

Lauterbach & Amen, LLP
27W457 Warrenville Road
Warrenville, IL 60555-3902

Actuarial Valuation
as of January 1, 2017



ROCHELLE POLICE
PENSION FUND

Utilizing Data as of December 31, 2016
For the Contribution Year January 1, 2017 to December 31, 2017

LAUTERBACH & AMEN, LLP

Actuarial Valuation – Funding Recommendation



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

ROCHELLE POLICE PENSION FUND

Contribution Year Ending: December 31, 2017

Actuarial Valuation Date: January 1, 2017

Utilizing Data as of December 31, 2016

Submitted by:

Lauterbach & Amen, LLP
630.393.1483 Phone
www.lauterbachamen.com

Contact:

Todd A. Schroeder
July 14, 2017

LAUTERBACH & AMEN, LLP



TABLE OF CONTENTS

ACTUARIAL CERTIFICATION	1
MANAGEMENT SUMMARY	2
Contribution Recommendation	3
Funded Status	3
Management Summary – Comments and Analysis	4
Actuarial Contribution Recommendation - Reconciliation	7
VALUATION OF FUND ASSETS	8
Market Value of Assets	9
Market Value of Assets (Gain)/Loss	10
Development of the Actuarial Value of Assets	11
(Gain)/Loss on the Actuarial Value of Assets	11
Historical Asset Performance	12
RECOMMENDED CONTRIBUTION DETAIL	13
Actuarial Accrued Liability	14
Funded Status	14
Development of the Employer Normal Cost	15
Normal Cost as a Percentage of Expected Payroll	15
Contribution Recommendation	15
Actuarial Methods – Recommended Contribution	16
ILLINOIS STATUTORY MINIMUM CONTRIBUTION	17
Statutory Minimum Contribution	18
Funded Status – Statutory Minimum	18
Actuarial Methods – Illinois Statutory Minimum Contribution	20
ACTUARIAL VALUATION DATA	21
Active Employees	22
Inactive Employees	22
Summary Of Benefit Payments	22
ACTUARIAL FUNDING POLICIES	23
Actuarial Cost Method	24
Financing Unfunded Actuarial Accrued Liability	24
Actuarial Value of Assets	24
ACTUARIAL ASSUMPTIONS	25
Nature of Actuarial Calculations	26
Actuarial Assumptions in the Valuation Process	26
Actuarial Assumptions Utilized	27
SUMMARY OF PRINCIPAL PLAN PROVISIONS	29
Establishment of the Fund	30



TABLE OF CONTENTS

Administration	30
Employee Contributions	30
Normal Retirement Pension Benefit	30
Normal Retirement Pension Benefit - Continued	31
Early Retirement Pension Benefit	31
Pension to Survivors	32
Termination Benefit	33
Disability Benefit	34
GLOSSARY OF TERMS	35
Glossary of Terms	36



ACTUARIAL CERTIFICATION

This report documents the results of the actuarial valuation of the Rochelle Police Pension Fund. The purpose is to report the actuarial contribution requirement for the contribution year January 1, 2017 to December 31, 2017. Determinations for purposes other than meeting the employer's actuarial contribution requirements may be significantly different from the results herein.

The results in this report are based on information and data submitted by the City of Rochelle, Illinois including studies performed by prior actuaries. We did not prepare the actuarial valuations for the years prior to May 1, 2013. Those valuations were prepared by other actuaries whose reports have been furnished to us, and our disclosures are based upon those reports. An audit of the information was not performed, but high-level reviews were performed for general reasonableness, as appropriate, based on the purpose of the valuation. The accuracy of the results is dependent upon the accuracy and completeness of the underlying information. The results of the actuarial valuation and these supplemental disclosures rely on the information provided.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The City of Rochelle, Illinois selected certain assumptions, while others were the result of guidance and/or judgment. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used.

To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices. The undersigned of Lauterbach & Amen, LLP, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render this Actuarial Opinion. There is no relationship between the City of Rochelle, Illinois and Lauterbach & Amen, LLP that impairs our objectivity.

The information contained in this report was prepared for the use of the Rochelle Police Pension Fund and the City of Rochelle, Illinois in connection with our actuarial valuation. It is not intended or necessarily suitable for other purposes. It is intended to be used in its entirety to avoid misrepresentations.

