



**Council Packet**  
**August 3, 2015**

**Communications to Council**  
**POLICE PENSION FUNDS**

# MEMORANDUM

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

Date: July 27, 2015

Re: Police Pension Fund 10 Year Historical Profile

Attached is a three page historical look at the Police 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 62%.

- 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 9.91% 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 52%.

The funding level – or as shown on the next line as "Percent Funded" went from 53% in 2005 to 54.5% in 2014 – a 3% increase.

- 3) "Contributions from municipality" shows contributions have steadily increased from \$797,626 in 2005 to \$1,274,510 in 2014 – a 60% increase. I will say that the City of Freeport has always contributed exactly what was determined by the actuary.
- 4) Active Participants are the active police officers who are contributing to the plan. Over the 10 years you can see the number of workforce has fluctuated from 55 in 2004 up to 61 in 2008 and to the present staff of 47 – a 15% decrease comparing 2014 to 2005.

- 5) Inactive Participants are those receiving retirement benefits – regular pensioners, widows and those out on disability. This too has increased progressively over the ten years from 37 to 62 in 2014– an increase of 68%. Although I'm not sure where the number 62 came from on their report – when I look at the pension payroll on 4/30/2014 there were only 52 beneficiaries paid reflecting a 41% increase.
- 6) This item that I am highlighting is the 10 year annualized return of 6.04% and the 5 year annualized return of 9.45%. 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 (9.91%) of their paychecks. Obviously it fluctuates up and down as the number of police officers fluctuated from year to year.
- 9) "Pensions and Benefits" have increased by 105% from 2005 at \$948,612 to 2014 at \$1,947,257. 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 police officers 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.

FREERPORT POLICE PENSION FUND

10 Year 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	21,634,175	19,642,511	17,780,051	17,482,448	15,849,333	14,443,123	15,506,873	15,424,851	14,327,706	13,394,643
Actuarial Liability - Dept Calc	39,713,787	38,847,585	36,873,561	35,265,973	34,227,967	29,922,429	30,000,084	28,989,967	27,125,602	25,286,329
Funding position over (under)	-18,079,612	-18,079,074	-19,093,510	-17,783,525	-18,384,634	-15,479,306	-14,493,211	-13,565,116	-12,797,896	-11,891,686
Percent Funded - Market	54.5%	51.2%	48.2%	49.8%	46.3%	48.3%	51.7%	53.2%	52.8%	53.0%
Change in Funding Position	625,462	388,436	-1,309,985	601,109	-2,905,328	-866,095	-928,095	-767,220	-906,210	-1,106,813
DDof funding suggestion **1 Yr Lag	1,274,510	1,333,612	1,341,940	1,171,590	1,133,273	1,031,320	937,986	896,176	821,565	797,626
Contributions from municipality	1,486,649	1,339,476	1,175,483	1,137,238	1,032,932	937,954	894,363	824,386	800,743	724,418
Contribution v. lcol suggested levy ratio	117.4%	100.4%	87.6%	97.1%	91.1%	90.9%	95.3%	92.0%	97.5%	90.8%
Was levy based on Dept's valuation	No	No	Yes							
Active participants	47	52	51	51	53	59	61	56	56	55
Inactive participants (Retirees)	62	55	55	44	46	39	41	41	39	37
Average Active Salary	57,572	57,796	56,263	56,065	54,661	50,342	49,875	50,346	48,978	49,007
Total Salary	2,705,871	3,005,373	2,859,401	2,859,328	2,897,030	2,970,165	3,042,379	2,819,378	2,742,792	2,640,390
Investment Return (IRR) - 10 YR annualized	6.04%									
Investment Return (IRR) - 5 YR annualized	9.45%									
Payroll Growth Rate - 10 YR annualized	0.78%									
Payroll Growth Rate - 5 YR annualized	-1.85%									
Balance Sheet										
ASSETS										
Money market, N.O.W., etc.	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
CDs	453,849	262,510	913,890	365,348	797,559	891,823	382,399	344,640	455,190	317,044
State, local, corp. debt	4,412,703	4,807,078	3,568,118	0	0	0	0	0	2,175,000	2,025,000
US Gov. and agency debt	2,814,098	3,728,176	4,545,440	0	0	0	0	0	6,439,029	6,205,161
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	1,863,763	1,937,460	1,719,961	2,013,042	1,504,483	859,017	1,235,418	1,368,306	3,003,485	2,715,277
Mutual Funds	12,030,284	8,839,891	6,969,051	15,103,421	13,540,742	12,689,903	4,967,925	5,171,588	2,182,714	2,043,687
Receivable	0	67,395	0	0	0	0	0	0	0	0
Accrued Interest	54,478	0	64,611	638	538	2,380	72,782	71,702	72,287	88,475
Other Assets	0	1	0	-1	1	0	0	1,846	0	-1
Total Assets	21,634,175	19,642,511	17,780,051	17,482,448	15,849,333	14,443,123	15,506,873	15,424,851	14,327,706	13,394,643
LIABILITIES										
Current Liabilities	0	0	0	0	0	0	0	0	0	0
Accrued actuarial liability	39,713,787	38,847,585	36,873,561	35,265,973	34,227,967	29,922,429	30,000,084	28,989,967	27,125,602	25,286,329
Total Liabilities	39,713,787	38,847,585	36,873,561	35,265,973	34,227,967	29,922,429	30,000,084	28,989,967	27,125,602	25,286,329
Over/Under Funded	-18,079,612	-18,705,074	-19,093,510	-17,783,525	-18,384,634	-15,479,306	-14,493,211	-13,565,116	-12,797,896	-11,891,686

