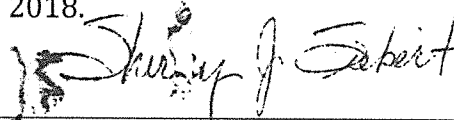


STATE OF ILLINOIS        )  
  ) SS  
COUNTY OF DU PAGE     )

I, Shirley J. Siebert, City Clerk of Wood Dale, Illinois DO HEREBY CERTIFY that as such City Clerk and keeper of the records, that the foregoing is a true and correct copy of Resolution #R-18-06 **A RESOLUTION ADOPTING THE ACTUARIAL FUNDING POLICY STATEMENT FOR THE WOOD DALE POLICE PENSION FUND**

To The City Of Wood Dale, DuPage County, Illinois, IN WITNESS WHEREOF, I have hereunto Subscribed my name and affixed the seal of the City of Wood Dale, this 15TH day of March, 2018.



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Shirley J. Siebert, City Clerk  
City of Wood Dale  
DuPage County, Illinois

SEAL

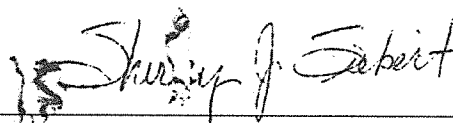


*Resolution #R-18-06*

**A RESOLUTION ADOPTING THE ACTUARIAL FUNDING POLICY STATEMENT FOR  
THE WOOD DALE POLICE PENSION FUND**

Passed: March 15, 2018  
Published in Pamphlet Form March 15, 2018

I, Shirley J. Siebert, as the Clerk for the City of Wood Dale, hereby certify that the attached Resolution is a true and correct copy of **R-18-06 A RESOLUTION ADOPTING THE ACTUARIAL FUNDING POLICY STATEMENT FOR THE WOOD DALE POLICE PENSION FUND** passed and approved by the City Council of the City of Wood Dale March 15, 2018 hereby published in pamphlet form on March 15, 2018.



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Shirley J. Siebert  
City Clerk

SEAL



RESOLUTION NO. R-18-06

RESOLUTION ADOPTING THE ACTUARIAL FUNDING POLICY STATEMENT FOR  
THE WOOD DALE POLICE PENSION FUND

**WHEREAS**, the City of Wood Dale (hereinafter referred to as the "City") is a body politic and corporate, organized and existing pursuant to the Illinois Municipal Code, 65 ILCS 5/1-1-1 *et seq.*; and

**WHEREAS**, the Police Pension Fund retained the Accounting Firm of Lauterbach & Amen, LLP, to review the Police Pension Fund (hereinafter referred to as "Pension Fund") funding to determine the anticipated annual City contributions to the Police Pension Fund; and

**WHEREAS**, the Actuarial Study analyzed the policies of the Pension Fund, the number of participants in the Pension Fund, the required contributions from both the employee and the City to the Pension Fund in order to insure that the Pension Fund has the dollars necessary to make the payments at the time of retirement of the Pension participants; and

**WHEREAS**, it is the intent of the City, utilizing the Actuarial Cost Method to set aside the appropriate dollars necessary to make the payments at the time of retirement of the Pension participants; and

**WHEREAS**, the State of Illinois has legislated a funding parameter for all public pension funds to be used in determining the minimal amount of money that should be contributed to such fund on annual basis; and

**WHEREAS**, in order to be fully compliant with the Illinois Pension Code, the City contracted for the preparation of said Actuarial Funding Policy Statement, which identifies the goals and objectives of the City and the Police Pension Board; and

**WHEREAS**, it is the intention of the City to utilize the Actuarial Funding Policy to set aside the recommended contribution from the City to the Pension Fund each year in order satisfy the funding requirements of the Illinois Pension Code; and

**WHEREAS**, pursuant to the *Actuarial Funding Policy Statement for the City of Wood Dale, Illinois and the Wood Dale Police Pension Fund*, it is the City's intent to fund the Pension Fund in accordance therewith; and

**WHEREAS**, the City seeks to ensure that the Pension Fund is funded in accordance with the Illinois Pension Code in order that each Pension participant receives the benefits to which they are entitled; and

**WHEREAS**, the City finds that it is in the best interests of the City and its residents to adopt the, *Actuarial Funding Policy Statement for the City of Wood Dale, Illinois and the Wood Dale Police Pension Fund* a copy of which is attached hereto and incorporated herein as Exhibit "A".