Respectfully Submitted,

LAUTERBACH & AMEN, LLP

Todd A. Schroeder, EA





MANAGEMENT SUMMARY

Contribution Recommendation
Funded Status
Management Summary

MANAGEMENT SUMMARY

CONTRIBUTION RECOMMENDATION

	Prior Valuation	Current Valuation
Contribution Requirement	\$499,765	\$557,874
Expected Payroll	\$1,373,528	\$1,424,759
Contribution Requirement as a Percent of Expected Payroll	36.39%	39.16%

*Recommended
Contribution
has Increased
\$58,109 from
Prior
Valuation.*

FUNDED STATUS

	Prior Valuation	Current Valuation
Normal Cost	\$280,429	\$342,924
Market Value of Assets	\$10,160,860	\$10,384,619
Actuarial Value of Assets	\$11,176,946	\$11,250,421
Actuarial Accrued Liability	\$16,601,247	\$16,613,906
Unfunded Actuarial Accrued Liability	\$5,424,301	\$5,363,485
Percent Funded		
Actuarial Value of Assets	67.33%	67.72%
Market Value of Assets	61.21%	62.51%

*Funded
Percentage has
Increased 0.39
on an
Actuarial
Value of Assets
Basis.*



MANAGEMENT SUMMARY

MANAGEMENT SUMMARY – COMMENTS AND ANALYSIS

Contribution Results

The contribution recommendation is based on the funding policies and procedures that are outlined in the “Actuarial Funding Policies” section of this report.

The State of Illinois statutes for pension funds contain parameters that should be used to determine the minimum amount of contribution to a public pension fund. Those parameters and the resulting minimum contribution can be found in the “Illinois Statutory Minimum Contribution” section of this report.

Defined Benefit Plan Risks

Asset Growth

Pension funding involves preparing plan assets to pay benefits for the members when they retire. During their working careers, assets need to build with contributions and investment earnings, and then the pension fund distributes assets during retirement. Based on the fund’s current mix of employees and funded status, the fund should be experiencing positive asset growth on average if requested contributions are made and expected investment earnings come in. Over the past 8 months, the fund asset growth was positive by approximately \$225,000.

Asset growth is important long-term. Long-term cash flow out of the pension fund is primarily benefit payments. Expenses make up a smaller portion. The fund should monitor the impact of expected benefit payments and the impact on asset growth in the future. In the next 5 years, benefit payments are anticipated to increase 5-10%, or approximately \$58,000. In the next 10 years, the expected increase in benefit payments is 40-45%, or approximately \$353,000.

Unfunded Liability:

Unfunded liability represents dollars we expect to be in the pension fund already for the fund members based on funding policy. To the extent dollars are not in the pension fund the fund is losing investment returns on those dollars going forward. Payments to unfunded liability pay for the lost investment earnings, as well as the outstanding unfunded amount. If payment is not made, the unfunded liability will grow.

In the early 1990s, many pension funds in Illinois adopted an increasing payment to handle unfunded liability due to a change in legislation. The initial payments decreased, and payments were anticipated to increase annually after that. In many situations, payments early on may be less than the interest on unfunded liability, which means unfunded liability is expected to *increase* even if contributions are at the recommended level.



MANAGEMENT SUMMARY

The current contribution recommendation includes a payment to unfunded liability that is approximately \$20,000 less than interest on the unfunded liability. All else being equal and contributions being made, unfunded liability would still be expected to increase. The employer and the fund should anticipate currently that improvement in the funded percent will be mitigated in the short-term. The employer and the fund should understand this impact as we progress forward to manage expectations.

Actuarial Value of Assets:

The pension fund smooths asset returns that vary from expectations over a five-year period. The intention over time is that asset returns for purposes of funding recommendations are a combination of several years. The impact is intended to smooth out the volatility of contribution recommendations over time, but not necessarily increase or decrease the level of contributions over the long-term.

When asset returns are smoothed, there are always gains or losses on the Market Value of Assets that are going to be deferred for current funding purposes, and recognized in future years. Currently, the pension fund is deferring approximately \$865,000 in losses on the Market Value of Assets. These are asset losses that will be recognized in upcoming periods, independent of the future performance of the Market Value of Assets.

Plan Assets

The results in this report are based on the assets held in the pension fund. Assets consist of funds held for investment and for benefit payments as of the valuation date. In addition, assets may be adjusted for other events representing dollars that are reasonably expected to be paid out from the pension fund or deposited into the pension fund after the actuarial valuation date as well.

The current fund assets are audited.

The actuarial value of assets under the funding policy is equal to the fair market value of assets, with unexpected gains and losses smoothed over 5 years. More detail on the Actuarial Value of Assets can be found in the funding policy section of the report.

