| 53  | 12.73% | 61  | 16.25%  |
| 54  | 13.37% | 62  | 18.00%  |
| 55  | 14.04% | 63  | 20.00%  |
| 56  | 14.74% | 64  | 20.00%  |
| 57  | 15.48% | 65  | 100.00% |

### **Termination Rates**

100% of the L&A Assumption Study for Police 2020. Sample rates are as follows:

| Age | Rate  | Age | Rate  |
|-----|-------|-----|-------|
| 25  | 8.00% | 40  | 2.17% |
| 30  | 3.40% | 45  | 1.56% |
| 35  | 2.79% | 50  | 0.46% |

### **Disability Rates**

100% of the L&A Assumption Study for Police 2020. Sample rates are as follows:

| Age | Rate  | Age | Rate  |
|-----|-------|-----|-------|
| 25  | 0.00% | 40  | 0.38% |
| 30  | 0.06% | 45  | 0.53% |
| 35  | 0.18% | 50  | 0.48% |

65% of active Members who become disabled are assumed to be in the Line of Duty.



## ACTUARIAL ASSUMPTIONS

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### **Mortality Rates**

Active Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

50% of active Member deaths are assumed to be in the Line of Duty.

Retiree Mortality follows the L&A Assumption Study for Police 2020. These rates are experience weighted with the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study improved to 2017 using MP-2019 Improvement Rates. These rates are then improved fully generationally using MP-2019 Improvement Rates.

Disabled Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010 Study for disabled participants. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

Spouse Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study for contingent survivors. For all rates not provided there (ages 45 and younger) the PubG-2010 Study for general employees was used. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

### **Marital Assumptions**

*Active Members:* 80% of active Members are assumed to be married. Female spouses are assumed to be 3 years younger than male spouses.

*Retiree and Disabled Members:* Actual spousal data was utilized for retiree and disabled Members.





## SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund  
Administration  
Member Contributions  
Regular Retirement Pension Benefit  
Early Retirement Pension Benefit  
Surviving Spouse Benefit  
Termination Benefit – Vested  
Disability Benefit

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## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **ESTABLISHMENT OF THE FUND**

The Police Pension Fund is established and administered as prescribed by “Article 3 – Police Pension Fund – Municipalities 500,000 and Under” of the Illinois Pension Code.

### **ADMINISTRATION**

The Police Pension Fund is administered by a Board of Trustees whose duties are to manage the Pension Fund, determine applications for pensions, authorize payment of pensions, establish rules, pay expenses, invest assets, and keep records.

### **MEMBER CONTRIBUTIONS**

Members contribute 9.910% of pensionable salary.

### **REGULAR RETIREMENT PENSION BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Age 50 with at least 20 years of creditable service.

*Benefit:* 50% of final salary for the first 20 years of service, plus an additional 2.5% of final salary for each year of service beyond 20 years of service, and not to exceed 75% of final salary. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 1/12 of 3% of the original monthly benefit for each full month that has passed since the pension began. The initial increase date will be the latter of the first day of the month after the pensioner turns age 55 or the first day of the month after the benefit date anniversary. Subsequent increases of 3% of the current monthly benefit will be granted every January 1<sup>st</sup> thereafter.



## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **REGULAR RETIREMENT PENSION BENEFIT - CONTINUED**

#### Hired on or After January 1, 2011

*Eligibility:* Age 55 with at least 10 years of creditable service.

*Benefit:* 2.5% of final average salary for each year of service, and not to exceed 75% of final average salary. "Final average salary" is determined by dividing the total pensionable salary during 48 consecutive months of service within the last 60 months of service in which total pensionable salary was the highest, by the number of months of service in that period (or by dividing the total pensionable salary during 96 consecutive months of service within the last 120 months of service in which total pensionable salary was the highest, by the number of months of service in that period, if greater). Annual salary for this purpose will not exceed the salary cap, indexed by the lesser of 3% or the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>. The salary cap will not decrease.

*Annual Increase in Benefit:* The initial increase date will be the latter of the January 1<sup>st</sup> after the pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.

### **EARLY RETIREMENT PENSION BENEFIT**

#### Hired Prior to January 1, 2011

None.

#### Hired on or After January 1, 2011

*Eligibility:* Age 50 with at least 10 years of creditable service.

*Benefit:* The regular retirement pension benefit reduced by ½ of 1% for each month that the police officer's age is between 50 and 55.

*Annual Increase in Benefit:* The initial increase date will be the latter of the January 1<sup>st</sup> after the pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.



## *SUMMARY OF PRINCIPAL PLAN PROVISIONS*

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### **SURVIVING SPOUSE BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Married to an active police officer with at least 8 years of creditable service, a disabled pensioner at the time of death, or a retired pensioner on the last day of service.

