



# CITY OF ROCHELLE

## POLICE PENSION FUNDING POLICY

Approved by the City Council on XX-XX-2014

### **1.0 Applicability**

This policy applies to the calculation of the City of Rochelle's "annual required contribution" (ARC) to the City of Rochelle Police Pension Fund, a police pension trust fund organized under Article III of the Illinois Pension Code.

### **2.0 Background**

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees. This funding policy outlines the method the City will utilize to determine its actuarially determined contribution to the City of Rochelle Police Pension Fund to fund the long-term cost of benefits to the plan participants and annuitants.

The City believes that this funding policy meets the guidelines for state and local governments set by the Pension Funding Task Force convened by the Center for State and Local Government Excellence. The guidelines set by this task force outline the following objectives for pension funding policy:

- **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined annual required contribution (ARC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- **Funding Discipline.** A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- **Intergenerational equity.** Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- **Contributions as a stable percentage of payroll.** Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.

- **Accountability and transparency.** Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

### **3.0 Policy**

#### **3.1 City Annual Required Contribution (ARC)**

The City will determine its ARC to the City of Rochelle Police Pension Fund using the following principles:

- a. The ARC will be calculated by an enrolled actuary.
- b. The ARC will include the normal cost for current service and amortization to collect or refund any under- or over-funded amount.
- c. The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
  - i. Economic assumptions such as the investment rate of return and salary increase will be reviewed with the actuary to confirm they still reflect the best anticipated experience.
  - ii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined by City management in consultation with the actuary to reflect current experience.
- d. The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.
- e. Actuarial assets will be determined using the asset smoothing method.

The City will issue through the tax levy each December an amount that, when combined with any other source of City contributions to the pension fund, equals the actuarially determined contribution. The moneys are anticipated to come in to the City of Rochelle in installments in or around June and September of each year. The money will promptly be deposited in the City of Rochelle Police Pension Fund. Notwithstanding anything else dictated in this policy, the City will monitor the Statutory Minimum Contribution under the Illinois Pension Code on an annual basis, and will not levy an amount less than required by the State.

#### **3.2 Transparency and Reporting**

Funding of the City of Rochelle Police Pension Fund should be transparent to vested parties including plan participants, annuitants, the City of Rochelle Police Pension Fund Board of Trustees, the City Council, and Rochelle residents. In order to achieve this transparency, the following information shall be distributed:

- a. A copy of the annual actuarial valuation for the City of Rochelle Police Pension Fund shall be made available to the City Council and the City of Rochelle Police Pension Fund Board of Trustees.

- b. The City's Annual Financial Report shall be published on its website. This report includes information on the City's annual contribution to the City of Rochelle Police Pension Fund, and funded status of the City of Rochelle Police Pension Fund.
- c. Each year, the City Council shall approve the City's annual contribution to the City of Rochelle Police Pension Fund.
- d. The City's annual operating budget shall include the City's contribution to the City of Rochelle Police Pension Fund as well as a budget for the City of Rochelle Police Pension Fund. The budget for the City of Rochelle Police Pension Fund is controlled by the City of Rochelle Police Pension Fund Board of Trustees, in accordance with state law. The budget document shall be published on the City website and made available for public inspection at the City Clerk's Office at City Hall.

### 3.3 Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the City of Rochelle Police Pension Fund. The City reserves the right to make changes to this policy at any time if it is deemed appropriate.

### 3.4 Assumptions of the Funding Policy

Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or non-economic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or noneconomic inputs have fundamentally changed or are no longer reasonable. The City of Rochelle will review the actuarial assumptions at a minimum of five years to insure that long-term trends in demographics and economics are not shifting. In this review the City will incorporate the view of requisite professionals (investment advisors). The review will incorporate not only a review of the experience seen with the Illinois Police pension funds, but will also draw on the experience in the City of Rochelle where appropriate. The City will maintain a document detailing the assumptions and the method by which they were selected.