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A PUBLIC SAFETY LAW FIRM

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OF COUNSEL
ROBERT W. TREVARTHEN

November 19, 2012

Honorable Chet Olson, Mayor
City of Rochelle
420 N. 6th St.
P.O. Box 601
Rochelle, IL 61068

By Certified Return Receipt Mail

Re: Rochelle Police Pension Fund-Annual Tax Levy Requirements

Dear Mayor Olson:

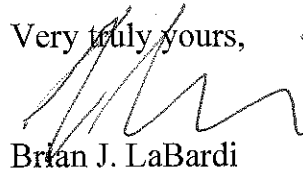
Please be advised that the undersigned is legal counsel for the Rochelle Police Pension Fund. At the November 16, 2012, Pension Board meeting, the Pension Board Trustees discussed the annual tax levy/municipal contribution requirements for the Pension Fund for the upcoming tax year. As you are aware, the Pension Board either relies on actuarial evaluation performed by the Illinois Department of Insurance or an independent actuary employed by the Pension Board.

In this case, the Pension Board relied upon the Actuarial Evaluation of Art Tepfer, an independent actuary retained by the Pension Board, for purposes of determining the "recommended levy". Mr. Tepfer's recommended levy for the upcoming tax year, in order to satisfy the annual requirements of the Rochelle Pension Fund, as required by §5/3-125 of the Pension Code, is \$235,099.00. Please note that this amount includes the personal property tax replacement amount of \$42,466.00. A copy of Mr. Tepfer's Report is attached for your review.

Accordingly, pursuant to §5/3-125 of the Pension Code, the Rochelle Police Pension Board is requesting that the City of Rochelle levy or contribute that amount for the upcoming tax year in order to satisfy the annual requirements of the Rochelle Police Pension Fund. In the event that the City will not be levying or contributing this amount, please advise me.

Thank you for your anticipated cooperation and assistance in this matter. Please do not hesitate to contact the undersigned should you have any questions concerning this matter.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Brian J. LaBardi', written over the typed name below.

Brian J. LaBardi

cc: Officer Jason Goodwin, President
Rochelle Police Pension Board

November 6, 2012



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Northbrook, Illinois 60062-1555
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www.TepferConsulting.com

Ms. Chris Frye
City of Rochelle
420 N 6th Street
Rochelle, IL 61068

RE: Rochelle Police Pension Fund

Dear Chris:

Enclosed is our actuarial valuation report for the **Rochelle Police Pension Fund** for the fiscal year May 1, 2012 through April 30, 2013.

The results of our valuation indicate that the recommended minimum contribution from the City for the next tax year is **\$235,099 or 17.96%** of current payroll. This contribution coupled with the anticipated \$124,720 or 9.91% of current payroll to be collected from participating police officers will be sufficient to meet the State statutory requirements described in 40 ILCS 5/3. Further information is provided within our report.

Alternatively, under the current statute, our valuation results indicate the statutory minimum contribution from the City for the next tax year to be \$ 182,374 or 13.93% of current payroll.

With the publication of Statement No. 25 of the Governmental Accounting Standards Board, we have revised our report to include the calculation of the unadjusted Annual Required Contribution. (ARC) We have chosen to calculate this contribution as a level percentage of payroll funded amortization of the unfunded liability over a closed 40-year period beginning with the date of adoption of GASB 25. This amount is \$276,314 or 21.11% of participating payroll.

Factors Influencing the Choice of Actuarial Assumptions

As part of the consulting process, it is our policy to talk with selected members of the Board of Trustees and the Sponsor's representatives for the **City of Rochelle Police Pension Fund** in order to obtain information which will enable the Actuary to properly choose the actuarial assumptions which are most appropriate for the current cost determination for the pension fund.

Prior to the meeting, statistics are compiled concerning historical investment returns, salary increases, retirement incidence and other factors which are influential in the actuarial assumption setting process. Based upon an analysis of the specifics as they relate to the **City of Rochelle Police Pension Fund** and a general understanding of the inter-relationships of the actuarial assumptions, the Board, the Sponsor and the Actuary reach a mutual agreement as to the assumptions which will be used in the current actuarial valuation.

Published statistics regarding experience for police and firefighters are available from the State of Illinois Department of Insurance. These statistics form the basis of the actuarial assumptions selected by the State Actuary in the valuation of pension funds covered under the Downstate Pension System. We have found in our consulting, that whenever appropriate, the actuarial assumptions used by the State Actuary are relied upon as a starting point. However, in order to make the calculations more "**Rochelle-sensitive**", the analysis of the actual historical performance is carefully examined.

Experience Analysis

Each year the actuarial process examines the experience of the fund. General parameters indicate that a variance of less than 3% of the unfunded liability is acceptable to assure that the assumptions used remain suitable. The measurement compares the actual unfunded liability to the expected unfunded liability. The total gain and loss developed is then analyzed by individual assumption to assure appropriateness. Based upon the results of this year's analysis, both in aggregate and individually, we have determined that the chosen assumptions generally remain suitable for continued use. However, we would be remiss if we did not advise that the assumed investment return assumption of 7.25% is only marginally acceptable for continued funding.

Demographic considerations

For this valuation, it was noted that the force continues to remain stable as to its size and demographic composition. In the current valuation, it was observed that the number of inactive participants (17, exclusive of terminated employees who are due a refund of their contributions) as compared to active participants (21) in the Fund is higher than the State average (45% of the total participants are inactive as compared to a State average of 39%) and, the average age and service of the active participating group is substantially lower than the State average. As a percentage of the total pension liabilities, the liabilities for inactive participants are above the State average.

Of no concern, is the fact that there is currently only 1 police officer who is eligible to retire and no additional officers who will become eligible in the next 5 years. Additionally, pension payments have been reasonably constant. Absent a large growth in the active force, with proper funding, the fund's position should become even more favorable for the foreseeable future and remain in a strong financial condition.

As would be expected in this situation, a very large portion of the assets available for investment has been committed to provide benefits for existing pensioners and beneficiaries. Essentially then, all of the assets in the plan are already dedicated to cover the liabilities for the currently retired participants. Additionally, pension disbursements on an annual basis total approximately \$8.7 million and investment earnings are currently insufficient to provide for these payments on an ongoing basis and generally have been for the past few years.

