

Memo

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To: Karen Selman, Finance Committee Chairman
From: Rosemary N. Ryba, Treasurer
CC: Board of Trustees, Village President
Date: October 24, 2014
Re: Police Pension Funding Policy [Resolution 14-]

Pursuant to the Finance Committee Meeting of October 23, 2014, the attached Resolution with Exhibit "A" the Police Pension Funding Policy was recommended to be formally adopted by the Board of Trustees.

This Resolution has been reviewed by the Village Attorney and will be provided at the regular meeting of the Board of Trustees on October 27, 2014 for consideration.

**A RESOLUTION AUTHORIZING THE ADOPTION
OF A POLICE PENSION FUNDING POLICY
FOR THE VILLAGE OF BARRINGTON HILLS**

WHEREAS, in response to recent economic downturn affecting all units of government, including the Village of Barrington Hills (“Village”) the Center for State and Local Government Excellence has focused attention on the importance of planning for pension funding today, and in years to come; and

WHEREAS, financial planning becomes increasingly important as changes in accounting standards focus attention on pension funding; and

WHEREAS, in response to recent information and changes expected by the Governmental Accounting Standards Board (“GASB”) requirements, the has undertaken steps to implement a new Police Pension Funding Policy, which applies to the calculation of the Village’s annual required contribution to the Village’s Police Pension Fund (“Plan”); and

WHEREAS, for such purposes the President and Board of Trustees of the Village deem it in the best interests of the Village to formally adopt the “Village of Barrington Hills Police Pension Funding Policy” as attached hereto and incorporated herein as Exhibit “A,” which provides guidelines to fund the long-term cost of benefits to Plan participants and annuitants.

NOW, THEREFORE, BE IT RESOLVE, by the President and Board of Trustees of the Village of Barrington Hills, located in the Counties of Cook, Kane, Lake and McHenry, Illinois, as a Home Rule Municipality, the following:

SECTION ONE: The recitals set forth above are found to be true and incorporated herein and made a part hereof.

SECTION TWO: The “Village of Barrington Hills Police Pension Funding “Policy” as attached hereto and incorporated herein as Exhibit “A” is hereby adopted by the President and Board of Trustees as the official policy of the Village relative to the funding of the Police Pension Fund.

SECTION THREE: The Office of the Village Treasurer is directed to take all steps to fully implement the guidelines and directives set forth in this Policy.

SECTION FOUR: This Resolution shall take effect immediately upon its passage and approval as provided by law.

APPROVED THIS _____ DAY OF _____, 2014

AYES: _____, NAYS: _____, ABSENT: _____, ABSTAIN: _____

Village President

ATTEST:

Village Clerk

Exhibit “A”

Police Pension Funding Policy

VILLAGE OF BARRINGTON HILLS

POLICE PENSION FUNDING POLICY

1.0 Applicability

This policy applies to the calculation of the Village of Barrington Hills' "annual required contribution" (ARC) to the Barrington Hills Police Pension Fund, a police pension trust fund organized under Article III of the Illinois Pension Code.

2.0 Background

The financial objective of a defined benefit pension plan is to fund the long-term cost of benefits provided to the plan participants. In order to assure that the plan is financially sustainable, the plan should accumulate adequate resources in a systematic and disciplined manner over the active service life of benefiting employees. This funding policy outlines the method the Village will utilize to determine its actuarially determined contribution to the Barrington Hills Police Pension Fund to fund the long-term cost of benefits to the plan participants and annuitants.

The Village believes that this funding policy meets the guidelines for state and local governments set by the Pension Funding Task Force convened by the Center for State and Local Government Excellence. The guidelines set by this task force outline the following objectives for pension funding policy:

- 1. Actuarially Determined Contributions.** A pension funding plan should be based upon an actuarially determined annual required contribution (ARC) that incorporates both the cost of benefits in the current year and the amortization of the plan's unfunded actuarial accrued liability.
- 2. Funding Discipline.** A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
- 3. Intergenerational Equity.** Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of employee benefits is paid by the generation of taxpayers who receives services from those employees.
- 4. Contributions as a Stable Percentage of Payroll.** Contributions should be managed so that employer costs remain in a consistent range of a percentage of payroll over time.
- 5. Accountability and Transparency.** Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

3.0 Policy

3.1 Village Annual Required Contribution (ARC)

The Village will determine its ARC to the Barrington Hills Police Pension Fund using the following principles:

- a. The ARC will be calculated by an enrolled actuary.
- b. The ARC will include the normal cost for current service and amortization to collect or refund any under-or over-funded amount.
- c. The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
 - i. The investment rate of return assumption will be 6.5% per year
 - ii. The salary increase assumption will be 5% per year
 - iii. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc. shall be determined by Village management in consultation with the actuary to reflect current experience.
- d. The difference between the accrued liability and actuarial value of assets will be amortized to be fully funded in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.
- e. Actuarial assets will be determined using market valuation.

The Village will make its actuarially determined contribution to the Barrington Hills Police Pension Fund in monthly installments each year, based on amount received per levy each month.

3.2 Transparency and Reporting

Funding of the Barrington Hills Police Pension Fund should be transparent to vested parties including plan participants, annuitants, the Barrington Hills Police Pension Fund Board of Trustees, the Village Board, and Barrington Hills' residents. In order to achieve this transparency, the following information shall be distributed:

- A copy of the annual actuarial valuation for the Barrington Hills Police Pension Fund shall be made available to the Village Board and the Barrington Hills Police Pension Fund Board of Trustees.
- The Village's Annual Financial Report shall be published on its website. This report includes information on the Village's annual contribution to the Barrington Hills Police Pension Fund, and funded status of the Barrington Hills Police Pension Fund.

3.2 Transparency and Reporting (Continued)

- Each year, the Village Board shall approve the Village's annual contribution to the Barrington Hills Police Pension Fund.
- The Village's annual budget document shall include the Village's contribution to the Barrington Hills Police Pension Fund. The budget for the Barrington Hills Police Pension Fund is controlled by the Barrington Hills Police Pension Fund Board of Trustees, in accordance with state law. The annually approved budget document shall be published on the Village's website and made available for public inspection at the Village of Barrington Hills Village Hall.

3.3 Review of Funding Policy

Funding a defined benefit pension plan requires a long-term horizon. Assumptions and inputs into the policy should focus on long-term trends, not year-to-year shifts in the economic or noneconomic environments. Generally, assumptions or inputs should be evaluated and changed if long-term economic or non-economic inputs have fundamentally changed or are no longer reasonable. As such, the Village will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Barrington Hills Police Pension Fund. The Village reserves the right to make changes to this policy at any time if it is deemed appropriate.