



**Council Packet  
August 3, 2015**

**Communications to Council  
FIRE PENSION FUNDS**

# MEMORANDUM

To: Mayor James L. Gitz & City Council  
From: City Treasurer Linda L. Buss

Date: July 27, 2015

Re: Fire Pension Fund 10 Year Historical Profile

Attached is a three page historical look at the Fire Pension Fund as provided by the State of Illinois Department of Insurance – the pension fund's regulatory agency. The report shows statistical data over the last ten years – each year being reported on the last day of our fiscal year – April 30.

I have pulled out some of the significant items being shown and they are numbered off to the left side of the document. The explanations are as follows:

- 1) The first item is "Net Present Assets – Market Value". That means the assets were "marked to market" meaning they were valued in the market as of that moment in time and if we were to sell every asset we owned on that very day, that's what they would be worth.

You can see the gradual increase in the total assets over the ten year period except for the periods ended 4/30/08 and 4/30/09 when the portfolio was recovering from the market crash in September and October of 2008.

The total assets increased from 2005 to 2014 by 51%.

- 2) "Funding position over (under). This line shows the amount of liability that exists if we were to bring the funding level to 100%. The pension fund is funded in three ways – by the active police officers who contribute 9.445% into the fund, the amount of investment return that is received and the City's contribution. The City's contribution is based on an actuarial report that then drives the tax levy amount. 80% of the actuarial requested tax levy comes from property tax and the other 20% comes from replacement tax.

Over the ten year period, the under-funding amount has increased by 137%.

The funding level – or as shown on the next line as "Percent Funded" went from 83.9% in 2005 to 76.9% in 2014 – a 9% decrease.

- 3) "Contributions from municipality" shows contributions have steadily increased from \$619,120 in 2005 to \$1,095,584 in 2013 but declined to \$782,624 in 2014 due to good investment returns. I will say that the City of Freeport has always contributed exactly what was determined by the actuary.
- 4) Active Participants are the active firefighters who are contributing to the plan. Over the 10 years you can see the number of workforce has fluctuated from 49 in 2004 down to 46 a couple of times up to 51 in 2008 and 2009 to the 2014 staff of 47. This number reflects the number of firefighters receiving a paycheck on 4/30. It may be low one year due to a recent retirement or two and the new recruit hadn't started yet.

- 5) Inactive Participants are those receiving retirement benefits – regular pensioners, widows, dependent children and those out on disability. This too has increased progressively over the ten years from 50 to 64 – an increase of 28%.
- 6) This item that I am highlighting is the 10 year annualized return of 6.79% and the 5 year annualized return of 11.26%. The Illinois Department of Insurance recommends an assumed interest rate of return of 7%. The 10 year falls short of that because of the influence of the stock market crash in 2008. The last five years shows we exceeded their 7% benchmark.
- 7) I have highlighted the Common and Preferred Stock line as well as the Mutual Funds line just to point out that the statutes now allow the pension funds to invest in those instruments up to 65% of their portfolio. In previous years the limits were 55%, 45% and 35%. Over time the legislators realized that there was more money to be made in stocks, bonds and mutual funds than in the fixed income arena, albeit more risk (as evidenced in 2008). But historically speaking, the equity market has given far better returns.
- 8) "From members" is the amount of money the active participants have contributed as a percentage (9.455%) of their paychecks. Obviously it fluctuates up and down as the number of firefighters fluctuated from year to year.
- 9) "Pensions and Benefits" have increased by 85% from 2005 at \$1,190,999 to 2014 at \$2,207,584. Pensions are granted based on years of service and annual salary on the day they retire. Widows receive 100% of the pension upon the death of the retired officer. Non-duty disabled officers receive 50% of their pay and duty related disabled officers receive 65% of their pay.
- 10) "Yearly Investment Returns" fluctuate greatly based on the market. The numbers were also influenced greatly by the mix of fixed income versus equities. For example, in 2004 only 35% could be invested in the stock market and 65% in fixed income. Over time those amounts were increased to 45%, then 55% and now to the current law of up to 65% in the stock market and 35% in fixed income.

The pension board consists of five members. Two are elected from the active firefighters on staff, one is elected from those receiving retirement benefits and two members are appointed by the Mayor. The board currently hires an investment consultant who helps them make the decisions on where and how to invest the assets of the fund.

If you would like further clarification on any of the other line items shown on the report, please feel free to contact me. My office number is 815-235-8201 or stop down and see me.

