

Police and Fire Pension Fund

Mission Statement

It is the mission of the Police and Fire Pension Funds to provide retirement benefits for retired police officers and firefighters and their beneficiaries through employer and employee contributions and investment earnings.

Primary Functions → The primary function of this non-operating budgetary unit is to finance pensions for employees by both employer and employee contributions combined with interest earnings on those contributions. These three revenue streams, if based on sound actuarial assumptions, should generate sufficient funds for employee retirement without placing either an undue burden on the employer or a risk to the pension due the employee.

Budget Summary

POLICE PENSION FUND BUDGET SUMMARY					
APPROPRIATION	2003 ACTUAL	2004 BUDGET	2004 ACTUAL	2005 BUDGET	INCREASE (DECREASE)
PERSONNEL	\$6,478,473	\$3,062,182	\$7,114,215	\$2,787,807	(\$274,375)
CONTRACTUAL	457,254	428,850	407,485	409,060	(19,790)
SUPPLIES	63	300	0	300	0
OTHER	<u>82,920</u>	<u>86,640</u>	<u>86,640</u>	<u>91,200</u>	<u>4,560</u>
TOTAL	7,018,710	3,577,972	7,608,340	3,288,367	(289,605)
NON-APPROPRIATION	<u>0</u>	<u>4,100,000</u>	<u>0</u>	<u>4,500,000</u>	<u>400,000</u>
TOTAL EXPENSE	<u>\$7,018,710</u>	<u>\$7,677,972</u>	<u>\$7,608,340</u>	<u>\$7,788,367</u>	<u>\$110,395</u>

FUNDING SOURCE	2004 AMOUNT	2004 PERCENTAGE	2005 AMOUNT	2005 PERCENTAGE
POLICE DEPARTMENT TRANSFER				
POLICE PENSION PROPERTY TAX	\$2,516,182	18.0	\$2,157,807	20.3
POLICE PENSION REPLACE TAX	<u>546,000</u>	<u>3.9</u>	<u>630,000</u>	<u>5.9</u>
TOTAL CITY CONTRIBUTION	3,062,182	21.9	2,787,807	26.2
INTEREST INCOME	4,200,000	30.0	4,000,000	37.7
FV APPRECIATION(DEPRECIATION)	<u>5,000,000</u>	<u>35.7</u>	<u>2,000,000</u>	<u>18.9</u>
INVESTMENT INCOME	9,200,000	65.7	6,000,000	56.6
EMPLOYEE CONTRIBUTIONS	<u>1,749,100</u>	<u>12.4</u>	<u>1,820,500</u>	<u>17.2</u>
TOTAL	<u>14,011,282</u>	<u>100.0</u>	<u>10,608,307</u>	<u>100.0</u>
ACTUARY'S CONTRIBUTION REQUIREMENT	3,062,182	21.9	2,787,807	26.3
AMORTIZATION AMOUNT	\$6,333,310		\$2,819,940	

(SEE TEXT FOR PENSION FINANCING EXPLANATION TO EXPLAIN REVENUE AND EXPENSE DISCREPANCY)

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Budget Summary

FIRE PENSION FUND BUDGET SUMMARY					
APPROPRIATION	2003 <u>ACTUAL</u>	2004 <u>BUDGET</u>	2004 <u>ACTUAL</u>	2005 <u>BUDGET</u>	INCREASE (DECREASE)
PERSONNEL	\$7,683,198	\$4,186,613	\$8,305,496	\$4,185,653	(\$960)
CONTRACTUAL	385,830	363,600	367,124	380,650	17,050
SUPPLIES	0	500	0	300	(200)
OTHER	<u>82,200</u>	<u>86,220</u>	<u>86,220</u>	<u>90,000</u>	<u>3,780</u>
TOTAL	8,151,228	4,636,933	8,758,840	4,656,603	19,670
NON-APPROPRIATION	<u>0</u>	<u>5,100,000</u>	<u>0</u>	<u>4,400,000</u>	<u>(700,000)</u>
TOTAL EXPENSE	<u>\$8,151,228</u>	<u>\$9,736,933</u>	<u>\$8,758,840</u>	<u>\$9,056,603</u>	<u>(\$680,330)</u>

