The meeting will also be live streamed and recorded.

- Join by phone: 312-626-6799, Meeting ID: 868 8585 6870 and Password: 767829
  - You will be automatically muted. If you would like to speak, you need to press *9 to raise your hand and let the meeting administrator know you would like to speak. Once it is your turn to speak, you will receive a notification asking you to press *6 to unmute yourself. Please announce your name and address before commenting and ensure you are in a quiet place.

- Join by computer/smartphone:
  - https://us02web.zoom.us/j/86885856870?pwd=RDN5RFNGd3BORC9CYVpiNktG5nQ0Zz09
  - You will be automatically muted. If you would like to speak, click on the “Raise Hand” button to let the meeting administrator know you would like to speak. When it is your turn to speak, you will receive a notification that the meeting administrator is asking you to press “unmute.” Please announce your name and address before commenting and ensure you are in a quiet place.

- Public comments can be made by:
  - In person at 7:00 p.m. on Monday, March 13, 2023, during the Public Comment portion of the meeting.
  - Virtually at 7:00 p.m. on Monday, March 13, during the Public Comment portion of the meeting.
  - Email the City Council at allcouncil@wheaton.il.us before 5:00 p.m. on Monday, March 13, 2023.

AGENDA

1. Call To Order
2. Public Comment
3. Approval Of Minutes
   3.1. 02 27 23 Draft PS Minutes
       Documents:
       02 27 23 DRAFT PS MINUTES.PDF
4. Planning Session Discussion Item(S):
4.1. Police And Firefighters’ Pension Funding Policy

Documents:

POLICE AND FIREFIGHTERS PENSION FUNDING POLICY.PDF

5. City Council/Staff Comments

6. Adjournment

During the Public Comment portion of the agenda, the presiding officer shall recognize any person requesting to be heard on any of the planning session agenda items only. Persons speaking during Public Comment shall not speak longer than three (3) minutes and shall be permitted to speak only once.

Visitors must remain quiet and not engage in behavior that interferes with the Planning Session. The presiding officer may, or upon a majority vote of the council, request any visitor who violates any provision of this paragraph to leave the council chambers, and such visitor shall thereupon leave.

Any person providing public comment shall address the presiding officer only and shall not proceed with remarks until recognized. When recognized, the person shall state his or her name and address. Cross floor discussions are prohibited. If a member of the City Council has questions of any person who has provided public comment, that person may address the specific question.
I.   Call to Order
The Wheaton City Council Planning Session was called to order at 7:20 p.m. by Mayor Suess. The following were:

Physically Present:  Mayor Suess
Councilman Barbier
Councilwoman Bray-Parker
Councilwoman Fitch
Councilwoman Robbins
Councilman Weller

Absent: Councilman Brown

City Staff Present: Michael Dzugan, City Manager
John Duguay, Assistant City Manager
James Kozik, Director of Planning & Economic Development
Robert Lehnhardt, Director of Finance
Joseph Tebrugge, Director of Engineering
Erik Berg, Management Analyst
Brandon Kowalke, Senior Management Analyst
Halie Cardinal, Public Relations Coordinator

II.   Public Comment
There was no public comments.

III.   Approval of Planning Session Minutes – January 23, 2023
The City Council approved the January 23, 2023 City Council Planning Session Minutes.

IV.   East Loop Road Corridor Traffic Study
City Manager Michael Dzugan stated that the consultants, Kenig, Lindgren, O’Hara, Aboona, Inc. (KLOA), will present the East Loop Road Corridor Traffic Study. He stated that the East Loop Road Corridor Traffic Study was required as per Ordinance O-2022-44, which granted a special use permit for the planned unit development of a WashU carwash in the PUD on the northeast corner of East Loop Road and Butterfield Road.

Director of Engineering Tebrugge stated that the traffic study focused on the East Loop Road corridor generally from Jahns Drive to Butterfield Road. He stated that this study analyzed existing traffic conditions, future 2028 traffic conditions with the car wash, future 2028 traffic conditions with the car wash and a possible additional restaurant development on the north end of the car wash parking lot. He stated that the study also evaluated corridor improvements, and the results of the study illustrate that the corridor is designed well and works as expected for a busy major collector road. He stated that the future 2028 condition shows that the East Loop Road Corridor has adequate reserve capacity to handle the increase in
traffic even with all the adjoining properties fully operating. All of the intersections and turning movements continue to work very well with the exception of the left hand turns out of the Chick-Fil-A access drive which start to experience an increased delay.

