

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					
	2007	2008	2008	2009	INCREASE
APPROPRIATION	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>(DECREASE)</u>
PERSONNEL	\$9,455,000	\$3,608,547	\$10,232,021	\$3,733,131	\$124,584
CONTRACTUAL	408,487	429,000	376,982	425,650	(3,350)
SUPPLIES	48	200	278	200	0
OTHER	96,300	98,400	98,400	101,700	3,300
TOTAL	9,959,835	4,136,147	10,707,681	4,260,681	124,534
NON-APPROPRIATION	0	6,000,000	0	7,500,000	1,500,000
TOTAL EXPENSE	<u>\$9,959,835</u>	<u>\$10,136,147</u>	<u>\$10,707,681</u>	<u>\$11,760,681</u>	<u>\$1,624,534</u>
FUNDING SOURCE		2008	2008	2009	2009
		<u>AMOUNT</u>	<u>PERCENTAGE</u>	<u>AMOUNT</u>	<u>PERCENTAGE</u>
POLICE DEPARTMENT TRANSFER					
POLICE PENSION PROPERTY TAX		\$2,488,547	16.2	\$2,599,131	18.8
POLICE PENSION REPLACE TAX		<u>1,120,000</u>	<u>7.3</u>	<u>1,134,000</u>	<u>8.2</u>
TOTAL CITY CONTRIBUTION		3,608,547	23.5	3,733,131	27.0
INTEREST INCOME		5,700,000	37.1	4,500,000	32.5
FV APPRECIATION(DEPRECIATION)		<u>4,000,000</u>	<u>26.0</u>	<u>3,500,000</u>	<u>25.3</u>
INVESTMENT INCOME		9,700,000	63.1	8,000,000	57.8
EMPLOYEE CONTRIBUTIONS		2,060,500	13.4	2,106,600	15.2
TOTAL		<u>15,369,047</u>	<u>100.0</u>	<u>13,839,731</u>	<u>100.0</u>
ACTUARY'S CONTRIBUTION					
REQUIREMENT		3,608,547	23.5	3,733,131	27.0
AMORTIZATION AMOUNT		\$5,232,900		\$2,079,050	
(SEE TEXT FOR PENSION FINANCING EXPLANATION TO EXPLAIN REVENUE AND EXPENSE DISCREPANCY)					

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Budget Summary

FIRE PENSION FUND BUDGET SUMMARY					
APPROPRIATION	2007 <u>ACTUAL</u>	2008 <u>BUDGET</u>	2008 <u>ACTUAL</u>	2009 <u>BUDGET</u>	INCREASE (DECREASE)
PERSONNEL	\$10,282,867	\$5,086,621	\$11,070,846	\$5,634,548	\$547,927
CONTRACTUAL	447,014	415,650	405,205	403,400	(12,250)
SUPPLIES	0	200	102	200	0
OTHER	<u>96,300</u>	<u>98,400</u>	<u>98,400</u>	<u>101,700</u>	<u>3,300</u>
TOTAL	10,826,181	5,600,871	11,574,553	6,139,848	538,977
NON-APPROPRIATION	0	<u>5,700,000</u>	0	<u>6,400,000</u>	<u>700,000</u>
TOTAL EXPENSE	<u>\$10,826,181</u>	<u>\$11,300,871</u>	<u>\$11,574,553</u>	<u>\$12,539,848</u>	<u>\$1,238,977</u>
FUNDING SOURCE	2008 <u>AMOUNT</u>	2008 <u>PERCENTAGE</u>	2009 <u>AMOUNT</u>	2009 <u>PERCENTAGE</u>	
FIRE DEPARTMENT TRANSFER					
FIRE PENSION PROPERTY TAX	\$3,742,621	23.3	\$4,273,748	29.2	
FIRE PENSION REPLACE TAX	<u>1,344,000</u>	<u>8.4</u>	<u>1,360,800</u>	<u>9.3</u>	
TOTAL CITY CONTRIBUTION	5,086,621	31.7	5,634,548	38.5	
INTEREST INCOME	6,300,000	39.2	4,300,000	29.4	
FV APPRECIATION(DEPRECIATION)	<u>2,800,000</u>	<u>17.4</u>	<u>2,800,000</u>	<u>19.2</u>	
INVESTMENT INCOME	9,100,000	56.6	7,100,000	48.6	
EMPLOYEE CONTRIBUTIONS	1,881,700	11.7	1,886,000	12.9	
TOTAL	<u>16,068,321</u>	<u>100.0</u>	<u>14,620,548</u>	<u>100.0</u>	
ACTUARY'S CONTRIBUTION REQUIREMENT	5,086,621	31.7	5,634,548	38.5	
AMORTIZATION AMOUNT	\$4,767,450		\$2,080,700		
(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 2008, the Police plan earned \$1.8 million in interest income while the Fire plan earned \$4.7 million in interest income. In addition, reflecting fair market value adjustments of investments, the Police and Fire Pension Funds recorded depreciation losses of \$20.8 and \$16.9 million respectively. Investment expenses were \$296,000 for Police and \$377,000 for Fire. Approximate annual rates of return were negative for both, (11.9%) for Police and (8.7%) 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

