



## **NOTICE AND AGENDA**

**NOTICE IS HEREBY GIVEN  
THAT A COMMITTEE OF THE WHOLE MEETING**

**WILL BE HELD ON**

**September 15, 2020**

**6:00 PM**

**Location: Oswego Village Hall**

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### **A. MEETING INFORMATION**

A.1 Meeting Attendance Instructions

[Meetings and Public Comment Instructions 9-1-20.docx](#)

### **B. CALL TO ORDER**

### **C. ROLL CALL**

### **D. CONSIDERATION OF AND POSSIBLE ACTIONS ON ANY REQUESTS FOR ELECTRONIC PARTICIPATION IN MEETING**

### **E. PUBLIC FORUM**

### **F. OLD BUSINESS**

### **G. NEW BUSINESS**

G.1 Review the Police Pension Fund Actuarial Valuation as of May 1, 2020

[Police pension Actuarial Report 2020.docx](#)

[Oswego Police\\_Tax Levy Actuarial Report\\_4.30.2020 Final.pdf](#)

[Oswego Police\\_4.30.2020\\_Pension Board Presentation.pdf](#)

[Oswego Police\\_4.30.2020\\_Funding Policy Sensitivity Exhibit.pdf](#)

G.2 Review the Postretirement Health Plan Valuation for the Fiscal Year Ending April 30, 2020

[OPEB April 30 2020.docx](#)

[Oswego-VillageOf\\_GASB 74&75\\_LimitedYear\\_Actuary Report\\_4.30.20\\_Final.pdf](#)

G.3 Requesting Village Board Priorities for the Fiscal Year 2022 Village Budget

[Village Board Budget Priorities for 2022 .docx](#)

**H. CLOSED SESSION**

- H.1 a. Pending and Probable Litigation [5 ILCS 120/2(c)(11)]
- b. Appointment, Employment, Compensation, Discipline, Performance, or Dismissal of Personnel [5 ILCS 120/2(c)(1)]
- c. Collective Bargaining, Collective Negotiating Matters, Deliberations Concerning Salary Schedules [5 ILCS 120/2(c)(2)]
- d. Sale, Lease, and/or Acquisition of Property [5 ILCS 120/2(c)(5) & (6)]
- e. Security Procedures and the Use of Personnel and Equipment to Respond to an Actual, Threatened, or a Reasonably Potential Danger to the Safety of Employees, Staff, the Public, or Public Property [5 ILCS 120/2(c)(8)]

**I. ADJOURNMENT**

Posted:  
Date: \_\_\_\_\_  
Time: \_\_\_\_\_  
Place: \_\_\_\_\_  
Initials: \_\_\_\_\_

Tina Touchette  
Village Clerk



Tina Touchette,  
Village Clerk

100 Parkers Mill • Oswego, IL. 60543 • (630) 554-3259  
Website: [www.oswegoil.org](http://www.oswegoil.org)

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September 1, 2020

### **Meeting Attendance Instructions**

Effective Saturday, Aug. 1, 2020, Village Board meetings in the Village of Oswego resumed to normal in-person meeting attendance. Attendance and public participation options via Zoom or other remote participation platforms will no longer be provided. Chairpersons for Village Commission meetings may choose to continue to hold the meetings via Zoom or other remote participation platforms.

Village Hall will be open for the Committee of the Whole and Regular Village Board meetings, however, residents who do not intend to offer public comment are still strongly encouraged to watch remotely.

Public comments, as part of public forum, will no longer be accepted via email or by phone call. Members of the public wishing to comment during the public forum portion of public meetings may do so in person. As always, those giving public comment are asked to fill out the Public Participation form available in the Village Hall lobby and abide by the Village's civility code. General comments from the public to the Village Board or staff can still be submitted to the Village's email address at [info@oswegoil.org](mailto:info@oswegoil.org), however, these comments will not be read aloud at meetings. In addition, the Village President and Trustees welcome emails and phone calls from constituents.

### **Social distancing measures in place**

For members of the public attending meetings in person, guidelines from the Illinois Department of Public Health and the Department of Commerce & Economic Opportunity will remain in effect. These include but are not limited to:

- Wearing face masks
- Maintaining at least six feet of distance from other people
- Capping room capacity at 50 people
- Making hand sanitizer and disposable masks available for attendees

A temperature station is set-up in the lobby to check temperatures of persons attending the Village Board meetings. If you are not feeling well, please stay home.

A tv monitor will be made available in the lobby so that, in the event a meeting reaches the 50-person capacity limit, the public will be able to watch the proceedings from the Village Hall lobby.

### **How to watch meetings from home**

As always, the public is invited to watch the livestream of Oswego Village Board meetings at [www.oswegoil.org/government/village-board/agendas.aspx](http://www.oswegoil.org/government/village-board/agendas.aspx). Scroll down to *Upcoming Events*. Once the meeting begins, an *In Progress* link will appear. Click on it to watch the meeting.

**Get updates as they happen**

Residents are also encouraged to follow the Village of Oswego on Facebook (@VillageofOswego) and Twitter (@OswegoIL60543) for up to the minute updates. You can also subscribe to Village of Oswego emails or text alerts by visiting <http://www.oswegoil.org/> and clicking on *E-mail Alerts*.

For more information about public participation at meetings, please contact me.

Thank you,

Tina Touchette, RMC, CMC  
Village Clerk  
630-554-3259  
[ttouchette@oswegoil.org](mailto:ttouchette@oswegoil.org)

**AGENDA ITEM**

**MEETING TYPE:** Committee of the Whole

**MEETING DATE:** September 15, 2020

**SUBJECT:** Review the Police Pension Fund Actuarial Report

**ACTION REQUESTED:**

Review and accept the Actuarial Report

**BOARD/COMMISSION REVIEW:**

N/A

**ACTION PREVIOUSLY TAKEN:**

Date of Action	Meeting Type	Action Taken
N/A	N/A	N/A

**DEPARTMENT:** Finance

**SUBMITTED BY:** Mark G. Horton, Finance Director

**FISCAL IMPACT:**

The Village contribution to the Police Officers Pension Fund will increase \$240,374 as calculated per the actuarial valuation as of May 1, 2020.

**BACKGROUND:**

The Village contributes an amount each year to support the Police Officers Pension Fund. The amount contributed must be based on an actuarial valuation completed each year.

**DISCUSSION:**

The Illinois Compiled Statutes state how a municipality shall finance the Police Pension Fund;

(40 ILCS 5/3-125) (from Ch. 108 1/2, par. 3-125)

Sec. 3-125. Financing. The city council or the board of trustees of the municipality shall annually levy a tax upon all the taxable property of the municipality at the rate on the dollar which will produce an amount which, when added to the deductions from the salaries or wages of police officers, and revenues available from other sources, will equal a sum sufficient to meet the annual requirements of the police pension fund. The annual requirements to be provided by such tax levy are equal to (1) the normal cost of the pension fund for the year involved, plus (2) the amount necessary to amortize the fund's unfunded accrued liabilities as provided in Section 3-127. The tax shall be levied and collected in the same manner as the general taxes of the municipality, and in addition to all other taxes now or hereafter authorized to be levied upon all property within the municipality, and shall be in addition to the amount authorized to be levied for general purposes as provided by Section 8-3-1 of the Illinois Municipal Code, approved May 29, 1961, as amended.

The Village contracted with Lauterbach & Amen, LLP to complete the required annual actuarial valuation. Actuaries from Lauterbach & Amen will be in attendance to present the actuarial valuation and answer any questions.

The actuarial report determined the Village must contribute a minimum \$1,783,331 to the pension fund in fiscal year 2022. The Village has been contributing more than the minimum annually to offset any given year's spike in the contribution amount. The Village is contributing \$1,600,000 this fiscal year and will budget to contribute \$1,800,000 for fiscal year 2022 if funding is available.

The Actuaries will also discuss the differences in Actuarial Cost Methods for the recommended contribution basis; Level % of Pay versus the Level Dollar method. This valuation used the Level % of Pay method to determine the recommended contribution. If the Level Dollar method were used, the recommended contribution would increase to \$2,036,000.

The actuarial valuation was presented to the Police Pension Board at the Board's July 23<sup>rd</sup>.

**RECOMMENDATION:**

Staff recommends the Village Board accept the Actuarial Valuation report.

**ATTACHMENTS:**

-Police Pension Fund Actuarial Report

-Police Pension Fund Presentation

Actuarial Funding Report

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OSWEGO POLICE  
PENSION FUND

Actuarial Valuation  
as of May 1, 2020

For the Contribution Year May 1, 2020 to April 30, 2021

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***LAUTERBACH & AMEN, LLP***

# Actuarial Valuation – Funding Recommendation

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## Lauterbach & Amen, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

### OSWEGO POLICE PENSION FUND

**Contribution Year Ending: April 30, 2021**

Actuarial Valuation Date: May 1, 2020

Utilizing Data as of April 30, 2020

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**Submitted by:**

Lauterbach & Amen, LLP  
668 N. River Road  
Naperville, IL 60563  
Phone: 630.393.1483  
[www.lauterbachamen.com](http://www.lauterbachamen.com)

**Contact:**

Todd A. Schroeder  
Director  
July 31, 2020

***LAUTERBACH & AMEN, LLP***





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## ACTUARIAL CERTIFICATION

This report documents the results of the Actuarial Valuation for the Oswego Police Pension Fund. The information was prepared for use by the Oswego Police Pension Fund and the Village of Oswego, Illinois for determining the Recommended Contributions, under the selected Funding Policy and Statutory Minimum guidelines, for the Contribution Year May 1, 2020 to April 30, 2021. It is not intended or suitable for other purposes. Determinations for purposes other than the Employer's Actuarial Recommended Contribution may be significantly different from the results herein.

The results in this report are based on the census data and financial information submitted by the Village of Oswego, Illinois, and may include results from the prior Actuary. We did not prepare the Actuarial Valuations for the years prior to May 1, 2019. Those valuations were prepared by the prior Actuary whose reports have been furnished to us, and our disclosures are based on those reports. An audit of the prior Actuary's results was not performed, but high-level reviews were completed for general reasonableness, as appropriate, based on the purpose of this valuation. The accuracy of the results is dependent on the precision and completeness of the underlying information.

In addition, the results of the Actuarial Valuation involve certain risks and uncertainty as they are based on future assumptions, market conditions, and events that may never materialize as assumed. For this reason, certain assumptions and future results may be materially different than those presented in this report. See the *Management Summary* section of this report for a more detailed discussion of the Defined Benefit Plan Risks, as well as the limitations of this Actuarial Valuation on assessing those risks. We are not aware of any known events subsequent to the Actuarial Valuation Date, which are not reflected in this report but should be valued, that may materially impact the results.

The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The Village of Oswego, Illinois selected certain assumptions, while others were the result of guidance and/or judgment from the Plan's Actuary or Advisors. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used. The selected assumptions represent our best estimate of the anticipated long-term experience of the Plan, and meet the guidelines set forth in the Actuarial Standards of Practice.





To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices as prescribed by the Actuarial Standards Board. The undersigned consultants of Lauterbach & Amen, LLP, with actuarial credentials, meet the Qualification Standards of the American Academy of Actuaries to render this Actuarial Certification. There is no relationship between the Village of Oswego, Illinois and Lauterbach & Amen, LLP that impairs our objectivity.

Respectfully Submitted,  
LAUTERBACH & AMEN, LLP

Todd A. Schroeder, ASA, FCA, EA, MAAA

Robert L. Rietz, Jr., FCA, EA, MAAA





## MANAGEMENT SUMMARY

Recommended Contribution  
Funded Status  
Management Summary – Comments and Analysis  
Actuarial Recommended Contribution – Reconciliation

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## MANAGEMENT SUMMARY

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### RECOMMENDED CONTRIBUTION

	Prior Valuation	Current Valuation
Recommended Contribution	\$1,542,957	\$1,783,331
Expected Payroll	\$4,639,613	\$4,797,452
Recommended Contribution as a Percent of Expected Payroll	33.26%	37.17%

*The Recommended Contribution has Increased by \$240,374 from the Prior Valuation.*

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### FUNDED STATUS

	Prior Valuation	Current Valuation
Normal Cost	\$1,179,004	\$1,279,019
Market Value of Assets	\$31,949,415	\$33,569,502
Actuarial Value of Assets	\$31,972,635	\$34,513,473
Actuarial Accrued Liability	\$43,017,055	\$47,214,058
Unfunded Actuarial Accrued Liability	\$11,044,420	\$12,700,585
Percent Funded		
Actuarial Value of Assets	74.33%	73.10%
Market Value of Assets	74.27%	71.10%

*The Percent Funded has Decreased by 1.23% on an Actuarial Value of Assets Basis.*



## MANAGEMENT SUMMARY

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### MANAGEMENT SUMMARY – COMMENTS AND ANALYSIS

#### Contribution Results

The Recommended Contribution is based on the selected Funding Policy and methods that are outlined in the *Actuarial Funding Policies* section of this report.

The Illinois State Statutes for Pension Funds contain parameters that are used to determine the Statutory Minimum Contribution to a public Pension Fund. Those parameters and the resulting Statutory Minimum Contribution are found in the *Illinois Statutory Minimum Contribution* section of this report.

“Contribution Risk” is defined by the Actuarial Standards of Practice as the potential for actual future contributions to deviate from expected future contributions. For example, when actual contributions are not made in accordance to the Plan’s Funding Policy, or when future experience deviates materially from assumed. While it is essential for the Actuary and Plan Sponsor to collaborate on implementing a sound and financially feasible Funding Policy, it is important to note that the Actuary is not required, and is not in the position to, evaluate the ability or willingness of the Plan Sponsor to make the Recommended Contribution under the selected Funding Policy.

As a result, while Contribution Risk may be a significant source of risk for the Plan, this Actuarial Valuation makes no attempt to assess the impact of future contributions falling short of those recommended under the selected Funding Policy. Notwithstanding the above, see the *Actuarial Recommended Contribution – Reconciliation* section of this report for the impact on the current Recommended Contribution of any contribution shortfalls or excesses from the prior year.

#### Defined Benefit Plan Risks

##### *Asset Growth:*

Pension funding involves preparing Fund assets to pay for benefits when Members retire. During their working careers, assets grow with contributions and investment earnings; and then, the Pension Fund distributes assets in retirement. Based on the Plan’s current mix of Members and Funded Status, the Plan should experience positive asset growth, on average, if the Recommended Contributions are made and expected investment earnings come in. In the current year, the Fund asset growth was positive by approximately \$1,600,000.

Asset growth is important in the long-term. Long-term cash flow out of the Pension Fund is primarily benefit payments, and expenses are a smaller portion. The Plan should monitor the impact of expected benefit payments on future asset growth. In the next 5 years, benefit payments are anticipated to increase 70-75%, or approximately \$710,000. In the next 10 years, the expected increase in benefit payments is 175-180%, or approximately \$1,800,000. The estimated increases in benefit payments are based on the benefits paid to inactive Members during the current year, and does not include any refunds of Member Contributions.