FUNDING SOURCE	2004 <u>AMOUNT</u>	2004 <u>PERCENTAGE</u>	2005 <u>AMOUNT</u>	2005 <u>PERCENTAGE</u>
FIRE DEPARTMENT TRANSFER				
FIRE PENSION PROPERTY TAX	\$3,531,413	25.2	\$3,429,653	25.2
FIRE PENSION REPLACE TAX	<u>655,200</u>	<u>4.7</u>	<u>756,000</u>	<u>5.6</u>
TOTAL CITY CONTRIBUTION	4,186,613	29.9	4,185,653	30.8
INTEREST INCOME	4,000,000	28.6	6,000,000	44.1
FV APPRECIATION(DEPRECIATION)	<u>4,500,000</u>	<u>32.1</u>	<u>2,000,000</u>	<u>14.7</u>
INVESTMENT INCOME	8,500,000	60.7	8,000,000	58.9
EMPLOYEE CONTRIBUTIONS	<u>1,316,400</u>	<u>9.4</u>	<u>1,406,900</u>	<u>10.3</u>
TOTAL	<u>14,003,013</u>	<u>100.0</u>	<u>13,592,553</u>	<u>100.0</u>
ACTUARY'S CONTRIBUTION REQUIREMENT	4,186,613	29.9	4,185,653	30.8
AMORTIZATION AMOUNT	\$5,851,785		\$4,535,950	
(SEE TEXT FOR PENSION FINANCING EXPLANATION TO EXPLAIN REVENUE AND EXPENSE DISCREPANCY)				

Budget Analysis

The City utilizes an independent actuary to annually determine the necessary funding for these two plans. Once this is determined, the City funds the plans based on the recommendations of the independent actuary. There were no changes with respect to plan provisions, actuarial methods, or actuarial assumptions from the prior year.

For 2004, the Police plan earned \$1.6 million in interest income while the Fire plan earned \$4.1 million in interest income. In addition, reflecting fair market value adjustments of investments, the Police and Fire Pension Funds recorded appreciation gains of \$11.0 and \$5.8 million respectively. Investment expenses were \$330,651 for Police and \$310,831 for Fire. Approximate annual rates of return were positive for both, Police 9.8% and Fire 8.4%.

In 1993, the State of Illinois increased the pension benefits for these two plans. This increase not only increased costs for the future but it also significantly increased the unfunded liability for service already earned. With the member contribution rate increased only marginally, the bulk of the cost of paying for these improved benefits fell to local governments. To mitigate this, the State replaced the existing forty year level dollar amortization schedule begun in 1980 with a new 1993 forty year level percentage schedule. The City has elected, as long as was possible, to fund the annual contribution based on the 1980 schedule. For 2002, the last year that making this additional contribution was possible, this election added \$406,805 to the Police contribution and \$1,002,874 to

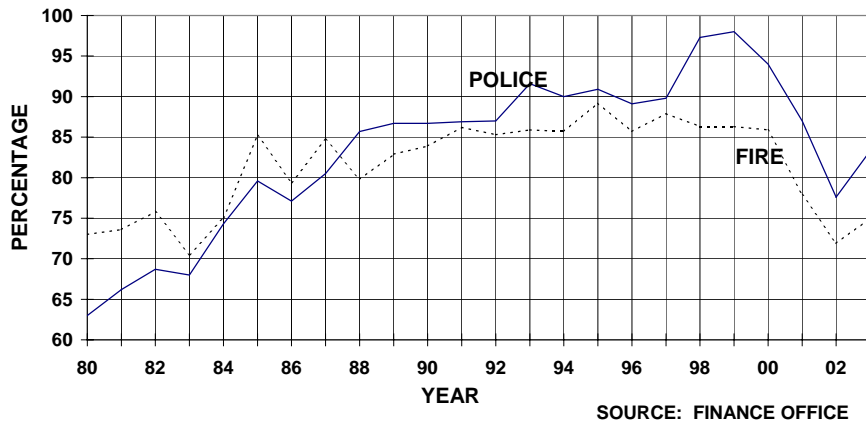
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the Fire contribution. Due to continuing and increasingly severe property tax cap restrictions, the City in 2003 changed and began to recognize the 1993 amortization method. The impact of this change for 2003 was estimated to be \$980,000 for the Police contribution and \$1,750,000 for the Fire contribution.

Effective July 1, 2004, the State changed the surviving spouse formula for the Fire Pension from 54% of ending salary to 100% of ending pension. To help fund this increased benefit, the firefighter contribution from salary was increased from 8.455% to 9.455%, an addition of \$166,400 and the municipal contribution was calculated at \$365,000, 2.1 cents on the tax rate. 30 of the 48 surviving spouses will account for a first year cost increase of \$215,000. For the future, this will add an additional \$20,000 annually for each new surviving spouse. The State exempted the property tax necessary for this new benefit from the tax cap law.

For the 2005 Police contribution requirement, the amount has decreased from \$3,062,182 to \$2,787,807 (-\$274,375 - 9.0%). The decrease in the contribution requirement is due to the investment return being greater than expected. The percent funded has increased from 77.6% to 83.3%.