*The Plan
Assets Used in
this Report
are Audited.*



MANAGEMENT SUMMARY

Demographic Data

Demographic factors can change from year to year within a pension fund. Changes in this category include hiring new employees, employees retiring or becoming disabled, retirees passing away, and other changes. Demographic changes can cause an actuarial gain (contribution that is less than expected compared to the prior year) or an actuarial loss (contribution that is greater than expected compared to the prior year).

Demographic gains and losses occur when the assumptions over the one-year period for employee changes do not meet our long-term expectation. For example, if no employees become disabled during the year, we would expect a liability gain. If more employees become disabled than anticipated last year, we would expect a liability loss. Generally, we expect short-term fluctuations in demographic experience to create 1%-3% gains or losses in any given year, but to balance out in the long-term.

In the current report, the key demographic changes were as follows:

Salary Increases: Salary increases were less than anticipated over the past 8 months. Most active members received an increase of 3.00% or less. This caused a decrease in the recommended contribution in the current year of approximately \$3,600.

Assumption Changes

In the current valuation, we have updated the mortality assumption to include mortality improvements as stated in the most recently released MP-2016 table. In addition, the rates are being applied on a fully-generational basis. These changes were made to better reflect the future anticipated experience in the fund. See page 28 for more details on the specific mortality updates made and the table on the following page for the impact of these changes on the current valuation.

Funding Policy Changes

The funding policy was not changed from the prior year.



MANAGEMENT SUMMARY

ACTUARIAL CONTRIBUTION RECOMMENDATION - RECONCILIATION

Actuarial liability is expected to increase each year for both interest for the year and as active employees earn additional service years towards retirement. Similarly, actuarial liability is expected to decrease when the fund pays benefits to inactive employees. For the current valuation, expected liability and contribution changes are shown for the 8-month period from May 1, 2016 to December 31, 2016.

Contributions are expected to increase as expected pay increases under the funding policy for the Fund.

	Actuarial Liability	Contribution Recommendation
Prior Valuation	\$ 16,601,247	\$ 499,765
Expected Changes	359,448	11,661
Initial Expected Current Valuation	<u>\$ 16,960,695</u>	<u>\$ 511,426</u>

Other increases or decreases in actuarial liability (key changes noted below) will increase or decrease the amount of unfunded liability in the plan. To the extent unfunded liability increases or decreases unexpectedly, the contribution towards unfunded liability will also change unexpectedly.

	Actuarial Liability	Contribution Recommendation
Salary Increase Less than Expected	(47,675)	(3,618)
Demographic Changes	68,105	4,959
Assumption Changes	(367,219)	13,325
Asset Return Less than Expected *	-	21,743
Contributions Less than Expected	-	10,039
Total Actuarial Experience	<u>\$ (346,789)</u>	<u>\$ 46,448</u>
Current Valuation	<u>\$ 16,613,906</u>	<u>\$ 557,874</u>

*The impact on contribution due to asset performance is based on the Actuarial Value of Assets.

Key demographic changes were discussed in the prior section.





VALUATION OF FUND ASSETS

Market Value of Assets
Actuarial Value of Assets

VALUATION OF FUND ASSETS

MARKET VALUE OF ASSETS

Statement of Assets

	Prior Valuation	Current Valuation
Cash and Cash Equivalents	\$ 223,287	\$ 458,180
Fixed Income	2,242,858	2,945,581
Stock Equities	4,091,196	1,245,851
Mutual Funds	3,583,847	5,714,554
Receivables (Net of Payables)	19,673	20,452
Net Assets Available for Pensions	\$ 10,160,860	\$ 10,384,619

The Total Value of Assets has Increased \$223,759 from Prior Valuation.

Statement of Changes in Assets

Total Market Value - Prior Valuation	\$ 10,160,860
Plus - Employer Contributions	388,135
Plus - Employee Contributions	90,544
Plus - Return on Investments	328,130
Less - Benefit and Related Payments	(565,736)
Less - Other Expenses	(17,314)
Total Market Value - Current Valuation	\$ 10,384,619

The Return on Investment on the Market Value of Assets for the Fund was Approximately 3.1% Net of Administrative Expenses.

The asset reconciliation shown above is for the 8-month period from May 1, 2016 to December 31, 2016.