In response to a Council question, Director of Engineering Tebrugge stated that the original study from the corridor’s establishment somewhat differs from this current study since it was conducted with generalized ideas of zoning and had different classifications. Michael Werthmann of KLOA stated that at the time of the original study there were no volumes to evaluate.

Werthmann presented the East Loop Road Corridor Traffic Study for the north-south section of East Loop Road. East Loop Road is an approximate 0.6-mile road that extends in a quarter circle between IL 56 and Naperville Road. The road has a three-lane cross-section and is under traffic signal control at its intersections with IL 56 and Naperville Road. KLOA evaluated the peak hours of the weekday mornings, weekday evenings, and Saturdays. KLOA thoroughly documented the existing roadway conditions, estimated the projected traffic volumes based on the projected growth in the area, evaluated the existing and projected operations, and examined alternative improvements and/or modifications. He stated that KLOA also obtained crash data from 2017 to 2021 for the four intersections in the study area and determined an average crash number of 4.2 per year.

He stated that assuming the 2028 traffic conditions with and without the potential 7,000-square-foot restaurant, the IL 56/East Loop Road intersection and all the critical movements at the stop sign controlled intersections are projected to operate at Level of Service (LOS) D or better. The left-turn movement from the Chick-fil-A access drive is projected to operate at LOS E or F and the East Loop Road southbound approach at IL 56 is projected to operate on the threshold between LOS D/E during certain peak periods.

In response to a Council question, Werthmann stated that acceptable levels of service are defined by grades of A through F, similar to a grading scale for both signalized and unsignalized intersections. The grading scale for both of these types of intersections are similar, but a signalized intersection has a longer delay.

He stated that the results of the gap study conducted along East Loop Road showed that sufficient gaps are available in the East Loop Road traffic stream to accommodate the traffic turning to and from the Chick-fil-A access drive and the Rice Lake Square southern access drive. In general, the existing roadway system has sufficient reserve capacity to accommodate the 2028 projected traffic volumes with and without the potential 7,000 square-foot restaurant.

In response to a Council question, Director of Engineering Tebrugge stated that the light at the intersection of East Loop Drive and Butterfield Road already automatically adds seconds as vehicle volume increases to help dissipate traffic.

In response to a Council question, Director of Planning & Economic Development Kozik stated that the north parking lot can be developed with the cooperation of both property owners.

In response to a Council question, Werthmann stated that a restaurant will generate a similar amount of traffic as a car wash on a typical day in the parcel.

In response to a Council question, Director of Engineering Tebrugge stated that the study was conducted with consideration of a 7,000 square-foot restaurant in order to pick a use that was relatively intense to
V. Stormwater Utility Fee Assessment

City Manager Dzugan stated that the City has previously discussed the need to review the methodology for funding stormwater operations with current funding at $1.7 million annually. The revenue is received from a rate applied to water consumption.

Management Analyst Berg stated that in 2003 the City established its original stormwater utility fee at a rate of $0.18 per 100 cubic feet of water used. In 2016, the City split the Sewerage Fund into two separate enterprise funds, one for Sanitary Sewers and one for Stormwater Sewer operations. In 2018, the storm sewer rate increased from $0.65 to $0.75 for every 100 cubic feet of water used and the City added a fixed fee of $1.50 per month, which is paid by all properties that use City water. He stated that water usage, which is the basis of the City’s current fee, bears no relationship to the amount of stormwater runoff a property generates. The amount of impervious area on a property strongly correlates to the amount of stormwater runoff it generates.

Management Analyst Berg stated that the most common method of charging stormwater fees is based on impervious area, which involves a standard “billable unit” based on the average amount of impervious area on single-family residential properties, known as an equivalent runoff unit (ERU). An ERU enables the City to charge a proportional fee to each property based on the service demands the property places on the stormwater system.

He presented three fee options:

1. **Option 1 Actual ERU** – Under this fee structure, every property in the City is billed for the exact amount of impervious area on the property proportional to the City’s ERU of 3,300 square feet.
2. **Option 2 – Tiered Residential ERU**: Under this fee structure, the City would group single-family properties into tiers based on the amount of impervious area and assign standardized ERU values to those properties.
3. **Option 3 – Intensity of Development Factor (IDF)**: Under this fee structure, the City would calculate the ratio of impervious area to ERU (Actual ERU) and add it to a flat ERU based on the ratio of impervious area (Intensity of Development Factor).