10 Year Profile

FREEPORT FIREFIGHTERS PENSION FUND

KEY DATA	04/30/14	04/30/13	04/30/12	04/30/11	05/30/10	04/30/09	04/30/08	04/30/07	04/30/06	04/30/05
Net Present Assets - Market Value	33,691,954	31,522,640	29,183,308	28,424,668	25,952,307	22,549,584	26,620,402	26,359,056	24,604,887	22,383,289
Actuarial Liability - Dept Calc	43,839,358	40,836,837	39,977,421	35,810,671	35,359,086	34,110,453	32,705,508	30,088,786	28,028,435	26,671,984
Funding position over (under)	-10,147,404	-9,314,197	-10,794,113	-7,386,003	-9,406,779	-11,560,869	-6,085,106	-3,729,730	-3,423,548	-4,288,695
Percent Funded - Market	76.9%	77.2%	73.0%	79.4%	73.4%	66.1%	81.4%	87.6%	87.9%	83.9%
Change in Funding Position	-833,207	1,479,916	-3,407,510	2,020,176	2,160,050	-5,481,763	-2,355,376	-306,182	865,147	-193,416
IDOI funding suggestion **2 Yr Lag	946,862	1,019,887	1,097,607	1,207,257	902,950	715,588	708,591	738,626	692,283	707,463
Contributions from municipality	782,624	1,095,584	1,211,245	906,153	716,722	709,590	737,140	694,666	710,237	619,130
Contribution v. Idol suggested levy ratio	82.7%	108.1%	110.4%	75.1%	79.4%	99.0%	104.0%	94.0%	102.6%	87.5%
Was levy based on Dept's valuation	No	No	Yes							
Active participants	47	46	47	47	50	51	51	46	48	49
Inactive participants	64	60	60	59	57	52	54	55	50	50
Average Active Salary	61,811	62,263	60,144	58,388	55,590	53,810	53,637	52,651	51,945	50,145
Total Salary	2,905,112	2,864,105	2,826,732	2,744,239	2,779,506	2,846,313	2,735,484	2,421,933	2,493,336	2,457,127
Investment Return (IRR) - 10 YR annualized	6.79%									
Investment Return (IRR) - 5 YR annualized	11.26%									
Payroll Growth Rate - 10 YR annualized	2.26%									
Payroll Growth Rate - 5 YR annualized	0.41%									
Balance Sheet										
ASSETS	4/30/2014	4/30/2013	4/30/2012	4/30/2011	4/30/2010	4/30/2009	4/30/2008	4/30/2007	4/30/2006	4/30/2005
Money market, N.O.W., etc.	564,719	338,615	1,027,336	182,718	794,179	359,849	4,556,130	2,015,350	487,555	716,987
CDs	0	0	0	271,887	90,227	0	0	0	129,874	349,649
State, local, corp. debt	6,890,991	7,608,698	6,350,172	277,923	902,802	66,215	77,739	76,699	0	0
US Gov. and agency debt	5,707,531	5,877,790	7,306,565	4,500,520	10,912,952	9,899,904	11,318,419	12,819,937	13,107,184	12,129,695
Ins. Co. contracts - gen. accts.	0	0	0	0	0	0	0	0	0	0
Ins. Co. contracts - sep. accts.	0	0	0	0	0	0	0	0	0	0
Pooled Investments	0	0	0	0	0	0	0	57,770	33,799	45,530
Comm. and P.I. Stock	1,644,046	1,503,670	1,324,956	1,689,607	3,208,319	4,047,400	1,087,115	2,619,455	2,485,937	2,301,183
Mutual Funds	18,784,828	16,077,229	15,055,670	21,485,977	9,952,701	8,053,185	9,484,918	8,627,001	8,248,294	6,733,794
Receivable	0	0	0	0	0	0	0	1,556	0	0
Accrued Interest	99,799	116,639	118,610	35,436	91,128	113,022	96,081	131,287	112,143	106,451
Other Assets	0	-1	-1	0	-1	-1	0	1	1	0
Total Assets	33,691,954	31,522,640	29,183,308	28,424,668	25,952,307	22,549,584	26,620,402	26,359,056	24,604,887	22,383,289
LIABILITIES										
Current Liabilities	0	0	0	0	0	0	0	0	0	0
Accrued actuarial liability	43,839,358	40,836,837	39,977,421	35,810,671	35,359,086	34,110,453	32,705,508	30,088,786	28,028,435	26,671,984
Total liabilities	43,839,358	40,836,837	39,977,421	35,810,671	35,359,086	34,110,453	32,705,508	30,088,786	28,028,435	26,671,984
Over/Under Funded	-10,147,404	-9,314,197	-10,794,113	-7,386,003	-9,406,779	-11,560,869	-6,085,106	-3,729,730	-3,423,548	-4,288,695