*Active Line of Duty Death Benefit:* An eligible surviving spouse is entitled to receive 100% of the police officer's final pensionable salary attached to rank held on the last day of service.

#### *Non-Duty Death Benefit:*

*Disabled or Retired Pensioner:* An eligible surviving spouse is entitled to receive the pensioner's benefit at the time of death.

*Active Member with 20+ Years of Service:* An eligible surviving spouse is entitled to the police officer's eligible benefit at the time of death.

*Active Member with 10-20 Years of Service:* An eligible surviving spouse is entitled to receive 50% of the police officer's pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* None.

#### Hired on or After January 1, 2011

*Eligibility:* Married to an active police officer with at least 8 years of creditable service, a disabled pensioner at the time of death, or a retired pensioner on the last day of service.

*Active Line of Duty Death Benefit:* An eligible surviving spouse is entitled to receive 100% of the police officer's final pensionable salary attached to rank held on the last day of service.

#### *Non-Duty Death Benefit:*

*Disabled or Retired Pensioner, Active Member with 20+ Years of Service, and Active Member with 10-20 Years of service:* An eligible surviving spouse is entitled to receive the greater of 66⅔% of the police officer's earned pension benefit at the time of death or 54% of the police officer's monthly salary at the time of death.

*Annual Increase in Benefit:* The initial increase date will be the January 1<sup>st</sup> after the surviving spouse turns age 60. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.



## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **TERMINATION BENEFIT – VESTED**

#### Hired Prior to January 1, 2011

*Eligibility:* Age 60 with at least 8 but less than 20 years of creditable service.

*Benefit:* 2.5% of final salary for each year of service. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 1/12 of 3% of the original monthly benefit for each full month that has passed since the pension began. The initial increase date will be the first day of the month after the benefit date anniversary. Subsequent increases of 3% of the current monthly benefit will be granted every January 1<sup>st</sup> thereafter.

#### Hired on or After January 1, 2011

None.



## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **DISABILITY BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Duty or Non-Duty Disability or Occupational Disease Disability with at least 5 years of creditable service.

*Benefit:* For a duty disability or an occupational disease disability with at least 5 years of creditable service, a police officer is entitled to receive the greater of 65% of final salary or the regular retirement pension benefit at the time of disability. For a non-duty disability, a police officer is entitled to receive 50% of final salary. "Final salary" is based on the police officer's pensionable salary attached to rank held on the last day of service.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 3% of the original monthly benefit for each full year that has passed since the pension began. The initial increase date will be the latter of the January 1<sup>st</sup> after following pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases of 3% of the original monthly benefit will be granted every January 1<sup>st</sup> thereafter.

#### Hired on or after January 1, 2011

*Eligibility:* Duty or Non-Duty Disability or Occupational Disease Disability with at least 5 years of creditable service.

*Benefit:* For a duty disability or an occupational disease disability with at least 5 years of creditable service, a police officer is entitled to receive the greater of 65% of final salary or the regular retirement pension benefit at the time of disability. For a non-duty disability, a police officer is entitled to receive 50% of final salary. "Final salary" is based on the police officer's pensionable salary attached to rank held on the last day of service.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 3% of the original monthly benefit for each full year that has passed since the pension began. The initial increase date will be the latter of the January 1<sup>st</sup> after following pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases of 3% of the original monthly benefit will be granted every January 1<sup>st</sup> thereafter.





## GLOSSARY OF TERMS

Glossary of Terms

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## ***GLOSSARY OF TERMS***

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### **GLOSSARY OF TERMS**

***Actuarial Accrued Liability*** – The Actuarial Present Value of future benefits based on Members’ service rendered to the Measurement Date using the selected Actuarial Cost Method. It is that portion of the Actuarial Present Value of Plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

***Actuarial Cost Method*** – The method used to allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

***Actuarial Value of Assets*** – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to Market Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Market Value of Assets, and generally does not experience as much volatility over time as the Market Value of Assets.

***Asset Valuation Method*** – A valuation method designed to smooth random fluctuations in asset values. The objective underlying the use of an Asset Valuation Method is to provide for the long-term stability of Employer Contributions.

***Funding Policy*** – A set of procedures for a Pension Fund that outlines the “best practices” for funding the pension benefits based on the goals of the Plan Sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the Plan Sponsor meet their goal of working in the best interest of the Plan Members.

***Market Value of Assets*** – The value of the cash, bonds, securities, and other assets held in the pension trust as of the Measurement Date.

***Normal Cost*** – The present value of future benefits earned by Members during the current Fiscal Year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

***Unfunded Actuarial Accrued Liability*** – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll.





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