## MANAGEMENT SUMMARY

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Furthermore, Plans' with a large number of inactive Members have an increased "Longevity Risk". Longevity Risk is the possibility that inactive Members may live longer than projected by the Plan's mortality assumption. As shown in the previous paragraph, benefit payments are expected to increase over the next 5-year and 10-year horizons. The projected increases assume that current inactive Members pass away according to the Plan's mortality assumption. To the extent that current inactive Members live longer than expected, the future 5-year and 10-year benefit projections may be larger than the amounts disclosed in the previous paragraph. Higher levels of benefit payments, payable for a longer period of time, may cause a significant strain to the Plan's cash flow, future Recommended Contributions, and may lead to Plan insolvency.

### *Unfunded Liability:*

Unfunded Liability represents the financial shortfall of the Actuarial Value of Assets compared to the Actuarial Accrued Liability. To the extent that Unfunded Liability exists, the Plan is losing potential investment earnings due to the financial shortfall. Contributions towards Unfunded Liability pay for the lost investment earnings, as well as the outstanding unfunded amount. If payments towards Unfunded Liability are not made, the Unfunded Liability will grow.

In the early 1990s, many Pension Funds in Illinois adopted an increasing payment towards Unfunded Liability due to a change in legislation. The initial payment decreased, and future payments are anticipated to increase annually after that. In many situations, payments early on were less than the interest on Unfunded Liability, which means that Unfunded Liability increased even though contributions were made at the recommended level.

The current Recommended Contribution includes a payment towards Unfunded Liability that is approximately \$100,000 greater than the interest on Unfunded Liability. All else being equal, and contributions being made, Unfunded Liability is expected to decrease. The Employer and Fund should anticipate that improvement in the current Percent Funded will be mitigated in the short-term. The Employer and Fund should understand this impact as we progress forward to manage expectations.

### *Actuarial Value of Assets:*

The Pension Fund smooths asset returns that vary from expectations over a 5-year period. The intention over time is that asset returns for purposes of funding recommendations are a combination of several years. The impact is intended to smooth out the volatility of Recommended Contributions over time, but not necessarily increase or decrease the level of contributions over the long-term.

When asset returns are smoothed, there are always gains or losses on the Market Value of Assets that are going to be deferred for current funding purposes, and recognized in future years. Currently, the Pension Fund is deferring approximately \$940,000 in losses on the Market Value of Assets. These are asset losses that will be recognized in upcoming periods, independent of the future performance of the Market Value of Assets.





## MANAGEMENT SUMMARY

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### *Cash Flow Risk:*

Assets, liabilities, and Funded Status are good metrics to monitor over time to assess the progress of the Funding Policy. However, these metrics may provide limited forward-looking insights. Specifically, the maturity of a Pension Fund can pose certain risks that often cannot be assessed with a point-in-time metric such as Percent Funded.

For example, two different Pension Funds could have the same Percent Funded, but have completely different risk profiles. One Fund might mostly cover active Members with little to no Members in pay status, whereas a second Fund might mostly cover inactive Members with a significant level of annual benefit payments. The latter Fund has a greater “Cash Flow Risk”, i.e. a more significant chance that negative cash flows could lead to a deteriorating, rather than improving, Percent Funded over time.

It is important to note that, in general, positive net cash flows are good, but also need to be sufficient to cover the growth in the liabilities (i.e. the Normal Cost as well as interest on the Actuarial Accrued Liability). Typically, when cash flows are assumed to be insufficient to cover the growth in liabilities, the Percent Funded will decline, while future Recommended Contributions will increase.

### *Benefit Payment Risk:*

Ideally, Plans’ in a sound financial position will have the ratio of annual benefits payments to the Market Value of Assets to be less than the Expected Rate of Return on Investments assumption (i.e. 6.50%). Theoretically, in this case it can be considered that investment returns will fully cover the annual benefit payments, and therefore, all Employer and Member Contributions made to the Fund will be used to pay for future benefit accruals and pay down the existing Unfunded Liability. To the extent that the ratio of the annual benefit payments to the Market Value of Assets increases to above the Expected Rate of Return on Investments assumption, the Plan may experience some additional risks, such as the need to keep assets in more liquid investments, inability to pay down Unfunded Liability, and may lead to Plan insolvency.

As of the Valuation Date, the Oswego Police Pension Fund has a ratio of benefit payments to the Market Value of Assets of 3.01%. In this case, the Plan is currently in a sound financial position and has a reduced amount of Benefit Payment Risk and Cash Flow Risk. It would be expected that adherence to the current Funding Policy would lead to an increasing Percent Funded.

### Fund Assets

The results in this report are based on the assets held in the Pension Fund. Assets consist of funds held for investment and for benefit payments as of the Actuarial Valuation Date. In addition, assets may be adjusted for other events representing dollars that are reasonably expected to be paid out from the Pension Fund or deposited into the Pension Fund after the Actuarial Valuation Date as well.



## MANAGEMENT SUMMARY

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The current Fund assets are audited.

The Actuarial Value of Assets under the Funding Policy is equal to the Market Value of Assets, with unexpected gains and losses smoothed over 5 years. More detail on the Actuarial Value of Assets can be found in the *Actuarial Funding Policies* section of this report.

*The Fund  
Assets Used in  
this Report  
are Audited.*



## MANAGEMENT SUMMARY

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### Demographic Data

Demographic factors can change from year to year within the Pension Fund. Changes in this category include hiring new Members, Members retiring or becoming disabled, inactive Members passing away, and other changes. Demographic changes can cause an actuarial gain (contribution that is less than expected compared to the prior year) or an actuarial loss (contribution that is greater than expected compared to the prior year).

Demographic gains and losses occur when the assumptions over the one-year period for Member changes do not meet our long-term expectation. For example, if no Members become disabled during the year, we would expect a liability gain. If more Members become disabled than anticipated during the year, we would expect a liability loss. Generally, we expect short-term fluctuations in demographic experience to create gains or losses of 1%-3% of the Actuarial Accrued Liability in any given year, but to balance out in the long-term.

“Demographic Risk” occurs when Plan demographic experience differs significantly from expected. Similar to Longevity Risk discussed previously, additional risk is created when demographic experience differs from the assumed rates of disability, retirement, or termination. Under the chosen assumptions, actuarial gains and/or losses will always occur, as the assumptions will never be exactly realized. However, the magnitude of the gain and/or loss and its influence on the Recommended Contribution largely depends on the size of the Plan.

Based on the number of active Members in the Plan, the Recommended Contribution has a moderate risk of having a significant increase due to demographic experience. For example, 1 new disabled Member would typically generate a substantial increase to the Actuarial Accrued Liability, which in turn, may increase the Recommended Contribution.

In the current report, the key demographic changes were as follows:

*New Hires:* There was 1 Member of the Fund who was hired during the year. When a Member is admitted to the Pension Fund, the Employer Contribution will increase to reflect the new Member. The increase in the Recommended Contribution in the current year due to the new Member experience is approximately \$3,000.

*Retirement:* There was 1 Member of the Fund who retired during the year. When a Member retires, the Normal Cost will decrease. Any change in the Actuarial Accrued Liability will be considered when determining the amount to pay towards Unfunded Liability each year. The decrease in the Recommended Contribution in the current year due to the retirement experience is approximately \$10,000.

*Mortality:* As inactive Members age and continue to collect benefits, the Fund liability will increase. In the current year, there were 13 inactive Members who maintained their benefit collection status throughout the year. The increase in the Recommended Contribution in the current year due to the mortality experience is approximately \$9,000.



## MANAGEMENT SUMMARY

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*Salary Increases:* Salary increases were greater than anticipated in the current year. Several active Members received an increase of 4.00% or greater. This caused an increase in the Recommended Contribution in the current year of approximately \$4,000.

### Assumption Changes

We performed a comprehensive study of Police Officers and Police Pension Funds in Illinois. We reviewed the results of the study as well as the demographic experience of the Fund. The actuarial assumptions were changed in the current valuation to the rates shown in the *Actuarial Assumptions* section of this report. The assumptions impacted include:

- Inflation Rate (CPI-U)
- Individual Pay Increases
- Retirement Rates
- Termination Rates
- Disability Rates
- Mortality Rates
- Mortality Improvement Rates
- Marital Assumptions

In the current valuation, we have updated the marital assumption for retiree and disabled Members to the actual spousal data.

The above stated assumption changes were made to better reflect the future anticipated experience of the Fund. See the table on the following page for the impact of these changes on the current valuation.

### Funding Policy Changes

The Funding Policy was not changed from the prior valuation.

### Plan Changes

In the current valuation, we have updated the Plan benefit changes under PA-101-0610 (SB 1300), which went into effect on January 1, 2020. These legislative changes reflect modifications to the Tier II Plan Provisions. A summary of the changes is available upon request. The *Summary of Principal Plan Provisions* section of this report has the updated Plan Provisions.



## *MANAGEMENT SUMMARY*

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### ACTUARIAL RECOMMENDED CONTRIBUTION – RECONCILIATION

Actuarial Accrued Liability is expected to increase each year for both interest for the year and as active Members earn additional service years towards retirement. Similarly, Actuarial Accrued Liability is expected to decrease when the Fund pays benefits to inactive Members.

Contributions are expected to increase as expected pay increases under the Funding Policy for the Fund.

	Actuarial Liability	Recommended Contribution
Prior Valuation	\$ 43,017,055	\$ 1,542,957
Expected Changes	3,054,072	50,146
Initial Expected Current Valuation	\$ 46,071,127	\$ 1,593,103

Other increases or decreases in Actuarial Accrued Liability (key changes noted below) will increase or decrease the amount of Unfunded Liability in the Plan. To the extent that Unfunded Liability increases or decreases unexpectedly, the contribution towards Unfunded Liability will also change unexpectedly.

	Actuarial Liability	Recommended Contribution
Salary Increases Greater than Expected	\$ 47,762	\$ 4,055
Demographic Changes	590,013	38,417
Assumption Changes	127,395	14,239
Plan Changes	377,761	95,376
Asset Return Less than Expected*	-	28,122
Contributions Less than Expected	-	10,019
Total Actuarial Experience	\$ 1,142,931	\$ 190,228
Current Valuation	\$ 47,214,058	\$ 1,783,331

\*The impact on the Recommended Contribution due to asset return is on an Actuarial Value of Assets basis.

Key demographic changes were discussed in the *Demographic Data* section of this report.





## VALUATION OF FUND ASSETS

Market Value of Assets  
Market Value of Assets (Gain)/Loss  
Development of the Actuarial Value of Assets  
Actuarial Value of Assets (Gain)/Loss  
Historical Asset Performance

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## VALUATION OF FUND ASSETS

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### MARKET VALUE OF ASSETS

#### Statement of Assets

	Prior Valuation	Current Valuation
Cash and Cash Equivalents	\$ 92,154	\$ 214,837
Fixed Income	13,694,490	14,868,412
Mutual Funds	18,070,941	18,395,928
Receivables (Net of Payables)	91,830	90,325
<b>Total Market Value of Assets</b>	<b>\$ 31,949,415</b>	<b>\$ 33,569,502</b>

*The Total Market Value of Assets has Increased by Approximately \$1,620,000 from the Prior Valuation.*

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#### Statement of Changes in Assets

Total Market Value of Assets - Prior Valuation	\$ 31,949,415
Plus - Employer Contributions	1,400,001
Plus - Member Contributions	465,548
Plus - Return on Investments	800,673
Less - Benefit Payments and Refunds	(1,016,330)
Less - Other Expenses	(29,805)
<b>Total Market Value of Assets - Current Valuation</b>	<b>\$ 33,569,502</b>

*The Rate of Return on Investments on a Market Value of Assets Basis for the Fund was Approximately 2.38% Net of Administrative Expense.*

The Rate of Return on Investments shown above has been determined as the Return on Investments from the Statement of Changes in Assets, as a percent of the average of the prior and current Market Value of Assets. The Rate of Return on Investments is net of Other Expenses, and has been excluded from the Total Market Value of Assets at the end of the Fiscal Year for this calculation.



## VALUATION OF FUND ASSETS

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### MARKET VALUE OF ASSETS (GAIN)/LOSS

#### Current Year (Gain)/Loss on Market Value of Assets

Total Market Value of Assets - Prior Valuation	\$ 31,949,415
Employer and Member Contributions	1,865,549
Benefit Payments and Refunds	(1,016,330)
Expected Return on Investments	<u>2,104,312</u>
Expected Total Market Value of Assets - Current Valuation	34,902,946
Actual Total Market Value of Assets - Current Valuation	<u>33,569,502</u>
Current Market Value of Assets (Gain)/Loss	<u>\$ 1,333,444</u>
Expected Return on Investments	\$ 2,104,312
Actual Return on Investments (Net of Expenses)	<u>770,868</u>
Current Market Value of Assets (Gain)/Loss	<u>\$ 1,333,444</u>

*The Actual  
Return on  
Investments on a  
Market Value of  
Assets Basis was  
Less than  
Expected for the  
Current Year.*

The (Gain)/Loss on the current Market Value of Assets has been determined based on the Expected Rate of Return on Investments as shown in the *Actuarial Assumptions* section of this report.





## VALUATION OF FUND ASSETS

### DEVELOPMENT OF THE ACTUARIAL VALUE OF ASSETS

Total Market Value of Assets - Current Valuation		<u>\$ 33,569,502</u>	
Adjustment for Prior (Gains)/Losses			
	<u>Full Amount</u>		
FYE 2020	\$ 1,333,444	1,066,755	
FYE 2019	(23,890)	(14,334)	
FYE 2018	61,264	24,506	
FYE 2017	(664,781)	<u>(132,956)</u>	
Total Deferred (Gain)/Loss		<u>943,971</u>	
Initial Actuarial Value of Assets - Current Valuation		\$ 34,513,473	
Less Contributions for the Current Year and Interest		-	
Less Adjustment for the Corridor		<u>-</u>	
Total Actuarial Value of Assets - Current Valuation		<u>\$ 34,513,473</u>	

*The Actuarial Value of Assets is Equal to the Market Value of Assets with Unanticipated (Gains)/Losses Recognized Over 5 Years. The Actuarial Value of Assets is 102.81% of the Market Value of Assets.*

### ACTUARIAL VALUE OF ASSETS (GAIN)/LOSS

Total Actuarial Value of Assets - Prior Valuation		\$ 31,972,635	
Plus - Employer Contributions		1,400,001	
Plus - Member Contributions		465,548	
Plus - Return on Investments		1,721,424	
Less - Benefit Payments and Refund		(1,016,330)	
Less - Other Expenses		<u>(29,805)</u>	
Total Actuarial Value of Assets - Current Valuation		<u>\$ 34,513,473</u>	

*The Rate of Return on Investments on an Actuarial Value of Assets Basis for the Fund was Approximately 5.22% Net of Administrative Expense.*

The Actuarial Value of Assets incorporates portions of gains and losses over multiple years.