The return on investments shown has been determined as the Return on Assets from the statement of changes in assets, as a percent of the average of the beginning and ending Market Value of Assets. Return on Investment is net of the Other Expenses as shown. The Return on Investments has been excluded from the Total Market Value of Assets at the end of the year for this calculation.



VALUATION OF FUND ASSETS

MARKET VALUE OF ASSETS (GAIN)/LOSS

Current Year (Gain)/Loss on Market Value of Assets

Total Market Value - Prior Valuation	\$ 10,160,860
Contributions	478,679
Benefit Payments	(565,736)
Expected Return on Investments	<u>455,280</u>
Expected Total Market Value - Current Valuation	10,529,083
Actual Total Market Value - Current Valuation	<u>10,384,619</u>
Current Market Value (Gain)/Loss	<u><u>\$ 144,464</u></u>
Expected Return on Investments	\$ 455,280
Actual Return on Investments (Net of Expenses)	<u>310,816</u>
Current Market Value (Gain)/Loss	<u><u>\$ 144,464</u></u>

*The Return on
the Market
Value of Assets
was Lower than
Expected Over
the Most Recent
8 Months.*

The (Gain)/Loss on the Market Value of Assets has been determined based on expected returns at the actuarial rate.



VALUATION OF FUND ASSETS

DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

Total Market Value - Current Valuation		\$ 10,384,619
Adjustment for Prior (Gains)/Losses		
	<u>Full Amount</u>	
First Preceding Year*	\$ 144,464	115,571
Second Preceding Year	1,019,772	611,863
Third Preceding Year	240,118	96,047
Fourth Preceding Year	211,603	<u>42,321</u>
Total Deferred (Gain)/Loss		<u>865,802</u>
Initial Actuarial Value of Assets - Current Valuation		\$ 11,250,421
Less Contributions for the Current Year and Interest		-
Less Adjustment for the Corridor		<u>-</u>
Actuarial Value of Assets - Current Valuation		<u>\$ 11,250,421</u>

The Actuarial Value of Assets is Equal to the Fair Market Value of Assets with Unanticipated Gains/Losses Recognized over 5 Years. The Actuarial Value of Assets is Currently 108% of the Market Value.

*The actuarial loss shown for the first preceding year is for the 8-month period from May 1, 2016 to December 31, 2016.

(GAIN)/LOSS ON THE ACTUARIAL VALUE OF ASSETS

Total Actuarial Value - Prior Valuation		\$ 11,176,946
Plus - Employer Contributions		388,135
Plus - Employee Contributions		90,544
Plus - Return on Investments		177,846
Less - Benefit and Related Payments		(565,736)
Less - Other Expenses		<u>(17,314)</u>
Total Actuarial Value - Current Valuation		<u>\$ 11,250,421</u>

The Return on Investment on the Actuarial Value of Assets for the Fund was Approximately 1.4% Net of Administrative Expenses.

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.



VALUATION OF FUND ASSETS

HISTORICAL ASSET PERFORMANCE

The chart below shows the historical rates of return on plan assets for both Market Value of Assets and Actuarial Value of Assets.

	<u>Market Value</u>	<u>Actuarial Value</u>
First Preceding Year*	3.1%	1.4%
Second Preceding Year	(2.8%)	1.9%
Third Preceding Year	4.6%	4.3%

*Asset returns for the First Preceding Year are for the 8-month period from May 1, 2016 to December 31, 2016.

All other returns on assets shown above were calculated based on the annual return on investment for the year, as a percentage of the average value of the assets for the year.

For purposes of determining the average value of assets during the year, the ending market value of assets has been adjusted to net out to the portion related to the investment returns themselves. All other cash flows are included.

For purposes of determining the annual return on investment we have adjusted the figures shown on the preceding pages. The figures shown on the preceding pages are net of investment expenses. We have made an additional adjustment to net out administrative expenses. Netting out administrative expenses allows us to capture returns for the year that can be used to make benefit payments as part of the ongoing actuarial process.

The adjustment we make is for actuarial reporting purposes only. By netting out administrative expenses and capturing return dollars that are available to pay benefits, it provides us a comparison to the estimated rate of return on assets, but does not provide a figure that would be consistent with the return rates that are determined by other parties. Therefore, this calculated rate of return should not be used to analyze investment performance of the Fund or the performance of the investment professionals.