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF WOOD DALE, DUPAGE COUNTY, ILLINOIS, as follows:

SECTION 1: The recitals set forth above are incorporated herein and made a part hereof.

SECTION 2: That the City hereby adopts the *Actuarial Funding Policy Statement for the City of Wood Dale, Illinois and the Wood Dale Police Pension Fund*, as it may be amended from time to time, a copy of which is attached hereto and incorporated herein by reference as Exhibit "A".

SECTION 3: That all ordinances and resolutions, or parts thereof in conflict with the provisions of this Resolution are, to the extent of such conflict, hereby repealed.

SECTION 5: That this Resolution shall be in full force and effect from and after its adoption, approval and publication in pamphlet form as provided by law.

PASSED this 15th day of March, 2018

AYES: ALDERMEN CATALANO, JAKAB, MESSINA, SORRENTINO, SUSNARSKI,  
E. WESLEY, R. WESLEY AND WOODS

NAYS: NONE

ABSENT: NONE

APPROVED this 15th day of March, 2018.

SIGNED: Annunziato Pulice  
Annunziato Pulice, Mayor

ATTEST: Shirley J. Siebert  
Shirley J. Siebert, City Clerk




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## REQUEST FOR COMMITTEE ACTION

|                        |                               |
|------------------------|-------------------------------|
| Referred to Committee: | February 8, 2018              |
| Subject:               | Police Pension Funding Policy |
| Staff Contact:         | Brad Wilson, Finance Director |
| Department:            | Finance                       |

**TITLE:** Police Pension Funding Policy

**RECOMMENDATION:**

Approve the attached Police Pension "Actuarial Funding Policy Statement".

**BACKGROUND:**

At the Police Pension presentation on January 25<sup>th</sup>, it was recommended as a best practice that the City formally adopt the funding policy statement.

**ANALYSIS:**

It is recommended that the City formally adopt the policy statement as well to give further assurance to the Pension Fund that the City will follow its current strategy, and will make it harder for to deviate from it in the future.

The City (and Pension Fund) have been following the policy statement since it was created in 2012. Nothing in this document is different than current practice, and its adoption fully memorializes the agreement between the City and the Pension Fund.

**DOCUMENTS ATTACHED**

- ✓ Actuarial Funding Police Statement from Lauterbach & Amen

Attachment: Police Pension Funding Committee Memorandum R-18-6 : Actuarial Funding for Police Pension Fund)

Lauterbach & Amen, LLP  
668 N. River Road  
Naperville, IL 60563

Actuarial Funding Policy Statement



CITY OF WOOD DALE,  
ILLINOIS  
AND THE WOOD DALE  
POLICE  
PENSION FUND

Originally Adopted: April 30, 2012  
Effective Date: April 30, 2012

*LAUTERBACH & AMEN, LLP*

Attachment: City of Wood Dale\_Funding Policy Statement\_4.30.2017 REV (R-18-6 : Actuarial Funding for Police Pension Fund)

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Attachment: City of Wood Dale\_Funding Policy Statement\_4.30.2017 REV (R-18-6 : Actuarial Funding for Police Pension Fund)





# PURPOSE OF THE ACTUARIAL FUNDING POLICY STATEMENT

## *General Purpose*

---

This Actuarial Funding Policy Statement sets forth the procedures that the Board of Trustees for the City of Wood Dale, Illinois have adopted to make funding contributions to the Police Pension Fund in compliance with the Illinois Pension Code. The policy identifies goals and objectives of the Police Pension Board and the City. The policy sets out the decision-making process for handling various aspects of pension funding, and defines the ongoing items to be reviewed in assessing the ongoing effectiveness of this policy.

## *Goals and Objectives*

---

The key goals and objectives considered in the preparation of the investment policy are noted below:

- Make sure that benefits are secure for fund participants now and in the long-term.
- Keep the recommended costs of the plan stable across generations of taxpayers.
- Develop recommendations that are more cost-effective in the long-term.
- Provide year-to-year contribution stability/budgeting for the Municipality.
- Address any transition items needed at the policy implementation.

## *Operation of the Policy*

---

It is the intention of the Police Pension Board and City to review the policy on an annual basis. The intention is to review the effectiveness of the policy and determine if it continues to meet the goals and objectives as set forth.