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# KEEPUKI POLICE 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	21,694,175	19,642,511	17,780,051	17,482,448	15,843,333	14,443,123	15,505,873	15,474,851	14,327,705	13,394,643
Investment Income (loss)	2,261,236	2,043,566	609,114	1,849,805	1,581,015	-917,321	217,278	1,268,141	951,737	589,969
Reported Investment Fees	68,956	64,275	61,730	58,845	50,329	55,984	64,377	30,396	5,358	33,924
Net Investment Income	2,192,280	1,979,291	547,384	1,784,960	1,530,686	-873,305	152,901	1,237,745	946,379	556,045
<b>ASSETS</b>										
Money market, N.O.W., etc.	2%	1%	5%	2%	5%	6%	2%	2%	3%	2%
CDs	0%	0%	0%	0%	0%	0%	0%	0%	1%	15%
State, local, corp. debt	20%	24%	20%	0%	0%	0%	0%	0%	0%	0%
US Gov. and agency debt	13%	19%	26%	0%	0%	0%	57%	53%	45%	46%
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	9%	10%	10%	12%	9%	6%	8%	9%	21%	20%
Mutual Funds	56%	45%	39%	8%	85%	88%	32%	34%	15%	15%
Receivable	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Accrued Interest	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Other Assets	0%	0%	0%	0%	0%	0%	0%	0%	1%	1%
Total Assets	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b>Equity Exposure</b>										
% of net present assets invested in equity	64%	55%	49%	98%	95%	94%	40%	42%	36%	36%
5 Year average equity %	72.16%									
<b>Investment Fees</b>										
Reported investment fees	68,956	64,275	61,730	58,845	50,329	55,984	64,377	30,396	5,358	33,924
Estimated indirect mutual fund fees	33,685									
Estimated indirect insurance contract fees	0									
Reported Investment Fees/Invested Assets	0.33%	0.33%	0.37%	0.34%	0.33%	0.41%	0.43%	0.21%	0.05%	0.31%
Estimated Investment Fees/Invested Assets	0.49%									
Average mutual fund expense ratio	0.28%									
<b>Internal Rate of Return</b>										
Your Fund										
10 Year Internal Rate of Return	6.04%									
5 Year Internal Rate of Return	9.45%									
Avg Fund	5.47%									
Benchmark	12.43%									
Variance to Avg Fund	0.57%									
Variance to Benchmark	-2.98%									
<b>Yearly Investment Returns</b>										
Your Fund	11.16%	11.13%	3.13%	11.27%	10.60%	-6.28%	0.99%	8.64%	7.07%	4.34%