

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

| POLICE PENSION FUND BUDGET SUMMARY | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2008 | 2009 | 2010 | 2011 | INCREASE |
| APPROPRIATION | <u>ACTUAL</u> | <u>ACTUAL</u> | <u>BUDGET</u> | <u>BUDGET</u> | <u>(DECREASE)</u> |
| PERSONNEL | \$10,232,021 | \$10,881,796 | \$5,900,674 | \$5,718,953 | (\$181,721) |
| CONTRACTUAL | 376,982 | 364,362 | 414,300 | 375,100 | (39,200) |
| SUPPLIES | 278 | 122 | 200 | 200 | 0 |
| OTHER | 98,400 | 101,700 | 101,700 | 100,300 | (1,400) |
| TOTAL | 10,707,681 | 11,347,980 | 6,416,874 | 6,194,553 | (222,321) |
| NON-APPROPRIATION | 0 | 0 | 5,800,000 | 6,900,000 | 1,100,000 |
| TOTAL EXPENSE | <u>\$10,707,681</u> | <u>\$11,347,980</u> | <u>\$12,216,874</u> | <u>\$13,094,553</u> | <u>\$877,679</u> |
| FUNDING SOURCE | | 2010 | 2010 | 2011 | 2011 |
| | | <u>AMOUNT</u> | <u>PERCENTAGE</u> | <u>AMOUNT</u> | <u>PERCENTAGE</u> |
| POLICE DEPARTMENT TRANSFER | | | | | |
| POLICE PENSION PROPERTY TAX | | \$5,038,074 | 28.1 | \$4,942,653 | 32.9 |
| POLICE PENSION REPLACE TAX | | 862,600 | 4.8 | 776,300 | 5.2 |
| TOTAL CITY CONTRIBUTION | | 5,900,674 | 32.9 | 5,718,953 | 38.1 |
| INTEREST INCOME | | 3,600,000 | 20.1 | 3,800,000 | 25.3 |
| APPRECIATION(DEPRECIATION) | | 6,500,000 | 36.2 | 3,500,000 | 23.3 |
| INVESTMENT INCOME | | 10,100,000 | 56.3 | 7,300,000 | 48.6 |
| EMPLOYEE CONTRIBUTIONS | | 1,954,200 | 10.8 | 1,986,500 | 13.3 |
| TOTAL | | <u>17,954,874</u> | <u>100.0</u> | <u>15,005,453</u> | <u>100.0</u> |
| ACTUARY'S CONTRIBUTION | | | | | |
| REQUIREMENT | | 5,900,674 | 32.9 | 5,718,953 | 38.1 |
| AMORTIZATION AMOUNT | | \$6,606,894 | | \$1,910,900 | |

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Budget Summary

| FIRE PENSION FUND BUDGET SUMMARY | | | | | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|--------------------|
| | 2008 | 2009 | 2010 | 2011 | INCREASE |
| APPROPRIATION | <u>ACTUAL</u> | <u>ACTUAL</u> | <u>BUDGET</u> | <u>BUDGET</u> | (DECREASE) |
| PERSONNEL | \$10,232,021 | \$11,888,462 | \$6,951,034 | \$7,045,842 | \$94,808 |
| CONTRACTUAL | 376,982 | 451,270 | 592,000 | 509,700 | (82,300) |
| SUPPLIES | 278 | 0 | 200 | 200 | 0 |
| OTHER | 98,400 | 101,700 | 101,700 | 100,800 | (900) |
| TOTAL | 10,707,681 | 12,441,432 | 7,644,934 | 7,656,542 | 11,608 |
| NON-APPROPRIATION | 0 | 0 | 7,100,000 | 6,600,000 | (500,000) |
| TOTAL EXPENSE | <u>\$10,707,681</u> | <u>\$12,441,432</u> | <u>\$14,744,934</u> | <u>\$14,256,542</u> | <u>(\$488,392)</u> |
| FUNDING SOURCE | | 2010 | 2010 | 2011 | 2011 |
| | | <u>AMOUNT</u> | <u>PERCENTAGE</u> | <u>AMOUNT</u> | <u>PERCENTAGE</u> |
| FIRE DEPARTMENT TRANSFER | | | | | |
| FIRE PENSION PROPERTY TAX | | \$5,915,934 | 32.7 | \$6,114,242 | 36.6 |
| FIRE PENSION REPLACE TAX | | 1,035,100 | 5.7 | 931,600 | 5.6 |
| TOTAL CITY CONTRIBUTION | | 6,951,034 | 38.4 | 7,045,842 | 42.2 |
| INTEREST INCOME | | 4,300,000 | 23.8 | 2,800,000 | 16.8 |
| APPRECIATION(DEPRECIATION) | | 5,000,000 | 27.6 | 5,000,000 | 30.0 |
| INVESTMENT INCOME | | 9,300,000 | 51.4 | 7,800,000 | 46.7 |
| EMPLOYEE CONTRIBUTIONS | | 1,849,200 | 10.2 | 1,845,600 | 11.1 |
| TOTAL | | 18,100,234 | 100.0 | 16,691,442 | 100.0 |
| ACTUARY'S CONTRIBUTION | | | | | |
| REQUIREMENT | | 6,951,034 | 38.4 | 7,045,842 | 42.2 |
| AMORTIZATION AMOUNT | | \$3,355,300 | | \$2,434,900 | |

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 service already earned. With the member contribution rate increased only marginally, the bulk of