The Police Pension Board and City retain the right to amend the policy, as necessary, to keep the policy in line with the goals and objectives.

Attachment: City of Wood Dale\_Funding Policy Statement\_4.30.2017 REV (R-18-6 : Actuarial Funding for Police Pension Fund)



## THE ACTUARIAL COST METHOD

### *General Purpose*

---

The intent of any Actuarial Cost Method is to set aside the appropriate number of dollars during an employee's working career so that the Pension Fund has the dollars necessary to make payments at retirement. The Actuarial Cost Method will set the pattern by which contributions are made to the Funds during the working career of the employee and provide two key measures for reporting:

- Normal Cost – The amount of money to contribute for each active employee for the upcoming year of service.
- Accrued Liability – The amount of money that is expected to be in the Pension Fund already, based on all past service already worked by members of the Fund.

### *Selection*

---

The Entry Age Normal (EAN) Cost Method (Level Percent of Pay) has been chosen to measure the Normal Cost and Accrued Liability for the Fund.

The EAN Method is a cost-based actuarial method which focuses on budgeting annual costs during the working career of an employee. The Normal Cost level is set with the expectation that it will increase annually at the same rate as expected payroll increases during an employee's working career.

## UNFUNDED ACCRUED LIABILITY

### *General Purpose*

---

The Actuarial Cost Method will provide a method for setting the annual contribution pattern for current year services, as well as setting the expected level of assets needed to be on budget for past services rendered by employees. When the Pension Fund's actuarial assets do not match the expected assets under the budget, an unfunded/overfunded liability exists.

### *Unfunded Liability*

---

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

In accordance with the Pension Board and City's funding policy for the recommended contribution, a fixed amount as of April 30, 2012 (difference between assets and 90% of the liability at implementation) will be paid off over 30 years ending April 30, 2040 using payments increasing at a rate of 3.00%, limited to the Inflation Index. The remaining fixed amount as of April 30, 2012 (10% of the unfunded liability at implementation) will be monitored over time and paid off over a period ending with the same payoff date, based on subsequent annual discussions and decisions between the Police Pension Board and the City.

### *New Unfunded Liability*

---

Any new unfunded liability that emerges after April 30, 2012 will be reviewed and paid off over a period ending with the payoff date of the existing unfunded liability on level percent of payroll basis to reach 100% funding by April 30, 2040.

## ACTUARIAL VALUE OF ASSETS

### *General Purpose*

---

The Actuarial Value of Assets is the figure used annually to determine the level of underfunding in the Pension Fund. The Actuarial Value of Assets does not necessarily equal the fair Market Value of Assets. While the Actuarial Value of Assets does not represent dollars that are available on that day to make benefit payments, use of an Actuarial Value of Assets recognizes that assets will not all be distributed at a single point in time.

The objective of using an Actuarial Value of Assets that differs from the Market Value of Assets is to redistribute contributions over the life of the Pension Fund in a manner that is less volatile. The overall level of contributions over the life of the Fund is not expected to change. To achieve this, gains and losses on the Market Value of Assets are recognized in the Actuarial Value of Assets over a period of time. In order to be successful as part of long-term funding, the Actuarial Value of Assets should be equally likely to fall above or below the market value of assets.

Key parameters:

- Years – the number of years to smooth market value gains and losses.
- Corridor – A limitation placed on the Actuarial Value of Assets. This parameter will limit the Actuarial Value of Assets in relation to Market Value of Assets.

### *Selection*

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The Actuarial Value of Assets will be equal to the Market Value of Assets, with unexpected gains and losses on the Market Value of Assets smoothed over a 5-year period.

It is anticipated that the Actuarial Value of Assets will not stray too far from the Market Value of Assets with the 5-year smoothing parameter. Therefore, no corridor has been set at this time.

## OPERATIONAL PROCEDURES

### *Funding Recommendations*

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The Pension Board of Trustees will use the policies and procedures set forth in this document to recommend a contribution amount to be made by the City to the Pension Fund each year.

### *State of Illinois Minimum Funding Requirement*

---

The State of Illinois provides funding policy parameters that must be used in determining the minimum amount of money that should be contributed to the Fund on an annual basis. The Police Pension Board and City will review this amount each year. Notwithstanding anything else in this policy, in no event will the Pension Board of Trustees recommend a contribution that is less than the minimum contribution required under State law.