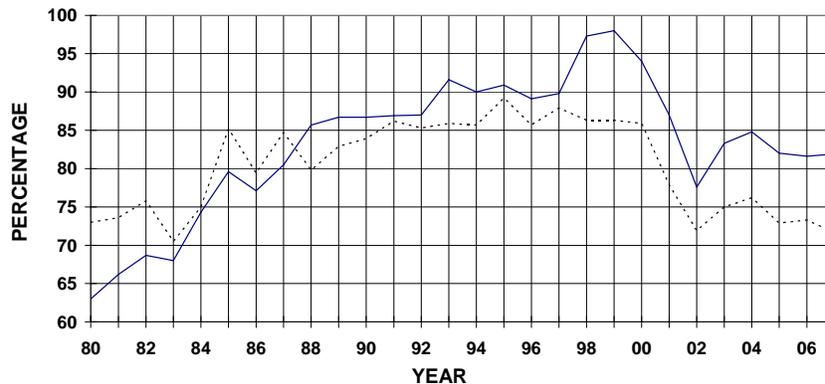
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service already earned. With the member contribution rate increased only marginally, the bulk of the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization 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 2009 Police contribution requirement, the amount has increased from \$3,608,547 to \$3,733,131 (\$124,584 – 3.5%). The increase in the contribution requirement is due to the increase in salaries. The percent funded has increased from 81.6% to 81.9%.

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



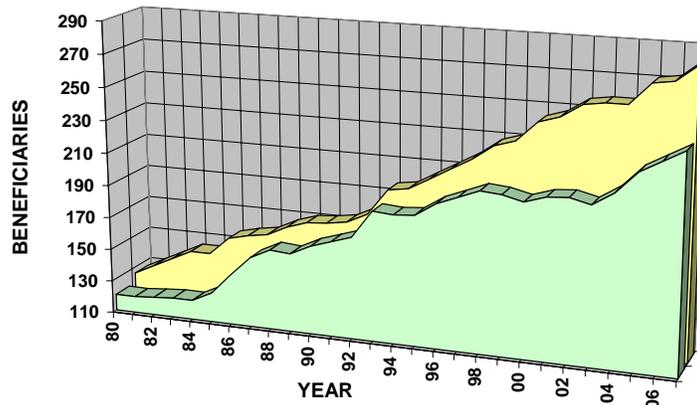
For the 2009 Fire contribution requirement, the amount has increased from \$5,086,621 to \$5,634,548 (\$547,927 – 10.8%). The increase in the contribution requirement is due to the increase in salaries. The percent funded has decreased from 73.3% to 71.6%.

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ROCKFORD PENSION PLANS			
	<u>Police</u>	<u>Fire</u>	<u>IMRF/SS</u>
Employees	Sworn	Sworn	All Other
2009 Employer Rate	18.26%	29.38%	15.55%
2009 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**



49 to 58% 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 2009, estimated rates are 13.0 cents for the Police plan and 21.0 cents for the Fire plan. 2008 rates are 12.0 and 18.0 cents respectively. The property tax rate increase is due to the plan cost increase. For the Fire plan, 2.1 cents for both the 2008 and 2009 years is 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

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of \$440,000. The Fire pension uses a consultant, \$60,000, a custodian, \$11,600, and seven money managers at an estimated cost of \$495,000. Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

Five Year Financial Forecast

The 2010-2014 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.

However, given the performance of the 2008 equity markets, if there is not a reversal of the year to date performance, then the 2010 contribution requirement will increase approximately \$3.4 million, 37%, for the two plans. This would represent 15¢ on the tax rate and, since the City is subject to the PTELL (tax cap) law, this would require a like dollar amount decrease in the City's other operating activities.

POLICE PENSION FUND 2010-2014 FINANCIAL FORECAST (IN 000'S)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues	\$17,713	\$18,641	\$19,630	\$20,680	\$21,812
Expenditures	<u>11,259</u>	<u>11,702</u>	<u>12,158</u>	<u>12,628</u>	<u>13,112</u>
Excess (Deficit)	<u>6,454</u>	<u>6,939</u>	<u>7,472</u>	<u>8,052</u>	<u>8,701</u>
Beginning Balance	<u>143,525</u>	149,979	156,918	<u>164,390</u>	<u>172,442</u>
Ending Balance	<u>\$149,979</u>	<u>\$156,918</u>	<u>\$164,390</u>	<u>\$172,442</u>	<u>\$181,143</u>
Property Tax Rates (in cents)	14.3	15.8	16.9	18.0	19.1

FIRE PENSION FUND 2010-2014 FINANCIAL FORECAST (IN 000'S)

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Revenues	\$18,878	\$19,922	\$21,053	\$22,249	\$23,544
Expenditures	<u>12,092</u>	<u>12,560</u>	<u>13,042</u>	<u>13,538</u>	<u>14,049</u>
Excess (Deficit)	<u>6,785</u>	<u>7,362</u>	<u>8,011</u>	<u>8,711</u>	<u>9,494</u>
Beginning Balance	<u>133,916</u>	<u>140,701</u>	<u>148,063</u>	<u>156,073</u>	<u>164,784</u>
Ending Balance	<u>\$140,701</u>	<u>\$148,063</u>	<u>\$156,073</u>	<u>\$164,784</u>	<u>\$174,279</u>
Property Tax Rates (in cents)	22.8	24.7	26.1	27.5	29.0