This year, municipal contributions and contributions by active police officers are being used to pay current expenses. These funds are generally the major source of new funds for investment purposes to accumulate reserves. Even with improved investment returns, the maturing of the employee group requires that the fund be carefully monitored during the next few years to assure that an orderly funding progress is maintained. If investment income remains insufficient to pay the existing pensioners, then municipal and participant contributions will continue to be used.

Financial considerations

In these uncertain times, the fund continues to experience very limited short-term investment growth. The fund has earned marginal rates of return over the short term. As shown in Exhibit 5-C of our report, the composite rate of return for the fund since 2005 is 5.28%. The investment smoothing method adopted initially by the fund and now mandated by statute serves to level the contribution and shield against annual investment volatility. However, it is not unnoticed that annual pension payments far exceeded the investment income during 2012 and an annual investment return of 6.39% would be needed to cover the outgoing benefit expenses. The Trustees should be advised that this is a potentially dangerous situation regarding the fund. Clearly municipal contributions will remain at these levels until the fund can annually increase its investment return.

We ask that you review the section entitled "Actuarial experience since the last actuarial valuation" beginning on page 2 for a further explanation of what has occurred since the last actuarial valuation.

Please do not hesitate to contact us if you have any questions concerning our report.

Sincerely,

TEPFER CONSULTING GROUP, LTD.*



Arthur H. Tepfer, A.S.A., M.A.A.A.
Consulting Actuary

AHT/lf
Encl.



**Tepfer
Consulting
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**CITY OF ROCHELLE
POLICE PENSION FUND**

**ACTUARIAL VALUATION
AS OF MAY 1, 2012 FOR THE
FISCAL YEAR ENDING APRIL 30, 2013**

November 6, 2012

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ACTUARIAL STATEMENT

Tepfer Consulting Group, Ltd. was retained by the City of Rochelle Police Pension Fund to perform an independent actuarial valuation for the Police Pension Fund. This valuation is permitted under 40 ILCS 5/22, Section 503.2.

The actuarial valuation was performed for the year ended April 30, 2013 and indicates a **statutorily required contribution in accordance with 40 ILCS 5/3, Section 125 of \$182,374 or 13.93% of member payroll, a recommended minimum contribution of \$235,099 or 17.96% of payroll, and an Annual Required Contribution in accordance with paragraph 36f of Statement No. 25 of the Governmental Accounting Standards Board of \$276,314 or 21.11% of payroll.** These contributions are net of contributions made by active member police officers during the fiscal year.

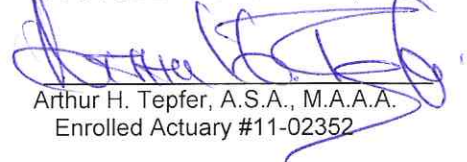
The results shown in this report have been calculated under the supervision of a qualified Actuary as defined in appropriate State statutes. All results are based upon demographic data submitted by the Police Pension Fund, financial data submitted by the Police Pension Fund, applications of actuarial assumptions, and generally accepted actuarial methods.

In our opinion, all calculations and procedures are in conformity with generally accepted actuarial principles and practices; and the results presented comply with the requirements of the applicable State statute, Actuarial Standards Board, or Statements of Governmental Accounting Standards, as applicable.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the plan and future expectations, and represent a reasonable and adequate approach to the financing of the retirement program. The costs, actuarial liabilities and other information presented in this report, in our opinion, fully and fairly disclose the actuarial position of the plan.

I, Arthur H. Tepfer, am an Enrolled Actuary in good standing under the Employee Retirement Income Security Act of 1974. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I certify that the results presented in this report are accurate and correct to the best of my knowledge.

TCG PUBLIC CONSULTING, LTD.



Arthur H. Tepfer, A.S.A., M.A.A.A.
Enrolled Actuary #11-02352

November 6, 2012

VALUATION OBJECTIVES

The City of Rochelle Police Pension Fund provides benefits to members when they retire, die, become disabled or terminate employment. For plans providing these types of benefits, an appropriate budgeting pattern must be established to enable appropriate funds to be accumulated to meet all payments when due. The actual cost of the plan can best be expressed in the following simplistic manner:

ACTUAL COST EQUALS	Benefits Paid
	Plus
	Expenses Paid
	Less
	Investment Income Earned

If the actual cost is incurred on a "pay as you go" basis, then the future generations of members will be paying for the benefits of current plan participants. Proper financial planning calls for budgeting the actual cost of the plan over the working lifetime of current plan membership in order to establish an equitable allocation. An actuarial valuation is the procedure used to determine an appropriate amount to be contributed to the pension plan each year in order to attain this equity.

An actuarial valuation is an estimate at a particular point in time of the predicted incidence of the future benefit costs. Since the total actual cost of the plan is essentially unknown, pre-funding (budgeting for future benefit costs) requires certain assumptions about future events. Assumptions are made for such things as salary increases, terminations of participants, disablement of participants, death of participants and anticipated investment earnings. These assumptions, although not affecting the actual costs of the plan, will affect the incidence of predicted future costs. For proper funding, it is required that the Actuary select assumptions which are appropriate in light of the economic, demographic, and legislative environment as they relate to the pension program. The assumptions we have made concerning these future events are described more fully in Appendix 2 of this report. Based on these assumptions, a projection of future benefits was made and a current contribution level sufficient to provide the anticipated benefit payments was determined through the use of an actuarial cost method.

Selection of the Actuarial Cost Method

An actuarial cost method, sometimes called a "funding method", therefore, is essentially an approach to budgeting the estimated future costs. There are many actuarial cost methods which are available to the actuary and each method operates differently. However, all funding methods accomplish the same objective—to assign to each fiscal year of the employer the portion assumed to have accrued in that year. The portion of the actuarial value of benefits assigned to a particular year in respect of an individual participant or the fund as a whole is called the **normal cost**. All funding methods are described by how the normal cost is calculated.

The actuarial cost method prescribed by the State statutes to determine the **statutorily minimum required contribution** for periods on or after January 1, 2011 is the Projected Unit Credit Cost Method. Under this actuarial cost method, the ongoing cost as a percentage of total payroll will increase. In this method, the normal cost is determined by first calculating the projected dollar amount of each participant's accumulated benefit under the plan as of both the first day of the fiscal year and as of the last day of the fiscal year and then determining the difference between these two amounts. The second step in deriving the normal cost for a given participant is to multiply the dollar amount of this difference by the actuarial present value of \$1 of benefit.