Senior Management Analyst Kowalke stated that adopting a fee based on impervious area better ties the costs of the stormwater utility to the demands individual properties place on the stormwater system.

In response to a Council question, Senior Management Analyst Kowalke stated that Option 1 would call for each individual property to pay the amount of billing units that they have in impervious area. He stated that the value of the ERU remains at 3,300 square feet for all options.

He stated that City staff recommend the City pursue a modified version of the Option 3 – Intensity of Development Factor fee structure. Incorporating the IDF improves upon fee proportionality by factoring in the benefits of impervious areas on property, which help to naturally mitigate stormwater runoff. He stated the next steps for proceeding include determining which operations/costs the stormwater utility fee will cover; determining which fee incentives, credits, and exemptions the City adopts; conducting a full review of property and billing data; communication and stormwater utility fee adoption; and implementation.
In response to a Council question, Senior Management Analyst Kowalke stated City staff plan for further evaluation to handle multi-tenant properties. He stated that during staff research, flood plains have not been a factor of utility fees.

In response to a Council question, City Manager Dzugan stated that the current $1.7 million is taking care of operating the existing system.

In response to a Council question, Senior Management Analyst Kowalke stated that the ERU has the potential to change each year. However, because there are approximately 16,000 residential parcels of which 13,000 are single-family, the ERU would only change based on single-family development. He stated it would take substantial development to change that number.

Council members expressed concerns involving properties within flood zones; potentially substantial increases on property owners’ bills; and shifting the burden from residential owners to commercial/industrial owners since the current mechanism of property taxes works well. The Council expressed interest in implementing this new fee structure to provide relief to residential homeowners.

VI. City Council/Staff Comments
There were no Council/staff comments.

VII. Adjournment
The meeting was adjourned at 8:47 p.m.

Respectfully submitted,

Halie Cardinal
MEMORANDUM

TO: The Honorable Mayor and City Council
FROM: Robert R. Lehnhardt, Director of Finance/Treasurer
DATE: March 13, 2023
SUBJECT: Police and Firefighters’ Pension Funding Policy – Presentation/Discussion

Background
In 2020, staff initiated the analysis of the Police and Firefighters’ Pension Plans’ (“pension plans”) unfunded liabilities with the goal to identify funding options to reduce the unfunded liabilities and reduce the volatility in the City’s contributions to the pension plans. The analysis identified specific strategies, benefits, and risks for each option. The goal of the analysis was to develop a funding strategy that achieved predictable annual payments while reducing long-term costs and meet statutory required funding requirements by 2040.

The City held six (6) Planning Sessions considering the pension funding options and at the May 24, 2021, Planning Session, the majority of the City Council directed staff to pursue the funding strategy of the issuance of taxable General Obligation Bonds to eliminate the unfunded liability of the pension plans and implement a dollar-cost averaging investment strategy to mitigate adverse market timing.

In October 2021, the City issued $45.7 million in General Obligation Bonds (2021 G.O. Bonds) and implemented a dollar-cost averaging investment strategy where the bond proceeds were contributed to the pension plans in twelve (12) equal monthly installments by the City. In 2021, $7.4 million was contributed to the pension plans and $36.8 million was contributed in 2022.

Pension Funding Policy Recommendation
In conjunction with the analysis and 2021 G.O. Bond issue, staff and the City’s actuary, Foster & Foster (“Foster”), are recommending the City adopt a formal pension funding policy (Exhibit A) for the pension plans. The Government Finance Officers Association (GFOA) also recommends that governments that offer defined benefit pensions formally adopt a pension funding policy that provides reasonable assurance that the cost of those benefits will be funded in an equitable and sustainable manner.

The development of the pension funding policy was deferred to this year to coincide with the preparation of the Actuarial Valuation Reports for the fiscal year ending December 31, 2022. Foster recommended it would be appropriate to wait until the entire 2021 G.O. bond proceeds were received by the pension plans and for the completion of the transfer of police and firefighters’ investments into the two consolidated investment funds as required by Public Act 101-0610. The Act created one investment fund for police officers, the Illinois Police Officers’ Pension Investment Fund, and one investment fund for firefighters, the Illinois Firefighters’ Pension...
Investment Fund. The firefighters’ pension fund transferred their investments on June 1, 2022 and the police pension fund on August 1, 2022.