## VALUATION OF FUND ASSETS

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### HISTORICAL ASSET PERFORMANCE

The chart below shows the historical Rates of Return on Investments for both Market Value of Assets and Actuarial Value of Assets.

	<u>Market Value of Assets</u>	<u>Actuarial Value of Assets</u>
FYE 2020	2.38%	5.22%
FYE 2019	6.58%	5.94%

The historical Rates of Return on Investments shown above were calculated based on the annual Return on Investments, as a percentage of the average value of the assets for the year.

For purposes of determining the average value of assets for the year, the ending Market Value of Assets has been adjusted to net out to the portion related to the Return on Investments themselves. All other cash flows are included.

For purposes of determining the annual Return on Investments we have adjusted the figures shown on the preceding pages. The figures shown on the preceding pages are net of Investment Expenses. We have made an additional adjustment to net out Administrative Expenses. Netting out Administrative Expenses allows us to capture returns for the year that can be used to make benefit payments as part of the ongoing actuarial process.

The adjustments we made are for actuarial reporting purposes only. By netting out Administrative Expenses and capturing Return on Investments that are available to pay benefits, it provides us a comparison to the Expected Rate of Return on Investments, but does not provide a figure that would be consistent with the rates of return that are determined by other parties. Therefore, this calculated Return on Investments should not be used to analyze investment performance of the Fund or the performance of the investment professionals.



## VALUATION OF FUND ASSETS

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### Expected Rate of Return on Investments Assumption

The Expected Rate of Return on Investments for this valuation is 6.50%. Lauterbach & Amen, LLP does not provide investment advice. We look at a variety of factors when reviewing the Expected Rate of Return on Investments assumption selected by the Board. These factors include: historical Rates of Return on Investments, capital market projections performed by the Fund's investment advisors, the Fund's investment policy, capital market forward-looking benchmark expected returns by independent investment companies, rates used by comparable pension systems, and other factors identified in the Actuarial Standards of Practice.

Generally speaking, the ideal assumption for Expected Rate of Return on Investments is one that has a 50% chance of being met over the long-term. If actual returns going forward come in less than expected, the pension system risks deferring contributions to the future that should be made today, and creating additional contribution volatility.

“Investment Risk” is the potential that actual Return on Investments will be different from what is expected. The selected Expected Rate of Return on Investments assumption is chosen to be a long-term assumption, producing a return that, on average, would produce a stable rate of return over a long-term horizon. Actual asset returns in the short-term may deviate from this long-term assumption due to current market conditions. Furthermore, establishing the Expected Rate of Return on Investments assumption may be dependent on the Illinois State Statutes pertaining to the limitations on types of investments Plan Sponsors may use. If the actual annual rates of return are less than the Expected Rate of Return on Investments, actuarial losses will be produced, thus increasing the Plan's Unfunded Liability and, subsequently, future Recommended Contributions.

“Asset/Liability Mismatch” risk is a similar concept as Investment Risk, as it relates to setting the Expected Rate of Return on Investments assumption compared to the actual Return on Investments achieved. The Interest Rate used to discount future Plan liabilities is set equal to the Expected Rate of Return on Investments. It is expected that the selected Interest Rate be a rate that is reasonably expected to be achieved over the long-term. To the extent that the selected Interest Rate to value Plan liabilities is unreasonable, or significantly different than the actual Return on Investments earned over an extended period of time, additional Interest Rate risk is created. For example, determining Plan liabilities at an Interest Rate higher than what is expected to be achieved through investment returns results in Unfunded Liability that is not a true representation of the Plan's condition and Percent Funded. As a result, the Actuarial Accrued Liability determined is an amount smaller than the liability that would be produced with an Interest Rate more indicative of future Expected Rate of Return on Investments. Therefore, the Recommended Contributions under the established Funding Policy may not be sufficient to appropriately meet the true pension obligations.





## RECOMMENDED CONTRIBUTION DETAIL

Actuarial Accrued Liability  
Funded Status  
Development of the Employer Normal Cost  
Normal Cost as a Percentage of Expected Payroll  
Recommended Contribution  
Schedule of Amortization – Unfunded Actuarial Accrued Liability  
Actuarial Methods – Recommended Contribution

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## *RECOMMENDED CONTRIBUTION DETAIL*

### ACTUARIAL ACCRUED LIABILITY

	Prior Valuation	Current Valuation
Active Members	\$ 25,652,941	\$ 27,776,780
Inactive Members		
Terminated Members - Vested	583,888	641,372
Retired Members	16,780,226	18,795,906
Disabled Members	-	-
Other Beneficiaries	-	-
Total Inactive Members	17,364,114	19,437,278
Total Actuarial Accrued Liability	\$ 43,017,055	\$ 47,214,058

*The Total Actuarial Accrued Liability has Increased by Approximately \$4,197,000 from the Prior Valuation.*

### FUNDED STATUS

	Prior Valuation	Current Valuation
Total Actuarial Accrued Liability	\$ 43,017,055	\$ 47,214,058
Total Actuarial Value of Assets	31,972,635	34,513,473
Unfunded Actuarial Accrued Liability	\$ 11,044,420	\$ 12,700,585
Total Market Value of Assets	\$ 31,949,415	\$ 33,569,502
Percent Funded		
Actuarial Value of Assets	<u>74.33%</u>	<u>73.10%</u>
Market Value of Assets	<u>74.27%</u>	<u>71.10%</u>

*The Percent Funded as of the Actuarial Valuation Date is Subject to Volatility on Assets and Liability in the Short-Term.*



## *RECOMMENDED CONTRIBUTION DETAIL*

### DEVELOPMENT OF THE EMPLOYER NORMAL COST

	Prior Valuation	Current Valuation
Total Normal Cost	\$ 1,179,004	\$ 1,279,019
Estimated Member Contributions	(459,786)	(475,427)
Employer Normal Cost	<u>\$ 719,218</u>	<u>\$ 803,592</u>

*At a 100%  
Funding Level,  
the Normal Cost  
Contribution is  
Still Required.*

### NORMAL COST AS A PERCENTAGE OF EXPECTED PAYROLL

	Prior Valuation	Current Valuation
Expected Payroll	\$ 4,639,613	\$ 4,797,452
Member Normal Cost Rate	<u>9.910%</u>	<u>9.910%</u>
Employer Normal Cost Rate	<u>15.50%</u>	<u>16.75%</u>
Total Normal Cost Rate	<u>25.41%</u>	<u>26.66%</u>

*Ideally, the  
Employer  
Normal Cost  
Rate will Remain  
Stable.*

### RECOMMENDED CONTRIBUTION

	Prior Valuation	Current Valuation
Employer Normal Cost*	\$ 765,967	\$ 855,825
Amortization of Unfunded Accrued Liability/(Surplus)	776,990	927,506
Recommended Contribution	<u>\$ 1,542,957</u>	<u>\$ 1,783,331</u>

*The  
Recommended  
Contribution has  
Increased by  
15.58% from the  
Prior Valuation.*

\*Employer Normal Cost Contribution includes interest through the end of the Fiscal Year.



## *RECOMMENDED CONTRIBUTION DETAIL*

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### SCHEDULE OF AMORTIZATION – UNFUNDED ACTUARIAL ACCRUED LIABILITY

Below is the schedule of remaining amortization balances for the Unfunded Liability.

Unfunded Liability Base	Initial Balance	Date Established	Current Balance	Years Remaining	Payment
Investment (Gain)/Loss	\$ 385,085	4/30/2020	\$ 385,085	19	\$ 28,122
Actuarial (Gain)/Loss	826,270	4/30/2020	826,270	19	60,341
Contribution Experience	(1,242)	4/30/2020	(1,242)	19	(91)
Assumption Changes	127,395	4/30/2020	127,395	19	9,303
Plan Changes	377,761	4/30/2020	377,761	19	27,587
Investment (Gain)/Loss	140,435	4/30/2019	139,683	19	10,201
Actuarial (Gain)/Loss	459,290	4/30/2019	456,832	19	33,362
Contribution Experience	(57,103)	4/30/2019	(56,798)	19	(4,148)
Assumption Changes	1,110,093	4/30/2019	1,104,152	19	80,635
Initial Unfunded Liability	<u>\$ 9,391,705</u>	4/30/2019	<u>\$ 9,341,447</u>	19	<u>\$ 682,193</u>
 Total	 <u><b>\$ 12,759,689</b></u>		 <u><b>\$ 12,700,585</b></u>		 <u><b>\$ 927,506</b></u>

The Actuarial (Gain)/Loss can be attributable to several factors including demographic changes, Employer Contribution timing, Member Contribution experience, benefit payment experience, and salary increase experience compared to expectation.



## *RECOMMENDED CONTRIBUTION DETAIL*

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### **ACTUARIAL METHODS – RECOMMENDED CONTRIBUTION**

Actuarial Valuation Date	May 1, 2020
Data Collection Date	April 30, 2020
Actuarial Cost Method	Entry Age Normal (Level % Pay)
Amortization Method	Level % Pay (Closed)
Amortization Target	100% Funded Over 19 Years
Asset Valuation Method	5-Year Smoothed Market Value

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described. The Actuarial Cost and Amortization Methods allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

The Recommended Contribution amount shown in this report is based on the methods summarized above. The *Actuarial Funding Policies* section of this report includes a more detailed description of the Actuarial Funding Methods being used.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way contributions are made towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.







## ILLINOIS STATUTORY MINIMUM CONTRIBUTION

Statutory Minimum Contribution  
Funded Status – Statutory Minimum  
Actuarial Methods – Illinois Statutory Minimum Contribution

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## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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### STATUTORY MINIMUM CONTRIBUTION

	<u>Current Valuation</u>
Statutory Minimum Contribution	\$1,369,895
Expected Payroll	\$4,797,452
Statutory Minimum Contribution as a Percent of Expected Payroll	28.55%

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### FUNDED STATUS – STATUTORY MINIMUM

	<u>Current Valuation</u>
Normal Cost	\$1,442,418
Market Value of Assets	\$33,569,502
Actuarial Value of Assets	\$34,513,473
Actuarial Accrued Liability	\$43,718,966
Unfunded Actuarial Accrued Liability	\$9,205,493
Percent Funded	
Actuarial Value of Assets	78.94%
Market Value of Assets	76.78%

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## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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The Statutory Minimum Contribution is based on Actuarial Funding Methods and funding parameters in the Illinois State Statutes for pension funding. The resulting contribution is lower than the Recommended Contribution for the current year. The lower contribution amount is not recommended because it represents only a deferral of contributions when compared to the Recommended Contribution method.

Actuarial Funding Methods for pensions are best applied to provide a balance between the long-term goals of a variety of stakeholders:

1. Members – the Members are interested in benefit security and having the funds available to pay benefits when retired
2. Employers – cost control and cost stability over the long-term
3. Taxpayers – paying for the services they are receiving from active Members

The Statutory Minimum Contribution methods are not intended to provide a better system in any of the above categories long-term. The parameters are not recommended for a long-term funding strategy.

The Statutory Minimum methods put into place in 2011 were intended to provide short-term budget relief for Employer Contributions. An Employer using the Statutory Minimum parameters for current funding should view the contributions as short-term relief. Our recommendation in this situation is for a Pension Fund and an Employer to work towards a long-term funding strategy that better achieves the long-term funding goals, over a period that does not exceed 3-5 years.

The Securities and Exchange Commission in 2013 used the phrase “Statutory Underfunding” to describe situations where contributions appear to be more manageable in the short-term, but set up future Recommended Contributions that are less likely to be manageable.



## *ILLINOIS STATUTORY MINIMUM CONTRIBUTION*

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### **ACTUARIAL METHODS – ILLINOIS STATUTORY MINIMUM CONTRIBUTION**

Actuarial Valuation Date	May 1, 2020
Data Collection Date	April 30, 2020
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level % Pay (Closed)
Amortization Target	90% Funded Over 20 Years
Asset Valuation Method	5-Year Smoothed Market Value

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described. The Actuarial Cost and Amortization methods allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

The Actuarial Funding Methods are meant to provide a systematic process for determining contributions on an annual basis. The methods do not impact the expectation of future benefit payments. The methods only impact the way contributions are made towards future benefit payments.

Different Actuarial Funding Methods may achieve funding goals with differing levels of success. Certain methods are more efficient and more stable on an annual basis.





## ACTUARIAL VALUATION DATA

Active Members  
Inactive Members  
Summary of Monthly Benefit Payments

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## *ACTUARIAL VALUATION DATA*

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### ACTIVE MEMBERS

	Prior Valuation	Current Valuation
Vested	37	35
Nonvested	12	14
Total Active Members	49	49
Total Payroll	\$ 4,565,425	\$ 4,720,740

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### INACTIVE MEMBERS

	Prior Valuation	Current Valuation
Terminated Members - Vested	2	2
Retired Members	13	14
Disabled Members	0	0
Other Beneficiaries	0	0
Total Inactive Members	15	16

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### SUMMARY OF MONTHLY BENEFIT PAYMENTS

	Prior Valuation	Current Valuation
Terminated Members - Vested	\$ 3,736	\$ 3,736
Retired Members	78,278	87,903
Disabled Members	-	-
Other Beneficiaries	-	-
Total Inactive Members	\$ 82,014	\$ 91,639

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Monthly benefit payments shown for Terminated Members – Vested are not currently in pay status.





## ACTUARIAL FUNDING POLICIES

Actuarial Cost Method  
Financing Unfunded Actuarial Accrued Liability  
Actuarial Value of Assets

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## **ACTUARIAL FUNDING POLICIES**

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### **ACTUARIAL COST METHOD**

The Actuarial Cost Method allocates the projected obligations of the Plan over the working lifetimes of the Plan Members.

In accordance with the Pension Fund's Funding Policy the Actuarial Cost Method for the Recommended Contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is a method under which the Actuarial Present Value of the projected benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. The portion of this Actuarial Present Value allocated to a valuation year is called Normal Cost. The portion of the Actuarial Present Value not provided at an Actuarial Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

The Entry Age Normal method attempts to create a level cost pattern. In contrast to other Actuarial Cost Methods which inherently lead to uneven or less predictable cost patterns, the Entry Age Normal method is generally understood to be less risky in terms of contribution stability from year to year.

The Conference of Consulting Actuaries Public Plans Community produced a "white paper" detailing Funding Policy model practices for public sector pension plans. Under the Level Cost Actuarial Methodology ("LCAM"), one of the principal elements to a Funding Policy is the Actuarial Cost Method. When deciding which Actuarial Cost Method to use, several objectives may be considered, such as the following:

- Each Member's benefit should be funded under a reasonable allocation method by the expected retirement date
- Pay-related benefit costs should reflect anticipated pay at retirement
- The expected cost of each year of service (i.e. Normal Cost) for each active Member should be reasonably related to the expected cost of that Member's benefit
- The Member's Normal Cost should emerge as a level percent of Member compensation
- No gains or losses should occur if all assumptions are met.

Following these criteria, the use of the Entry Age Normal Cost Method (Level Percent of Pay) is a model practice.