RECOMMENDED CONTRIBUTION DETAIL

Actuarial Accrued Liability
Funded Status
Development of the Normal Cost
Recommended Contribution
Actuarial Methods – Recommended Contribution

RECOMMENDED CONTRIBUTION DETAIL

ACTUARIAL ACCRUED LIABILITY

	Prior Valuation	Current Valuation
Active Employees	\$ 5,537,858	\$ 5,973,091
Inactive Employees		
Terminated Employees - Vested	-	-
Retired Employees	7,919,556	7,636,491
Disabled Employees	-	-
Other Beneficiaries	3,143,833	3,004,324
Total Inactive Employees	11,063,389	10,640,815
Total Actuarial Accrued Liability	\$ 16,601,247	\$ 16,613,906

The Total Actuarial Liability has Increased \$12,659 from Prior Valuation.

FUNDED STATUS

	Prior Valuation	Current Valuation
Total Actuarial Accrued Liability	\$ 16,601,247	\$ 16,613,906
Total Actuarial Value of Assets	11,176,946	11,250,421
Unfunded Actuarial Accrued Liability	\$ 5,424,301	\$ 5,363,485
Total Market Value of Assets	\$ 10,160,860	\$ 10,384,619
Percent Funded		
Actuarial Value of Assets	<u>67.33%</u>	<u>67.72%</u>
Market Value of Assets	<u>61.21%</u>	<u>62.51%</u>

Funded Percentage as of the Valuation Date is Subject to Volatility on Assets and Liability in the Short-Term.



RECOMMENDED CONTRIBUTION DETAIL

DEVELOPMENT OF THE EMPLOYER NORMAL COST

	Prior Valuation	Current Valuation
Total Normal Cost	\$ 280,429	\$ 342,924
Estimated Employee Contributions	(136,117)	(141,194)
Employer Normal Cost	<u>\$ 144,312</u>	<u>\$ 201,730</u>

*At a 100%
Funding Level,
the Normal Cost
Contribution is
Still Required.*

NORMAL COST AS A PERCENTAGE OF EXPECTED PAYROLL

	Prior Valuation	Current Valuation
Expected Payroll	<u>\$ 1,373,528</u>	<u>\$ 1,424,759</u>
Employee Normal Cost Rate	<u>9.910%</u>	<u>9.910%</u>
Employer Normal Cost Rate	<u>10.51%</u>	<u>14.16%</u>
Total Normal Cost Rate	<u>20.42%</u>	<u>24.07%</u>

*Ideally, the
Employer
Normal Cost
Rate will Remain
Stable.*

CONTRIBUTION RECOMMENDATION

	Prior Valuation	Current Valuation
Employer Normal Cost*	\$ 163,241	\$ 215,347
Amortization of Unfunded Accrued Liability/(Surplus)	<u>336,524</u>	<u>342,527</u>
Funding Requirement	<u>\$ 499,765</u>	<u>\$ 557,874</u>

*The
Recommended
Contribution has
Increased 11.6%
from Prior
Valuation.*

*Employer Normal Cost Contribution includes interest through the end of the year.



RECOMMENDED CONTRIBUTION DETAIL

ACTUARIAL METHODS – RECOMMENDED CONTRIBUTION

Actuarial Valuation Date	January 1, 2017
Data Collection Date	December 31, 2016
Actuarial Cost Method	Entry Age Normal (Level % Pay)
Amortization Method	Level % Pay (Closed)
Amortization Target	100% Funded over 23 years
Asset Valuation Method	5-Year Smoothed Market Value

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described. The actuarial cost and amortization method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

The recommended contribution amount shown in this report is based on the methods summarized above. The Actuarial Funding Policies section of the report will include a more detail description of the funding methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way dollars are contributed towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.





ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Minimum Contribution
Methods and Assumptions

ILLINOIS STATUTORY MINIMUM CONTRIBUTION

STATUTORY MINIMUM CONTRIBUTION

	<u>Minimum Contribution</u>
Contribution Requirement	\$401,308
Expected Payroll	\$1,424,759
Contribution Requirement as a Percent of Expected Payroll	28.17%

FUNDED STATUS – STATUTORY MINIMUM

	<u>Minimum Contribution</u>
Normal Cost	\$360,993
Market Value of Assets	\$10,384,619
Actuarial Value of Assets	\$11,250,421
Actuarial Accrued Liability	\$15,485,505
Unfunded Actuarial Accrued Liability	\$4,235,084
Percent Funded	
Actuarial Value of Assets	72.65%
Market Value of Assets	67.06%



ILLINOIS STATUTORY MINIMUM CONTRIBUTION

The Statutory Minimum Contribution is based on funding methods and funding parameters in the Illinois statutes for pension funding. The resulting contribution is lower than the recommended contribution for the current plan year. The lower contribution amount is not recommended because it represents only a deferral of contributions when compared to the recommended contribution method.