### *Actuarial Assumptions*

---

The Pension Board of Trustees will review the actuarial assumptions used for determining the Fund's costs at least every 3-5 years. The Police Pension Board and City will use assumptions that are the best estimate of the future anticipated experience under the plan. By getting the best estimate on actuarial assumptions, short-term changes in unfunded liability are expected to be offset over a long-term period of time. Review of the assumptions every 3-5 years will help to minimize the impact of assumption changes that have deviated from actual experience over a long period of time.

If any events occur that could impact assumptions immediately (for example, a change in the Investment Policy or strategy), the Pension Board of Trustees will assess the associated assumption on a more immediate basis and will not be limited by the 3-5 year cycle.

See Addendum 1 for current selections.

### *Monitoring the Funding Policy*

---

The Police Pension Board and City will review, on an annual basis, a report that is intended to monitor the progress of the Funding Policy. This review will include but not be limited to:

- A review of the progress being made on the unfunded liability that exists at implementation.
- A review of the anticipated gains and losses that will be recognized in the upcoming actuarial value of assets under the funding policy.
- An analysis of cash flow to monitor the continuous ability of the funds to pay benefits.
- An analysis of the causes of any changes in unfunded liability over the preceding year.
- An analysis of the actuarial expectations versus actual experience over the past year.

## ADDENDUM 1 – CURRENT ACTUARIAL ASSUMPTIONS

### *Economic Assumptions*

| <u>Assumption</u>                 | <u>Selection</u> | <u>Reason</u>   |
|-----------------------------------|------------------|---|
| Expected Rate of Return on Assets | 6.75%            | Based on the current target allocation in the Pension Fund and Discussion with the Investment Consultant.   |
| Pay Increases                     | 4.00%-8.97%      | Service-based pay rates are intended to capture increases granted early in an employee's working career and cost of living adjustments. Long-term increases are intended to capture average increases for inflation and merit/promotions. |
| Total Payroll Increases           | 3.50%            | Based on the current employee population.   |

### *Demographic Assumptions*

| <u>Assumption</u>  | <u>Selection</u>   | <u>Reason</u>  |
|--------------------|--|--|
| Active Mortality   | RP-2014 with Blue Collar Adjustment, Improved Generationally using MP-2016                           | Based on national studies of mortality rates and mortality improvement rates.  |
| Retiree Mortality  | L&A 2016 for Police, Experience Weighted with Active Mortality Rates                                 | Based on a study of the actual experience for active and retired Police Officers in the state of Illinois, blended with a national study of mortality rates and mortality improvement rates. |
| Disabled Mortality | RP-2014 for Disabled Participants with Blue Collar Adjustment, Improved Generationally using MP-2016 | Based on national studies of mortality rates for disabled individuals and mortality improvement rates.   |



*Demographic Assumptions - Continued*

| <u>Assumption</u> | <u>Selection</u>  | <u>Reason</u>  |
|-------------------|---|--|
| Spouse Mortality  | RP-2014, Improved<br>Generationally using<br>MP-2016                | Based on national studies of<br>mortality rates and mortality<br>improvement rates.  |
| Termination Rates | 100% of L&A<br>Assumption Study for<br>Police 2016                  | Long-term anticipated experience<br>for the Police Pension Fund, based<br>on a study of the actual experience<br>for active and retired Police Officers<br>in the state of Illinois. |
| Disability Rates  | 110% of the L&A<br>Assumption Study for<br>Police 2016              | Long-term anticipated experience<br>for the Police Pension Fund, based<br>on a study of the actual experience<br>for active and retired Police Officers<br>in the state of Illinois. |
| Retirement Rates  | 85% of the L&A<br>Assumption Study<br>Cap Age 62 for<br>Police 2016 | Long-term anticipated experience<br>for the Police Pension Fund, based<br>on a study of the actual experience<br>for active and retired Police Officers<br>in the state of Illinois. |
| Percent Married   | 80%   | Represents the anticipated<br>percentage of time death benefits<br>will be paid by the Pension Fund.   |

Attachment: City of Wood Dale\_Funding Policy Statement\_4.30.2017 REV (R-18-6 : Actuarial Funding for Police Pension Fund)



