



The Village of Oak Park  
Village Hall  
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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 2021 Police/Fire Levy

Date: April 27, 2021

Attached for your information and review please find the Police and Firefighters' Actuarial Valuations as of January 1, 2021 (prepared using FY 2020 data). These valuations were completed by the actuarial division of Lauterbach & Amen.

	Prior Year 1/1/20 (based on 12/31/19 data)					LAUTERBACH & AMEN Current Year 1/1/21 (based on 12/31/20 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	6,973,534	106,039,656	182,286,253	76,246,597	58.2%	7,319,950	117,571,210	191,677,584	74,106,374	61.3%
Fire Pension	6,138,212	55,643,429	126,936,016	71,292,587	43.8%	6,512,755	60,722,635	132,803,381	72,080,746	45.7%
TOTAL	13,111,746	161,683,085	309,222,269	147,539,184		13,832,705	178,293,845	324,480,965	146,187,120	

As summarized above, the combined annual contribution for tax year 2020 (to be budgeted and levied for FY21) has increased by \$720,959 for the combined pensions compared to the previous year. The recommended Fire Pension Plan contribution has increased by \$374,543 while the Police Pension Plan contribution increased by \$346,416. 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.
- CPI rate= 2.25% (used to discount projected benefits to current year dollars)
- Actuarial cost method used= Entry Age Normal
- Mortality table: MP-2019



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- Contractual pay increases which include cost of living and automatic step advancements based on years of service. Combined annual pay increases range between 3.25% to 16.16% per year. The larger increases are typically for less seasoned officers and firefighters who are still advancing through the steps/ranks.
- 80% of active members are married with assumption that female spouses are three years younger than male spouses (relevant for surviving spouse benefit)

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 20 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 a combined \$146 million. Therefore, it can be surmised that in order to pay down these unfunded liabilities by 2040, utilizing a simplified calculation, the additional annual contribution above and beyond the normal cost that will need to be paid by the Village would average approximately \$7.7 million per year (\$146,000,000/19 years until 2040).

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

As summarized above, the funding ratios for the Police and Firefighters' pensions as of December 31, 2020, are 61.3% and 45.7%, respectively. This compares favorably to 58.2% and 43.8% from the previous year.

Finally, please note that the funding ratios above are based on the market value of pension assets at calendar year end. This is a more exact method of calculating it than using the actuarial value of assets which smooths out gains/losses incurred over the previous five years to reduce volatility in the ratios.

If the actuarial (smoothed) market values were used in the calculation rather than actual market values, the December 31, 2020 funding ratios for the Police and Firefighters' pensions would be slightly less at 57.5% and 43.2%, respectively, which indicates that there is more gain than loss being smoothed out from the prior rolling five-year period.

Since the actuarial valuations are highly technical in nature, an actuary from Lauterbach & Amen will be available to attend at least one Village Board meeting to present the findings and answer any questions. This meeting will of course be open to the public and pension board trustees as well as any other interested parties will of course be encouraged to attend.