Actuarial Funding methods for pensions are best applied to provide a balance between the long-term goals of a variety of stakeholders:

1. Beneficiaries – the fund participants are interested in benefit security and having the dollars there to pay benefits when retired
2. Employers – cost control and cost stability over the long-term
3. Taxpayers – paying for the services they are receiving from active employees

The Statutory Minimum Contribution methods are not intended to provide a better system in any of the above categories long-term. The parameters are not recommended for a long-term funding strategy.

The Statutory Minimum methods put into place in 2011 were intended to provide short-term budget relief for Employer contributions. An employer using the Statutory Minimum parameters for current funding should view the contributions as short-term relief. Our recommendation in this situation is for a pension fund and an employer to work towards a long-term funding strategy that better achieves the long-term funding goals, over a period that does not exceed 3-5 years.

The Securities and Exchange Commission in 2013 used the phrase “Statutory Underfunding” to describe situations where contributions appear to be more manageable in the short-term, but set up future contribution requirements that are less likely to be manageable.



ILLINOIS STATUTORY MINIMUM CONTRIBUTION

ACTUARIAL METHODS – ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Actuarial Valuation Date	January 1, 2017
Data Collection Date	December 31, 2016
Actuarial Cost Method	Projected Unit Credit (Level % of Pay)
Amortization Method	Level % Pay (Closed)
Remaining Amortization Period	90% Funded over 24 years
Asset Valuation Method	5-Year Smoothed Market Value

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described. The actuarial cost and amortization method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way dollars are contributed towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.





ACTUARIAL VALUATION DATA

Active Employees
Retirees and Beneficiaries

ACTUARIAL VALUATION DATA

ACTIVE EMPLOYEES

	Prior Valuation	Current Valuation
Vested	16	16
Nonvested	3	3
Total Active Employees	19	19
Total Payroll	\$ 1,349,905	\$ 1,400,255

INACTIVE EMPLOYEES

	Prior Valuation	Current Valuation
Terminated Employees - Vested	0	0
Retired Employees	11	11
Disabled Employees	0	0
Other Beneficiaries	7	7
Total Inactive Employees	18	18

SUMMARY OF BENEFIT PAYMENTS

	Prior Valuation	Current Valuation
Terminated Employees - Vested	\$ -	\$ -
Retired Employees	45,933	45,933
Disabled Employees	-	-
Other Beneficiaries	24,784	24,784
Total Inactive Employees	\$ 70,717	\$ 70,717

Benefits shown for terminated employees under deferred retirement are not currently in pay status.





ACTUARIAL FUNDING POLICIES

Actuarial Cost Method
Financing Unfunded Accrued Liability
Actuarial Value of Assets

ACTUARIAL FUNDING POLICIES

ACTUARIAL COST METHOD

The actuarial cost method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

In accordance with the Pension Fund's Funding Policy the actuarial cost method for the recommended contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is a method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this actuarial present value allocated to a valuation year is called normal cost. The portion of the actuarial present value not provided at a valuation date by the actuarial present value of future normal costs is called the actuarial liability.

FINANCING UNFUNDED ACTUARIAL ACCRUED 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 Fund's Funding Policy for the recommended contribution the unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions to 100% funding target over the remaining 23 future years.

ACTUARIAL VALUE OF ASSETS

The pension fund is an ongoing plan. The employer wishes to smooth the effect of volatility in the market value of assets on the annual contribution. The Actuarial Value of Assets is equal to the Market Value of Assets with unanticipated gains/losses recognized over five years.

The asset valuation method is intended to create an Actuarial Value of Assets that remains reasonable in relation to the Market Value of Assets over time. The method produces results that can fall above and below the Market Value of Assets. The period of recognition is short.

It is intended that the period of recognition is short enough to keep the Actuarial Value of Assets within a decent range of the Market Value. The employer has not placed a specific corridor around the Market Value of Assets.





ACTUARIAL ASSUMPTIONS

Nature of Actuarial Calculations
Actuarial Assumptions in the Valuation Process
Actuarial Assumptions Utilized

ACTUARIAL ASSUMPTIONS

NATURE OF ACTUARIAL CALCULATIONS

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain plan provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about participant data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the actuarial liabilities or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described in the previous section.

