

City of Lake Forest Pension Primer

December 2018

Three Plans

| | <i>IMRF</i> | Police | Fire |
|--------------|--|---|--|
| Plan Type | Agent Multiple-Employer | Single Employer | Single Employer |
| Benefit Type | Defined Benefit | Defined Benefit | Defined Benefit |
| Provisions | Retirement Disability Death | Retirement Disability Death | Retirement Disability Death |
| Participants | Employees>1000 Hrs/Yr 262 beneficiaries 198 active 177 inactive Includes Library | Police Officers 40 beneficiaries 40 active 8 inactive vested | Firefighters 38 beneficiaries 32 active 4 inactive vested |

Three Plans (continued)

| | <i>IMRF</i> | Police | Fire |
|------------------------|--|---|---|
| Board Membership | 4 elected by employers 3 elected by participants 1 annuitant | 2 Mayor appointees 2 active employees 1 retiree | 2 Mayor appointees 2 active employees 1 retiree |
| Local Representation | None | 2 Board appointees | 2 Board appointees |
| Benefit Determinations | Illinois General Assembly | Illinois General Assembly | Illinois General Assembly |
| City Contribution | Actuarially Determined | Actuarially Determined | Actuarially Determined |
| Employee Contribution | 4.5% (+ 6.2% FICA) | 9.91% (no FICA) | 9.455% (no FICA) |

Three Plans (continued)

| | <i>IMRF</i> | Police | Fire |
|----------------------------|--|--|--|
| Vesting (Tier 1) | 8 Years | 8 Years | 10 Years |
| Vesting (Tier 2) | 10 Years | 10 Years | 10 Years |
| Normal Retirement: | | | |
| Max Pension (Tier1) | 75%; 40 years; age 60 | 75%; 30 years; age 50 | 75%; 30 years; age 50 |
| 50% Pension (Tier1) | 50%; 28 years; age 60 | 50%; 20 years; age 50 | 50%; 20 years; age 50 |
| Max Pension (Tier2) | 75%; 40 years; age 67 | 75%; 30 years; age 55 | 75%; 30 years; age 55 |
| 50% Pension (Tier2) | 50%; 28 years; age 67 | 50%; 20 years; age 55 | 50%; 20 years; age 55 |
| Basis for Pension (Tier 1) | Highest total earnings for 48 consecutive months within last 10 years of IMRF service | Annual salary on last day of service | Annual salary on last day of service |
| Basis for Pension (Tier 2) | Highest total earnings for 96 consecutive months within last 10 years of IMRF service (wage cap applies) | Average salary for eight consecutive years prior to retirement | Average salary for eight consecutive years prior to retirement |

Portability/Termination

- IMRF
 - All IMRF service credit is combined for purposes of service credit and pension determinations
 - Employees may elect to take a separation refund of IMRF employee contributions
- Police Pension – separate and distinct funds
 - Active member of a Police Pension Fund may: 1) apply for transfer of creditable service and related contributions in another Article 3 pension fund and 2) reinstate service in any other Article 3 pension fund terminated by receipt of a refund by paying amount of refund plus interest. (40 ILCS 5/3-110.7)
- Fire Pension – separate and distinct funds
 - Firefighters have authority to combine service from multiple Article 4 pension funds and draw benefit from each. They may reinstate refunds similar to police pension members. (40 ILCS 5/4-109.3)

Public Safety Pension Investment Authority

- 40 ILCS 5/1-113.2 through 113.4 – List of Permitted Investments for all Article 3 and 4 pension funds – limits
- Investment authority rests with Pension Board of Trustees

| Legislative limits on certain types of investments*: | Prior to 1/1/98 | PA 90-507 Eff. 1/1/98 | PA 96-1495 Eff. 7/1/11 | PA 96-1495 Eff. 7/1/12 |
|--|-----------------|-----------------------|------------------------|------------------------|
| Combination of: Separate accounts Life insurance companies; separate accounts insurance companies <i>-qualified mutual funds added 2000</i> | 10% | 10% | 10% | 10% |
| Combination of: common and preferred stocks and mutual funds through investment advisor | n/a | 35% | 50% | 55% |
| Qualified corporate bonds | n/a | n/a | No limit | No limit |

* Applicable to funds with net assets exceeding \$10 million.