### **FINANCING UNFUNDED ACTUARIAL ACCRUED LIABILITY**

The Unfunded Actuarial Accrued Liability may be amortized over a period either in level dollar amounts or as a level percentage of payroll.

When amortizing the Unfunded Actuarial Accrued Liability as a level percentage of payroll, additional risk is incurred since the amortization payments in the early years of the payment period may not be large enough to cover the interest accrued on the existing Unfunded Liability. As a result, the Unfunded





## ACTUARIAL FUNDING POLICIES

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Liability may increase initially, before the amortization payments grow large enough to cover all interest accruals. Generally speaking, the Plan Sponsor will be required to contribute a larger total contribution amount over the course of the funding period under a level percentage of payroll basis as compared to a level dollar payroll schedule.

The Government Finance Office Association notes that best practices in public pension finance include utilizing amortization periods that do not exceed 20 years. Longer amortization periods elevate the risk of failing to reduce any Unfunded Liability. For example, when the amortization payment in full only covers interest on the Unfunded Liability, but does not reduce the existing Unfunded Liability, the required contribution will increase in future years.

A second principal element under the Level Cost Actuarial Methodology described above is to establish an Amortization Policy that determines the length of time and the structure of the increase or decrease in contributions required to systematically fund the Unfunded Actuarial Accrued Liability. When deciding on the Amortization Policy, several objectives may be considered, such as the following:

- Variations in the source of liability changes (i.e. gains or losses, Plan changes, assumption changes) should be funded over periods consistent with an appropriate balance between the policy objectives of demographic matching and volatility management
- The cost changes in Unfunded Actuarial Accrued Liability should emerge as a level percentage of Member compensation

The LCAM model practices for the Amortization Policy include the following:

- Layered fixed period amortization by source
- Level percent of pay amortization
- An amortization period ranging from 15-20 years for experience gains or losses
- An amortization period of 15-25 years for assumption changes

In accordance with the Pension Fund's Funding Policy for the Recommended Contribution, the Unfunded Actuarial Accrued Liability is amortized by level percent of payroll contributions to a 100% funding target over the remaining 19 years. See the *Actuarial Methods – Recommended Contribution* section of this report for more detail.

We believe that the amortization period is appropriate for the purposes of this valuation.



## *ACTUARIAL FUNDING POLICIES*

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### **ACTUARIAL VALUE OF ASSETS**

The Pension Fund is an ongoing plan. The Employer wishes to smooth the effect of volatility in the Market Value of Assets on the annual contribution. Therefore, the Actuarial Value of Assets is equal to the Market Value of Assets with unanticipated gains/losses recognized over a five-year period.

The Asset Valuation Method is intended to create an Actuarial Value of Assets that remains reasonable in relation to the Market Value of Assets over time. The method produces results that can fall either above or below the Market Value of Assets. The period of recognition is short.

It is intended that the period of recognition is short enough to keep the Actuarial Value of Assets within a decent range of the Market Value of Assets. In the event that the Actuarial Value of Assets exceeds or falls below a 10% corridor of the Market Value of Assets, the additional gain or loss will be recognized immediately.





## ACTUARIAL ASSUMPTIONS

Nature of Actuarial Calculations  
Actuarial Assumptions in the Valuation Process  
Assessment of Risk Exposures  
Limitations of Risk Analysis  
Actuarial Assumptions Utilized

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## *ACTUARIAL ASSUMPTIONS*

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### **NATURE OF ACTUARIAL CALCULATIONS**

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain Plan Provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about census data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the Actuarial Accrued Liability or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

### **ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS**

The contributions and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census data furnished, using the Actuarial Cost Method described in the *Actuarial Funding Policies* section of this report.

The principal areas of financial risk which require assumptions about future experience are:

- Expected Rate of Return on Investments
- Patterns of Pay Increases for Members
- Rates of Mortality Among Active and Inactive Members
- Rates of Termination Among Active Members
- Rates of Disability Among Active Members
- Age Patterns of Actual Retirements

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed Recommended Contribution.

Details behind the selection of the actuarial assumptions can be found in the Actuarial Assumption Summary document provided to the client upon request. The client has reviewed and approved the assumptions as a reasonable expectation of the future anticipated experience under the Plan.



# ACTUARIAL ASSUMPTIONS

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## ASSESSMENT OF RISK EXPOSURES

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations). In addition, Actuarial Standards of Practice require that the Actuary minimally perform a qualitative assessment of key financial and demographic risks as part of the risk assessment process with each annual Actuarial Valuation. The risk assessments we perform include, but are not limited to, the following:

- Periodic demographic experience studies every 3 to 5 years to confirm the ongoing appropriateness of actuarial assumptions
- Highlight the impact of demographic experience over the past year, as well as other sources of change and volatility in the *Actuarial Recommended Contribution – Reconciliation* section of this report
- Detail year-over-year changes in contribution levels, assets, liabilities, and Funded Status in the *Recommended Contribution* and *Funded Status* sections in the *Management Summary* section of this report
- Review any material changes in the census as summarized in the *Actuarial Valuation Data* section of this report
- Provide and discuss the Actuarial Assumption Summary document highlighting the rationale for each key assumption chosen by the Board
- Identify potential Cash Flow Risk by highlighting expected benefit payments over the next 5-year and 10-year periods in the *Asset Growth* section in the *Management Summary* section of this report
- Describe the impact of any assumption, method, or policy change in the *Management Summary* section of this report
- Utilize supplemental information, such as the GASB Discount Rate sensitivity disclosures to understand, for example, what impact an alternative Expected Rate of Return on Investments assumption might have on the estimation of Actuarial Accrued Liability and Funded Status
- Utilize supplemental information, such as the GASB solvency test, to better understand the Cash Flow Risk and long-term sustainability of the Plan.

## LIMITATIONS OF RISK ANALYSIS

Since future experience may never be precisely as assumed, the process of selecting funding methods and actuarial assumptions may inherently create risk and volatility of results. A more detailed evaluation of the above risk exposures is beyond the scope and nature of the annual Actuarial Valuation process. For example, scenario tests, sensitivity tests, stress tests, and/or stochastic modeling for multi-year projections to assess the impact of alternative assumptions and methods, or modeling future experience different from the assumptions in these results, are not included in this Actuarial Valuation.

The Oswego Police Pension Fund and/or the Village of Oswego, Illinois should contact the Actuary if they desire a more detailed assessment of any of these forward-looking risk exposures.



## *ACTUARIAL ASSUMPTIONS*

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### ACTUARIAL ASSUMPTIONS UTILIZED

<b>Expected Rate of Return on Investments</b>	6.50% Net of Administrative Expense
<b>CPI-U</b>	2.25%
<b>Total Payroll Increases</b>	3.25%
<b>Individual Pay Increases*</b>	3.75% - 9.57%

Individual pay increases include a long-term average increase for inflation, average annual increases for promotions, and any additional increases for a step program. Sample rates are as follows:

Service	Rate	Service	Rate
0	5.25%	8	3.75%
1	7.74%	9	3.75%
2	7.76%	10	3.75%
3	7.75%	15	3.75%
4	7.75%	20	3.75%
5	7.75%	25	3.75%
6	7.75%	30	3.75%
7	9.57%	35	3.75%

\*Individual pay increases for active Members hired at age 40 or older are assumed annual increases at the ultimate rate reduced by 50 basis points, without adjustments in early service years.

### Retirement Rates

100% of the L&A Assumption Study for Police 2020 Cap Age 65. Sample rates are as follows:

Age	Rate	Age	Rate
50	11.00%	53	12.73%
51	11.55%	54	13.37%
52	12.13%	55	14.04%



## *ACTUARIAL ASSUMPTIONS*

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### **Termination Rates**

100% of the L&A Assumption Study for Police 2020. Sample rates are as follows:

Age	Rate	Age	Rate
25	8.00%	40	2.17%
30	3.40%	45	1.56%
35	2.79%	50	0.46%

### **Disability Rates**

100% of the L&A Assumption Study for Police 2020. Sample rates are as follows:

Age	Rate	Age	Rate
25	0.00%	40	0.38%
30	0.06%	45	0.53%
35	0.18%	50	0.48%

65% of active Members who become disabled are assumed to be in the Line of Duty.

### **Mortality Rates**

Active Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

50% of active Member deaths are assumed to be in the Line of Duty.

Retiree Mortality follows the L&A Assumption Study for Police 2020. These rates are experience weighted with the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study improved to 2017 using MP-2019 Improvement Rates. These rates are then improved fully generationally using MP-2019 Improvement Rates.

Disabled Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010 Study for disabled participants. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

Spouse Mortality follows the Sex Distinct Raw Rates as developed in the PubS-2010(A) Study for contingent survivors. For all rates not provided there (ages 45 and younger) the PubG-2010 Study for



## ACTUARIAL ASSUMPTIONS

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general employees was used. Mortality improvement uses MP-2019 Improvement Rates applied on a fully generational basis.

### **Marital Assumptions**

*Active Members:* 80% of active Members are assumed to be married. Female spouses are assumed to be 3 years younger than male spouses.

*Retiree and Disabled Members:* Actual spousal data was utilized for retiree and disabled Members.







## SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund  
Administration  
Member Contributions  
Regular Retirement Pension Benefit  
Early Retirement Pension Benefit  
Surviving Spouse Benefit  
Termination Benefit – Vested  
Disability Benefit

---

## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **ESTABLISHMENT OF THE FUND**

The Police Pension Fund is established and administered as prescribed by “Article 3 – Police Pension Fund – Municipalities 500,000 and Under” of the Illinois Pension Code.

### **ADMINISTRATION**

The Police Pension Fund is administered by a Board of Trustees whose duties are to manage the Pension Fund, determine applications for pensions, authorize payment of pensions, establish rules, pay expenses, invest assets, and keep records.

### **MEMBER CONTRIBUTIONS**

Members contribute 9.910% of pensionable salary.

### **REGULAR RETIREMENT PENSION BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Age 50 with at least 20 years of creditable service.

*Benefit:* 50% of final salary for the first 20 years of service, plus an additional 2.5% of final salary for each year of service beyond 20 years of service, and not to exceed 75% of final salary. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 1/12 of 3% of the original monthly benefit for each full month that has passed since the pension began. The initial increase date will be the latter of the first day of the month after the pensioner turns age 55 or the first day of the month after the benefit date anniversary. Subsequent increases of 3% of the current monthly benefit will be granted every January 1<sup>st</sup> thereafter.



## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **REGULAR RETIREMENT PENSION BENEFIT - CONTINUED**

#### Hired on or After January 1, 2011

*Eligibility:* Age 55 with at least 10 years of creditable service.

*Benefit:* 2.5% of final average salary for each year of service, and not to exceed 75% of final average salary. "Final average salary" is determined by dividing the total pensionable salary during 48 consecutive months of service within the last 60 months of service in which total pensionable salary was the highest, by the number of months of service in that period (or by dividing the total pensionable salary during 96 consecutive months of service within the last 120 months of service in which total pensionable salary was the highest, by the number of months of service in that period, if greater). Annual salary for this purpose will not exceed the salary cap, indexed by the lesser of 3% or the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>. The salary cap will not decrease.

*Annual Increase in Benefit:* The initial increase date will be the latter of the January 1<sup>st</sup> after the pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.

### **EARLY RETIREMENT PENSION BENEFIT**

#### Hired Prior to January 1, 2011

None.

#### Hired on or After January 1, 2011

*Eligibility:* Age 50 with at least 10 years of creditable service.

*Benefit:* The regular retirement pension benefit reduced by ½ of 1% for each month that the police officer's age is between 50 and 55.

*Annual Increase in Benefit:* The initial increase date will be the latter of the January 1<sup>st</sup> after the pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.



## *SUMMARY OF PRINCIPAL PLAN PROVISIONS*

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### **SURVIVING SPOUSE BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Married to an active police officer with at least 8 years of creditable service, a disabled pensioner at the time of death, or a retired pensioner on the last day of service.

*Active Line of Duty Death Benefit:* An eligible surviving spouse is entitled to receive 100% of the police officer's final pensionable salary attached to rank held on the last day of service.

#### *Non-Duty Death Benefit:*

*Disabled or Retired Pensioner:* An eligible surviving spouse is entitled to receive the pensioner's benefit at the time of death.

*Active Member with 20+ Years of Service:* An eligible surviving spouse is entitled to the police officer's eligible benefit at the time of death.

*Active Member with 10-20 Years of Service:* An eligible surviving spouse is entitled to receive 50% of the police officer's pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* None.

#### Hired on or After January 1, 2011

*Eligibility:* Married to an active police officer with at least 8 years of creditable service, a disabled pensioner at the time of death, or a retired pensioner on the last day of service.

*Active Line of Duty Death Benefit:* An eligible surviving spouse is entitled to receive 100% of the police officer's final pensionable salary attached to rank held on the last day of service.

#### *Non-Duty Death Benefit:*

*Disabled or Retired Pensioner, Active Member with 20+ Years of Service, and Active Member with 10-20 Years of service:* An eligible surviving spouse is entitled to receive the greater of 66⅔% of the police officer's earned pension benefit at the time of death or 54% of the police officer's monthly salary at the time of death.

*Annual Increase in Benefit:* The initial increase date will be the January 1<sup>st</sup> after the surviving spouse turns age 60. Subsequent increases will be granted every January 1<sup>st</sup> thereafter. The initial increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1<sup>st</sup>.



## *SUMMARY OF PRINCIPAL PLAN PROVISIONS*

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### **TERMINATION BENEFIT – VESTED**

#### Hired Prior to January 1, 2011

*Eligibility:* Age 60 with at least 8 but less than 20 years of creditable service.

*Benefit:* 2.5% of final salary for each year of service. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service, unless the pensionable salary was greater at some point within the year prior to the last day of service. If so, the pensionable salary is averaged over the last 12 months.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 1/12 of 3% of the original monthly benefit for each full month that has passed since the pension began. The initial increase date will be the first day of the month after the benefit date anniversary. Subsequent increases of 3% of the current monthly benefit will be granted every January 1<sup>st</sup> thereafter.

#### Hired on or After January 1, 2011

None.



## ***SUMMARY OF PRINCIPAL PLAN PROVISIONS***

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### **DISABILITY BENEFIT**

#### Hired Prior to January 1, 2011

*Eligibility:* Duty or Non-Duty Disability or Occupational Disease Disability with at least 5 years of creditable service.

*Benefit:* For a duty disability or an occupational disease disability with at least 5 years of creditable service, a police officer is entitled to receive the greater of 65% of final salary or the regular retirement pension benefit at the time of disability. For a non-duty disability, a police officer is entitled to receive 50% of final salary. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 3% of the original monthly benefit for each full year that has passed since the pension began. The initial increase date will be the latter of the January 1<sup>st</sup> after following pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases of 3% of the original monthly benefit will be granted every January 1<sup>st</sup> thereafter.

#### Hired on or after January 1, 2011

*Eligibility:* Duty or Non-Duty Disability or Occupational Disease Disability with at least 5 years of creditable service.