The actuarial cost method selected by our firm to determine the **recommended plan contribution** is the Entry Age Normal Cost Method. Under this actuarial cost method, ideally, the ongoing cost as a percentage of total payroll should remain fairly stable. In this method, the normal cost is determined by assuming each participant covered by the plan entered the plan under the same conditions that will apply to future plan entrants. The annual normal cost assigned to each year of an employee's career is calculated as a level percentage of the employees assumed earnings each year. These normal costs accumulate to the present value of the employee's benefit at retirement age.

VALUATION OBJECTIVES
(Continued)

Under both the Entry Age Normal Cost Method and the Projected Unit Credit Cost Method, the total funding of projected benefit costs is allocated between an *unfunded liability*, representing past benefit history, and future normal costs. This allocation is based on the assumption that the municipality will pay the normal cost for each plan year on a regular basis. It should be noted that although the term "unfunded liability" is applied to both funding methods, the resulting amount is different because of the method of calculation. Another feature of these methods is that only the unfunded liability is affected by the experience of the plan, and therefore any adjustments are made in the future amortization payments.

In addition to the methodology changes described above, P.A. 96-1495 also addressed the valuation of pension fund assets—the second component in the determination of the unfunded liability. The statute now provides that the actuarial value of a pension fund's assets be set equal to the market value of the assets on March 30, 2011 and that, in determining the actuarial value of assets after that date, any actuarial gains or losses from investment returns incurred in a fiscal year be recognized in equal amounts over the 5-year period following that fiscal year.

The actuarial valuation process is usually repeated each year and is to a certain extent self-correcting. As part of these actuarial cost methods, any deviation of actual experience from the chosen actuarial assumptions will be reflected in future contributions. A complete description of these actuarial cost methods is explained in Appendix 4 of this report.

Despite the statutory language which requires an application of the Projected Unit Credit method, we feel that funding under this method as a *level percentage of payroll* severely undermines the benefit security of the retirement system and transfers the payment for currently earned pensions to future generations of taxpayers. For these reasons, our valuation report also presents a recommended minimum contribution that will operate to maintain the fundamental fiscal soundness of the retirement program, although a statutorily required contribution has also been calculated. The calculation of the recommended minimum contribution is based upon an amortization payment of 90% of any unfunded accrued liabilities as a *level dollar amount* over 30 years from January 1, 2011, the effective date of P.A. 96-1495. The calculation of the statutorily required contribution is based upon an amortization payment of 90% of any unfunded accrued liabilities as a *"level percentage of payroll"* over 30 years from January 1, 2011, the effective date of P.A. 96-1495.

Although, I do not agree with the statutorily required level percentage of payroll methodology of determining the amortization of the unfunded accrued liability, I would be remiss if I did not advise my funds as to a "statutorily" acceptable calculation under the State law..

Effective for periods beginning after June 15, 1996, the Governmental Accounting Standards Board has issued Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement establishes a financial reporting framework for defined benefit pension plans that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. The calculation of the Annual Required Contribution (ARC) is described in paragraph 36f of the Statement and is based upon an amortization payment of any unfunded accrued liabilities as either a level dollar amount or a level percentage of total payroll over a maximum of 40 years from the effective date of the Statement. Any significant increase in the total unfunded actuarial liability resulting from a change in actuarial methodology should be amortized over a period not less than 10 years.

Actuarial experience since the last actuarial valuation

As part of the actuarial valuation process, it is helpful to examine the actual experience of the fund as compared to the experience that is expected by the actuarial assumptions. The measurement of any deviations of actual to expected experience is commonly referred to as a "Gain and Loss Analysis". In performing this analysis, the actuary analyzes each actuarial assumption used in the valuation process. It is highly unlikely that actual experience will follow expected experience on a year-by-year basis. It is hoped that over the long term, if the actuarial assumptions are "reasonable", the total gains and losses will offset each other.

A "gain and loss analysis" is a useful tool to examine whether the actuarial assumptions used to determine the municipal tax levy are suitable. Care must be taken in placing too much credibility in a short-term analysis as the assumptions are more appropriately measured over the long term. Nonetheless, an annual evaluation of the actuarial assumptions will assist in identifying trends that, if unnoticed, can lead to inappropriate conclusions. When these trends are recognized, it is the actuary's responsibility to modify one or more of the assumptions to better anticipate future experience.

**VALUATION OBJECTIVES
(Continued)**

“Some assumptions are easier to measure than others. In small plans, credible analysis can generally be made regarding the economic (financial) assumptions. These primarily include investment and salary increase assumptions. Unfortunately, it is often impossible to establish credible long term analysis of demographic assumptions (rates of termination, disability, retirement and mortality). Therefore, in choosing demographic assumptions, the actuary generally relies upon standardized tabular assumptions modified only by fund-specific characteristics.

The actuarial gain and loss analysis for the current year is presented in Exhibit 3-C and 3-D of the report. Exhibit 3-C shows the impact of the actuarial gains or losses on the recommended minimum contribution through a reconciliation of this contribution from the end of the prior valuation year to the end of the current valuation year. Exhibit 3-D derives the actuarial gain or loss in total as well as separating the individual financial and demographic components.

The overall experience gain (loss) for the year was \$450,083 or 3.51% of the accrued liability at the beginning of the plan year. The dollar amount for the plan's current recommended minimum contribution is 90.31% of the prior year's contribution. When measured as a percentage of payroll, the contribution level has changed from 20.90% to 17.96%.

Thirty-year Projection of Liabilities

The final section of our report illustrates projected payments from the Trust Fund for a 30-year period commencing with the valuation date. These projections are based upon the actuarial assumptions selected for the fund concerning death, disability and retirement actually occurring. Care should be taken in interpreting or relying on these results-- particularly for Funds with fewer than 200 participants. The credibility of this type of projection is rarely realized beyond 10 years. Exhibit 5D presents this projection.

RESULTS OF VALUATION

The following exhibits present the results of our actuarial valuation of the **City of Rochelle Police Pension Fund** for the fiscal year May 1, 2012 through April 30, 2013.