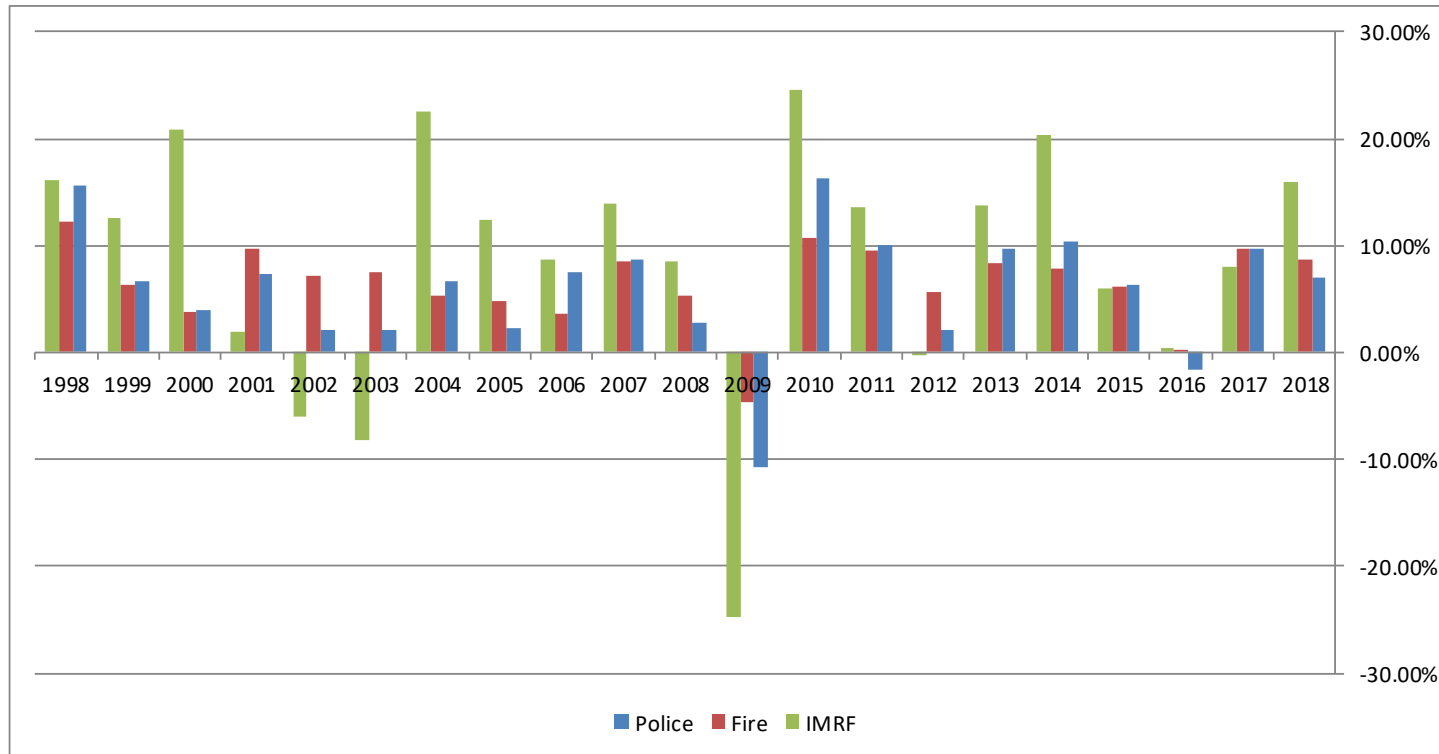
Public Safety Pension Investment Authority

- 40 ILCS 5/1-113.2 through 113.4 – List of Permitted Investments for all Article 3 and 4 pension funds – limits

| Legislative limits on certain types of investments: | Net Assets => \$2.5m | Net Assets => \$5 m | Net Assets => \$10 m |
|--|---|------------------------|-------------------------|
| Combination of: Separate accounts Life insurance companies; separate accounts insurance companies <i>-qualified mutual funds added 2000</i> | 10% | 10% | 10% |
| Combination of: Separate accounts life insurance companies; qualified mutual funds. | 35% | 35% | 55% |
| Combination of: common and preferred stocks and mutual funds through investment advisor | N/A | | |
| Qualified corporate bonds | Allowable and no limit if managed through investment advisor | | |

