

# Police and Fire Pension Fund

## Mission Statement

It is the mission of the Police and Fire Pension Funds to provide retirement benefits for retired police officers and firefighters and their beneficiaries through employer and employee contributions and investment earnings.

**Primary Functions** → The primary function of this non-operating budgetary unit is to finance pensions for employees by both employer and employee contributions combined with interest earnings on those contributions. These three revenue streams, if based on sound actuarial assumptions, should generate sufficient funds for employee retirement without placing either an undue burden on the employer or a risk to the pension due the employee.

## Budget Summary

<b>POLICE PENSION FUND BUDGET SUMMARY</b>					
	2008	2009	2009	2010	INCREASE
<b>APPROPRIATION</b>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>(DECREASE)</u>
PERSONNEL	\$10,232,021	\$3,733,131	\$10,881,796	\$5,900,674	\$2,167,543
CONTRACTUAL	376,982	425,650	364,362	414,300	(11,350)
SUPPLIES	278	200	122	200	0
OTHER	98,400	101,700	101,700	101,700	0
TOTAL	10,707,681	4,260,681	11,347,980	6,416,874	2,156,193
NON-APPROPRIATION	0	7,500,000	0	5,800,000	(1,700,000)
TOTAL EXPENSE	\$10,707,681	\$11,760,681	\$11,347,980	\$12,216,874	\$456,193

<b>FUNDING SOURCE</b>	2009	2009	2010	2010
	<u>AMOUNT</u>	<u>PERCENTAGE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
POLICE DEPARTMENT TRANSFER				
POLICE PENSION PROPERTY TAX	\$2,754,531	17.9	\$5,038,074	28.1
POLICE PENSION REPLACE TAX	978,600	6.4	862,600	4.8
TOTAL CITY CONTRIBUTION	3,733,131	24.3	5,900,674	32.9
INTEREST INCOME	4,500,000	29.3	3,600,000	20.1
FV APPRECIATION(DEPRECIATION)	3,500,000	22.8	6,500,000	36.2
INVESTMENT INCOME	9,700,000	63.1	10,100,000	56.3
EMPLOYEE CONTRIBUTIONS	2,106,600	12.6	1,954,200	10.8
TOTAL	15,369,047	100.0	17,954,874	100.0
ACTUARY'S CONTRIBUTION				
REQUIREMENT	3,733,131	24.3	5,900,674	32.9
AMORTIZATION AMOUNT	\$5,232,900		\$5,738,000	

(SEE TEXT FOR PENSION FINANCING EXPLANATION TO EXPLAIN REVENUE AND EXPENSE DISCREPANCY)

# Police and Fire Pension Fund

## Budget Summary

<b>FIRE PENSION FUND BUDGET SUMMARY</b>					
<b>APPROPRIATION</b>	2008 <u>ACTUAL</u>	2009 <u>BUDGET</u>	2009 <u>ACTUAL</u>	2010 <u>BUDGET</u>	INCREASE <u>(DECREASE)</u>
PERSONNEL	\$11,070,846	\$5,634,548	\$11,888,462	\$6,951,034	\$1,316,486
CONTRACTUAL	405,205	403,400	451,270	592,000	188,600
SUPPLIES	102	200	0	200	0
OTHER	98,400	101,700	101,700	101,700	0
TOTAL	11,574,553	6,139,848	12,441,432	7,644,934	1,505,086
NON-APPROPRIATION	0	6,400,000	0	7,100,000	700,000
TOTAL EXPENSE	\$11,574,553	\$12,539,848	\$12,441,432	\$14,744,934	\$2,205,086

<b>FUNDING SOURCE</b>	2009 <u>AMOUNT</u>	2009 <u>PERCENTAGE</u>	2010 <u>AMOUNT</u>	2010 <u>PERCENTAGE</u>
FIRE DEPARTMENT TRANSFER				
FIRE PENSION PROPERTY TAX	\$4,460,248	30.5	\$5,915,934	32.7
FIRE PENSION REPLACE TAX	1,174,300	8.0	1,035,100	5.7
TOTAL CITY CONTRIBUTION	5,634,548	38.5	6,951,034	38.4
INTEREST INCOME	4,300,000	29.4	4,300,000	23.8
FV APPRECIATION(DEPRECIATION)	2,800,000	19.2	5,000,000	27.6
INVESTMENT INCOME	7,100,000	48.6	9,300,000	51.4
EMPLOYEE CONTRIBUTIONS	1,886,000	12.9	1,849,200	10.2
TOTAL	14,620,548	100.0	18,100,234	100.0
ACTUARY'S CONTRIBUTION REQUIREMENT	5,634,548	38.5	6,951,034	38.4
AMORTIZATION AMOUNT	\$2,179,116		\$3,355,300	

(SEE TEXT FOR PENSION FINANCING EXPLANATION TO EXPLAIN REVENUE AND EXPENSE DISCREPANCY)

## Budget Analysis

The City utilizes an independent actuary to annually determine the necessary funding for these two plans. Once this is determined, the City funds the plans based on the recommendations of the independent actuary. There were no changes with respect to plan provisions, actuarial methods, or actuarial assumptions from the prior year.