Exhibit 1 indicates that the recommended minimum contribution, calculated using the Entry Age Normal Cost method (EANC), from the City is \$235,099 or 17.96% of total participating payroll. **Under the Entry Age Normal actuarial cost method selected, this percentage of payroll should remain reasonably level over the lifetime of the plan.**

Exhibit 1 also indicates that the statutory minimum contribution, calculated using the Projected Unit Credit method (PUC), from the City is \$182,374 or 13.93% of total participating payroll. **Under the Projected Unit Credit actuarial cost method selected, this percentage of payroll should increase over the lifetime of the plan.**

Exhibits 2 and 3 provide specific information used to develop the recommended minimum and statutorily required City contribution and GASB Annual Required Contribution (ARC).. The Annual Required Contribution as of May 1, 2012 has been determined under the Governmental Accounting Standards Board Statement No. 25 and is required disclosure for the fiscal year ending April 30, 2013. The Entry Age Normal Cost and the Actuarial Accrued Liability were determined using the Entry Age Normal Cost Actuarial Cost Method.

The Entry Age Normal Cost has been determined as a level percentage of projected payroll of the active members of the group. The amortization method for the Unfunded Actuarial Accrued Liability is determined as a level percentage of payroll amount over a closed Amortization Period as permitted in Governmental Accounting Standards Board Statement No. 25.

Contribution amounts presented in this report have not been adjusted for interest to the date of payment. All values were determined on the basis of the actuarial assumptions and methods as more fully described in Appendix1 of this report.

Exhibit 4 presents a brief description of the demographic characteristics of the current member group.

Exhibit 5 shows information relating to the pension assets.

**GENERAL VALUATION RESULTS FOR FISCAL YEAR
MAY 1, 2012 THROUGH APRIL 30, 2013**

Recommended Minimum Contribution

1.	Entry Age Normal Cost:	\$ 300,605
2.	Unfunded Actuarial Accrued Liability (or Surplus):	1,724,217
3.	Actuarial Value of Assets:	11,083,685
4.	Annual Salaries of Active Police Officers:	1,258,524
5.	Recommended Minimum Contribution from the City:	235,099
	Contribution Percentage:	17.96%*

Statutory Minimum Contribution

1.	Projected Unit Credit Normal Cost:	\$ 286,335
2.	Unfunded Actuarial Accrued Liability (or Surplus):	868,488
3.	Actuarial Value of Assets:	11,083,685
4.	Annual Salaries of Active Police Officers:	1,258,524
5.	Statutory Minimum Contribution from the City:	182,374
	Contribution Percentage:	13.93%*

* Projected for the fiscal year ending April 30, 2013.

SUMMARY OF SPECIFIC VALUATION RESULTS

	<u>Number</u>	<u>Actuarial Present Value of Projected Benefits</u>	<u>Entry Age Normal Cost</u>	<u>Projected Unit Credit Normal Cost</u>
1. Active Police Officers:	21			
Retirement Pension:		\$5,109,747	\$210,280	\$183,942
Survivors Pension:		239,990	12,308	14,585
Disability Pension:		1,042,164	57,247	65,535
Withdrawal Pension:		286,115	20,770	22,273
	<u>21</u>	<u>\$6,678,016</u>	<u>\$300,605</u>	<u>\$286,335</u>
TOTAL				
2. Inactive Police Officers and Survivors:				
Normal Retirees:	11	\$7,380,300		
Widows (Survivors):	5	1,305,079		
Children (Survivors):	0	0		
Disabled Retirees:	0	0		
Deferred Vested:	1	731,578		
Terminated/Separated:	0	0		
	<u>17</u>	<u>\$9,416,957</u>		
TOTAL				

SUMMARY OF SPECIFIC VALUATION RESULTS
(Continued)

	<u>Entry Age Normal (EAN)</u>	<u>Projected Unit Credit (PUC)</u>
3. Total Actuarial Present Value of Projected Benefits:	\$16,094,973	N/A
4. Actuarial Present Value of Future Normal Costs:	3,287,071	N/A
5. Actuarial Accrued Liability: [(3) - (4)]	12,807,902	11,952,173
6. Actuarial Value of Assets:	11,083,685	11,083,685
7. Unfunded Actuarial Accrued Liability (or Surplus) [(5) - (6)]	1,724,217	868,488
8. Funded Ratio Percentage: [(6) ÷ (5)] x 100	86.54%	92.73%

HISTORY OF FUNDED PERCENTAGES

For the Year beginning May 1	<u>Valuation Assets</u>	<u>EAN Accrued Liabilities</u>	<u>EAN Funded Percentage</u>	<u>PUC Accrued Liabilities</u>	<u>PUC Funded Percentage</u>
2012	\$11,083,685	\$12,807,902	86.54%	\$11,952,173	92.73%
2011	11,004,676	\$12,981,772	84.77%	\$12,204,417	90.17%
2010	10,637,699	11,528,455	92.27%	N/A	N/A

DEVELOPMENT OF RECOMMENDED MINIMUM CITY CONTRIBUTION

	Fiscal Year May 1, 2012 through <u>April 30, 2013</u>
1. Entry Age Normal Cost:	\$300,605
2. Recommended Minimum Payment to Amortize 90 % of the Entry Age Normal Unfunded Accrued Liability <u>as a level dollar amount</u> over 28.00000 Years from May 1, 2012:	34,891
3. Interest on (1) and (2):	24,323
4. Credit for Surplus:	0
5. Total Recommended Minimum Contribution for Fiscal Year 2013: [(1) + (2) + (3) + (4)], but not less than Statutorily Required	359,819
6. Active Member Contributions (9.91% of Salaries):	124,720
7. Net Recommended Minimum City Contribution: [(5) - (6)]	235,099

DEVELOPMENT OF STATUTORILY REQUIRED CITY CONTRIBUTION
(NOTE THAT THIS CONTRIBUTION CALCULATION IS NOT RECOMMENDED)

	Fiscal Year May 1, 2012 through <u>April 30, 2013</u>
1. Projected Unit Credit Normal Cost:	\$286,335
2. Minimum Payment to Amortize 90% of the Projected Unit Credit Unfunded Accrued Liability <u>as a level percentage of payroll</u> over 28.00000 Years from May 1, 2012:	0
3. Interest on (1) and (2):	20,759
4. Credit for Surplus:	0
5. Total Statutorily Required Contribution for Fiscal Year 2013: [(1) + (2) + (3) + (4)]	307,094
6. Active Member Contributions (9.91% of Salaries):	124,720
7. Net Statutorily Required City Contribution: [(5) - (6)]	182,374