Investment Returns

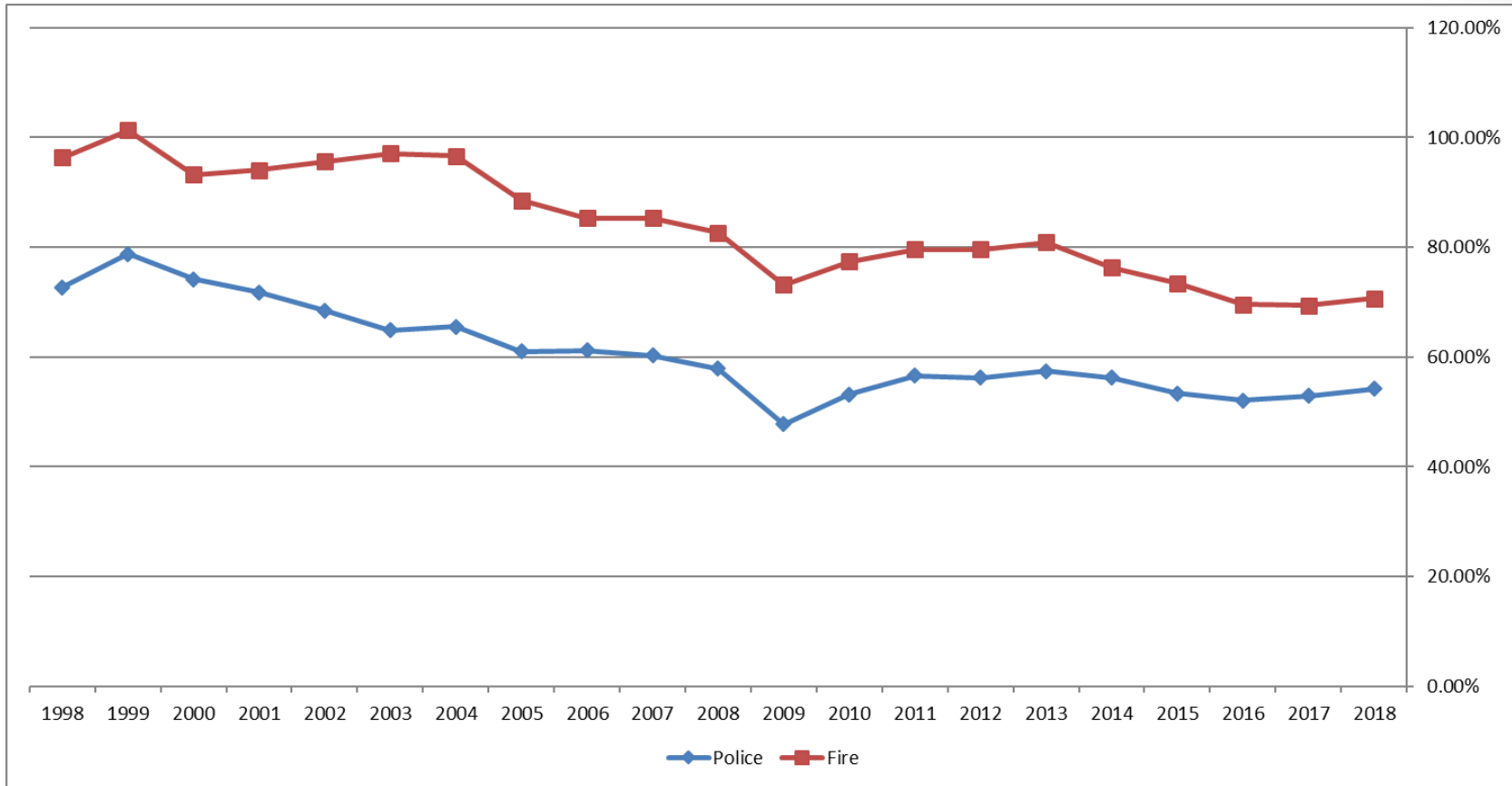
City of Lake Forest Pension Plans Investment Returns History



Police and Fire - Year ended 4/30
IMRF - Prior Year ended 12/31

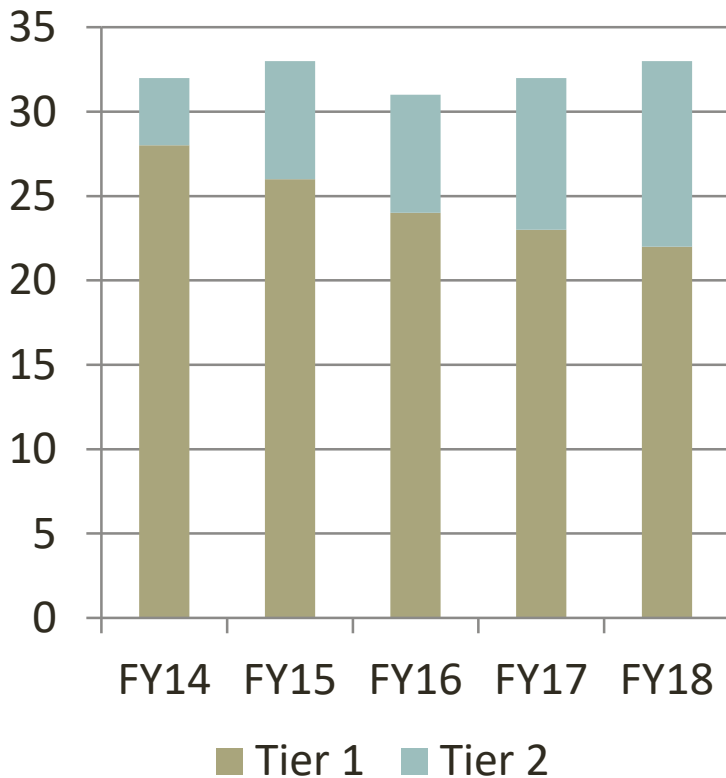
This chart depicts actual investment return for fiscal year shown. Actuarial return will differ due to smoothing.

