

**MEMORANDUM  
FINANCE DEPARTMENT**

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**TO:** Randall Tweet, City Manager **Number:** 017-17  
**SUBJECT:** Firefighters Pension Fund and Police Pension Fund **Date:** 06-20-17  
Assumption Changes

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At the Council Study Session on August 8, 2016, Heath Merlak of Nyhart presented to the Council the Actuarial Valuation Results for January 1, 2016. The results, which reflect the employer's contribution were then incorporated into the 2016 Property Tax Levy.

Mr. Merlak advised staff and Council that actuarial and accounting standards strongly encourage actuarial assumptions be reviewed every 3-5 years and documented within the audited financial statements. He explained that it is important to ensure costs are based on reasonable assumptions and to better align costs across generations. The following assumptions were recommended to be reviewed:

1. Salary Increase
2. Payroll Growth
3. Interest Rate
4. Mortality Table

Mr. Merlak presented the valuation results, a review of past and expected plan experience, and the effect of recommended assumption changes on the pension fund liabilities and the City's employer contribution at the April 10, 2017 Study Session.

Using the historical information and analysis provided for each of the above assumptions, and considering the affected stakeholders, information was provided to the City Council at the June 19, 2017 Study Session and included the recommendation that the City proceed with implementing changes over a five year period:

Year	Valuation Date	Tax Levy / Payable Year
1	1/1/2017	2017 / 2018
2	1/1/2018	2018 / 2019
3	1/1/2019	2019 / 2020
4	1/1/2020	2020 / 2021
5	1/1/2021	2021 / 2022

1. Salary Increase - Implement the recommended change from a flat 5.0% salary increase assumption to age-based salary scale in Year 1.
2. Payroll Growth - Implement the recommended change from a 5.0% payroll growth assumption to 3.5% over a five year period:

Year	Payroll Growth
1	4.0%
2	3.9%
3	3.8%
4	3.7%
5	3.5%

3. Interest Rate - Implement the recommended change from a 7.5% interest rate assumption to 7.0% over a five year period:

Year	Interest Rate
1	7.4%
2	7.3%
3	7.2%
4	7.1%
5	7.0%

4. Mortality Table – To continue to use the mortality table supported by the Department of Insurance (DOI) experience study completed in 2012. It is our understanding the Society of Actuaries is currently working on a new mortality study focused on public plans and that the DOI may also conduct another study. We will continue to monitor this assumption each year.

While the Illinois minimum is to fund to 90% of the actuarial liability by 2041 based on the projected unit cost method, the City will continue to use the entry age normal method and fund to 100%.

In addition, it would be recommended that additional contributions be considered annually during the City's budget process.

**Recommendation:** City Council approve the recommended pension assumption changes.

**Submitted by:** Stephanie Masson, Finance Director

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**Approved:** Randy Tweet, City Manager