GASB STATEMENT NO. 25 DISCLOSURE INFORMATION

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION OF THE MUNICIPALITY

	Fiscal Year May 1, 2012 through April 30, 2013
1. Entry Age Normal Cost	\$300,605
2. Actuarial Accrued Liability	12,807,902
3. Actuarial Value of Assets	11,083,685
4. Unfunded Actuarial Accrued Liability	1,724,217
5. Payment to Amortize Unfunded Actuarial Accrued Liability Over 40 Years from Effective Date of Application of GASB 25 (25 years remaining)	100,429
6. Total Annual Required Contribution for Fiscal Year April 30, 2013: [(1) + (5)]	401,034
7. Active Member Contributions (9.91% of Salaries):	124,720
8. Annual Required Contribution (ARC) payable at the beginning of the current fiscal year: [(6) - (7)]	276,314

**RECONCILIATION OF THE CHANGE
IN THE RECOMMENDED MINIMUM CITY CONTRIBUTION**

1. Recommended Minimum Contribution for Year ending 4/30/2012:	\$260,330
2. Increase in Normal Cost and Amortization Payment due to anticipated pay changes:	11,643
3. Increase/(Decrease) in Normal Cost resulting from actual pay changes:	2,630
4. Effect of Asset Smoothing:	0
5. Increase/(Decrease) resulting from changes in assumptions:	0
6. Increase/(Decrease) resulting from other demographic and financial sources (retirements, deaths, new entrants, salary changes, etc.):	0
7. Recommended Minimum Contribution for Year ending April 30, 2013:	\$ 235,099

**DERIVATION OF EXPERIENCE GAIN(LOSS) AND COST METHOD CHANGE
AS OF MAY 1, 2012**

1.	EANC Unfunded Actuarial Accrued Liability at 5/1/2011:	\$1,977,096
2.	Entry Age Normal Cost Due at 5/1/2011:	285,153
3.	Interest on (1) and (2) to May 1, 2012 (at 7.25% per year):	164,013
4.	Contributions made for the prior year with interest to May 1, 2012:	251,962
5.	Expected EANC Unfunded Actuarial Accrued Liability at May 1, 2012 Before Assumption Changes [(1) + (2) + (3) - (4)]:	2,174,300
6.	Change in EANC Unfunded Actuarial Accrued Liability due to Assumptions Change at May 1, 2012:	0
7.	Expected EANC Unfunded Actuarial Accrued Liability at May 1, 2012 [(5) + (6)]:	2,174,300
8.	Actual EANC Unfunded Actuarial Accrued Liability at May 1, 2012:	1,724,217
9.	Gain (Loss) for the prior Plan Year [(7) - (8)]:	<u>\$450,083</u>

The experience gain (loss) reported above is the net result of the following:

1.	<u>FINANCIAL SOURCES</u>	
	a) Investment experience (based upon market value of assets):	\$ (894,872)
	b) Contribution experience:	(144,537)
	c) Benefit Payments experience:	56,018
	d) Salary increases (greater)/lower than expected:	<u>(13,142)</u>
	Total from Financial Sources:	(996,533)
2.	<u>DEMOGRAPHIC SOURCES</u>	
	Mortality, retirement, disability, termination, etc.:	917,795
3.	<u>ACTUARIAL ADJUSTMENTS</u>	
	Market value adjustment for asset smoothing, including expenses	528,821
4.	<u>GAIN (LOSS) ALL SOURCES</u>	
	Total Gain (Loss) for the prior Plan Year [(1) + (2) + (3)]:	\$450,083

SUMMARY OF DEMOGRAPHIC INFORMATION AS OF MAY 1, 2012

	<u>Number</u>	Projected Annual Salaries (Fiscal Year 2013)
Active Police Officers:	21	\$1,258,524

	<u>Number</u>	Total Monthly Benefits
Normal Retirees:	11	\$ 44,564
Survivors (Widows):	5	12,445
Survivors (Children):	0	0
Disabled Retirees:	0	0
Deferred Vested:	1	0
Terminated/Separated:	0	0 *

* Return of Contributions

The actuarial valuation was performed as of May 1, 2012 to determine contribution requirements for fiscal year 2013.

AGE AND SERVICE DISTRIBUTION

Attained Age	COMPLETED YEARS OF SERVICE										Total	Average Salaries	
	0-1	2-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+			
15-19												0	-
20-24	1											1	41,683
25-29		4	1									5	51,492
30-34		1	2									3	53,053
35-39		1	3	1								5	61,380
40-44			3	2								5	71,044
45-49				1		1						2	69,045
50-54												0	-
55-59												0	-
60-64												0	-
65+												0	-
TOTAL	1	6	9	4	0	1	0	0	0	0	21	59,930	