The principal areas of financial risk which require assumptions about future experience are:

- Long-term Rates of Investment Return
- Patterns of Pay Increases for Members
- Rates of Mortality Among Members and Beneficiaries
- Rates of Withdrawal of Active Members
- Rates of Disability Among Members
- Age Patterns of Actual Retirement

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution requirement.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

Details behind the selection of the actuarial assumptions can be found in the assumption document provided to the client. The client has reviewed and approved the assumptions as a reasonable expectation of the future anticipated experience under the plan.



ACTUARIAL ASSUMPTIONS

ACTUARIAL ASSUMPTIONS UTILIZED

Expected Return on Investments	6.75% net of administrative expenses.
CPI-U	2.50%
Total Payroll Increases	3.50%
Individual Pay Increases	2.50% - 17.91%

Individual salary increases include a long-term average increase for inflation, average annual increases for promotions, and any additional increases for a step program. Sample Rates as Follows:

Service	Rate	Service	Rate
0	17.91%	8	7.41%
1	2.50%	9	12.93%
2	7.40%	10	3.75%
3	2.50%	15	3.75%
4	7.60%	20	3.75%
5	2.50%	25	3.50%
6	7.49%	30	3.50%
7	2.50%	35	3.50%

Retirement Rates

100% of the L&A Assumption Study Cap Age 65 for Police 2016.
Sample Rates as Follows:

Age	Rate	Age	Rate
50	0.117	53	0.139
51	0.124	54	0.147
52	0.131	55	0.156



ACTUARIAL ASSUMPTIONS

Withdrawal Rates

100% of the L&A Assumption Study for Police 2016. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.041	40	0.027
30	0.039	45	0.014
35	0.036	50	0.003

Disability Rates

100% of the L&A Assumption Study for Police 2016. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.0005	40	0.0028
30	0.0010	45	0.0043
35	0.0018	50	0.0064

Mortality Rates

Active Mortality follows the Sex Distinct Raw Rates as Developed in the RP-2014 Study, with Blue Collar Adjustment. These Rates are Improved Generationally using MP-2016 Improvement Rates.

Retiree Mortality follows the L&A Assumption Study for Police 2016. These Rates are Experience Weighted with the Raw Rates as Developed in the RP-2014 Study, with Blue Collar Adjustment and Improved Generationally using MP-2016 Improvement Rates.

Disabled Mortality follows the Sex Distinct Raw Rates as Developed in the RP-2014 Study for Disabled Participants, with Blue Collar Adjustment. These Rates are Improved Generationally using MP-2016 Improvement Rates.

Spouse Mortality follows the Sex Distinct Raw Rates as Developed in the RP-2014 Study. These Rates are Improved Generationally using MP-2016 Improvement Rates.

Married Participants

80% of Active Participants are Assumed to be Married. Female Spouses are Assumed to be 3 Years Younger than Male Spouses.





SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund
Administration
Employee Contributions
Normal Retirement Pension Benefits
Pension to Survivors
Termination Benefits
Disability Benefits

SUMMARY OF PRINCIPAL PLAN PROVISIONS

ESTABLISHMENT OF THE FUND

The Police Pension Fund is established and administered as prescribed by “Article 3. Police Pension Fund – Municipalities 500,000 and Under” of the Illinois Pension Code.

ADMINISTRATION

The Police Pension Fund is administered by a Board of Trustees located in each municipality maintaining a pension fund for its police officers. Its duties are to control and manage the pension fund, to hear and determine applications for pensions, to authorize payment of pensions, to establish rules, to pay expenses, to invest funds, and to keep records.

EMPLOYEE CONTRIBUTIONS

Employees contribute 9.910% of salary.

NORMAL RETIREMENT PENSION BENEFIT

Hired Prior to January 1, 2011

Eligibility: Age 50 with at least 20 years of creditable service and no longer a police officer.

Benefit: 50% of final salary is payable commencing at retirement for 20 years of service. An additional 2.5% of final salary is added for each additional year of service in excess of 20 years of service (not to exceed 75% of final salary). “Final salary” is the salary attached to rank held on the last day of services or for 1 year prior to the last day, whichever is greater.

Annual Increase in Benefit: An officer will receive an initial increase of 1/12 of 3% for each month that has elapsed since retirement. The initial increase date will be the later of the first day of the month following the attainment of age 55, or the first anniversary of the date of retirement. Subsequent increases of 3% of the current pension amount (including prior increases) will be provided in each January thereafter.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

NORMAL RETIREMENT PENSION BENEFIT - CONTINUED

Hired on or After January 1, 2011

Eligibility: Age 55 with at least 10 years of creditable service and no longer a police officer.