**Pension Funding Policy-Objective**
The purpose of a pension funding policy is to define the manner in which the City funds the long-term cost of benefits promised to plan participants and defines the calculation of the City’s actuarially determined contribution (ADC) to the pension plans. To assure the plan remains sustainable, the plan should accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. The goal is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates unfunded liability while producing a contribution requirement that is stable and predictable.

Foster will present the pension funding policy and has prepared a presentation (Exhibit B) providing information describing the development of the pension funding policy. The presentation includes an overview of the actuarial assumptions and methods that can be used to determine the City’s actuarially determined contribution to the pension plans. In addition, an analysis of three different pension funding methods is provided for your consideration. The main components to a pension funding policy are:

1. **Actuarial cost method.** The method used to allocate benefits over a member’s working career. The actuarial cost method determines the normal cost and the actuarial accrued liability.
2. **Asset smoothing method.** The method used to recognize investment gains and losses over a period of time, which reduces the impact of year over year fund volatility. The actuarial value of assets (smoothed assets) is used in determining the funded ratio, unfunded liability and contribution requirement.
3. **Amortization method.** The approach used to pay off unfunded liabilities as they arise.
   - Length of amortization period.
   - Open, closed, or layered amortization.
   - Level dollar or level percentage of payroll basis.

**Pension Funding Policy-Analysis of Options for Amortization of Unfunded Liabilities**
Foster has provided an analysis (see charts on the following page) comparing the current method and three options for your consideration on the amortization of future unfunded liabilities. Please note the pension contribution amounts are not based on the pension plans current financial condition. Foster will not begin preparing the actuarial valuation reports reflecting the December 31, 2022 financial results until they are audited by the City’s auditors. The charts are used for illustration purposes and to show the impact of the three options. The following assumptions were used: (1) in 2024, the plan investment return is -10%, all other years the return is 6.75%, and (2) all other experience is consistent with the actuarial assumptions other than some small mortality losses.

The following charts show hypothetical annual amortization payments of unfunded liabilities (excludes normal costs) and the estimated funded ratio for the current method and three options:

- **Current Method:** 100% funded by 2040 (closed), level percentage of payroll basis with a payroll growth rate of 4.0% (red line).
- **Option #1:** 15-year open, level dollar amortization (green line).
- **Option #2:** 10-year open, level percentage of payroll with 2.5% payroll growth assumption (blue line).
- **Option #3:** 15-year layered, level dollar amortization (purple line).
As shown on the previous charts, the annual pension contributions for all the methods have the same pattern of increases for the first five (5) years. After the 5th year, the current method (red line) ramps up, while the other options either level off for few years and slightly increase (purple line) or decrease through 2040 (blue and green lines). The funded ratio for all the methods have the same pattern of decreases for the first five (5) years and increases for the next 5 years. By year 2040, the current method (red line) is 100%, while the 15-year layered option (purple line) is around 98%, the 15-year open level dollar option (green line) is around 93% and the 10-year open level percentage of payroll is around 95% (blue line).

Staff and Foster are recommending the City adopt Option #1, the 15-year open, level dollar amortization (green line) as the appropriate methodology for annual amortization of unfunded liabilities in calculating the City’s actuarially determined contribution.

The following table shows the comparison of the actuarial methods and assumptions for the City, State Requirements, and the three options presented for consideration. Please note that the table excludes non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., which will be determined from the latest experience studies and reflected in the calculation of the City’s actuarially determined contributions to the pension plans.