*Benefit:* For a duty disability or an occupational disease disability with at least 5 years of creditable service, a police officer is entitled to receive the greater of 65% of final salary or the regular retirement pension benefit at the time of disability. For a non-duty disability, a police officer is entitled to receive 50% of final salary. “Final salary” is based on the police officer’s pensionable salary attached to rank held on the last day of service.

*Annual Increase in Benefit:* A police officer is entitled to receive an initial increase equal to 3% of the original monthly benefit for each full year that has passed since the pension began. The initial increase date will be the latter of the January 1<sup>st</sup> after following pensioner turns age 60 or the January 1<sup>st</sup> after the benefit date anniversary. Subsequent increases of 3% of the original monthly benefit will be granted every January 1<sup>st</sup> thereafter.





## GLOSSARY OF TERMS

Glossary of Terms

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## ***GLOSSARY OF TERMS***

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### **GLOSSARY OF TERMS**

***Actuarial Accrued Liability*** – The Actuarial Present Value of future benefits based on Members’ service rendered to the Measurement Date using the selected Actuarial Cost Method. It is that portion of the Actuarial Present Value of Plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

***Actuarial Cost Method*** – The method used to allocate the projected obligations of the Plan over the working lifetimes of the Plan Members.

***Actuarial Value of Assets*** – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to Market Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Market Value of Assets, and generally does not experience as much volatility over time as the Market Value of Assets.

***Asset Valuation Method*** – A valuation method designed to smooth random fluctuations in asset values. The objective underlying the use of an Asset Valuation Method is to provide for the long-term stability of Employer Contributions.

***Funding Policy*** – A set of procedures for a Pension Fund that outlines the “best practices” for funding the pension benefits based on the goals of the Plan Sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the Plan Sponsor meet their goal of working in the best interest of the Plan Members.

***Market Value of Assets*** – The value of the cash, bonds, securities, and other assets held in the pension trust as of the Measurement Date.

***Normal Cost*** – The present value of future benefits earned by Members during the current Fiscal Year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

***Unfunded Actuarial Accrued Liability*** – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll.







# Lauterbach & Amen, LLP

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CERTIFIED PUBLIC ACCOUNTANTS



Lauterbach & Amen

# Oswego, Illinois Police Pension Fund Reporting

For the Contribution Year Ending April 30, 2021 for Funding Purposes  
For the Fiscal Year Ending April 30, 2020 for Financial Statement Reporting

Presented by:  
Kevin Cavanaugh, Actuarial Consultant

**Actuarial**

**Audit**

**Financial  
Services**

**Pension**

**Tax**

# Contribution Recommendation & Funded Percentage

Page 4 in Report

Current Year Contribution Recommendation	\$1,783,000
Prior Year Contribution Recommendation	\$1,543,000
Current Year Funded Percentage (Actuarial Value of Assets)	73.10%
Prior Year Funded Percentage (Actuarial Value of Assets)	74.33%
Current Year Unfunded Actuarial Liability	\$12,700,000
Prior Year Unfunded Actuarial Liability	\$11,040,000

# Expected Benefit Payments

Page 5 in Report

Active Member Count	49
Inactive Member Count	16
Current Benefit Payments	\$1,012,000
Expected Benefit Payments in 5 Years	\$1,721,000
Expected Benefit Payments in 10 Years	\$2,785,000

# Risk Management

Pages 6-9 in Report

- The ratio of benefit payments to the Market Value of Assets is 3.01%, compared to an Expected Rate of Return on Investments of 6.50%.
- Based on the number of active Members in the Plan, there is a moderate demographic risk.

# Demographic Changes

Page 9 in Report

- There was 1 Member who was hired during the year. This increased the Recommended Contribution by approximately \$3,000.
- There was 1 Member who retired during the year. This decreased the Recommended Contribution by approximately \$10,000.
- 13 inactive Members continued to collect benefits. This increased the Recommended Contribution by approximately \$9,000.
- Other demographic changes experienced during the year were minimal.

# Assumption Changes

Page 10 in Report

- As part of a comprehensive study of Police Pension Funds in Illinois, the following actuarial assumptions were changed in the current valuation:
  - Inflation Rate (CPI-U)
  - Individual Pay Increases
  - Retirement Rates
  - Termination Rates
  - Disability Rates
  - Mortality Rates
  - Mortality Improvement Rates
  - Marital Assumptions
- We have updated the marital assumption for retiree & disabled Members to utilize actual spousal data.

# Plan Changes

Page 10 in Report

- In the current valuation, we have updated the Plan Provisions to reflect benefit changes under PA-101-0610 (SB 1300), which went into effect on January 1, 2020. These legislative changes reflect modifications to the Tier II Plan Provisions for:
  - Pensionable Salary Cap
  - Final Average Salary
  - Survivor Benefit Initial Calculations



# Change in Contribution

## Page 11 in Report

Expected Changes	\$50,100
Salary Increase Greater/(Less) than Expected	\$4,100
Demographic Changes	\$38,400
Assumption Changes	\$14,200
Plan Changes	\$95,400
Asset Return (Greater)/Less than Expected	\$28,100
Contributions (Greater)/Less than Expected	\$10,000
Increase/(Decrease) in Recommended Contribution	\$240,000

# Change in Market Value of Assets

Page 13 in Report

Beginning Market Value of Assets	\$31,950,000
Employer Contributions	\$1,400,000
Member Contributions	\$466,000
Return on Investments*	\$801,000
Benefits and Refunds	(\$1,016,000)
Other Expenses	(\$29,800)
Ending Market Value of Assets	\$33,570,000
Change in Market Value	\$1,620,000

\*The Rate of Return on Investments on a Market Value of Assets Basis was approximately 2.38% net of administrative expense.

# Illinois Statutory Minimum Contribution

Page 24 in Report

Statutory Minimum Contribution	\$1,370,000
Statutory Minimum Funded Percentage (Actuarial Value of Assets)	78.94%
Unfunded Actuarial Liability	\$9,205,000

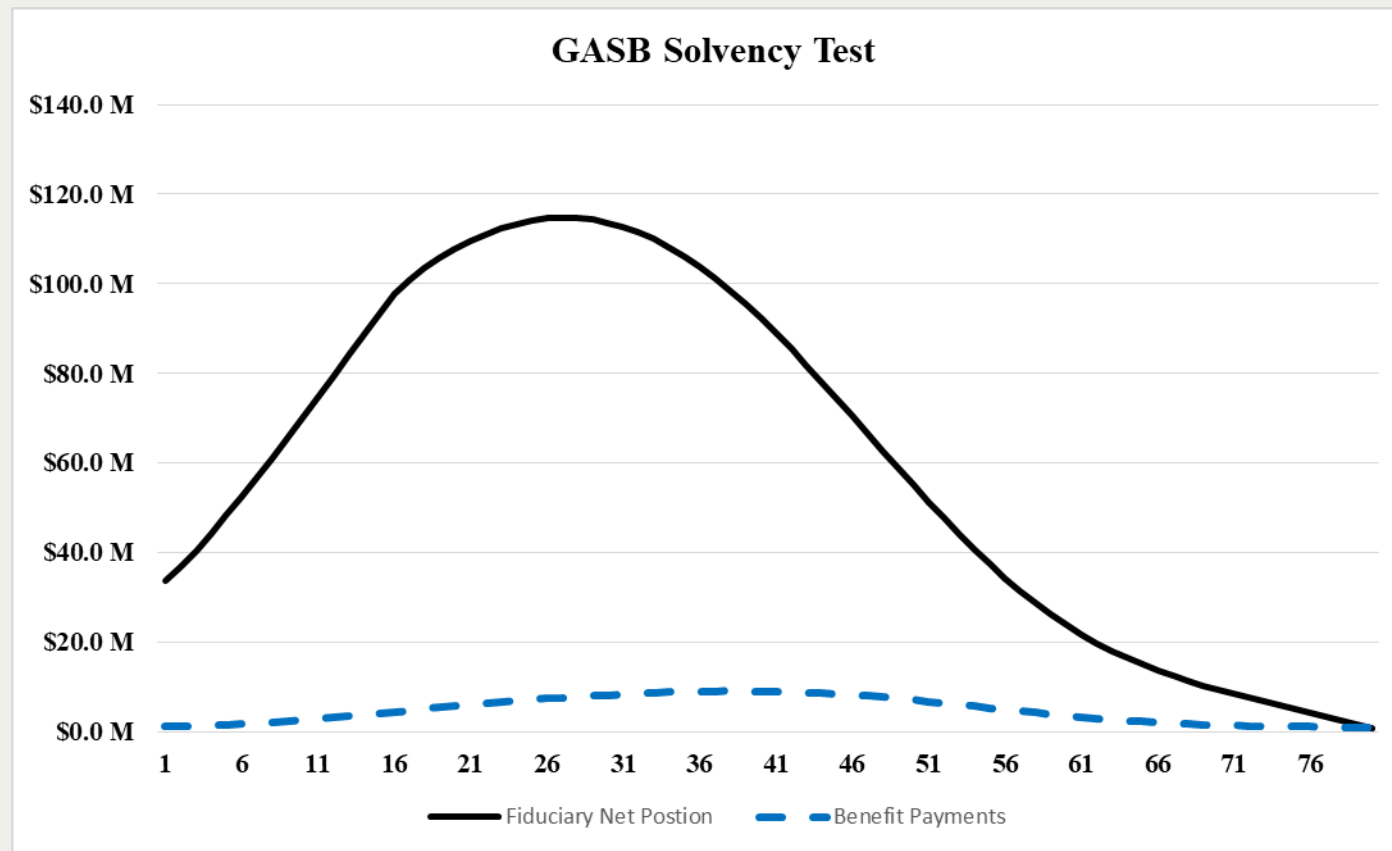
# Five-Year Employer Contribution History

Page 24 in GASB 67/68 Report

Fiscal Year End	Employer Contribution	Actuarially Determined Contribution (ADC)	% of ADC
4/30/2020	\$1,400,001	\$1,398,759	100.09%
4/30/2019	\$1,400,000	\$1,342,897	104.25%
4/30/2018	\$1,430,544	\$1,392,423	102.74%
4/30/2017	\$1,550,011	\$1,465,094	105.80%
4/30/2016	\$1,250,000	\$1,182,911	105.67%
		<b>5 - Year Average</b>	<b>103.71%</b>

# GASB Solvency Test

Page 33 in GASB 67/68 Report



The Plan’s Projected Fiduciary Net Position is anticipated to cover Projected Benefit Payments in full for the current employees.

# Actuarial Certification

- The valuation results summarized in this presentation are from the April 30, 2020 Actuarial Valuation dated July 9, 2020, which have been reviewed and signed by Actuarial Consultants that meet the Qualification Standards of the American Academy of Actuaries.
  - This report is not intended for purposes other than determinations of the statutory minimum and recommended funding contributions.
  - This report contains the full description of the data, assumptions, methods, and provisions used to produce these actuarial results.

Oswego Police Pension Fund  
 Actuarial Valuation Summary April 30, 2020

	Current Results	
	(a)	(b)
	Contribution - Level % Pay	Contribution - Level Dollar
Actuarial Accrued Liability	47,200,000	47,200,000
Unfunded Liability	12,700,000	12,700,000
Interest on Unfunded Liability	825,500	825,500
Amortization of Unfunded Liability	928,000	1,180,000
Employer Normal Cost Contribution	856,000	856,000
<b>Contribution Recommendation</b>	<b>1,783,000</b>	<b>2,036,000</b>

**Recommended Contribution for the year is \$1,783,331**

**Plan Provisions**

Benefits provided under Article 3 of the Illinois Pension Code were valued.

**Results**

(a) Current year recommended contribution based on current assumptions and funding policy.

(b) Current year recommended contribution based on current assumptions and changing funding policy to implement level dollar payments towards Unfunded Liability.

**Data**

Census and asset data as of April 30, 2020.

**Assumptions**

Unless specified otherwise, assumptions follow the Lauterbach & Amen Actuarial Funding Report Draft for the contribution year ending April 30, 2021 dated July 9, 2020

**Limitations**

Sensitivity Results are for discussion purposes only and cannot be used for formal funding recommendation.

Pension funding comes with inherent risks going forward. For example, if market returns on assets are higher or lower than expected on Village contributions, cost will be impacted in the future

No margin has been included for any adverse experience going forward. The Oswego Police Pension Fund still assumed these pension funding risks going forward.

These results do not reflect any potential future changes to assumptions or funding policies as they are beyond the scope of the requested calculations.

**AGENDA ITEM**

**MEETING TYPE:** Committee of the Whole

**MEETING DATE:** September 15, 2020

**SUBJECT:** Review Postretirement Health Plan Valuation

**ACTION REQUESTED:**  
 Review the Postretirement Health Plan Valuation for the Fiscal Year Ending April 30, 2020

**BOARD/COMMISSION REVIEW:**  
 N/A

**ACTION PREVIOUSLY TAKEN:**

Date of Action	Meeting Type	Action Taken
N/A	N/A	N/A

**DEPARTMENT:** Finance

**SUBMITTED BY:** Mark G. Horton, CPFO, Finance Director

**FISCAL IMPACT:**  
 N/A

**BACKGROUND:**  
 The annual audit report contains note disclosures on the postemployment health care benefits (OPEB) for retirees. The benefits, benefit levels, employee contributions and employer contributions are governed by the Illinois Compiled Statutes and the Village. To be eligible for benefits, an employee must qualify for retirement under one of the Village’s retirement plans or meet COBRA requirements. An actuarial valuation is required annually to record the change in the total OPEB liability in the financial statements as required by the Government Accounting Standards Board (GASB).

**DISCUSSION:**  
 Actuaries from Lauterbach & Amen will present the Village of Oswego Postretirement Health Plan actuarial valuation for the fiscal year ending April 30, 2020. The total OPEB liability has grown to \$2,026,677 due to an increase this past year of \$403,337.



The Village has not set up a separate Trust Fund to accumulate funds to offset this liability preferring to contribute the annual cost and associated expense from current resources.

Some governmental agencies set up separate Trust Funds like the Village of Oswego Police Pension Fund to accumulate the funding to account for the benefits accruing annually and to pay out the benefits.

**RECOMMENDATION:**

Staff recommends the Village Board accept the presentation and gain an understanding of this annual valuation.