Funded Ratios

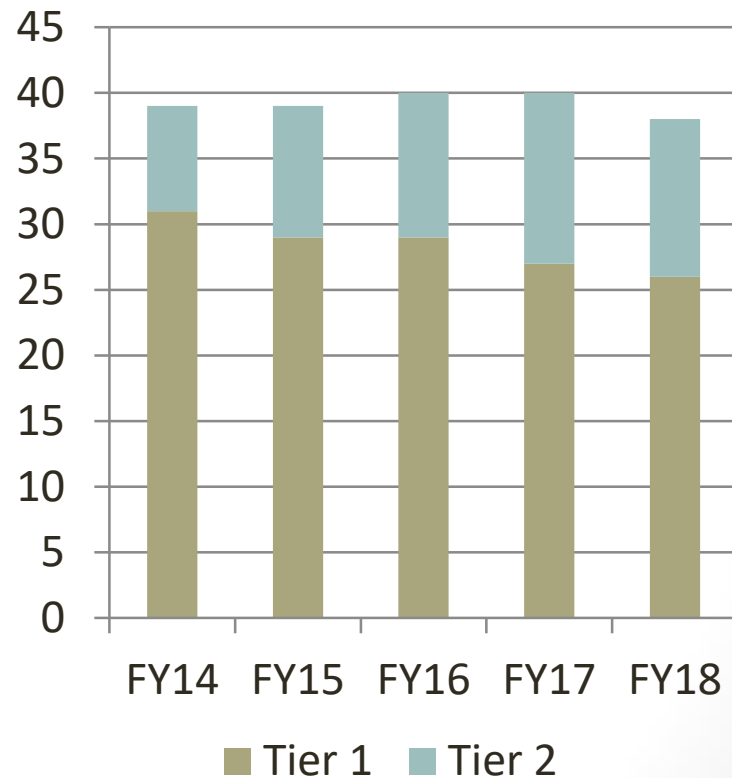


Tier 1 vs. Tier 2 Participation

Fire Pension



Police Pension



Tier 2 employees are those entering the system on or after 1/11/11.

Pension Fund Actuarial Valuations

- The City contracts annually for an actuarial valuation of the police and fire pension funds
 - Results of valuations as of April 30, 2018 determine the property tax levy requirements for the 2018 Levy/FY2020 Budget
- IMRF provides employer contribution rates on a calendar year basis
 - 2017 actuarial valuation determines employer contribution rate for calendar year 2019/FY2020 Budget

Plan Data

| | IMRF | Police | Fire |
|------------------------------|--------------------|---------------------|---------------------|
| Valuation Date | 12/31/17 | 4/30/18 | 4/30/18 |
| Plan Net Position | \$89,012,730 | \$31,650,935 | \$36,256,485 |
| Total Pension Liability | \$90,081,074 | \$58,400,246 | \$51,327,313 |
| Net Pension Liability | \$1,068,344 | \$26,749,311 | \$15,070,828 |
| Percent Funded | 98.83% | 54.2% | 70.6% |
| Assumed Rate/Return | 7.50% | 7.00% | 7.00% |
| Investment Return | 15.96% | 7.03% | 8.65% |
| 5-year average | 10.13% | 6.35% | 6.52% |
| 7-year average | 9.16% | 6.22% | 6.67% |
| City Contribution | | \$2,594,845 | \$1,826,568 |
| Employer Rate | 9.53% | | |
| % Change – Prior Year | (22.9)%* | 3.55% | 6.08% |

*IMRF rate for 2019 is 9.53% compared to 12.36% for 2018, a 22.9% rate decrease.

Contribution Required as % of Covered Payroll for FY2019

- IMRF (calendar year 2018) 12.36%
 - (plus 6.2% FICA – total 18.56%)
- Police Pension* 66.10%
- Fire Pension* 56.10%

* Based on covered payroll as of 4/30/17

GASB 68

- GASB 68
 - Effective for the City's April 30, 2016 financials
 - Net Pension Liability now recorded as liability on entity-wide financial statements
 - Previously only a footnote disclosure
- Efforts taken to mitigate impact of GASB 67 and 68:
 - 4/30/13 (Fire/Police) – Adjusted mortality table to RP2000
 - 4/30/14 (Fire/Police) – Reduced interest rate assumption from 7.50% to 7.00%
 - 4/30/15 (Fire/Police) – Adjusted mortality, disability, turnover and retirement rates to IDOI rates published September 2012; extended amortization period to 2040
 - 4/30/16 (Fire/Police) – No changes due to actuary transition

Questions?