### Actuarial Methods and Assumptions Comparison

<table>
<thead>
<tr>
<th>Actuarial Methods, Assumptions</th>
<th>City Current</th>
<th>State Requirements</th>
<th>#1 15-yr Open, Level Dollar</th>
<th>#2 10-yr Open, Level % of Payroll</th>
<th>#3 15-yr Layered, Level Dollar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Rate of Return</td>
<td>6.75%</td>
<td>6.50%</td>
<td>6.75%</td>
<td>6.75%</td>
<td>6.75%</td>
</tr>
<tr>
<td>Actuarial Cost Method</td>
<td>Entry Age Normal Cost</td>
<td>Projected Unit Credit</td>
<td>Entry Age Normal Cost</td>
<td>Entry Age Normal Cost</td>
<td>Entry Age Normal Cost</td>
</tr>
<tr>
<td>Asset Smoothing Method</td>
<td>5-Year Period</td>
<td>5-Year Period</td>
<td>5-Year Period</td>
<td>5-Year Period</td>
<td>5-Year Period</td>
</tr>
<tr>
<td>Amortization Method</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Length of Amortization Period</td>
<td>2040</td>
<td>2040</td>
<td>15 Years</td>
<td>10 Years</td>
<td>15 Years</td>
</tr>
<tr>
<td>Open, Closed, Layered</td>
<td>Closed</td>
<td>Closed</td>
<td>Open</td>
<td>Open</td>
<td>Layered</td>
</tr>
<tr>
<td>Level Dollar, Level % of Payroll Basis</td>
<td>Level % of Payroll Basis</td>
<td>Level % of Payroll Basis</td>
<td>Level Dollar</td>
<td>Level % of Payroll Basis</td>
<td>Level Dollar</td>
</tr>
<tr>
<td>Payroll Growth Rate</td>
<td>4.00%</td>
<td>3.50%</td>
<td>0.00%</td>
<td>2.50%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Target Funded Ratio</td>
<td>100%</td>
<td>90%</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

### Next Steps

Staff is seeking your feedback and comments on the Pension Funding Policy. Staff concurs with Foster’s recommendation to adopt a Pension Funding Policy which includes a new funding methodology using a 15-year open, level dollar amortization. City staff will incorporate any changes and prepare a resolution for your consideration to formally adopt the Pension Funding Policy at the next City Council Meeting.
I. INTRODUCTION

Policy Statement
The purpose of this policy is to define the manner in which the City of Wheaton funds the long-term cost of benefits promised to plan participants and defines the calculation of the City’s actuarially determined contribution (ADC) to the Police and Firefighters’ Pension Plans.

Policy Goal
The ultimate goal of this policy is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates unfunded liability while producing a contribution requirement that is stable and predictable.

II. GENERAL FUNDING POLICY OBJECTIVES

The objective of a public employee defined benefit pension plan is to fund the long-term cost of retirement benefits provided to the plan participants. To assure the plan remains sustainable, the plan should accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefitting employees. There can be several objectives to achieving this:

1) **Actuarially Determined Contributions** - This should be determined in an actuarially sound manner based on an actuarially determined contribution that incorporates both the cost of current benefits being earned by the active plan participants and the amortization of any unfunded actuarial accrued liability.

2) **Funding Discipline** - Funding should be based on a consistent methodology each year that will ensure that adequate funds are contributed on an annual basis.

3) **Intergenerational Equity** - Maintain a level of intergenerational equity so that the cost of benefits is paid by the generation of taxpayers who receive services from pension participants during their active employment years.

4) **Contributions as a Stable Percentage of Payroll** - Contributions should be managed so that employer costs remain relatively consistent as a percentage of payroll over time.

5) **Accountability and Transparency** - Clearly defined reporting of pension funding, including an assessment of whether, how and when the City will ensure sufficient assets will be available to pay benefits as promised.
III. ACTUARILY DETERMINED CONTRIBUTION FUNDING PRINCIPLES

The annual required contribution will be determined as follows:

1) The *Actuarially Determined Contribution (ADC)* will be calculated by an enrolled actuary.

2) The ADC will include the normal cost, amortization of any unfunded liability, and an estimate of the annual cost to administer the fund.

3) The *Actuarial Accrued Liability*, which is the liability accrued in the fund as of the valuation date, and *Normal Cost*, which is the annual cost of pension accruals by the active employees each year, will be calculated using the Entry Age Normal Level Percentage of Payroll Actuarial Cost Method using the following assumptions:
   a. The investment rate of return assumption will be 6.75% per year. This assumption will be reviewed annually against the investment goals of the fund to ensure that it is a reasonable long-term assumption.
   b. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined from experience studies to most accurately reflect current experience.

4) The *Actuarial Value of Assets* will be determined using a smoothing method to reduce the effects of market volatility on the City’s contributions. A *5-year smoothed market value* method will be used to recognize variances from the actuarial investment rate of return assumption to actual market returns.

5) The *Unfunded Actuarial Accrued Liability (UAAL)*, which is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets will be amortized over an open 15-year period on a level dollar basis.

6) The contribution will include an estimate of the annual cost to administer the fund. This estimate will simply assume that the prior year administrative expenses will be the same in the current year.