**ATTACHMENTS:**

Village of Oswego Postretirement Health Plan actuarial GASB disclosures Statements 74 and 75 for the fiscal year ending April 30, 2020

Lauterbach & Amen, LLP  
668 N. River Road  
Naperville, IL 60563

Actuarial Valuation  
as of May 1, 2018



VILLAGE OF OSWEGO,  
ILLINOIS  
POSTRETIREMENT HEALTH  
PLAN

GASB 74/75 Financial Statement Reporting

*LAUTERBACH & AMEN, LLP*

# Actuarial GASB Disclosures Statements 74 and 75

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## Lauterbach & Amen, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

### VILLAGE OF OSWEGO, ILLINOIS POSTRETIREMENT HEALTH PLAN

**Fiscal Year Ending: April 30, 2020**  
Actuarial Valuation Date: May 1, 2018  
Measurement Date: April 30, 2020

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**Submitted by:**

Lauterbach & Amen, LLP  
630.393.1483 Phone  
[www.lauterbachamen.com](http://www.lauterbachamen.com)

**Contact:**

Todd A. Schroeder

July 31, 2020

***LAUTERBACH & AMEN, LLP***



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## ACTUARIAL CERTIFICATION

This certification provides supplemental information as required by the Governmental Accounting Standards Board. The enclosed schedules were prepared by the undersigned to provide general information to assist in the preparation of the Annual Financial Report. The assumptions and methods used in the preparation of this disclosure meet the parameters set for the disclosures presented in the financial section as required by the Governmental Accounting Standards Board. Our calculations are based on the methodology for limited-year reporting under GASB 75 outlined in this report. Additional information is also provided solely to assist the auditors in preparation of the required footnote disclosures.

The results in this report are based on information and data submitted by the Village of Oswego, Illinois. We did not prepare the Actuarial Valuations for the years prior to May 1, 2015. Those valuations were prepared by other Actuaries whose reports have been furnished to us, and our disclosures are based upon those reports. An audit of the information was not performed, but high-level reviews were performed for general reasonableness as appropriate based on the purpose of the valuation. The accuracy of the results is dependent upon the precision and completeness of the underlying information. The results of the Actuarial Valuation and these supplemental disclosures rely on the information provided.

The valuation results summarized involve actuarial calculations that require assumptions about future events. The Village of Oswego, Illinois selected certain assumptions, while others were the result of guidance and/or judgment. We believe that the assumptions used in the valuation are reasonable and appropriate for the purposes for which they have been used.

To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices. The undersigned consultant of Lauterbach & Amen, LLP, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render this Actuarial Certification. There is no relationship between the Village of Oswego, Illinois and Lauterbach & Amen, LLP that impairs our objectivity.

Respectfully Submitted,  
LAUTERBACH & AMEN, LLP

Todd A. Schroeder, ASA, FCA, EA, MAAA



## MANAGEMENT SUMMARY

Comments and Analysis  
Limited-Year Reporting

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## COMMENTS AND ANALYSIS

This report details the data, assumptions, and underlying methodology used in the GASB 74/75 valuation as of May 1, 2018. The results assumed that no significant changes have been made to the retiree medical program and a full valuation is not required. Please confirm with your auditors that limited-year reporting is acceptable for the Fiscal Year ended April 30, 2020 before relying on these results. If you made significant changes to the retiree medical plan, a full valuation may be required.

### LIMITED-YEAR REPORTING

Limited-year reporting relies on census, medical information – including claims and premiums, and benefit information utilized in the GASB 74/75 valuation as of May 1, 2018. This information is not updated in the limited-year report. The limited-year report does reflect updates to the Measurement Date, discount rate, and Covered-Employee Payroll.

### Assumptions

We performed a comprehensive study of Police Pension Funds in the State of Illinois. The actuarial assumptions were changed in the current year. See the *Assumption Changes* section of this report for more details.

The Discount Rate has been decreased from 3.79% to 2.56% to better reflect the current high-quality fixed income environment. The underlying index used is the Bond Buyer 20-Bond GO Index. The rate has been updated to the current Fiscal Year end based on changes in market conditions as reflected in the Index. The rate used is the April 30, 2020 rate. The change was made to reflect our understanding of the requirements of GASB limited-year reporting under Statement 74 and Statement 75. See the Discount Rate section of this report for further details.





## POSTRETIREMENT PLAN NET POSITION

Statement of OPEB Plan Net Position  
Statement of Changes in OPEB Trust and OPEB Plan Net Position  
Statement of OPEB Plan Benefit Payments and Contributions

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**STATEMENT OF OPEB PLAN NET POSITION**

	<u>4/30/2019</u>	<u>4/30/2020</u>
<b>Assets</b>		
Cash and Cash Equivalents	\$ -	\$ -
Total Cash	<u>-</u>	<u>-</u>
Receivables:		
Due from Village	-	-
Investment Income - Accrued Interest	<u>-</u>	<u>-</u>
Total Receivables	<u>-</u>	<u>-</u>
Investments:		
Common Stock	<u>-</u>	<u>-</u>
Total Investments	<u>-</u>	<u>-</u>
Total Assets	<u>-</u>	<u>-</u>
<b>Liabilities</b>		
Payables:		
Expenses Due/Unpaid	<u>-</u>	<u>-</u>
Total Liabilities	<u>-</u>	<u>-</u>
<b>Net Position Restricted for Postretirement Plan</b>	<u>\$ -</u>	<u>\$ -</u>

The Total OPEB Liability is an unfunded obligation. The Employer does not have a trust dedicated exclusively to the payment of OPEB benefits.



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**STATEMENT OF CHANGES IN OPEB TRUST AND OPEB PLAN NET POSITION**

	<u>4/30/2020</u> <u>OPEB Trust</u>	<u>4/30/2020</u> <u>OPEB Plan</u>
<b>Additions</b>		
Contributions		
Employer	\$ -	\$ 53,816
Member	-	-
Other	-	-
Total Contributions	<u>-</u>	<u>53,816</u>
Investment Income		
Total Investment Income	-	-
Interest and Dividends	-	-
Less Investment Expense	-	-
Net Investment Income	<u>-</u>	<u>-</u>
Total Additions	<u>-</u>	<u>53,816</u>
<b>Deductions</b>		
Benefit Payments	-	53,816
Administrative Expense	-	-
Total Deductions	<u>-</u>	<u>53,816</u>
Net Increase in Net Position	<u>-</u>	<u>-</u>
<b>Net Position Restricted for Postretirement Plan</b>		
Beginning of Year	<u>-</u>	<u>-</u>
End of Year	<u>\$ -</u>	<u>\$ -</u>

The Total OPEB Liability is an unfunded obligation. The Employer does not have a trust dedicated exclusively to the payment of OPEB benefits.



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**STATEMENT OF OPEB PLAN BENEFIT PAYMENTS AND CONTRIBUTIONS**

	<u>4/30/2020</u>
Employer Contributions	
OPEB Trust Contributions	\$ -
Contributions from Other Village Resources*	<u>53,816</u>
Total OPEB Plan Contributions	<u>\$ 53,816</u>
Employer Benefit Payments	
Benefit Payments from Trust	\$ -
Benefit Payments from Other Village Resources*	<u>53,816</u>
Total OPEB Plan Benefit Payments	<u>\$ 53,816</u>

The Employer Contributions and Benefit Payments are related to the increase in active premiums due to the presence of retirees in the determination of blended retiree/active premiums.

\*Contributions from Other Village Resources and Benefit Payments from Other Village Resources refers to contributions made to and benefit payments made from the OPEB Plan that were not directly made to or from the OPEB Trust.



## ACTUARIAL OPEB LIABILITY INFORMATION

Statement of Total OPEB Liability  
Statement of Changes in Total OPEB Liability  
Statement of Changes in Net OPEB Liability  
Deferred Outflows and Inflows of Resources  
Deferred Outflows and Inflows of Resources – Details  
OPEB Expense Development  
Group Breakdown

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**STATEMENT OF TOTAL OPEB LIABILITY**

	<u>4/30/2019</u>	<u>4/30/2020</u>
Total Active Employees	\$ 827,644	\$ 1,126,419
Inactive Employees Currently Receiving Benefit Payments	795,696	900,258
Inactive Employees Entitled To But Not Yet Receiving Benefit Payments	-	-
Total Inactive Employees	<u>795,696</u>	<u>900,258</u>
Total OPEB Liability	<u>\$ 1,623,340</u>	<u>\$ 2,026,677</u>

The Total OPEB Liability shown is dependent on several factors such as Plan Provisions and assumptions used in the report. In addition, the calculation of the Total OPEB Liability may be dependent on the OPEB Plan Net Position shown on the prior page. Changes in the OPEB Plan Net Position due to any factor, including adjustment on final audit, could change the Total OPEB Liability. The dependence of the Total OPEB Liability on the Net Position is due to the role of the Net Position (and projected Net Position) on the determination of the discount rate used for the Total OPEB Liability.

The Total OPEB Liability has been determined for GASB 74/75 reporting purposes only. The resulting Total OPEB Liability is intended to be used in the financial statement reporting of the postretirement plan and/or the Employer. The resulting liability is not intended to be a representation of the postretirement plan liability for other purposes, including but not limited to determination of cash funding requirements and recommendations, if applicable.



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**STATEMENT OF CHANGES IN TOTAL OPEB LIABILITY**

<b>Total OPEB Liability</b>	<b>4/30/2020</b>
Service Cost	\$ 54,461
Interest	60,506
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes in Assumptions	342,186
Benefit Payments*	<u>(53,816)</u>
Net Change in Total OPEB Liability	403,337
Total OPEB Liability - Beginning	<u>1,623,340</u>
Total OPEB Liability - Ending (a)	<u>\$ 2,026,677</u>
OPEB Plan Net Position - Ending (b)	<u>\$ -</u>
<b>Employer's Net OPEB Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ 2,026,677</u>
OPEB Plan Net Position as a Percentage of the Total OPEB Liability	0.00%
Covered-Employee Payroll	\$ 9,346,138
Employer's Net OPEB Liability as a Percentage of Employee Payroll	21.68%

\*See the benefit breakdown in the Statement of OPEB Plan Benefit Payments and Contributions section.

The OPEB Plan Net Position was detailed in the prior section of this report. The Employer's Net OPEB Liability is the excess of the Total OPEB Liability over the OPEB Plan Net Position.

Total OPEB Liability may be dependent on the Net Position of the postretirement plan. Changes in the Net Position could change the determination of the Total OPEB Liability. Any changes in Net Position, including adjustments on final audit, can have an impact on Net OPEB Liability that extends beyond the dollar-for-dollar change in Net Position.

Covered-Employee Payroll is based on Total Covered Payroll for the postretirement plan Members during the Fiscal Year.



**STATEMENT OF CHANGES IN NET OPEB LIABILITY**

The table below illustrates the change in the Net OPEB Liability from the prior Measurement Date to the current Measurement Date. Under Statement 75, the difference between the Net OPEB Liability from the prior Measurement Date to the current Measurement Date should be recognized as an expense, unless permitted to be recognized as a Deferred Outflow or Inflow of Resources.

	Increase (Decrease)		
	Total OPEB Liability (a)	OPEB Plan Net Position (b)	Net OPEB Liability (a) - (b)
<b>Balances Beginning at 5/1/2019</b>	\$ 1,623,340	\$ -	\$ 1,623,340
<b>Changes for the year:</b>			
Service Cost	54,461	-	54,461
Interest	60,506	-	60,506
Actuarial Experience	-	-	-
Assumptions Changes	342,186	-	342,186
Plan Changes	-	-	-
Contributions - Employer	-	53,816	(53,816)
Contributions - Employee	-	-	-
Contributions - Other	-	-	-
Net Investment Income	-	-	-
Benefit Payments from Trust	(53,816)	(53,816)	-
Administrative Expense	-	-	-
<b>Net Changes</b>	<u>403,337</u>	<u>-</u>	<u>403,337</u>
<b>Balances Ending at 4/30/2020</b>	<u>\$ 2,026,677</u>	<u>\$ -</u>	<u>\$ 2,026,677</u>

The changes in Total OPEB Liability above are described on the prior page. The OPEB Plan Net Position was detailed in the prior section of this report. The Employer’s Net OPEB Liability is the excess of the Total OPEB Liability over the OPEB Plan Net Position.





**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

The table below shows the cumulative amounts to be shown as Deferred Outflows and Inflows of Resources. Changes in Total OPEB Liability related to the difference in actual and expected experience, or changes in assumptions regarding future events, are recognized in OPEB Expense over the expected remaining service life of all employees (active and retired) in the postretirement plan. Differences in projected and actual earnings over the measurement period are recognized over a 5-year period. Amounts not yet recognized are summarized below:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	337,558	-
Net Difference Between Projected and Actual Earnings on Postretirement Plan Investments	-	-
Total Deferred to Be Recognized in Future Expense	\$ 337,558	\$ -
Contributions Subsequent to the Measurement Date*	\$ -	\$ -
Total	\$ 337,558	\$ -

\* Contributions subsequent to the Measurement Date may be recognized as a reduction to the Net OPEB Liability. The amount is not known as of the date of this report. Subsequent to the Measurement Date, the following amounts will be recognized in OPEB Expense in the upcoming years:

<b>Year Ended</b>	
<b>April 30:</b>	
2021	\$ 37,158
2022	37,158
2023	37,158
2024	37,158
2025	37,158
Thereafter	151,768



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## DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES - DETAILS

The table below shows the annual detail amounts that have been summarized on the prior page. Under Statement 75, the level of detail shown on the prior page is sufficient for financial statement reporting. The detail shown below is primarily for tracking purposes.

<b>OPEB Expense Source</b>	<b>Date Established</b>	<b>Initial Period</b>	<b>Initial Balance</b>	<b>Remaining Period</b>	<b>4/30/2020 Expense Recognized</b>	<b>4/30/2020 Deferred Balance</b>
Change in Assumptions Loss	4/30/2020	10.18	\$ 342,186	10.18	\$ 33,614	\$ 308,572
Change in Assumptions Loss	4/30/2019	10.18	\$ 36,074	9.18	\$ 3,544	\$ 28,986
Total			<u>\$ 378,260</u>		<u>\$ 37,158</u>	<u>\$ 337,558</u>

Each detail item in the chart above was established as of the Fiscal Year end shown and the full amount deferred has been determined as of that time. Any events that occur in subsequent Fiscal Years do not have an impact on the prior Fiscal Year. The bases are established independently each year.



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## OPEB EXPENSE DEVELOPMENT

The table below displays the OPEB Expense development for the current year. The OPEB Expense includes items that change the Net OPEB Liability from one year to the next, netted out for amounts that are deferred under GASB pronouncement, plus any amounts that are being recognized that were deferred previously.