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**FREEPORT FIREFIGHTERS PENSION FUND**

**10 Year Profile**

Operating Income/Expenses	4/30/2014	4/30/2013	4/30/2012	4/30/2011	4/30/2010	4/30/2009	4/30/2008	4/30/2007	4/30/2006	4/30/2005
<b>INCOME</b>										
From municipality	782,624	1,095,684	1,211,245	906,155	716,722	708,590	737,140	694,666	710,237	619,120
From members	270,815	268,984	267,572	262,576	272,173	268,034	247,706	242,137	234,920	223,843
Other revenue	1	136	548	51,784	0	657	1,707	0	0	0
<b>Total Operating Revenue</b>	<b>1,053,440</b>	<b>1,364,704</b>	<b>1,479,365</b>	<b>1,221,515</b>	<b>988,895</b>	<b>977,081</b>	<b>986,553</b>	<b>936,803</b>	<b>945,157</b>	<b>847,963</b>
<b>EXPENSES</b>										
Pensions and benefits	2,207,584	2,005,697	1,936,023	1,840,446	1,565,820	1,499,012	1,456,909	1,328,100	1,234,112	1,190,999
Professional services	33,982	20,165	5,595	7,315	6,680	7,172	7,174	6,251	17,879	6,126
Other expenses	16,040	34,484	14,259	15,215	14,139	12,624	12,414	12,891	12,236	11,373
<b>Total Operating Expenses</b>	<b>2,257,606</b>	<b>2,040,346</b>	<b>1,955,877</b>	<b>1,862,976</b>	<b>1,686,639</b>	<b>1,518,808</b>	<b>1,476,497</b>	<b>1,347,242</b>	<b>1,264,217</b>	<b>1,208,498</b>
<b>Net Operating Income/(Loss)</b>	<b>-1,204,166</b>	<b>-675,642</b>	<b>-476,512</b>	<b>-641,461</b>	<b>-697,744</b>	<b>-541,727</b>	<b>-489,944</b>	<b>-410,439</b>	<b>-319,070</b>	<b>-365,535</b>
<b>Investment Income</b>										
Investment income (loss)	3,455,000	3,097,107	1,313,053	3,199,260	4,185,956	-3,449,612	813,424	2,298,546	2,637,520	1,356,783
Investment fees	81,519	85,133	77,280	85,038	79,489	85,478	62,133	139,938	96,833	84,513
<b>Net Investment Income</b>	<b>3,373,481</b>	<b>3,011,974</b>	<b>1,235,773</b>	<b>3,114,222</b>	<b>4,106,467</b>	<b>-3,535,090</b>	<b>751,291</b>	<b>2,158,608</b>	<b>2,540,687</b>	<b>1,272,270</b>
<b>Change in Net Present Assets</b>	<b>2,169,314</b>	<b>2,339,332</b>	<b>759,261</b>	<b>2,471,761</b>	<b>3,408,723</b>	<b>-4,076,818</b>	<b>261,346</b>	<b>1,754,169</b>	<b>2,221,598</b>	<b>906,734</b>
<b>Administrative Expenses</b>										
Investment	81,519	82,133	77,280	85,038	79,489	85,478	62,133	139,938	96,833	84,513
Legal	10,894	5,296	0	0	0	538	0	0	5,733	1,195
Accounting/bookkeeping	4,300	2,100	1,800	3,520	2,885	2,836	3,399	2,240	4,675	1,860
Auditing	4,790	4,975	3,795	3,795	3,795	3,795	3,775	3,650	600	2,850
Actuarial	2,700	2,700	0	0	0	0	0	0	0	0
Medical	11,298	5,094	0	0	0	0	0	361	6,871	218
Public Steno/Court Reporter	0	0	0	0	0	0	0	0	0	0
Personal Services	0	0	0	0	0	0	0	0	0	0
Insurance	3,195	3,181	3,181	3,300	3,000	4,661	4,900	6,184	5,995	5,884
Conference/Seminar fees	1,615	3,644	1,375	1,400	4,293	508	510	430	558	281
Association Dues	1,575	1,275	1,275	1,275	1,150	1,190	1,400	1,150	1,150	1,222
Travel	2,859	452	2,747	2,995	0	794	578	432	0	67
State Compliance Fee	5,837	5,684	5,191	4,509	5,326	5,272	4,921	(1)	4,295	3,864
Other Expenses	959	248	490	1,826	370	203	105	4,696	238	55
<b>Total Administrative Expenses</b>	<b>131,541</b>	<b>116,782</b>	<b>97,134</b>	<b>108,568</b>	<b>100,308</b>	<b>105,274</b>	<b>81,721</b>	<b>153,080</b>	<b>126,968</b>	<b>102,012</b>
<b>Adm Exp/Net Present Assets</b>	<b>0.39%</b>	<b>0.37%</b>	<b>0.33%</b>	<b>0.38%</b>	<b>0.39%</b>	<b>0.47%</b>	<b>0.31%</b>	<b>0.58%</b>	<b>0.52%</b>	<b>0.46%</b>
<b>Write-ins</b>										
Revenues	0	136	548	52,784	0	456	1,707	0	0	0
Expenses	0	0	0	0	0	0	0	0	0	0
<b>Prior Period Adjustment</b>	<b>-1</b>	<b>0</b>	<b>-1</b>	<b>0</b>	<b>0</b>	<b>-1</b>	<b>-1</b>	<b>0</b>	<b>1</b>	<b>-1</b>