Benefit: 2.5% of final average salary for each year of service is payable at retirement (not to exceed 75% of final average salary). "Final average salary" is determined by dividing the highest total salary over 96 consecutive months of service in the last 120 months of service by the total number of months of service in the period. Annual salary for this purpose will not exceed \$106,800, indexed by the lesser of 3% or ½ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the later of the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit.

EARLY RETIREMENT PENSION BENEFIT

Hired Prior to January 1, 2011

None

Hired on or After January 1, 2011

Eligibility: Age 50 with at least 10 years of creditable service and no longer a police officer.

Benefit: The normal retirement pension benefit reduced by ½ of 1% for each month that the police officer's age is under age 55.

Annual Increase in Benefit: The initial increase date will be the January 1st following the later of the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

PENSION TO SURVIVORS

Hired Prior to January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the police officer on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners): Surviving spouse to receive continuation of the pension.

Active Employee with 20+ Years of Service: Surviving spouse is entitled to the full pension earned by the police officer at the time of death.

Active Employee with 10-20 Years of service: Surviving spouse is entitled to 50% of the salary attached to the rank of the police officer on the last day of service, payable immediately

Annual Increase in Benefit: None.

Hired on or After January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the police officer on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners), Active Employee with 20+ Years of Service, and Active Employee with 10-20 Years of service: Surviving spouse to receive 66 $\frac{2}{3}$ % of the police officer's earned pension at the date of death.

Annual Increase in Benefit: The initial increase date will be the January 1st after the attainment of age 60 by the recipient of the survivor's pension. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or $\frac{1}{2}$ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original survivor's benefit amount.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

TERMINATION BENEFIT

Hired Prior to January 1, 2011

Eligibility: At least 8 years but less than 20 years of creditable service.

Benefit: 2.5% of final salary for each year of service is payable beginning at age 60. “Final salary” is based on the greater of salary during the last year of service prior to termination of employment or the pay rate for the police officer at termination of employment.

Annual Increase in Benefit: An officer will receive an initial increase of 3% on the first anniversary of the date of start of payments. Subsequent increases of 3% of the current pension amount will be provided in each January thereafter.

Hired on or After January 1, 2011

Eligibility: At least 10 years but less than 20 years of creditable service.

Benefit: 2.5% of final salary for each year of service is payable beginning at age 60. “Final salary” is based on the greater of salary during the last year of service prior to termination of employment or the pay rate for the police officer at termination of employment. Annual salary for this purpose will not exceed \$106,800, indexed by the lesser of 3% or ½ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the first payment. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 mos. ending with the September preceding each November 1, applied to the original benefit amount.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

DISABILITY BENEFIT

Hired Prior to January 1, 2011

Eligibility: Disability (duty or non-duty).

Benefit: A police officer who becomes disabled on duty is entitled to receive a pension equal to the greater of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the police officer is entitled to 50% of final salary. “Final salary” is based on the pay rate for the police officer on the last day of service.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase is 3% of the original benefit for each full year that has passed since the pension began. Subsequent increases will be the 3% of the original pension benefit amount.

Hired on or after January 1, 2011

Eligibility: Disability (duty or non-duty).

Benefit: A police officer who becomes disabled on duty is entitled to receive a pension equal to the greater of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the police officer is entitled to 50% of final salary. “Final salary” is based on the pay rate for the police officer on the last day of service.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original benefit amount.





GLOSSARY OF TERMS

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Actuarial Accrued Liability –The actuarial present value of future benefits based on employees’ service rendered to the measurement date using the selected actuarial cost method. It is that portion of the Actuarial Present Value of plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

Actuarial Cost Method – The method used to allocate the projected obligations of the plan over the working lifetimes of the plan participants.

Actuarial Value of Assets – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to Market Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Market Value of Assets, and generally does not experience as much volatility over time as the Market Value of Assets.

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.

Funding Policy – A set of procedures for a Pension Fund that outlines the “best practices” for funding the pension benefits based on the goals of the plan sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the sponsor meet their goal of working in the best interest of the plan participant.

Market Value of Assets – The value of the cash, bonds, securities and other assets held in the pension trust as of the measurement date.

Normal Cost –The present value of future benefits earned by employees during the current fiscal year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Unfunded Actuarial Accrued Liability – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