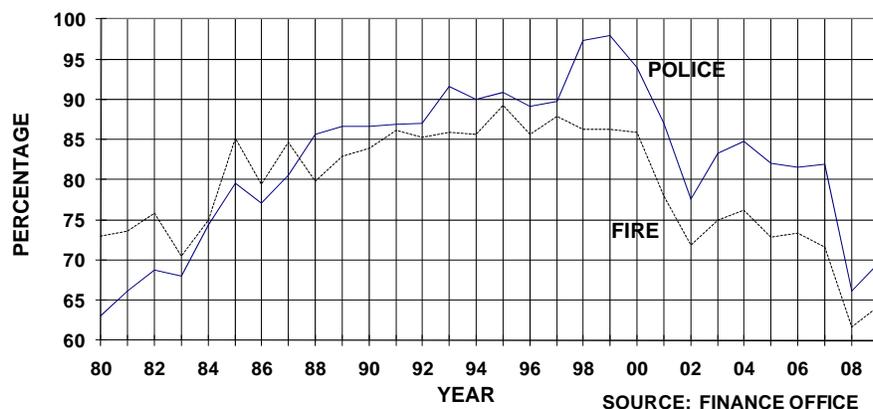
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the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization schedule begun in 1980 with a new 1993 forty year level percentage schedule. The City has 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 2011 Police contribution requirement, the amount has decreased from \$5,900,674 to \$5,718,953, -\$181,721 (-3.1%). The decrease in the contribution requirement is due to the decrease in the annual payroll and the investment return was greater than assumed. The percent funded has increased from 61.1% to 69.5%.

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



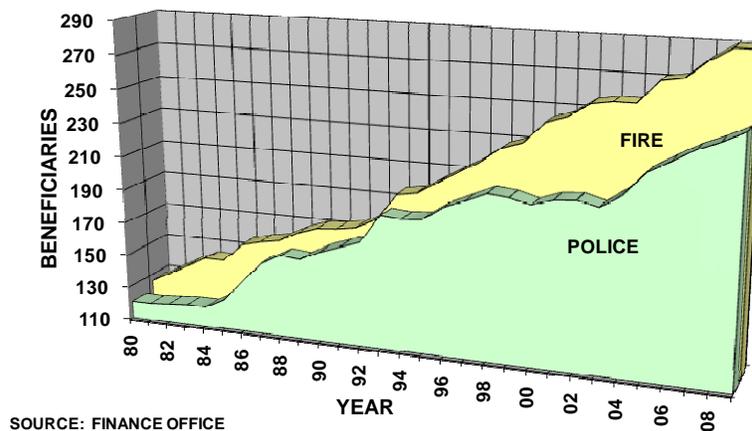
For the 2011 Fire contribution requirement, the amount has increased from \$6,951,034 to \$7,045,842 (\$94,808 – 1.4%). The increase in the contribution requirement is due to the increase in salaries and was offset due to the investment return was greater than assumed. The percent funded has increased from 61.7% to 64.2%.

Police and Fire Pension Fund

| ROCKFORD PENSION PLANS | | | |
|----------------------------|---------------|-------------|---|
| | <u>Police</u> | <u>Fire</u> | <u>IMRF/SS</u> |
| Employees | Sworn | Sworn | All Other |
| 2011 Employer Rate | 28.53% | 36.10% | 19.01% |
| 2011 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 2011, estimated rates are 25.7 cents for the Police plan and 31.8 cents for the Fire plan. 2010 rates are

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estimated at 25.3 and 29.7 cents respectively. The property tax rate increase is due to the plan cost increase. For the Fire plan, 3.0 cents for 2010 and 3.4 cents for 2011 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 of \$457,900 (2009-\$494,879). The Fire pension uses a consultant, \$60,000, a custodian, \$11,600, and eight money managers at an estimated cost of \$408,500 (2009-\$449,478). Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

Five Year Financial Forecast

The 2012-2016 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 approximately four 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 2012-2016 FINANCIAL FORECAST (IN 000'S)

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|----------------------------------|------------------|------------------|------------------|------------------|------------------|
| Revenues | \$21,266 | \$22,400 | \$23,630 | \$24,945 | \$26,339 |
| Expenditures | 13,592 | 14,105 | 14,633 | 15,177 | 15,738 |
| Excess (Deficit) | 7,673 | 8,295 | 8,996 | 9,768 | 10,602 |
| Beginning Balance | 157,306 | 164,979 | 173,274 | 182,270 | 192,039 |
| Ending Balance | <u>\$164,979</u> | <u>\$173,274</u> | <u>\$182,270</u> | <u>\$192,039</u> | <u>\$202,640</u> |
| Property Tax Rates (in cents) | 27.7 | 29.7 | 31.9 | 33.4 | 35.1 |

FIRE PENSION FUND 2012-2016 FINANCIAL FORECAST (IN 000'S)

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--------------------|------------------|------------------|------------------|------------------|------------------|
| Revenues | \$21,806 | \$22,958 | \$24,198 | \$25,529 | \$26,951 |
| Expenditures | 14,789 | 15,338 | 15,903 | 16,485 | 17,085 |
| Excess (Deficit) | 7,017 | 7,620 | 8,295 | 9,043 | 9,866 |
| Beginning Balance | 147,633 | 154,650 | 162,270 | 170,565 | 179,608 |
| Ending Balance | <u>\$154,650</u> | <u>\$162,270</u> | <u>\$170,565</u> | <u>\$179,608</u> | <u>\$189,474</u> |
| Property Tax Rates | 34.1 | 36.5 | 39.0 | 40.8 | 42.7 |