# FREPORT FIREFIGHTERS PENSION FUND

## Investment Profile

KEY DATA	04/30/14	04/30/13	04/30/12	04/30/11	04/30/10	04/30/09	04/30/08	04/30/07	04/30/06	04/30/05
Net Present Assets - Market Value	33,691,954	31,522,640	29,183,308	28,424,068	25,952,307	22,543,584	26,620,402	26,359,056	24,604,887	22,383,289
Investment Income (loss)	3,455,000	3,097,107	1,313,033	3,199,260	4,185,956	-3,448,612	813,424	2,298,546	2,637,520	1,356,783
Reported Investment Fees	81,519	82,133	77,280	86,038	79,489	86,478	62,133	133,938	96,853	84,513
Net Investment Income	3,373,481	3,014,974	1,235,753	3,113,222	4,106,467	-3,535,090	751,291	2,164,608	2,540,667	1,272,270
<b>ASSETS</b>										
Money market, N.O.W., etc.	2%	1%	4%	1%	3%	2%	37%	8%	2%	3%
CDs	0%	0%	0%	1%	0%	0%	0%	0%	1%	2%
State, local, corp. debt	20%	24%	22%	1%	3%	0%	0%	0%	0%	0%
US Gov. and agency debt	17%	19%	25%	16%	42%	44%	43%	49%	53%	54%
Ins. Co. contracts - gen. accts.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Ins. Co. contracts - sep. accts.	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Pooled Investments	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Comm. and Pf. Stock	5%	5%	5%	6%	12%	18%	4%	10%	10%	10%
Mutual Funds	56%	51%	45%	76%	38%	36%	36%	33%	34%	30%
Receivable	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accrued Interest	0%	0%	0%	0%	0%	1%	0%	0%	0%	0%
Other Assets	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Equity Exposure</b>										
% of net present assets invested in equity	61%	56%	49%	81%	51%	54%	40%	43%	44%	40%
5 Year average equity %	59.57%									
<b>Investment Fees</b>										
Reported Investment Fees	81,519	82,133	77,280	86,038	79,489	86,478	62,133	133,938	96,853	84,513
Estimated Indirect mutual fund fees	88,289									
Estimated Indirect insurance contract fees	0									
Reported Investment Fees/Invested Assets	0.25%	0.26%	0.28%	0.31%	0.32%	0.39%	0.28%	0.55%	0.41%	0.40%
Estimated Investment Fees/Invested Assets	0.51%									
Average mutual fund expense ratio	0.47%									
<b>Internal Rate of Return</b>										
Your Fund										
10 Year Internal Rate of Return	6.79%		5.47%				1.32%			
5 Year Internal Rate of Return	11.26%		8.42%		10.72%		2.84%		0.54%	
Yearly Investment Returns	10.70%	10.33%	4.35%	12.00%	18.22%	-13.28%	2.85%	8.80%	11.35%	5.92%