

**City of Lake Forest, Illinois**  
**Pension Funding Policy**  
**Revised 8/3/20**

**I. Introduction**

The purpose of this policy statement is to define the manner in which the City of Lake Forest, Illinois funds the long-term costs of benefits promised to plan participants and defines the calculation of Lake Forest’s “annual required contribution” (ARC) to its pension funds.

**II. Background and Scope**

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 benefiting employees.

This Pension Funding Policy applies to the pension funds in which employees of the City of Lake Forest are enrolled. The specific funds covered by this policy include:

- Lake Forest Fire Pension Fund
- Lake Forest Police Pension Fund
- Illinois Municipal Retirement Fund (IMRF)

**III. Objectives**

- a. **Actuarially Determined Contributions** - Ensure pension funding plans are based on actuarially determined annual required contributions (ARC) that incorporate both the cost of current benefits and the amortization of the plan’s unfunded actuarial accrued liability.
- b. **Funding Discipline** – A commitment to make timely contributions to the pension funds to ensure that sufficient assets will be available to pay benefits as promised.
- c. **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 borne by the generation of taxpayers who receive services from those employees.
- d. **Contributions as a Stable Percentage of Payroll** – Manage contributions so that employer costs remain consistent as a percentage of payroll over time.
- e. **Accountability and Transparency** – Clear reporting of pension funding to include an assessment of how and when the City will ensure sufficient assets will be available to pay benefits as promised.

#### **IV. Ethics and Conflicts of Interest**

Officers and employees involved in the pension funding process shall refrain from personal business activity that could potentially conflict (or appear to conflict) with the proper execution and management of the pension funding program or that could impair their ability to make impartial decisions.

#### **V. Annual Required Contribution**

The City of Lake Forest will determine its Annual Required Contribution (ARC) using the following principles:

- The ARC will be calculated by an enrolled actuary.
- The ARC will include the normal cost for current service and amortization to account for any under or over-funded amount.
- Police and Fire Pension Funds:
  - The normal cost will be calculated for the police and fire pension funds using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
    - Investment rate of assumption – 6.50% per year
    - Salary increase assumption – Graded schedule based on service
    - Payroll growth rate assumption – 2.00% per year
    - Non-economic assumptions such as rates of separation, disability, retirement, and mortality shall be determined by City management in consultation with the actuary to reflect current experience.
  - The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 based upon a level percentage of payroll.
    - It is the City's intent to phase in a 15-year open amortization period when the actuarially determined contribution using a 15-year open amortization period is equal to or less than the contribution using current assumptions.
  - Actuarial assets will be determined using a five-year average market valuation.
  - It is anticipated that the contribution under this policy will exceed the statutory minimum contribution requirement. However, should the statutory minimum contribution requirement in any year exceed the requirement under this policy, the City shall contribute the statutory minimum contribution.
- Illinois Municipal Retirement Fund:
  - The normal cost calculation, actuarial assumptions, amortization period and valuation of actuarial assets shall be determined by IMRF.

The City will make its actuarially determined contribution to the Police and Fire pension funds as property tax and public safety pension fee collections are received. Contributions will be made to IMRF on a monthly basis.

## **VI. Reporting**

Funding of the Lake Forest pension funds shall be transparent to vested parties including plan participants, annuitants, pension board trustees, the City Council and Lake Forest residents. To achieve transparency, the following data shall be distributed:

- A copy of the annual actuarial valuation shall be made available to the City Council and applicable Board of Trustees.
- The City's annual budget shall include the City's contribution to the City pension funds.
- The City's Comprehensive Annual Financial Report (CAFR) shall be published on its web site. In this report, the City will make all required disclosures in accordance with Governmental Accounting Standards Board (GASB) guidelines.

## **VII. Future Amendments**

Funding a defined benefit pension plan requires a long-term horizon. Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or non-economic environment. The City will review this policy at least every three years to determine if changes to this policy are needed to ensure adequate resources are being accumulated. The City reserves the right to make changes to this policy at any time if it is deemed appropriate.

## **VIII. Effective Date**

This policy shall be effective immediately upon approval by the City Council.

Approved 8/3/15

Revised 4/16/18

Revised 4/15/19

Revised 9/3/19

Revised 8/3/20