Oak Park

The Village of Oak Park
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Finance Department

To: Cara Pavlicek, Village Manager

Cc: Lisa Shelley, Deputy Village Manager

From: Steve Drazner, CFO/Treasurer

RE: Actuarial Valuations for Tax Year 2019 Police/Fire Levy

Date: July 19, 2019

Attached for your information and review please find the Police and Firefighters' Actuarial Valuations as of January 1, 2019 (prepared using FY 2018 data). These valuations were completed by the actuarial division of Lauterbach & Amen.

	Prior Year 1/1/18 (based on 12/31/17 data)					LAUTERBACH & AMEN Current Year 1/1/19 (based of 12/31/18 data)				
	Actuarial Recommended Contribution	Market Value Assets	Total Actuarial Liability	Unfunded Actuarial Liability	Funding Percentage	Actuarial Recommended Contribution	Market Value Assets	Total Actuarial Liability	Unfunded Actuarial Liability	Funding Percentage
Police Pension	6,211,250	98,885,224	166,524,424	67,639,200	59.4%	6,338,241	90,484,189	172,661,768	82,177,579	52.4%
Fire Pension	5,158,133	50,869,298	116,711,863	65,842,565	43.6%	5,438,948	47,739,804	120,453,714	72,713,910	39.6%
TOTAL	11,369,383	149,754,522	283,236,287	133,481,765		11,777,189	138,223,993	293,115,482	154,891,489	

As summarized above, the combined annual contribution for tax year 2019 (to be budgeted and levied for FY20) has increased by $407,806 for the combined pensions compared to the previous year. The recommended Fire Pension Plan contribution has increased by $280,815 while the Police Pension Plan contribution increased by $126,991. The following assumptions were used for both pension valuations:

- Discount rate of 6.75%. The municipal rate used is typically greater than a rate used by private sector defined benefit plans. There is an inverse relationship between the discount rate and the unfunded liability. In other words, as the discount rate decreases, the liability will increase.

- 100% funding by 2040.

- Actuarial cost method used= Entry Age Normal

- Mortality table: RP-2014 Blue Collar with some adjustments

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- Salary increases ranging from 3.00% - 3.75%
- CPI rate of 2.50% (used to discount the projected benefits to current year dollars)

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 a more aggressive approach and requested that the actuary calculate the annual contributions so that both pension plans are 100% funded by 2040. Therefore, over the next 21 years the Village's contributions must not only cover the normal contribution amount, but must also include a surplus amount to gradually amortize (reduce) the existing unfunded liabilities.

In the case of the Police and Firefighters' Pensions, the unfunded liabilities are $82.1 million and $72.7 million, respectively. Therefore, it should be expected that in order to pay down these unfunded liabilities by 2040, using an extremely simplified calculation, the additional annual contribution above and beyond the normal cost that will need to be paid by the Village would average approximately $7.4 million per year.

The actual additional amount to cover unfunded liabilities will very likely vary significantly from this average pursuant to long term investment returns, new hires, retirements, actual versus expected life expectancies, and other relevant factors.

Finally, as summarized above, the funding ratios for the Police and Firefighters' pensions as of December 31, 2018, are 52.4% and 39.6%, respectively. This compares to 59.4% and 43.6% from the previous year. The primary reason for the drop in funding ratios is due to the large negative returns experienced in December 2018.

Please note that the funding ratios above are also based on the market value of pension assets at calendar year end which is more exact than using actuarial value of assets which smooth out gains/losses over five years. If the actuarial values were used in the calculation rather than market values, the December 31, 2018 funding ratios for the Police and Firefighters' pensions would be 56.3% and 42.4%, respectively since negative returns in December 2018 would be smoothed out over an extended five year period.