IV. TRANSPARENCY

Funding of the pension plans shall be transparent to vested parties including plan participants, annuitants, the Pension Boards, the City Council and residents. To achieve this transparency, the following information shall be distributed and/or published on the City’s website:

1) A copy of the annual actuarial valuation for all plans shall be made available to the City Council and Pension Boards.
2) The City’s annual operating budget shall clearly state the City’s required contribution to the pension plans. As part of the budget process, the required contribution to the fund shall be reviewed and discussed at an open meeting of the City Council.
3) The City’s Annual Comprehensive Financial Report reflects the City’s annual required contribution and the value of the outstanding pension liabilities as directed by the Governmental Accounting Standards Board.

V. 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 noneconomic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or non-economic inputs have fundamentally changed or are no longer reasonable. As such, the City will review this policy every three to five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the pension plans. The City reserves the right to make changes to this policy at any time if it is deemed appropriate.
Funding Policy: Fire and Police Pension Plans

Presented By:
Jason L. Franken, FSA, EA, MAAA
AGENDA

• Pension Plan Funding Policy
• Actuarial Cost Method
• Asset Smoothing Method
• Amortization of Unfunded Liabilities
• Impact of Various Amortization Approaches
PENSION PLAN FUNDING POLICY

• A funding policy determines how pension benefits will be financed over time

• Three main components to a funding policy
  • Actuarial cost method – The method used to allocate benefits over a member’s working career
  • Asset smoothing method – The method used to recognize investment gains and losses over a period of time
  • Amortization method – The approach used to pay off unfunded liabilities as they arise
ACTUARIAL COST METHOD

• An actuarial cost method is a budgeting mechanism used to accumulate money over a member’s working career so that there is enough money to pay their pension benefits in retirement

• The actuarial cost method determines the normal cost and the actuarial accrued liability

• The characteristics of each method are different

• There is not one cost method that is “correct”
ACTUARIAL COST METHOD

• Entry Age Normal Cost Method
  • Creates a level contribution pattern during a member’s career
  • Used by over 90% of public pension funds since it produces a more predictable contribution pattern
  • The required cost method for GASB calculations

• Projected Unit Credit Cost Method
  • Contributions are based on the value of the benefits that accrue each year
  • Benefits accruing near retirement are much more valuable than those early in a member’s career
  • Contribution pattern is back-loaded
  • The cost method used to determine the Illinois statutory minimum contribution
ACTUARIAL COST METHOD

- Entry Age Normal vs. Projected Unit Credit:

New Member: Entry Age 25

\[ \text{% of Payroll} \]

0% 10% 20%

25 29 33 37 41 45 49 53

- EANC - PUC
ACTUARIAL COST METHOD

• Current
  • The City has been funding its pension plans based on the Entry Age Normal cost method

• Recommendation
  • No change – Continue using the Entry Age Normal cost method
Asset Smoothing Selection

- Asset smoothing is standard actuarial practice
  - As of March 30, 2011, Illinois Pension Code requires investment gains and losses to be recognized over a five-year period
- Reduces impact of year over year fund volatility, which can help to achieve a more level funding pattern
- The actuarial value of assets (smoothed assets) is used in determining the funded ratio, unfunded liability and contribution requirement
- **Recommendation:** No change to five-year asset smoothing
AMORTIZATION OF UNFUNDED LIABILITIES

• Each year, the accrued liability is compared to the actuarial value of assets to determine the amount of unfunded liabilities.
  • After bond issuance, the City is in the unique position of having a limited amount of unfunded liability.

• Unfunded liabilities must be paid down over time.

• Currently, the City is targeting a 100% funded ratio by 2040.
  • The statutory requirement in the Illinois Pension Code is 90% by 2040.

• After the bond issuance, it is important for the City to implement methods that eliminate unfunded liability as it arises.
AMORTIZATION OF UNFUNDED LIABILITIES

• Many considerations when selecting an amortization method:
  • Length of the amortization period?
  • Open, closed or layered amortization?
  • Level dollar or level percentage of payroll basis?
    • If level percentage basis, what is the payroll growth assumption?
AMORTIZATION OF UNFUNDED LIABILITIES

