



Village of Downers Grove

Official Village Policy Approved by Village Council

Description: **Police and Fire Pension Funding Policy**

Res. or Ord. #: **Res.**

Effective Date: **12/19/17**

Category:

New Council Policy

Amends Previous Policy Dated: **11/18/14**

Description of Previous Policy (if different from above):

RESOLUTION NO. 2017-104

A RESOLUTION AMENDING THE POLICE AND FIRE PENSION FUNDING POLICY

1.0 Applicability

This policy applies to the calculation of the Village of Downers Grove's "annual required contribution" (ARC) to the Downers Grove Police and Fire Pension Funds. The police pension trust fund is organized under Article III of the Illinois Pension Code and the fire pension trust fund is organized under Article IV of the Illinois Pension Code.

2.0 Background

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 benefitting employees. This funding policy outlines the method the Village will utilize to determine its actuarially determined contribution to the Downers Grove Police and Fire Pension Funds to fund the long-term cost of benefits to the plan participants and annuitants.

The Village believes that this funding policy meets the guidelines for state and local governments set by the Pension Funding Task Force convened by the Center for State and Local Government Excellence. The guidelines set by this task force outline the following objectives for pension funding policy:

- **Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined annual required contribution (ARC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- **Funding Discipline.** A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.

- **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 paid by the generation of taxpayers who receives services from those employees.
- **Contributions as a stable percentage of payroll.** Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- **Accountability and transparency.** Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

3.0 Policy

3.1 *Village Annual Required Contribution (ARC)*

The Village will determine its ARC to the Downers Grove Police and Fire Pension Funds using the following principles:

- a. The ARC will be calculated by an enrolled actuary.
- b. The ARC will include the normal cost for current service and amortization to collect or refund any under- or over-funded amount.
- c. The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
 - i. The investment rate of return assumption will be 7.00% per year.
 - ii. The salary increase assumption will be 4.75% per year.
 - iii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined by the respective pension boards in consultation with the actuary to reflect current experience.
- d. The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.
- e. Actuarial assets will be determined using market valuation.

The Village will make its actuarially determined contribution to the Downers Grove Police and Fire Pension Funds in two equal installments in or around June and September of each year.

3.2 *Transparency and Reporting*

Funding of the Downers Grove Police and Fire Pension Funds should be transparent to vested parties including plan participants, annuitants, the Downers Grove Police and Fire Pension Fund Boards of Trustees, the Village Council, and Downers Grove residents. In order to achieve this transparency, the following information shall be distributed:

- a. A copy of the annual actuarial valuation for the Downers Grove Police and Fire Pension Funds shall be made available to the Village Council and the Downers Grove Police and Fire Pension Fund Boards of Trustees.
- b. The Village's Comprehensive Annual Financial Report shall be published on its website. This report includes information on the Village's annual contribution to the Downers Grove Police and Fire Pension Funds, and funded status of the Downers Grove Police and Fire Pension Funds.

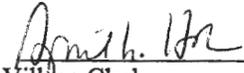
- c. Each year, the Village Council shall approve the Village's annual contribution to the Downers Grove Police and Fire Pension Funds.
- d. The Village's annual operating budget shall include the Village's contribution to the Downers Grove Police and Fire Pension Funds as well as a budget for the Downers Grove Police and Fire Pension Funds. The budget for the Downers Grove Police and Fire Pension Funds are controlled by the respective Pension Fund Board of Trustees, in accordance with state law. The budget document shall be published on the Village website and made available for public inspection at the Civic Center and Downers Grove Public Library.

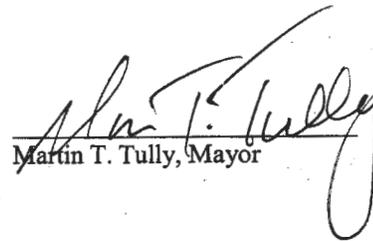
3.3 Review of Funding Policy

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 environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or noneconomic inputs have fundamentally changed or are no longer reasonable. As such, the Village will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Downers Grove Police and Fire Pension Funds. The Village reserves the right to make changes to this policy at any time if it is deemed appropriate.

Passed: December 19, 2017
Published: December 20, 2017

Attest:


Village Clerk


Martin T. Tully, Mayor