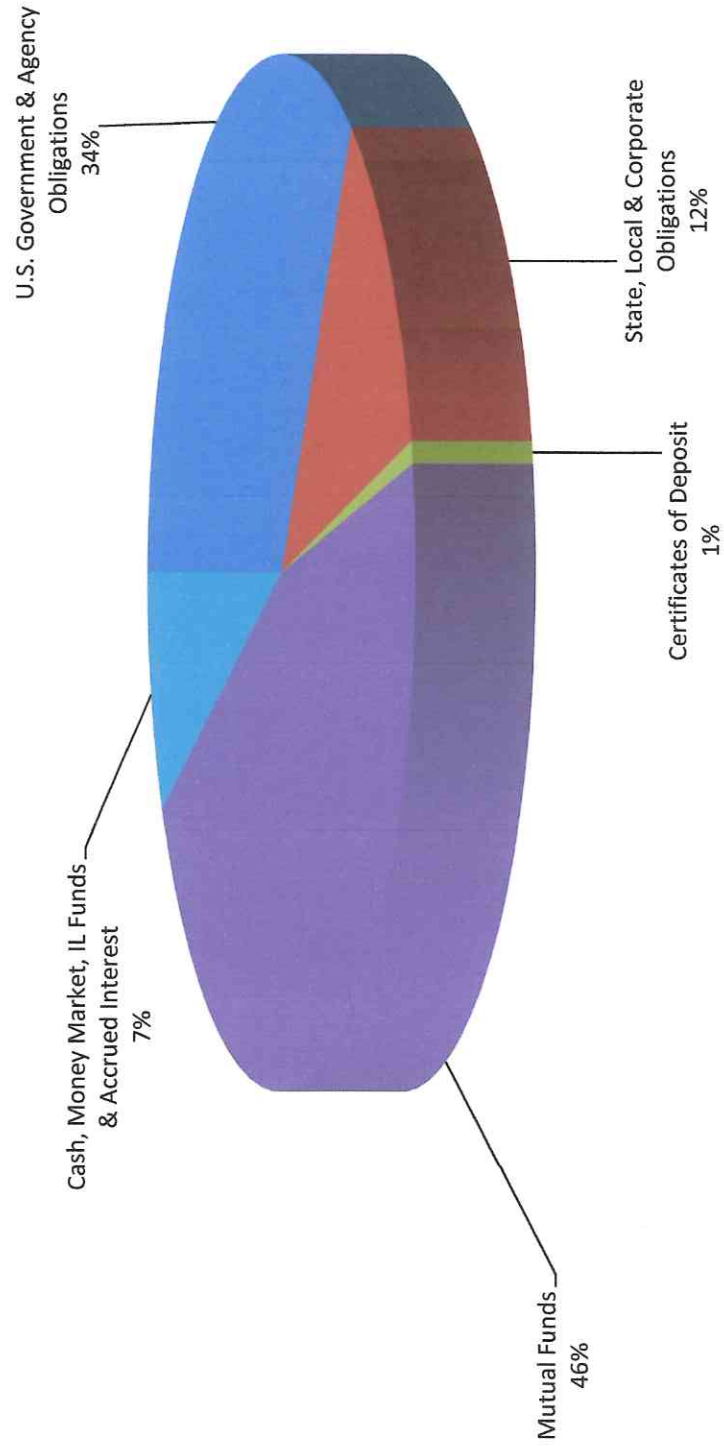
Age = 35.14 Years
Service = 8.09 Years

ASSET INFORMATION

Cash, Money Market, IL Funds	\$768,038
Certificates of Deposit	75,698
State, Local and Corporate Obligations	1,299,183
U.S. Government and Agency Obligations	3,545,754
Insurance Company Contracts	0
Pooled Investment Accounts	0
Mutual Funds	4,835,892
Common & Preferred Stocks	0
Taxes Receivable	0
Accrued Interest	30,299
Other Receivables	0
Net Liabilities	0
	<hr/>
Net Present Assets at Market Value	\$10,554,864

The chart on the following page shows the percentage of invested assets.

ASSET INFORMATION



DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

	Item	Amount	Timing	Weight for Amount	Weighted Amount
1.	Market Value of Assets, May 1, 2011**				\$ 11,004,676
2.	Actual Income and Disbursements in prior year weighted for timing				
	Contributions Received During 2011-2012	243,859		50.00%	121,930
	Miscellaneous Revenue	5,536		50.00%	2,768
	Benefit Payments and Expenses Made During 2011-2012	815,499		(50.00)%	(407,750)
	Total				(283,052)
3.	Market Value of assets adjusted for actual income disbursements [(1) + 2(d)]				10,721,624
4.	Assumed rate of return on plan assets for the year			7.25%	
5.	Expected return on assets [(3) x (4)]				777,318
6.	Market Value of Assets, May 1, 2011				11,004,676
7.	Income (less investment income) for prior year				243,859
8.	Disbursements paid in prior year				815,499
9.	Market Value of Assets, May 1, 2012				\$10,554,864
10.	Actual Return [(9) + (8) - (7) - (6)]				116,292
11.	Investment Gain/(Loss) for Prior Year [(10) - (5)]				(661,026)

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(Continued)

12. Market Value of Assets, May 1, 2012:				\$10,554,864
13. Deferred investment gains and (losses) for last 4 years:				
	<u>Plan Year Beginning</u>	<u>Gain/(Loss)</u>	<u>Percent Deferred</u>	<u>Deferred Amount</u>
a)	2012**	\$ (661,026)	80%	\$ (528,821)
b)	2011	\$ 0	60%	\$ 0
c)	2010	\$ 0	40%	\$ 0
d)	2009	\$ 0	20%	\$ 0
e)	Total	\$ (661,026)		\$ (528,821)
14. Actuarial value of plan assets for funding, May 1, 2012: Item (12) less item 13(e):				\$ 11,083,685
15. Taxes receivable:				0
16. Actuarial value of plan assets for GASB reporting May 1, 2012 item (14) less item (15)*:				\$ 11,083,685

Notes: * excluding taxes receivable

**The calculated value is determined by adjusting the market value of assets to reflect investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last five years at the rate of 20% per year. For the actuarial value of plan assets as of March 31, 2011, the actuarial value of assets was set to the market value of assets on the prior valuation date..

ANALYSIS OF INVESTMENT RETURN

<u>Fiscal Year</u> <u>Ending April 30</u>	<u>Annual Rate</u> <u>of Return</u>
2012	-0.21%
2011	10.12
2010	15.37
2009	-11.93
2008	3.61
2007	11.01
2006	10.11
2005	6.72
<u>Composite</u>	
2005-2012	5.28%

