THE CITY OF
LAKE FOREST

Update Letter regarding City of Lake Forest Employee Pensions (Part 1)

The purpose of this series of articles is to provide complete information to Lake Foresters about Lake Forest municipal pensions. This information will help our community become fully informed on our pension situation and its prospective impact on City finances.

Throughout the nation and most notably Illinois, communities are grappling with their public pension programs. Lake Forest is no exception, and as public officials, the City Council believes it is essential to continue to provide a frank and open dialogue with the community about the current status of our three pension programs and their potential impact on our community, not only today but for years to come.

The City has three pension systems: 1) the Illinois Municipal Retirement Fund (IMRF), which is a pension fund for City staff who are not part of the two public safety pension funds, which are 2) the Police Pension Fund and 3) the Fire Pension Fund. While local pension boards manage the Police and Fire pension funds, the IMRF is governed by a statewide board elected by plan participants. We do not include other State pensions here, such as our school district or County plans, as the City Council does not have the responsibility to fund them.

Moreover, most of the terms of the funds, including eligibility for participation, rates of contribution, terms of benefits, and the percentage of investments that can be allocated in a specific sector are mandated by State Statute. These regulations mean that the City of Lake Forest has no input on the plan benefits, investment policy, management or any other terms of these funds.

The pension plans are funded from three sources, 1) member contributions (9% of compensation), 2) fund investment returns, and 3) annual City contributions. State Statutes currently require police and fire pension plans to achieve 90 percent funding by 2040. We do not believe that this requirement will be sustainable for most Illinois municipalities. Previous State-imposed funding deadlines of 2020 and 2033 have been extended, now to 2040, and a similar extension beyond 2040 is anticipated. Such extensions only serve to defer the inevitable, and the City Council is choosing to explore alternative fiscally sustainable models that will not only meet, but exceed, State requirements.

A variety of assumptions are used to calculate annual funding requirements, such as investment returns, mortality and future salary increases. At present, employers are required to make minimum contributions as provided by certified actuaries to meet a target of 90 percent funding by

2040. The actuarial assumptions used in determining the minimum contributions are one of the few factors within the City's control.

As of April 30, 2018, the City's IMRF plan is funded at 98.83%, the Fire Pension Fund is funded at 70.64%, and the Police Pension Fund is funded at 54.20 % (See cityoflakeforest.com for annual pension fund investment returns). In actual figures, the Police Pension Fund (at 4/30/2018) has current assets of $31,650,935 and an actuarial accrued liability of $58,400,246, leaving an unfunded liability of $26,749,311. The Fire Pension Fund (as of 4/30/2018) has current assets of $36,256,485 and an actuarial accrued liability of $51,327,313, leaving an unfunded liability of $15,070,828. The combined total actuarial unfunded liability for the two funds is $41,820,139.

While the City historically has always made at least the state minimum required contributions, several factors have contributed to the current funding levels. **It is important to note the State of Illinois mandates all benefits Police and Fire employees are to receive, and in what amount, and for how many years of service.**. The City has no control in these matters. Further, pension liabilities increase due to the increased life expectancy of retirees over the years, which increases the anticipated costs under current valuations. Secondly, investments have not always achieved the actuarially assumed rate of return. Thirdly, retirees receiving benefits are entitled to a 3% annual cost of living increase, which for many years exceeded the rate of inflation. Thus, the cost of living benefit has a significant compounding effect on unfunded pension liabilities. Finally, the State legislature has adopted benefit enhancements, which apply retroactively, without providing the revenue for funding the enhancements.

The City Council recently changed the City's approach to managing our future pension fund contributions. For the current fiscal year, the City significantly altered the actuarial assumptions to amortize the unfunded liability at an accelerated pace. The change necessitated an increase in current year funding by approximately $800,000 but was designed to **reduce** average annual increases in funding going forward. Also, the City is engaged in discussions with its independent actuary to phase in an open "rolling 15-year" funding model. The new plan will potentially enable Lake Forest to achieve 80% funding of the Police and Fire Pension Fund in the 2034-2035 period while keeping our annual contributions level over many years into the future.

In the next article, the plan adopted to address the City's pension obligations moving forward will be reviewed.

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City of Lake Forest Pension Subcommittee

- Jed Morris, Alderman Ward 1
- Tim Newman, Alderman Ward 2
- Bob Kiely, City Manager
- Elizabeth Holleb, Director of Finance