Village of Downers Grove
Official Village Policy Approved by Village Council

Description:	**Other Post-Employment Benefits (“OPEB”) Funding Policy**
Res. or Ord. #:	**2019-67** Effective Date: **10/01/19**
Category:	**Financial Services**
	X New Council Policy
	____ Amends Previous Policy Dated: ____________
	Description of Previous Policy (if different from above): ____________

1.0 INTRODUCTION AND PURPOSE

1.1 Introduction

The Village of Downers Grove has established the Village of Downers Grove Other Post-Employment Benefits Trust (the “Trust”). This Trust is intended to provide funding of non-pension other post-employment benefits (“OPEB”) for those employees who meet the age and service requirements outlined in the plan document.

1.2 Purpose

The purpose of this policy is to set forth the procedures that the Village will utilize to make funding contributions to the Village of Downers Grove Other Post-Employment Benefits Trust to fund the long-term cost of benefits to the plan participants. In order to assure that the Trust is financially sustainable, it should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefitting employees.

2.0 GOALS AND OBJECTIVES

The key goals and objectives of the funding policy are the following:

1. To ensure that benefits are secure for fund participants now and in the long-term.
2. To develop recommendations that are more cost-effective in the long-term.
3. To provide year-to-year contribution stability/budgeting for the Village.
4. To address any transition items needed at the policy implementation.

3.0 FUNDING POLICY

3.1 Actuarially Determined Contribution

It is necessary for the Village to determine an Actuarially Determined Contribution (ADC) on an annual basis. The ADC will provide a plan to achieve 100% funding and will be determined using the below principles:

1. Selection of Actuarial Cost Method
2. Amortization Policy for Handling Unfunded Accrued Liability
3. Selection of Asset Smoothing Method

3.1.1 Actuarial Cost Method

3.1.1.1 Purpose

The intent of any Actuarial Cost Method (ACM) is to set aside the appropriate amount of money during an employee's working career so that the Trust has the funding necessary to make payments after retirement. The ACM provides two key measures for reporting:

1. Normal Cost – The amount of money to contribute for each active employee for the upcoming year of service.
2. Accrued Liability – The amount of money that is expected to be in the Trust already, based on all past service worked by members of the Plan.

3.1.1.2 Recommended Selection

The Entry Age Normal (EAN) Cost Method (Level Dollar) is the current recommended method to measure the Normal Cost and Accrued Liability for the Plan. The EAN Method is a cost-based actuarial method which focuses on budgeting annual costs during the working career of an employee. The Normal Cost level is set with the expectation that it will not increase during an employee's working career and it will use the following assumptions:

1. The investment rate of return assumption will be 7.0% per year.
2. The salary increase assumption will be 3.5% per year.
3. Non-economic assumptions, such as rate of separation, disability, retirement, mortality, etc. shall be determined by the Village in consultation with the actuary to reflect current experience.

3.1.2 Unfunded Accrued Liability

3.1.2.1 Purpose

The ACM will provide a method for setting the expected level of assets needed to be on budget for past services rendered by employees. When the Trust's actuarial assets do not match the expected assets under the budget, an unfunded/overfunded liability exists.

3.1.2.2 Unfunded Liability

The Unfunded Actuarial Accrued Liability may either be amortized over a period of level dollar amounts or as a level percentage of projected payroll.

The unfunded actuarial accrued liabilities established as of December 31, 2018 unrelated to Assumption Changes will be amortized by level dollar contributions to a 100% funding target over 15 future years as of the December 31, 2018 fiscal year.

The unfunded actuarial accrued liabilities established as of December 31, 2018 related to Assumption Changes will be amortized by level dollar contributions to a 100% funding target over 5 future years as of the December 31, 2018 fiscal year. The change in liability is due to a re-measurement at change in the reporting standards.

3.1.2.3 New Unfunded Liability

Volatility in contribution determination can occur when new unfunded liability arises once the amortization period is within 15-20 years of the funding target.

The Village will amortize any new unfunded liability over a 15-year period established as of the date the new unfunded liability emerges using level dollar contributions to a 100% funding target.

3.1.3 Actuarial Value of Plan Assets

3.1.3.1 Purpose

The Actuarial Value of Plan Assets is the figure used annually to determine the level of underfunding in the OPEB Plan. The Actuarial Value of Plan Assets does not necessarily equal the Fair Market Value of Assets. While the Actuarial Value of Plan Assets does not represent dollars that are available on that day to make benefit payments, use of an Actuarial Value of Plan Assets recognizes that assets will not all be distributed at a single point in time.

The objective of using an Actuarial Value of Plan Assets that differs from the Fair Market Value of Assets is to redistribute contributions over the life of the OPEB Plan in a manner that is less volatile. The overall level of contributions over the life of the Plan is not expected to change. To achieve this, gains and losses on the Fair Market Value of Assets are recognized in the Actuarial Value of Plan Assets over a period of time. In order to be successful as part of long-term funding, the Actuarial Value of Plan Assets should be equally likely to fall above or below the Fair Market Value of Assets.

3.1.3.2 Key parameters

1. Years – the number of years to smooth market value gains and losses.

2. Corridor – A limitation placed on the Actuarial Value of Plan Assets. This parameter will limit the Actuarial Value of Plan Assets in relation to the Fair Market Value of Assets.

3.1.3.3 Recommendation

The current recommendation is that the Actuarial Value of Plan Assets will be equal to the Fair Market Value of Assets, with unexpected gains and losses on the Fair Market Value of Assets smoothed over a 5-year period.

It is anticipated that the Actuarial Value of Plan Assets will not stray too far from the Fair Market Value of Assets with the 5-year smoothing parameter. The Village has selected a corridor of 80% to 120% to ensure that the Actuarial Value of Plan Assets does not deviate too far from the Fair Market Value of Assets.

3.2 Funding

Although the Village will determine the ADC on an annual basis, it has the option to not dedicate the entire annual ADC each year. Instead, the Village will initially dedicate $300,000 to fund the Trust annually. The Village will review a benchmark contribution on an annual basis that is done on an actuarial basis to provide direction to transition to full funding of the ADC. The Village will annually review the metrics to determine when to pay benefits with trust assets. Benefit payments will be made from Village resources.

4.0 OPERATIONAL PROCEDURES

4.1 Funding Recommendations

The Village's Finance Director or his/her designee will use the policies and procedures set forth herein to recommend a contribution amount to be made by the Village to the Trust each year.

4.2 Actuarial Assumptions

The Village will review the actuarial assumptions used for determining the Plan's funding levels at least every 3-5 years. The Village will use assumptions that are the best estimate of the future anticipated experience under the Plan. By getting the best estimate on actuarial assumptions, short-term changes in unfunded liability are expected to be offset over a long-term period of time. Review of the assumptions every 3-5 years will help to minimize the impact of assumption changes that have deviated from actual experience over a long period of time.

If any events occur that could impact assumptions immediately (for example, a change in the Investment Policy or strategy), the Village will assess the associated assumption on a more immediate basis and will not be limited by the 3-5 year cycle.

4.3 Review of Funding Policy

The Village will review this Policy on an annual basis. When doing so, the Village should consider:

1. A review of the progress being made on the unfunded liability that exists at implementation.
2. An analysis of cash flow to monitor the continuous ability of the plan to pay benefits.
3. An analysis of the causes of any changes in unfunded liability over recent preceding years.
4. An analysis of the actuarial expectations versus actual experience over recent preceding years.