See below for development of the OPEB Expense:

	<u>4/30/2020</u>
<b>OPEB Expense/(Income) Under GASB 75</b>	
Service Cost	\$ 54,461
Interest	60,506
Plan Changes	-
Contributions - Employee	-
Contributions - Other	-
Expected Investment Income	-
Administrative Expense	-
Other Changes	-
Initial OPEB Expense/(Income)	<u>114,967</u>
Recognition of Outflow/(Inflow) of Resources due to Liabilities	37,158
Recognition of Outflow/(Inflow) of Resources due to Assets	-
<b>Total OPEB Expense/(Income)</b>	<b><u>\$ 152,125</u></b>



**GROUP BREAKDOWN**

<b>Division</b>	<b>Administration</b>	<b>Building &amp; Zoning</b>	<b>Community Development</b>	<b>Community Relations</b>	<b>Economic Development</b>
<b>Total Active Employees</b>	28,190	26,283	24,074	2,273	262
<b>Inactive Employees Currently Receiving Benefit Payments</b>	-	50,997	-	-	-
<b>Inactive Employees Entitled To But Not Yet Receiving Benefit Payments</b>	-	-	-	-	-
<b>Total OPEB Liability</b>	28,190	77,280	24,074	2,273	262
<b>Service Cost</b>	1,458	1,561	1,545	901	60
<b>Interest</b>	831	2,441	711	33	4
<b>Change of Benefit Terms</b>	-	-	-	-	-
<b>Difference Between Expected and Actual Experience</b>	-	-	-	-	-
<b>Change in Assumptions</b>	4,260	10,321	3,231	470	82
<b>Benefit Payments</b>	(544)	(2,890)	(344)	-	-
<b>Net Change in Total OPEB Liability</b>	6,005	11,433	5,143	1,404	147
<b>Total OPEB Liability - Beginning</b>	22,186	65,847	18,930	868	115
<b>Total OPEB Liability - Ending</b>	28,190	77,280	24,074	2,273	262
<b>Total Active Employees</b>	6	7	4	2	1
<b>Inactive Employees Currently Receiving Benefit Payments</b>	-	1	-	-	-
<b>Inactive Employees Entitled To But Not Yet Receiving Benefit Payments</b>	-	-	-	-	-
<b>Total Plan Members</b>	6	8	4	2	1



**GROUP BREAKDOWN - CONTINUED**

Division	Finance	Information Technology	Police	Police-Admin	Public Works	Total
<b>Total Active Employees</b>	55,015	3,400	781,955	47,709	157,257	1,126,419
<b>Inactive Employees Currently Receiving Benefit Payments</b>	-	-	719,243	-	130,018	900,258
<b>Inactive Employees Entitled To But Not Yet Receiving Benefit Payments</b>	-	-	-	-	-	-
<b>Total OPEB Liability</b>	55,015	3,400	1,501,199	47,709	287,275	2,026,677
<b>Service Cost</b>	2,352	210	33,696	4,101	8,575	54,461
<b>Interest</b>	1,580	86	44,546	1,295	8,979	60,506
<b>Change of Benefit Terms</b>	-	-	-	-	-	-
<b>Difference Between Expected and Actual Experience</b>	-	-	-	-	-	-
<b>Change in Assumptions</b>	9,539	843	267,336	8,240	37,865	342,186
<b>Benefit Payments</b>	(315)	-	(39,407)	(214)	(10,102)	(53,816)
<b>Net Change in Total OPEB Liability</b>	13,156	1,139	306,170	13,423	45,317	403,337
<b>Total OPEB Liability - Beginning</b>	41,859	2,261	1,195,029	34,287	241,958	1,623,340
<b>Total OPEB Liability - Ending</b>	55,015	3,400	1,501,199	47,709	287,275	2,026,677
<b>Total Active Employees</b>	6	1	49	11	22	109
<b>Inactive Employees Currently Receiving Benefit Payments</b>	-	-	9	-	2	12
<b>Inactive Employees Entitled To But Not Yet Receiving Benefit Payments</b>	-	-	-	-	-	-
<b>Total Plan Members</b>	6	1	58	11	24	121



## ACTUARIAL ASSUMPTION INFORMATION

Statement of Significant Actuarial Assumptions  
Assumption Changes  
Expected Return on OPEB Plan Investments  
Municipal Bond Rate  
Discount Rate  
Inflation Rate  
Development of Starting Claims Costs  
Sensitivity of the Discount Rate  
Sensitivity of the Healthcare Cost Trend Rates

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## STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS

The assumptions detailed below are based on the baseline calculations for the Fiscal Year ended April 30, 2019 with the exception of the assumed end of year discount rate, decrements, and inflation rate.

### Assumptions (Economic)

Discount Rate used for the Total OPEB Liability

Beginning of Year	3.79%
End of Year	2.56%

Long-Term Expected Rate of Return on Plan Assets N/A

High Quality 20 Year Tax-Exempt G.O. Bond Rate

Beginning of Year	3.79%
End of Year	2.56%

Total Payroll Increases 3.00%

Claims and Premiums See Accompanying Tables

Healthcare Cost Trend Rates See Accompanying Tables

Retiree Contribution Rates Same as Healthcare Cost Trend Rates



**STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS - CONTINUED**

**Claims** See accompanying tables for the PPO and HMO Plan data:

<b>PPO #1</b>				
<b>Age</b>	<b>Retiree</b>		<b>Spouse</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
<b>50</b>	\$9,636	\$11,529	\$16,585	\$16,766
<b>55</b>	\$12,232	\$13,145	\$16,560	\$15,920
<b>60</b>	\$15,308	\$15,818	\$17,567	\$16,800
<b>64</b>	\$18,114	\$18,927	\$18,994	\$19,381
<b>65</b>	\$6,793	\$7,098	\$7,123	\$7,268
<b>70</b>	\$8,120	\$8,484	\$8,514	\$8,688
<b>75</b>	\$8,817	\$9,212	\$9,102	\$9,433
<b>80</b>	\$9,451	\$9,875	\$9,736	\$10,112
<b>85</b>	\$9,884	\$10,328	\$10,169	\$10,575
<b>90+</b>	\$10,083	\$10,536	\$10,368	\$10,788

<b>PPO #2</b>				
<b>Age</b>	<b>Retiree</b>		<b>Spouse</b>	
	<b>Male</b>	<b>Female</b>	<b>Male</b>	<b>Female</b>
<b>50</b>	\$8,788	\$10,515	\$15,126	\$15,291
<b>55</b>	\$11,155	\$11,988	\$15,103	\$14,519
<b>60</b>	\$13,960	\$14,426	\$16,021	\$15,322
<b>64</b>	\$16,520	\$17,261	\$17,323	\$17,675
<b>65</b>	\$6,195	\$6,473	\$6,496	\$6,628
<b>70</b>	\$7,405	\$7,738	\$7,765	\$7,923
<b>75</b>	\$8,041	\$8,402	\$8,301	\$8,603
<b>80</b>	\$8,620	\$9,006	\$8,879	\$9,222
<b>85</b>	\$9,014	\$9,419	\$9,274	\$9,645
<b>90+</b>	\$9,196	\$9,609	\$9,456	\$9,839





**STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS - CONTINUED**

**Claims**

Age	HMO			
	Retiree		Spouse	
	Male	Female	Male	Female
50	\$5,515	\$6,598	\$9,492	\$9,595
55	\$7,000	\$7,523	\$9,477	\$9,111
60	\$8,760	\$9,053	\$10,053	\$9,614
64	\$10,367	\$10,832	\$10,870	\$11,091
65	\$3,887	\$4,062	\$4,076	\$4,159
70	\$4,647	\$4,856	\$4,873	\$4,972
75	\$5,046	\$5,272	\$5,209	\$5,398
80	\$5,409	\$5,652	\$5,572	\$5,787
85	\$5,657	\$5,910	\$5,820	\$6,052
90+	\$5,771	\$6,030	\$5,934	\$6,174

Note that no claims have been developed for the H.S.A. plan as no current retirees have elected it, and no future retirees are assumed to elect.

**Blended Premium Rates**

See accompanying table for premiums charged for coverage.

	Annual Blended Premiums			
	Under Age 65		Age 65-&-Over	
	Retiree	Spouse	Retiree	Spouse
PPO #1	\$8,956	\$10,094	\$6,691	\$6,691
PPO #2	\$8,168	\$9,206	\$6,102	\$6,103
HMO	\$5,130	\$5,782	\$3,391	\$3,391
HSA	\$7,272	\$8,196	\$5,433	\$5,433



**STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS - CONTINUED**

**Healthcare Cost Trend Rates**

<b>Healthcare Trend</b> (FY = Fiscal Year)		PPO		HMO	
<u>Period</u>		<u>U65</u>	<u>65+</u>	<u>U65</u>	<u>65+</u>
FY 18 to FY 19		5.90%	5.90%	1.30%	1.30%
FY 19 to FY 20		7.00%	7.00%	5.00%	5.00%
FY 20 to FY 21		7.00%	7.00%	5.00%	5.00%
FY 21 to FY 22		6.50%	6.50%	5.00%	5.00%
FY 22 to FY 23		6.50%	6.50%	5.00%	5.00%
FY 23 to FY 24		6.00%	6.00%	5.00%	5.00%
FY 24 to FY 25		6.00%	6.00%	5.00%	5.00%
FY 25 to FY 26		5.50%	5.50%	5.00%	5.00%
FY 26 to FY 27		5.50%	5.50%	5.00%	5.00%
FY 27 to FY 28		5.00%	5.00%	5.00%	5.00%
Ultimate		5.00%	5.00%	0.00%	0.00%

**Assumptions (Demographic)**

**Election at Retirement** Coverage election at retirement is assumed at the following rates:

<b>IMRF</b>	30%
<b>IMRF - Currently Waiving</b>	10%
<b>Police</b>	30%
<b>Police - Currently Waiving</b>	10%

If an employee has waived active medical coverage, it is assumed they will elect coverage in the retiree medical plan at 1/3 the rate of active employees currently with coverage.

**Spousal Election** Of those employees assumed to elect coverage in retirement, 50% are assumed to elect spousal coverage. Female spouses are assumed to be 3 years younger than male spouses.



**STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS - CONTINUED**

**Plan Participation Rate** Of the employees that will elect coverage at retirement, as noted above, it is assumed they will elect coverage in the available medical plans at the following rates:

	<u>IMRF</u>	<u>Police</u>
PPO #1	15%	15%
PPO #2	0%	0%
HMO	85%	85%
H.S.A.	0%	0%

**Retiree Lapse Rates** Retirees receiving medical coverage are expected to lapse all coverages at age 65 at the following rates:

<b>IMRF</b>	80%
<b>Police</b>	80%

**Retirement Rates** IMRF 2017 for IMRF Employees.

100% of the L&A Assumption Study Cap Age 65 for Police 2020. Sample Rates as Follows:

Age	Rate	Age	Rate
50	0.110	53	0.127
51	0.116	54	0.134
52	0.121	55	0.140

**Termination Rates** IMRF 2017 for IMRF Employees.

100% of the L&A Assumption Study for Police 2020. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.080	40	0.022
30	0.034	45	0.016
35	0.028	50	0.005



**STATEMENT OF SIGNIFICANT ACTUARIAL ASSUMPTIONS - CONTINUED**

**Disability Rates** IMRF 2017 for IMRF Employees.

100% of the L&A Assumption Study for Police 2020. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.0000	40	0.0038
30	0.0006	45	0.0053
35	0.0018	50	0.0048

**Mortality Rates**

Active, Retiree, and Spousal IMRF Mortality follows the Sex Distinct Raw Rates as Developed in the RP-2014 Study, with Blue Collar Adjustment. These Rates are then Improved Generationally using MP-2016 Improvement Rates.

Active Police Mortality follows the Sex Distinct Raw Rates as Developed in the PubS-2010(A) Study Improved to 2017 using MP-2019 Improvement Rates. These Rates are then Improved Generationally using MP-2019 Improvement Rates.

Retiree Police Mortality follows the L&A Assumption Study for Police 2020. These Rates are Experience Weighted with the Sex Distinct Raw Rates as Developed in the PubS-2010(A) Study Improved to 2017 using MP-2019 Improvement Rates. These Rates are then Improved Generationally using MP-2019 Improvement Rates.

Disabled Police Mortality follows the Sex Distinct Raw Rates as Developed in the PubS-2010 Study for Disabled Participants Improved to 2017 using MP-2019 Improvement Rates. These Rates are then Improved Generationally using MP-2019 Improvement Rates.

Spouse Police Mortality follows the Sex Distinct Raw Rates as Developed in the PubS-2010(A) Study for Contingent Survivors. For all Rates not Provided there (Ages 45 and Younger) the PubG-2010 Study for General Employees was used. Mortality Improvement uses MP-2019 Improvement Rates applied on a Fully Generational Basis.



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## **ASSUMPTION CHANGES**

The assumptions were changed from the prior year.

We performed a comprehensive study of Police Pension Funds in the State of Illinois. The assumptions impacted include:

- Inflation Rate
- Mortality Rates
- Mortality Improvement Rates
- Retirement Rates
- Termination Rates
- Disability Rates

The above stated assumption changes were made to better reflect the future anticipated experience of the plan.

The assumed rate on High Quality 20-year Tax-Exempt G.O. Bonds was changed from 3.79% to 2.56% for the current year. The underlying index used is the Bond Buyer 20-Bond GO Index as discussed in more detail later in this section. The choice of index is unchanged from the prior year. The rate has been updated to the current Fiscal Year end based on changes in market conditions as reflected in the Index. The change was made to reflect our understanding of the requirements of GASB under Statement 74 and Statement 75.

Since the Employer does not have a trust dedicated exclusively to the payment of OPEB benefits, the discount rate used in the determination of the Total OPEB Liability was also changed from 3.79% to 2.56%. See the Assumptions (Economic) section for more details.

## **EXPECTED RETURN ON OPEB PLAN INVESTMENTS**

There is currently no expectation for future returns on OPEB plan assets since the OPEB obligation is an unfunded obligation. The Employer does not have a trust dedicated exclusively to the payment of OPEB benefits.



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## **MUNICIPAL BOND RATE**

The Municipal Bond Rate assumption is based on The Bond Buyer 20-Bond GO Index. The rate shown earlier in the Assumption section is the April 30, 2020 rate. The 20-Bond GO Index is based on an average of certain general obligation municipal bonds maturing in 20 years and having an average rating equivalent of Moody's Aa2 and Standard & Poor's AA.

The 20-Bond Index consists of 20 general obligation bonds that mature in 20 years. The average rating of the 20 bonds is roughly equivalent to Moody's Investors Service's Aa2 rating and Standard & Poor's Corp.'s AA.

The indexes represent theoretical yields rather than actual price or yield quotations. Municipal bond traders are asked to estimate what a current-coupon bond for each issuer in the indexes would yield if the bond was sold at par value. The indexes are simple averages of the average estimated yields of the bonds.



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## **DISCOUNT RATE**

The discount rate used in the determination of the Total OPEB Liability is based on a combination of the Expected Long-Term Rate of Return on Plan Assets and the Municipal Bond Rate. If the Employer does not have a trust dedicated exclusively to the payment of OPEB benefits, as is the case with the Village of Oswego, Illinois, then only the Municipal Bond Rate is used in determining the Total OPEB Liability.

If the postretirement plan is funded, cash flow projections are used to determine the extent which the plan's future Net Position will be able to cover future benefit payments. To the extent future benefit payments are covered by the plan's projected Net Position, the Expected Rate of Return on Plan Assets is used to determine the portion of the Net OPEB Liability associated with those payments. To the extent future benefit payments are not covered by the plan's projected Net Position, the Municipal Bond Rate is used to determine the portion of the Net OPEB Liability associated with those payments.

Projected benefit payments are determined during the valuation process based on the assumptions. More details on the assumptions are in the prior section. The expected contributions are based on the Funding Policy of the plan. The Funding Policy is discussed in more detail in a later section.