For 2009, the Police plan earned \$1.5 million in interest income while the Fire plan earned \$3.4 million in interest income. The Police and Fire plans also realized \$6.3 and \$2.0 million respectively on the sale of investments. In addition, reflecting fair market value adjustments of investments, the Police Pension Fund recorded a depreciation gain of \$9.8 million. Investment expenses were \$334,000 for Police and \$435,000 for Fire. Approximate annual rates of return were positive for both, (13.4%) for Police and (11.8%) for Fire.

In 1993, the State of Illinois increased the pension benefits for these two plans. This increase not only increased costs for the future but it also significantly increased the unfunded liability for

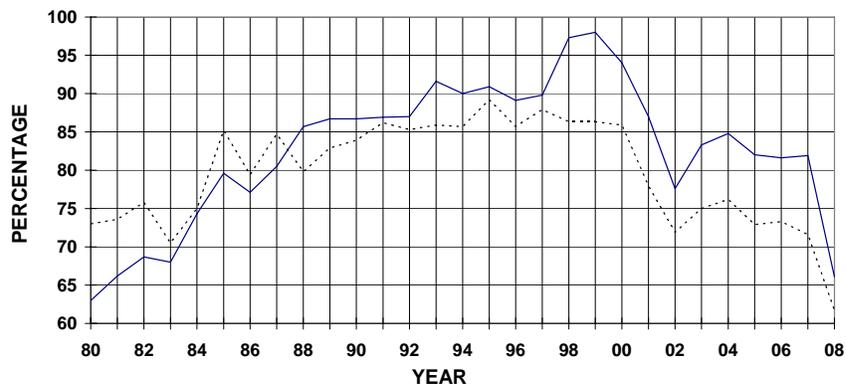
# Police and Fire Pension Fund

service already earned. With the member contribution rate increased only marginally, the bulk of the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization schedule begun in 1980 with a new 1993 forty year level percentage schedule. The City has elected, as long as was possible, to fund the annual contribution based on the 1980 schedule. For 2002, the last year that making this additional contribution was possible, this election added \$406,805 to the Police contribution and \$1,002,874 to the Fire contribution. Due to continuing and increasingly severe property tax cap restrictions, the City in 2003 changed and began to recognize the 1993 amortization method. The impact of this change for 2003 was estimated to be \$980,000 for the Police contribution and \$1,750,000 for the Fire contribution.

Effective July 1, 2004, the State changed the surviving spouse formula for the Fire Pension from 54% of ending salary to 100% of ending pension. To help fund this increased benefit, the firefighter contribution from salary was increased from 8.455% to 9.455%, an addition of \$166,400 and the municipal contribution was calculated at \$365,000, 2.1 cents on the tax rate. 30 of the 48 surviving spouses accounted for a first year cost increase of \$215,000. For the future, this will add an additional \$20,000 annually for each new surviving spouse. The State exempted the property tax necessary for this new benefit from the tax cap law.

For the 2010 Police contribution requirement, the amount has increased from \$3,733,131 to \$5,900,674 (\$2,167,543 – 58.1%). The increase in the contribution requirement is due to the increase in salaries and the equity market loss.. The percent funded has decreased from 81.9% to 66.1%.

**CITY OF ROCKFORD, ILLINOIS  
PERCENTAGE RATE OF FULL FUNDING  
FOR POLICE & FIRE PENSIONS YEARS FROM 1980**



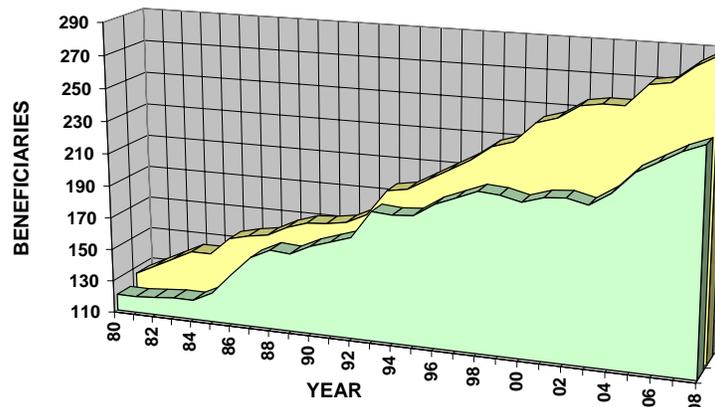
For the 2010 Fire contribution requirement, the amount has increased from \$5,634,548 to \$6,951,034 (\$1,316,486 – 23.4%). The increase in the contribution requirement is due to the increase in salaries and the equity market loss. The percent funded has decreased from 71.6% to 61.7%.