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



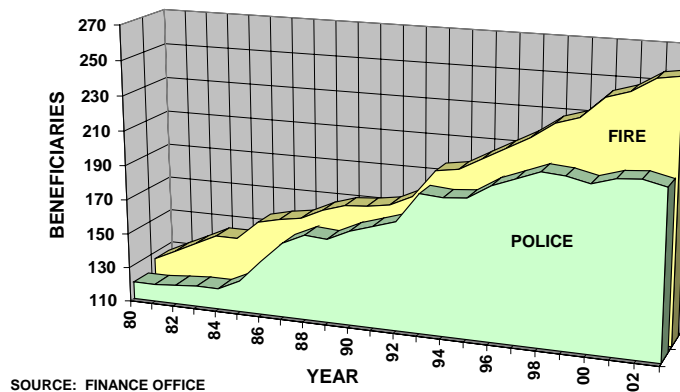
For the 2005 Fire contribution requirement, the amount has decreased from \$4,186,613 to \$4,185,653 (-\$960 - 0.0%). The decrease in the contribution requirement is due to the investment return being greater than expected. The percent funded has increased from 71.9% to 75.0%.

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ROCKFORD PENSION PLANS			
	<u>Police</u>	<u>Fire</u>	<u>IMRF/SS</u>
Employees	Sworn	Sworn	All Other
2005 Employer Rate	15.18%	25.15%	15.19%
2005 Employee Rate	9.910%	9.455%	10.70%
Social Security Included	No	No	Yes (6.2%)
Plan Administration	Local	Local	State
Retirement Age	50	50	55/60
Vesting (Years)	10	10	8
Pension (20 Years Service)	50%	50%	35%
Pension Limit	75%	75%	75%
Years To Achieve Limit	30	30	40
Pension Based On	Last Pay	Last Pay	Average of (4) Highest Consecutive Years In Last (10)

Trends for the two funds include active member percentage decreasing as the number of retirees increase as well as dollar costs rising.

**CITY OF ROCKFORD, ILLINOIS
POLICE & FIRE BENEFICIARIES
YEARS FROM 1980**



60 to 70% of the annual revenues for these two plans are generated from investment earnings. While member contributions have increased to 9.91% for Police in 2000 and 9.455% for Fire in 2005, employee contributions are still the smallest element of the financing equation.

The City contributions are funded from property taxes and state replacement taxes. Pension property taxes are unlimited; however, property tax extension limitations (tax caps) do apply on a total city basis except for the new benefit provision for Fire Pension surviving spouses. For 2005, estimated rates are 12.3 cents for the Police plan and 19.6 cents for the Fire plan. 2004 rates were 14.8 and 20.8 cents respectively. For the Fire plan, 2.1 cents and 2.0 cents respectively for the 2004 and 2005 years are exempt from tax caps.

Both plans utilize the Finance Department's staff. The Police pension fund will also utilize a consultant, \$37,000, and a custodian, \$3,400, as well as six money managers at an estimated cost of \$407,300. The Fire pension uses a consultant, \$44,000, a custodian, \$10,500, and six money

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managers at an estimated cost of \$450,600. Each fund pays the State Department of Insurance \$8,000 annually for oversight services.

Five Year Financial Forecast

The 2006-2010 five-year forecast assumes five percent City and employee contribution increases as well as a 7.5% return on investments. The combined impact for the two plans of this increase on the property tax rate would be less than one cent annually. Costs are assumed to rise annually due to three percent pension increases and an annual new retiree group of five. This forecast does not address a number of issues such as mortality, disability, and withdrawal that an actuary would. In addition, it makes no assumptions as to the likelihood of additional benefits gained through the legislative process in Springfield.

POLICE PENSION FUND 2006-2010 FINANCIAL FORECAST (IN 000'S)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues	\$17,059	\$18,146	\$19,310	\$20,542	\$21,874
Expenditures	<u>7,934</u>	<u>8,277</u>	<u>8,630</u>	<u>8,994</u>	<u>9,369</u>
Excess (Deficit)	<u>9,125</u>	<u>9,869</u>	<u>10,680</u>	<u>11,548</u>	<u>12,505</u>
Beginning Balance	150,601	159,725	169,594	180,274	191,822
Ending Balance	<u>\$159,725</u>	<u>\$169,594</u>	<u>\$180,274</u>	<u>\$191,822</u>	<u>\$204,327</u>
Property Tax Rates (in cents)	13.2	14.1	15.0	15.9	16.8

FIRE PENSION FUND 2006-2010 FINANCIAL FORECAST (IN 000'S)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Revenues	\$17,117	\$18,154	\$19,282	\$20,481	\$21,773
Expenditures	<u>9,164</u>	<u>9,544</u>	<u>9,936</u>	<u>10,339</u>	<u>10,754</u>
Excess (Deficit)	<u>7,952</u>	<u>8,610</u>	<u>9,346</u>	<u>10,142</u>	<u>11,019</u>
Beginning Balance	136,181	144,134	152,744	162,090	172,232
Ending Balance	<u>\$144,134</u>	<u>\$152,744</u>	<u>\$162,090</u>	<u>\$172,232</u>	<u>\$183,251</u>
Property Tax Rates (in cents)	20.7	21.7	22.8	23.8	24.9