## **INFLATION RATE**

The Long-Term Inflation Expectation used is 2.25%, which is an underlying component of the discount rate and assumed health care trend rates.

## **DEVELOPMENT OF STARTING CLAIMS COSTS**

Starting costs for the Village's Plan were developed based on the blended premiums charged for coverage. The insurance carrier charges actives and retirees the same premium rates. According to GASB, when an Employer provides benefits to both active employees and retirees through the same plan, the benefits to retirees should be segregated and measured independently for actuarial measurement purposes. The projection of future retiree benefits should be based on claims costs, or age-adjusted premiums approximating claims costs, for retirees. As such, premiums were estimated for under-65 retirees and their spouses as if they were rated on a stand-alone basis. The results were then disaggregated into age-specific starting costs based on average ages and assumptions on the relationship between costs and increasing age.



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### SENSITIVITY OF THE DISCOUNT RATE

The Net OPEB Liability has been determined using the discount rate listed in the assumption section. Below is a table illustrating the sensitivity of the Net OPEB Liability to the discount rate assumption.

	<b>1% Decrease (1.56%)</b>	<b>Current Discount Rate (2.56%)</b>	<b>1% Increase (3.56%)</b>
Employer's Net OPEB Liability/(Asset)	\$2,335,372	\$2,026,677	\$1,776,654

The sensitivity of the Net OPEB Liability to the discount rate is based primarily on two factors:

1. The duration of the plan's expected benefit payments. Younger plans with benefit payments further in the future will be more sensitive to changes in the discount rate.
2. The funded percentage of the plan (ratio of the Net Position to the Total OPEB Liability). The higher the funded percentage, the higher the sensitivity to the discount rate.

### SENSITIVITY OF THE HEALTHCARE COST TREND RATES

Below is a table illustrating the sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rates assumption.

	<b>1% Decrease (Varies)</b>	<b>Healthcare Cost Trend Rates (Varies)</b>	<b>1% Increase (Varies)</b>
Employer's Net OPEB Liability/(Asset)	\$1,701,152	\$2,026,677	\$2,445,831

Please refer to the Assumptions (Economic) section for full list of assumed trend rates.





## PARTICIPANT DATA

Participant Demographic Data  
Expected Future Working Lifetime

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## PARTICIPANT DEMOGRAPHIC DATA

The chart below summarizes the employee count of plan Members:

<b>Measurement Date</b>	<b>4/30/2019</b>	<b>4/30/2020</b>
Total Active Employees	109	109
Inactive Employees Currently Receiving Benefit Payments	12	12
Inactive Employees Entitled To But Not Yet Receiving Benefit Payments	0	0
Total	<u>121</u>	<u>121</u>

Because this is a limited-year report, we did not collect new census data but instead relied on the census data used in the baseline calculations for the Fiscal Year ended April 30, 2019. The data is assumed to be a reasonable representation of data as of the Measurement Date and may have been collected on or before the Measurement Date.

The above total active employee counts include 8 IMRF and 1 Police participant who have waived medical coverage. If an employee has waived active medical coverage, it is assumed they will elect coverage in the retiree medical plan at a rate of 1/3 the rate of active employees currently with coverage.

## EXPECTED FUTURE WORKING LIFETIME

The chart below summarizes the expected future working lifetime of plan Members:

<b>Measurement Date</b>	<b>4/30/2019</b>	<b>4/30/2020</b>
Average Future Working Career (In Years)		
Active Plan Members	11.30	11.30
Inactive Plan Members	0.00	0.00
Total	10.18	10.18

The expected future working lifetime is measured as of the Actuarial Valuation Date and is based on the demographic assumptions used in the preparation of this report.



## FUNDING POLICY

Components of the Actuarially Determined Contribution  
Formal Funding Policy  
Informal Funding Policy

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## **COMPONENTS OF THE ACTUARIALLY DETERMINED CONTRIBUTION**

The Actuarially Determined Contribution (“ADC”) includes the determination of the Normal Cost contribution for active plan Members, as well as a provision for the payment of Unfunded Liability.

Unfunded Liability is the excess of the Total OPEB Liability over the Market Value of Assets.

For the Village of Oswego, Illinois, there is no determination of an ADC and Normal Cost, as the Total OPEB Liability is currently an unfunded obligation. The Employer does not have a trust dedicated exclusively to the payment of OPEB benefits.

## **FORMAL FUNDING POLICY**

There is no Formal Funding Policy that exists for the postretirement plan at this time, as the Total OPEB Liability is currently an unfunded obligation.

## **INFORMAL FUNDING POLICY**

There is no Informal Funding Policy determined for GASB reporting purposes, as the Total OPEB Liability is currently an unfunded obligation.



## SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Net OPEB Liability  
Schedule of Total OPEB Liability and Related Ratios  
Schedule of Contributions  
Notes to Schedule of Contributions

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## SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY

	4/30/2020	4/30/2019	4/30/2018	4/30/2017	4/30/2016	4/30/2015	4/30/2014	4/30/2013	4/30/2012	4/30/2011
<b>Total OPEB Liability</b>										
Service Cost	\$ 54,461	\$ 50,323								
Interest	60,506	59,601								
Changes of Benefit Terms	-	-								
Differences Between Expected and Actual Experience	-	-								
Changes in Assumptions	342,186	36,074								
Benefit Payments	(53,816)	(47,866)								
<b>Net Change in Total OPEB Liability</b>	\$ 403,337	\$ 98,132								
<b>Total OPEB Liability - Beginning</b>	<u>1,623,340</u>	<u>1,525,208</u>								
<b>Total OPEB Liability - Ending (a)</b>	<u>\$ 2,026,677</u>	<u>\$ 1,623,340</u>								
<b>OPEB Plan Net Position</b>										
Contributions - Employer	\$ 53,816	\$ 47,866								
Contributions - Member	-	-								
Contributions - Other	-	-								
Net Investment Income	-	-								
Benefit Payments	(53,816)	(47,866)								
Administrative Expense	-	-								
<b>Net Change in OPEB Plan Net Position</b>	\$ -	\$ -								
<b>OPEB Plan Net Position - Beginning</b>	<u>-</u>	<u>-</u>								
<b>OPEB Plan Net Position - Ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>								
<b>Employer's Net OPEB Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ 2,026,677</u>	<u>\$ 1,623,340</u>								

The current year information was developed in the completion of this report.



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## SCHEDULE OF TOTAL OPEB LIABILITY AND RELATED RATIOS

	<u>4/30/2020</u>	<u>4/30/2019</u>	<u>4/30/2018</u>	<u>4/30/2017</u>	<u>4/30/2016</u>	<u>4/30/2015</u>	<u>4/30/2014</u>	<u>4/30/2013</u>	<u>4/30/2012</u>	<u>4/30/2011</u>
<b>Total OPEB Liability - Ending (a)</b>	<u>\$ 2,026,677</u>	<u>\$ 1,623,340</u>								
<b>OPEB Plan Net Position - Ending (b)</b>	<u>\$ -</u>	<u>\$ -</u>								
<b>Employer's Net OPEB Liability/(Asset) - Ending (a) - (b)</b>	<u>\$ 2,026,677</u>	<u>\$ 1,623,340</u>								
<b>OPEB Plan Net Position as a Percentage of the</b>										
<b>Total OPEB Liability</b>	0.00%	0.00%								
<b>Covered-Employee Payroll</b>	\$ 9,346,138	\$ 8,927,390								
<b>Employer's Net OPEB Liability as a Percentage of</b>										
<b>Covered-Employee Payroll</b>	21.68%	18.18%								

Covered-Employee Payroll shown for the current year is the Total Covered Payroll for the Fiscal Year for all plan Members.



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## SCHEDULE OF CONTRIBUTIONS

	<u>4/30/2020</u>	<u>4/30/2019</u>	<u>4/30/2018</u>	<u>4/30/2017</u>	<u>4/30/2016</u>	<u>4/30/2015</u>	<u>4/30/2014</u>	<u>4/30/2013</u>	<u>4/30/2012</u>	<u>4/30/2011</u>
Actuarially Determined Contribution	N/A	N/A								
Contributions in Relation to the Actuarially Determined Contribution	-	-								
Contribution Deficiency (excess)	<u>N/A</u>	<u>N/A</u>								
Covered-Employee Payroll	<u>\$ 9,346,138</u>	<u>\$ 8,927,390</u>								
Contributions as a Percentage of Covered-Employee Payroll	0.00%	0.00%								

## NOTES TO SCHEDULE OF CONTRIBUTIONS

There is no ADC or Employer Contribution in relation to the ADC, as there is no Trust that exists for funding the OPEB Liability. However, the Village did make contributions from other Village resources in the current year in the amount of \$53,816.





# GASB METHODS AND PROCEDURES

GASB Methods and Procedures

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**GASB METHODS AND PROCEDURES**

	<b>Statement 74</b>	<b>Statement 75</b>
	<b>OPEB Plan Financials</b>	<b>Employer Financials</b>
Fiscal Year End for Reporting	<b>April 30, 2020</b>	<b>April 30, 2020</b>
Measurement Date	April 30, 2020	April 30, 2020
Actuarial Valuation Date	May 1, 2018	May 1, 2018
Data Date	April 30, 2019	April 30, 2019
Asset Valuation Method	Market Value	Market Value
Actuarial Cost Method	Entry Age Normal (Level %)	Entry Age Normal (Level %)

**Methodology Used in the Determination of Deferred Inflows and Outflows of Resources**

Amortization Method	Straight Line	Straight Line
Amortization Period		
Actuarial Experience	10.18 Years	10.18 Years
Changes in Assumptions	10.18 Years	10.18 Years
Asset Experience	5.00 Years	5.00 Years

As noted in the table above, the Actuarial Funding Method used in the determination of the Total OPEB Liability is the Entry Age Normal Cost method (level percent of pay). The method allocates Normal Cost contributions by employee over the working career of the employee as a level percent of their pay.

The Total OPEB Liability for the current Fiscal Year has been developed based on the Actuarial Valuation Date shown above, and adjusted to the Measurement Date shown above, based on procedures that conform to generally accepted actuarial principles and practices.



## PLAN PROVISIONS

Summary of Eligibility and Coverage

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## SUMMARY OF ELIGIBILITY AND COVERAGE

The plan sponsor has reviewed and agreed to the below eligibility and coverage provisions.

### Eligibility Provisions

#### *Full-Time Employees- Public Works Union, Non-Union*

Tier I IMRF Full-Time Village employees age 55 with at least 8 years of service are covered

Tier II IMRF Full-Time Village employees age 62 with at least 10 years of service are covered

#### *Full-Time Employees- Sergeants/MAP*

Tier I Full-Time Police Officers, at least 50 years old with at least 20 years of service are covered

Tier II Full-Time Police Officers, at least 55 years old with at least 10 years of service are covered

### Medical/Prescription Coverage

#### *Types of Coverage:*

PPO #1 (500 Deductible)      PPO #2 (1,000 Deductible)

H.S.A.                                      HMO

#### *Coverage Provisions:*

##### *Retirees- Public Works Union, Sergeants/MAP, and Non-Union*

###### Pre-65 Coverage:

Retiree pays the full cost of coverage.

Dependent coverage may continue should the Retiree pay away, under COBRA provisions.

Coverage continues until Medicare eligibility is reached.

###### Post-65 Coverage:

Retiree pays the full cost of coverage.

Dependent coverage may continue should the Retiree pay away, under COBRA provisions.

Coverage is secondary to Medicare.



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## **SUMMARY OF ELIGIBILITY AND COVERAGE - CONTINUED**

### **Dental and Vision Coverage**

#### *Types of Coverage:*

Dental

Vision

#### *Coverage Provisions:*

##### *All Retirees*

Retiree pays the full cost of coverage.

Coverage ends when Retiree stops paying for it.



## GLOSSARY OF TERMS

GASB 74/75 Terminology

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## **GASB 74/75 TERMINOLOGY**

***Covered-Employee Payroll*** – The payroll of employees that are provided with OPEB through the OPEB plan.

***Healthcare Cost Trend Rates*** – The rates of change in per capita health claims costs over time as a result of factors such as medical inflation, utilization of healthcare services, plan design, and technological developments.

***Implicit Subsidy*** – The difference between a premium rate charged to retirees for a particular benefit and the estimated rate that would have been applicable to those retirees if that benefit was acquired for them as a separate group.

***Net OPEB Liability (“NOL”)*** – The excess of the Total OPEB Liability over the Market Value of Assets.

***OPEB Expense*** – OPEB Expense arising from certain changes in the collective Net OPEB Liability or collective Total OPEB Liability.

***OPEB Fiduciary Net Position (“Net Position”)*** – The value of cash, investments, other assets and property belonging to an OPEB Trust dedicated to paying OPEB benefits.

***OPEB Trust*** – A system other than a pension or retirement system which manages OPEB assets. Contributions to an OPEB Trust should be irrevocable in order to obtain the most favorable accounting treatment.

***Other Postemployment Benefits (“OPEB”)*** – Benefits (such as death benefits, life insurance, disability, and long-term care) that are paid in the period after employment and that are provided separately from a pension plan, as well as healthcare benefits paid in the period after employment, regardless of the manner in which they are provided.

***Service Cost*** – The present value of future benefits earned by employees during the current Fiscal Year. It is that portion of the actuarial present value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

***Total OPEB Liability (“TOL”)*** – The actuarial present value of future benefits based on employees’ service rendered to the measurement data using the selected Actuarial Cost Method. It is that portion of the actuarial present value of plan benefits and expenses allocated to prior years of employment.



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*Retirees & Dependents* – Former employees who have satisfied the age and service requirement and are currently receiving postretirement healthcare benefits.

*Actives Fully Eligible* – Active employees who have satisfied the age and service requirement for postretirement healthcare benefits.

*Actives Not Fully Eligible* – Active employees who have not yet satisfied the age and service requirement for postretirement healthcare benefits.





# Lauterbach & Amen, LLP

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CERTIFIED PUBLIC ACCOUNTANTS

**AGENDA ITEM**

**MEETING TYPE:** Committee of the Whole

**MEETING DATE:** September 15, 2020

**SUBJECT:** Fiscal Year 2022 Budget – Village Board Priorities

**ACTION REQUESTED:**

Request Village Board Priorities for Fiscal Year 2022 Budget

**BOARD/COMMISSION REVIEW:**

N/A

**ACTION PREVIOUSLY TAKEN:**

Date of Action	Meeting Type	Action Taken
N/A	N/A	N/A

**DEPARTMENT:** Finance

**SUBMITTED BY:** Mark g. Horton, CPFO, Finance Director

**FISCAL IMPACT:**

N/A

**BACKGROUND:**

The Village adopts a budget for each fiscal year. Staff begins the process of preparing the budget in the fall each calendar year.

**DISCUSSION:**

Staff desires to receive Village Board input on what should be included in the annual budget. Village Board members are encouraged to present their ideas at the meeting. Receiving the information now will allow staff to include the costs within the respective budgets.

**RECOMMENDATION:**

N/A

**ATTACHMENTS:**

N/A