# Police and Fire Pension Fund

ROCKFORD PENSION PLANS			
	<u>Police</u>	<u>Fire</u>	<u>IMRF/SS</u>
Employees	Sworn	Sworn	All Other
2010 Employer Rate	31.12%	36.96%	18.73%
2010 Employee Rate	9.910%	9.455%	10.70%
Social Security Included	No	No	Yes (6.2%)
Plan Administration	Local	Local	State
Retirement Age	50	50	55/60
Vesting (Years)	10	10	8
Pension (20 Years Service)	50%	50%	35%
Pension Limit	75%	75%	75%
Years To Achieve Limit	30	30	40
Pension Based On	Last Pay	Last Pay	Average of (4) Highest Consecutive Years In Last (10)

Trends for the two funds include active member percentage decreasing as the number of retirees increase as well as dollar costs rising.

**CITY OF ROCKFORD, ILLINOIS  
POLICE & FIRE BENEFICIARIES  
YEARS FROM 1980**



51 to 56% of the annual revenues for these two plans are generated from investment earnings. While member contributions have increased to 9.91% for Police in 2000 and 9.455% for Fire in 2005, employee contributions are still the smallest element of the financing equation.

The City contributions are funded from property taxes and state replacement taxes. Pension property taxes are unlimited; however, property tax extension limitations (tax caps) do apply on a total city basis except for the new benefit provision for Fire Pension surviving spouses. For 2010, estimated rates are 24.4 cents for the Police plan and 28.7 cents for the Fire plan. 2009 rates are 13.3 and 21.6 cents respectively. The property tax rate increase is due to the plan cost increase. For the Fire plan, 2.4 cents for 2009 and 2.9 cents for 2010 are exempt from tax caps.

Both plans utilize the Finance Department's staff. The Police pension fund will also utilize a consultant, \$40,000, and a custodian, \$3,400, as well as seven money managers at an estimated cost

# Police and Fire Pension Fund

of \$450,000. The Fire pension uses a consultant, \$60,000, a custodian, \$11,600, and seven money managers at an estimated cost of \$500,000. Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

## Five Year Financial Forecast

The 2011-2015 five-year forecast on a traditional basis, assumes five percent City and employee contribution increases as well as a 7.5% return on investments. The combined impact for the two plans of this increase on the property tax rate would be less than two cents annually. Costs are assumed to rise annually due to three percent pension increases and an annual new retiree group of five. This forecast does not address a number of issues such as mortality, disability, and withdrawal that an actuary would. In addition, it makes no assumptions as to the likelihood of additional benefits gained through the legislative process in Springfield.

During 2009, the two portfolios recovered a portion of their 2008 losses. If this continues, then future contribution increases can return to more normal levels.

### POLICE PENSION FUND 2011-2015 FINANCIAL FORECAST (IN 000'S)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues	\$21,389	\$22,652	\$24,001	\$25,458	\$27,025
Expenditures	12,252	12,725	13,212	13,713	14,229
Excess (Deficit)	9,137	9,927	10,790	11,745	12,795
Beginning Balance	158,156	167,293	177,220	188,010	199,755
Ending Balance	<u>\$167,293</u>	<u>\$177,220</u>	<u>\$188,010</u>	<u>\$199,755</u>	<u>\$212,550</u>
Property Tax Rates (in cents)	26.4	27.7	29.2	30.6	32.1

### FIRE PENSION FUND 2011-2015 FINANCIAL FORECAST (IN 000'S)

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>
Revenues	\$20,108	\$21,223	\$22,397	\$23,659	\$25,013
Expenditures	13,412	13,920	14,442	14,980	15,535
Excess (Deficit)	6,696	7,304	7,954	8,679	9,478
Beginning Balance	134,313	141,009	148,313	156,267	164,946
Ending Balance	<u>\$141,009</u>	<u>\$148,313</u>	<u>\$156,267</u>	<u>\$164,946</u>	<u>\$174,424</u>
Property Tax Rates (in cents)	30.9	32.4	34.0	35.6	37.3