THIRTY - YEAR PROJECTION OF PAYMENTS

Year	-----Payouts from Active Group Upon-----		-----Payouts from-----		Retirement	Disability	-----Payouts from-----		Total
	Lump Sum	Deferred Pension	Termination	Retired Group			Deferred Pensioners		
2012	5,661	0	2,735	0	3,735	684,121	0	696,252	
2013	4,660	0	4,038	0	7,709	688,979	49,957	755,343	
2014	2,507	0	4,027	15,784	12,130	692,716	49,806	776,970	
2015	1,723	0	5,611	22,460	17,004	695,278	49,635	791,711	
2016	1,461	0	6,719	26,861	22,286	696,473	49,449	803,249	
2017	1,525	0	8,539	30,585	28,136	696,122	49,246	814,153	
2018	0	0	9,829	41,065	34,441	694,164	49,024	828,523	
2019	0	0	11,665	52,969	41,055	690,410	50,237	846,336	
2020	0	0	13,234	61,965	47,428	684,721	51,439	858,787	
2021	0	0	14,964	76,816	54,387	676,961	52,635	875,763	
2022	0	0	16,666	148,995	61,877	667,027	53,818	948,383	
2023	0	0	18,326	195,330	69,195	654,706	54,979	992,536	
2024	0	0	20,295	239,534	76,427	639,947	56,107	1,032,310	
2025	0	0	21,888	291,387	84,360	622,700	57,192	1,077,527	
2026	0	0	23,641	353,546	90,272	602,926	58,220	1,128,605	
2027	0	0	25,102	406,343	95,360	580,639	59,175	1,166,619	
2028	0	0	26,886	461,118	100,130	555,944	60,053	1,204,131	
2029	0	0	28,203	521,401	106,275	528,938	60,865	1,245,682	
2030	0	0	29,837	569,895	110,769	499,813	61,533	1,271,847	
2031	0	0	30,836	624,921	118,068	468,770	62,083	1,304,678	
2032	0	0	32,273	667,403	127,646	436,049	62,501	1,325,872	
2033	0	0	32,881	721,629	133,252	401,994	62,775	1,352,531	
2034	0	0	34,037	796,297	136,981	366,961	62,864	1,397,140	
2035	0	0	34,306	876,182	142,394	331,393	62,761	1,447,036	
2036	0	0	35,271	929,001	149,450	295,791	62,439	1,471,952	
2037	0	0	35,400	970,330	152,332	260,649	61,870	1,480,581	
2038	0	0	35,879	1,018,047	156,641	226,458	61,025	1,498,050	
2039	0	0	35,430	1,057,663	160,095	193,744	59,883	1,506,815	
2040	0	0	35,551	1,092,505	160,665	163,009	58,429	1,510,159	
2041	0	0	34,996	1,118,031	162,642	134,756	56,653	1,507,078	

ACTUARIAL ASSUMPTIONS

(Economic)

Investment Return

7.25% per annum, compounded annually (net of expenses).

Salary Increases

Representative values of assumed salary increases are as follows:

<u>Age</u>	<u>Increase %</u>
25	4.8611
30	2.9848
35	2.0341
40	1.5239
45	1.3083
50	1.1846
55	1.1220

An additional inflation allowance of 2.25% per year is added to the above.

Payroll Growth

It was assumed that payroll will grow 4.00% per year.

Actuarial Asset Basis

The Pension Fund previously used an actuarial value of assets for both government accounting and funding purposes. Starting with the actuarial valuation as of May 1, 2012, the actuarial value of assets recognizes future gains and losses based on a 5-year smoothed market method as prescribed by Statute.

In a 5-year smoothed market method, the current market value of assets is reduced (increased) for the current year and each of three succeeding years, by a portion of the gain/(loss) in market value during the prior year. Such gain/(loss) is determined as the excess/(deficit) of the current market value of assets over the market value of assets as of the prior year, increased to reflect interest at the actuarial rate and adjusted to reflect contributions and benefit payments during the prior year. The portion of such gain/(loss) by which the current market value of assets is reduced (increased) shall be 80% in the current year, 60% in the first succeeding year, 40% in the second succeeding year and 20% in the third succeeding year.

In the first year of application of this statutory smoothing method, the actuarial value of assets on 5/1/2011 was replaced by the market value of assets as of the same date

Additionally, in accordance with government accounting standards, the actuarial value of assets is adjusted to remove any contributions receivable on the reporting date.

Expenses

None assumed.

(Demographic)

Mortality

Active Lives

RP-2000 Combined Healthy Mortality Table (male) with blue collar adjustment and with a 200% load for participants under age 50 and 125% for participants age 50 and over. Five percent (5%) of deaths amongst active police officers are assumed to be in the performance of their duty.

Non-Active Lives

RP-2000 Combined Healthy Mortality Table (male) with blue collar adjustment and with a 200% load for participants under age 50 and 125% for participants age 50 and over.

Termination

Illustrative rates of withdrawal from the plan for reasons other than death or disability are as follows:

<u>Age</u>	<u>Rate of Withdrawal</u>
25	.0734
30	.0416
35	.0223
40	.0119
45	.0102

It is assumed that terminated police officers will not be rehired.

Disability Rates

Incidence of disability amongst police officers eligible for disability benefits:

<u>Age</u>	<u>Rate</u>
25	.0013
30	.0026
35	.0044
40	.0071
45	.0108
50	.0159

15% of disabilities amongst active police officers are assumed to be in the performance of their duty.

Retirement Rates

Retirements are assumed to occur between the ages of 50 and 69 in accordance with the following table:

<u>Age</u>	<u>Rate of Retirement</u>	<u>Age</u>	<u>Rate of Retirement</u>
50	.36	60	.22
51	.22	61	.30
52	.18	62	.39
53	.19	63	.48
54	.19	64	.57
55	.20	65	.65
56	.20	66	.74
57	.20	67	.83
58	.21	68	.91
59	.21	69	1.00

(Additional)

Marital Status

85% of police officers are assumed to be married.

Spouse's Age

Wives are assumed to be 3 years younger than their husbands.

Actuarial Cost Method:

Projected Unit Credit for statutory minimum

Entry Age Normal for recommended and GASB reporting

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Definitions

Tier 1 – For Police Officers first entering Article 3 prior to January 1, 2011

Tier 2 – For Police Officers first entering Article 3 after December 31, 2010

Police Officer (3-106): Any person appointed to the police force and sworn and commissioned to perform police duties.

Persons excluded from Fund (3-109): Part-time officers, special police officer, night watchmen, traffic guards, clerks and civilian employees of the department. Also, police officers who fail to pay the required fund contributions or who elect the Self-Managed Plan option.

Creditable Service (3-110): Time served by a police officer, excluding furloughs in excess of 30 days, but including leaves of absences for illness or accident and periods of disability where no disability pension payments have been received and also including up to 3 years during which disability payments have been received provided contributions are made.

Pension (3-111)

Normal Pension Age

Tier 1 - Age 50 with 20 or more years of creditable service.

Tier 2 - Age 55 with 10 or more years of creditable service.

Normal Pension Amount

Tier 1 - 50% of the greater of the annual salary held in the year preceding retirement or the annual salary held on the last day of service, plus 2½% of such annual salary for service from 20 to 30 year (maximum 25%).

Tier 2 - 2½% of Final Average salary for each year of service. Final Average Salary is the highest salary based on the highest consecutive 96 months of the final 120 months of service

Early Retirement at age 50 with 10 or more years of service but with a penalty of ½% for each month prior to age 55.

