

Proposal to Provide
Actuarial Consulting Services
**City of Peoria, Illinois and the
Peoria Police and Firefighters' Pension Fund**



Lauterbach & Amen, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Discussion & Analysis
Developing a Sound Funding Policy

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LAUTERBACH & AMEN, LLP



August 27, 2018

Members of the City and Pension Boards of Trustees,

Lauterbach & Amen, LLP is excited to present to you a new vision of pension funding. The Discussion & Analysis helps Funds and Municipalities come together on a Funding Policy that enhances the overall health of a Pension Funds. Too often, the health of your Pension Fund is viewed at a “snapshot” date. While snapshot looks are useful, a healthy Pension Fund is defined by the long-term sustainability of the Fund. Long-term procedures to address funding of future benefits are critical to a healthy Pension Fund.

Our approach to Actuarial Services is more than just “number crunching.” We perform a regular assessment of the financial condition of your Pension Fund. Our job is to help you understand the key aspects of the actuarial process to insure you can make informed decisions about your plan and anticipate future events that could be crucial to those decisions. We advocate attendance at meetings and being available to answer questions.

The three (3) meeting approach and our cost for services is outlined in the following pages.

Please call or email if you have questions about Discussion & Analysis.

Respectfully Submitted,

LAUTERBACH & AMEN, LLP

A handwritten signature in black ink that reads "Todd A. Schroeder".

Todd A. Schroeder, EA



DISCUSSION 1 – GOALS AND OBJECTIVES

Overview

A Funding Policy must address specific goals and objectives. At each decision point, the Board will have these objectives at their fingertips. When discussing the various factors that impact plan funding, we will always circle back to these objectives.

Possible Objectives

Goals and Objectives will address the Pension Fund from all sides. Items that can be considered:

- Long-term cost impacts
- Stability/Budgeting for Municipalities
- Long-term health of the Plan
- Short-term/transition considerations

Review of Actuarial Options

There are several things to consider for discussion when it comes to Actuarial options. Each item should tie back to our Goals and Objectives, and each piece should assess not only the current impact, but also the long-term impact.

- How to value Assets for funding purposes
- How to budget contributions during an employee working career
- How to handle funding when we are “off-budget” (underfunding)

The Optimum Funding Policy

The first meeting will conclude with the development of the Optimum Funding Policy for the Pension Fund. The Optimum Funding Policy will bring together the Goals and Objectives with each of the Actuarial Options.

The dollar impact is not critical at this time. The goal of this first meeting is to really understand the long-term impact of various Actuarial Options, and bring together the optimal pieces based on the Goals and Objectives for the Fund.

We will establish the options to be reviewed for the next meeting.

The First Step is to Understand the Goals and Objectives Related to Making Funding Recommendations and how Current Funding Decisions Match to those Goals.



DISCUSSION 2 – DOLLARS

Overview

Now that we have an Optimal Funding Policy, we need to talk dollars. During this step we will discuss dollars from the Optimal Funding Policy, as well as other options that were explored. We will not only look at the current year, but also look forward 5-10 years to see if the Fund is moving to a desired place.

Optimal Funding and Other Options

At this stage, we will start to look at the dollar costs of various Funding Policy options, including:

- Optimal Funding Policy/with alternatives
- Current Funding Policy
- State of Illinois Funding Statutory Funding Policy
- Current Municipal Funding provided

Exploring the GAP in Funding

We understand the advantages and disadvantages of various funding policies (including current policy). We also understand how the Optimal Funding Policy can keep the Fund healthy. The goal is to strategize with the Board and the Municipality options for bringing the current funding levels towards a more Optimum Policy. This includes:

- Looking at 3-10 year transition plan
- Reviewing the handling of unfunded liability
- Other considerations

At this stage, the process represents a coming together of the goals of the Pension Board and the Municipality to achieve healthy funding.

Design Presentation to the Municipality Board

The second discussion concludes with pulling out the most important points from the process, and designing a presentation to the Municipality. The presentation will discuss the process. This includes highlighting the negative impact on all parties of current funding patterns. Also, discussion items will be included for closing the GAP discussed above.

Next it is Critical to Understand the Dollar Impact of Optimal Funding as Compared to Other Options and Explore ways to Bring them Together.



DISCUSSION 3 – PRESENTING THE PLAN

Overview

The final discussion will entail a formal presentation to Municipal officials and representatives. The presentation will consist of:

- A presentation of the Optimum Funding Policy. What are the key points of the Policy, and more importantly WHY were the decisions made
- A discussion of the GAP between the current funding reality and the Optimal Funding Policy
- A discussion of the options that are available to close the GAP and still keep a healthy Funding Policy
- Presentation of the projected impacts (both in the past and the future) of the Funding Policy

Funding Policy Statement

The Board should finalize a formal statement that outlines the Optimal Funding Policy. The Funding Policy Statement will bring together all of the parameters from previous discussion. Items to include in the Statement include:

- All of the actuarial options chosen for long-term funding
- A discussion of the process for monitoring funding policies
- Parameters agreed upon with the Municipality for transition, to close the GAP between current funding and Optimal Funding
- Clause that includes review of the Funding Policy Statement on an annual basis

*The Final Step is
to Present all
Findings to
Municipal
Representatives
and come
Together on a
Formal Funding
Policy Statement.*



ONGOING PROCESS – KEEPING YOUR FUND HEALTHY

Overview

It is important for the Board to review the Funding Policy on an annual basis. A quality review will cover multiple topics:

- Soundness of the Policy and decisions that have been made
- Monitoring – review of items that can be tracked to assess the progress made under the funding policy
- Items that should be periodically reviewed

Monitoring

As part of the initial Discussion and Analysis process, a variety of items will come to light that the Fund can use as parameters to track funding progress. These items will be key as traditional Actuarial reports provide snapshot measurements that by themselves will not tell the reader key items about plan health. The Monitoring report will provide meaningful information that offers better insight into the health of the plan, and any issues that may be arising that should be addressed.

Periodic Review

The final piece to a good Funding Policy Statement will address other parameters of the Actuarial process that warrant some periodic review. For example, the Board should have a policy in place to undertake a review of actuarial assumptions. The timing and style of the review should be part of the Funding Policy. Some items will be reviewed annually, while some will be less frequent.

*Ongoing
Monitoring and
Review will
Provide the Board
and Municipality
with Information
that Truly Gives
Insight on the
Health of the
Fund.*



COST PROPOSAL

SERVICES	FEES			
	Police	Fire	City	Total
● Discussion 1 Goals & Objectives	\$535	\$535	\$535	\$1,605
● Discussion 2 Dollars	\$3,665	\$3,665	\$3,665	\$10,995
● Discussion 3 Presenting the Plan	\$1,000	\$1,000	\$1,000	\$3,000
● Formal Funding Policy Funding Policy Statement	\$565	\$565	\$565	\$1,695
● Ongoing Process Monitoring & Periodic Review	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>	<u>TBD</u>
Total - Discussion & Analysis	<u>\$5,765</u>	<u>\$5,765</u>	<u>\$5,765</u>	<u>\$17,295</u>

The above fee table assumes all discussions will be joint discussions between the Police Pension Fund, Firefighters' Pension Fund, and the Municipality.

