The Village of Oak Park
Village Hall
123 Madison Street
Oak Park, Illinois 60302-4272

Phone: 708.383.5462
Fax: 708.358.5105
Web: www.oak-park.us

Finance Department

To: Cara Pavlicek, Village Manager

Cc: Lisa Shelley, Deputy Village Manager
Julia Scott-Valdez- Human Resource Manager

From: Steve Drazner, CFO/Treasurer

RE: Actuarial Valuations for Tax Year 2017 Police/Fire Levy

Date: October 23, 2017

Attached for your information and review please find the Police and Firefighters' Actuarial Valuations as of January 1, 2017 (prepared using fiscal year 2016 data). These valuations were completed by Mitch Serota of the actuarial firm, Serota & Associates.

	Prior Year 1/1/16 (based on 12/31/15 data)			Current Year 1/1/17 (based of 12/31/16 data)				
	Actuarial Recommended Contribution	Addtl Voluntary Contribution	Actual Amount Levied	Actuarial Recommended Contribution	Market Value Assets	Total Liability	Unfunded Liability	Funding Percentage
Police Pension	4,940,474	-	4,940,474	5,470,687	87,170,556	170,932,110	83,761,554	51.0%
Fire Pension	4,101,488	1,500,000	5,601,488	5,277,679	44,737,034	120,693,799	75,956,765	37.1%
TOTAL	9,041,962	1,500,000	10,541,962	10,748,366	131,907,590	291,625,909	159,718,319	

As summarized above, excluding the completely voluntary $1,500,000 additional amount levied for the Fire Pension Fund above and beyond the actuarial recommendation for tax year 2017, the combined annual contribution for tax year 2018 has increased by $1,706,404 compared to the prior year combined amount. The following assumptions were used for both pension valuations:

- Discount rate: 6.75% for determining the annual recommended contribution
- Actuarial cost method: Entry Age Normal (changed from prior year PUC method)
- Mortality table: RP-2014 Blue Collar with some adjustments
- Salary increases: Ranging from 2.50-2.75%
- Marriage/Single ratio (for calculating surviving spouse benefits): 80%/20%

The Village of Oak Park
Village Hall
123 Madison Street
Oak Park, Illinois 60302-4272

Phone: 708.383.5462
Fax: 708.358.5105
Web: www.oak-park.us

The only significant change in assumptions compared to the prior year December 31, 2015 valuations is the actuarial cost method. Please be aware that the cost method used in the prior year was Projected Unit Credit (PUC). This method has been changed to Entry Age Normal (EAN) for the current December 31, 2016 valuations. In simplified terms, utilizing the EAN method results in greater contributions upfront and smaller contributions as employees approach retirement while the PUC method has the opposite affect and results in smaller contributions upfront and larger contributions as employees age and approach retirement.

Another way of looking at this is that employer contributions under EAN are "front loaded" while "PUC" is considered a "back loaded" funding method. By switching from PUC to EAN, for an employer with many newer employees, the annual actuarial recommended contribution would be greater under EAN compared to PUC. However, in the Village's case with seasoned employees in the mid to later stage of their careers, the difference between using PUC to EAN is not considered significant and it should also be noted that either method results in the same funding progress over a long period of time.

Pursuant to State statute, both Police and Firefighters' pension plans are required to be at least 90% funded by the year 2040. The Village is taking an even more aggressive approach and requested that the actuary recommend annual contributions so that both pension plans are 100% funded by 2040. Therefore, over the next 23 years (2017-2040), the Village's contributions must not only cover the normal contribution amount, but must also include a surplus amount to amortize (reduce) the existing unfunded liabilities. In the case of the Police and Firefighters' Pensions, this unfunded liability is $83.8M and $76.0M, respectively. Therefore, it should be expected that in order to pay down these unfunded liabilities by 2040, the surplus contributions that will need to be paid by the Village would at a minimum average approximately $3.6M ($83.8/23) and $3.3M ($76.0/23) per year on top of the normal contribution amount which covers retirement benefits as pension service credit continues to accrue. This will of course fluctuate each year based on investment returns and other variables.

Serota & Associates provided a non-required, supplemental analysis showing what the unfunded liability for each plan would be if a discount rate of 4.14% were used rather than the 6.75%. This 4.14% is currently the rate of a triple AAA rated corporate bond and is the approximate discount rate that a publicly traded company might use to calculate its pension liability if it offered a defined benefit plan. Using this hypothetical lower discount rate, the unfunded liability and funding percentages for the Police and Firefighters' pensions would be as follows:

	Total Liability @ 4.14%	Unfunded Liability @ 4.14%	Funding Percentage @ 4.14%
Police Pension	219,726,723	132,556,167	39.7%
Fire Pension	172,125,927	127,388,893	26.0%
TOTAL	391,852,650	259,945,060	

The Village of Oak Park
Village Hall
123 Madison Street
Oak Park, Illinois 60302-4272

Phone: 708.383.5462
Fax: 708.358.5105
Web: www.oak-park.us

One final item for possible discussion is that there may be an opportunity next year to pay down a significant portion of the unfunded liabilities due to the county triennial reassessment. The assessor divides property in the Cook County area into three groups (north suburbs, south suburbs, and City of Chicago) and all properties within a group are reassessed once every three years. All Oak Park property, both residential and commercial, is scheduled to be reassessed this year (tax year 2017) and the reassessed assessed valuations will appear on the 2018 property tax bills.

Based on the known triennial reassessments already completed for the north suburbs during this reassessment cycle, it is estimated that the average Oak Park property equalized assessed valuation will increase by approximately 20%. Therefore, hypothetically if the Village Board decided to levy an amount so that the levy tax rate would stay fairly consistent from tax year 2016 (fiscal year 2017) to tax year 2017 (fiscal year 2018), a 20% assumed increase in total EAV could result in approximately $6.3 million as demonstrated below:

Period	EAV	Village Levy Amount**	Village Levy %
Tax Year 2016 (FY17 Budget)	1,386,653,517	31,283,206	2.257%
Tax Year 2017 (FY18 Budget)	1,663,984,220	37,556,124	2.257%
Levy Increase from FY17 to FY18		6,272,918	

** Includes County "loss" amount

A portion of this levy dollar increase from the triennial reassessment may be applied toward paying down the unfunded pension liabilities. However, this should be viewed in conjunction with overall budget requirements for next year.