Annual Salary capped at \$106,800 increased yearly by the lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3%.

Minimum Monthly Benefit: \$1,000

Maximum Benefit Percentage: 75% of salary

Termination Retirement Pension Date

Separation of service after completion of between 8 and 20 years of creditable service.

Termination Pension Amount

Commencing at age 60, 2½% of annual salary held in the year preceding termination times years of creditable service or refund of contributions, or for persons terminating on or after July 1, 1987, 2½% of annual salary held on the last day of service times years of credible service, whichever is greater.

Pension Increase

Non-Disabled

Tier 1 - 3% increase of the original pension amount after attainment of age 55 for each year elapsed since retirement, followed by an additional 3% of the original pension amount on each January thereafter. Effective July 1, 1993, 3% of the amount of pension payable at the time of the increase including increases previously granted, rather than 3% of the originally granted pension amount.

SUMMARY OF PRINCIPAL PLAN PROVISIONS
(Continued)

Tier 2 - The lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3% increase of the original pension amount after attainment of age 60, followed by an additional 3% of the original pension amount on each January 1 thereafter.

Disabled

3% increase of the original pension amount after attainment of age 60 for each year he or she received pension payments, followed by an additional 3% of the original pension amount in each January 1 thereafter.

Pension to Survivors (3-112)

Death of Retired Member

Tier 1 - 100% of pension amount to surviving spouse (or dependent children).

Tier 2 – 66 2/3% of pension amount to surviving spouse (or dependent children), subject to the following increase: the lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3% increase of the original pension amount after attainment of age 60, followed by an additional 3% of the original pension amount on each January 1 thereafter.

Death While in Service (Not in line of duty)

With 20 years of creditable service, the pension amount earned as of the date of death.

With between 10 and 20 years of creditable service, 50% of the salary attached to the rank for the year prior to the date of death.

Death in Line of Duty

100% of the salary attached to the rank for the last day of service year prior to date of death.

Minimum Survivor Pension

\$1,000 per month to all surviving spouses.

Disability Pension - Line of Duty (3-114.1)

Eligibility

Suspension or retirement from police service due to sickness, accident or injury while on duty.

Pension

Greater of 65% of salary attached to rank at date of suspension or retirement and the retirement pension available. Minimum \$1,000 per month.

Disability Pension - Not on Duty (3-114.2)

Eligibility

Suspension or retirement from police service for any cause other than while on duty.

Pension

50% of salary attached to rank at date of suspension or retirement. Minimum \$1,000 per month.

Other Provisions

Marriage After Retirement (3-120)

No surviving spouse benefit available.

Refund (3-124)

At death prior to completion of 10 years of service, contributions are returned without interest to widow.

At termination with less than 20 years of service, contributions are refunded upon request.

Contributions by Police Officers (3-125.1)

Beginning January 1, 2001, 9.91% of salary including longevity, but excluding overtime pay, holiday pay, bonus pay, merit pay or other cash benefit.

GLOSSARY

Actuarial Accrued Liability

See *Entry Age Normal Cost Method* and *Projected Unit Credit Cost Method*.

Actuarial Assumptions

The economic and demographic predictions used to estimate the present value of the plan's future obligations. They include estimates of investment earnings, salary increases, mortality, withdrawal and other related items. The *Actuarial Assumptions* are used in connection with the *Actuarial Cost Method* to allocate plan costs over the working lifetimes of plan participants.

Actuarial Cost Method

The method used to allocate the projected obligations of the plan over the working lifetimes of the plan participants. Also referred to as an *Actuarial Funding Method*.

Actuarial Funding Method

See *Actuarial Cost Method*

Actuarial Gain (Loss)

The excess of the actual *Unfunded Actuarial Accrued Liability* over the expected *Unfunded Actuarial Accrued Liability* represents an *Actuarial Loss*. If the expected *Unfunded Actuarial Accrued Liability* is greater, an *Actuarial Gain* has occurred.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of *Actuarial Assumptions*.

Actuarial Value of Assets

The asset value derived by using the plan's *Asset Valuation Method*.

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.

Employee Retirement Income Security Act of 1974 (ERISA)

The primary federal legislative act establishing funding, participation, vesting, benefit accrual, reporting, and disclosure standards for pension and welfare plans.

Entry Age Normal Cost Method

One of the standard actuarial funding methods in which the *Present Value of Projected Plan Benefits* of each individual included in the *Actuarial Valuation* is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this *Actuarial Present Value* allocated to a valuation year is called the *Normal Cost*. The portion of this *Actuarial Present Value* not provided for at a valuation date by the *Actuarial Present Value* of future *Normal Costs* is called the *Actuarial Accrued Liability*.

Normal Cost

The portion of the *Present Value of Projected Plan Benefits* that is allocated to a particular plan year by the *Actuarial Cost Method*. See *Entry Age Normal Cost Method* for a description of the *Normal Cost* under the *Entry Age Normal Cost Method*. See *Projected Unit Credit Cost Method* for a description of the *Normal Cost* under the *Projected Unit Credit Cost Method*.

Present Value of Future Normal Costs

The present value of future normal costs determined based on the *Actuarial Cost Method* for the plan. Under the *Entry Age Normal Cost Method*, this amount is equal to the excess of the *Present Value of Projected Plan Benefits* over the sum of the *Actuarial Value of Assets* and *Unfunded Actuarial Accrued Liability*.

Present Value of Projected Plan Benefits

The present value of future plan benefits reflecting projected credited service and salaries. The present value is determined based on the plan's actuarial assumptions.

GLOSSARY
(Continued)

Projected Unit Credit Cost Method

One of the standard actuarial funding methods in which the *Present Value of Projected Plan Benefits* of each individual included in the *Actuarial Valuation* is allocated by a consistent formula to valuation years. The *Actuarial Present Value* allocated to a valuation year is called the *Normal Cost*. The *Actuarial Present Value* of benefits allocated to all periods prior to a valuation year is called the *Actuarial Accrued Liability*.

Statement No. 25 of the Governmental Accounting Standards Board (GASB No. 25)

The accounting statement that established the standards of financial accounting and reporting for the financial statements of defined benefit pension plans.

Unfunded Actuarial Accrued Liability

The excess of the *Actuarial Accrued Liability* over the *Actuarial Value of Assets*.