• Length of amortization period?
  • Most funds in the State rely on the Illinois Pension Code
  • Currently, the amortization period is through the year 2040
    • This is an arbitrary date arrived at through the political process
  • Amortization periods that end at an arbitrary date can be dangerous
    • The plan is going to be around for a lot longer than this “end date”
    • This date is often pushed back without any consideration of the effect on the plan or the municipality
  • Increasing contributions and volatility as you approach the end of the amortization period could be difficult for the City to manage
Amortization of Unfunded Liabilities

• Open, closed or layered amortization?
  • An amortization with a finite period is called a closed amortization
    • Current approach of 2040 is a closed amortization
  • An open amortization is one that always uses the same number of years
    • Creates a long-term funding approach rather than funding to an arbitrary date
    • Opponents do not like it because it does not get you to 100% by any specific date
    • IMRF is moving to an open 15-year amortization
Amortization of Unfunded Liabilities

• Open, closed or layered amortization?
  • A layered amortization approach is really a combination of the open and closed amortization approaches
    • Creates a long-term funding approach like the open amortization
    • Has finite amortization periods like the closed amortization
    • The gain/loss in 2023 is paid off over a 15-year (for example) period, the gain/loss in 2024 is paid off over a 15-year, etc.
    • When fully implemented, the unfunded liability will be the sum of 15 different unfunded liability layers that are in varying stages of repayment
      • Each year, one of the layers will be paid off
      • More volatility than open approach due to larger bases being paid off
AMORTIZATION OF UNFUNDED LIABILITIES

• Level dollar or level percentage of payroll basis?
  • The level dollar approach produces an amortization payment that is always the same amount
    • Becomes a smaller percentage of payroll over time
  • The level percentage of payroll produces a payment stream that is designed to increase based on the expected growth in payroll
    • Payments start out small and increase over time
    • The actuary uses a payroll growth assumption to determine the payment pattern; the higher the assumption, the more the payment will increase over time
    • The current payment is less than the level dollar approach since future payments get larger each year
  • The level dollar method is the same as the level percentage approach with a 0% payroll growth assumption
# Amortization of Unfunded Liabilities

- The payroll growth assumption determines how unfunded liabilities are paid off.
- Amortization Illustration
  - Unfunded Actuarial Liability = $57,900,000
  - Interest Rate = 6.75%

<table>
<thead>
<tr>
<th>Payroll Growth Rate</th>
<th>UAAL Payment (1\textsuperscript{st} year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>0% (Level $)</td>
<td>$5,020,714</td>
</tr>
<tr>
<td>1%</td>
<td>$4,657,767</td>
</tr>
<tr>
<td>2%</td>
<td>$4,311,074</td>
</tr>
<tr>
<td>3%</td>
<td>$3,981,032</td>
</tr>
<tr>
<td>4%</td>
<td>$3,667,921</td>
</tr>
</tbody>
</table>
Amortization of Unfunded Liabilities

• How do the amortization payments change over the remaining 20 years under various payroll growth assumptions?
What happens to the unfunded liabilities under various payroll growth assumptions?

**Graph:**
- The graph illustrates the amortization of unfunded liabilities over a period of 20 years under various payroll growth assumptions: 0%, 1%, 2%, 3%, and 4%.
- The y-axis represents the amount of unfunded liabilities in millions of dollars, ranging from $0 to $60,000,000.
- The x-axis represents the years, ranging from 0 to 20.
- Each curve on the graph represents a different growth assumption, with 0% being the highest and 4% being the lowest.

The graph shows how the unfunded liabilities decrease over time, with the assumption of higher growth leading to a slower rate of reduction.
**Recommendation**

- Adopt one of the following amortization approaches:
  - 15-year open, level dollar amortization
  - 10-year open, level percentage of payroll with a 2.5% payroll growth assumption
  - 15-year layered, level dollar amortization
The following slides demonstrate the impact of each approach using the following assumptions:

- In 2024, the Fund earns -10%
- In all other years, the Fund earns 6.75%
- All other experience is consistent with the actuarial assumptions other than some small mortality losses
- Note, the Fire fund was used for illustration purposes
IMPACT OF VARIOUS AMORTIZATION APPROACHES

- Pension contributions based on amortization method
IMPACT OF VARIOUS AMORTIZATION APPROACHES

- Funded ratio based on amortization method

![Graph showing the impact of various amortization approaches over time. The graph compares different methods including Current, 10yr, Lev %, 15yr, Lev $, and 15yr, Layered. The x-axis represents years from 2025 to 2040, and the y-axis represents the funded ratio ranging from 75% to 100%.]
Questions?

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