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CITY OF EVANSTON
POLICE PENSION FUND

ACTUARIAL VALUATION
AS OF JANUARY 1, 2014 FOR THE
FISCAL YEAR ENDING DECEMBER 31, 2014

June 10, 2014

Tepfer Consulting Group, Ltd.
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June 10, 2014

Mr. Martin Lyons
Mr. Timothy Schoolmaster
City of Evanston
2100 Ridge Avenue
Evanston, IL 60201

RE: Evanston Police Pension Fund

Gentlemen

Enclosed is our actuarial valuation report for the **Evanston Police Pension Fund** for the fiscal year January 1, 2014 through December 31, 2014.

The results of our valuation indicate that the recommended minimum contribution from the City for the next tax year is **$8,705,207 or 59.84%** of current payroll. This contribution coupled with the anticipated $1,386,150 or 9.91% of current payroll to be collected from participating police officers will be sufficient to meet the State statutory requirements described in 40 ILCS 5/3. Further information is provided within our report.

Alternatively, under the current statute, our valuation results indicate the statutory minimum contribution from the City for the next tax year to be $6,507,031 or 44.73% of current payroll.

With the publication of Statement No. 25 of the Governmental Accounting Standards Board, we have revised our report to include the calculation of the unadjusted Annual Required Contribution. (ARC) We have chosen to calculate this contribution as a level percentage of payroll funded amortization of the unfunded liability over a closed 40-year period beginning with the date of adoption of GASB 25. This amount is $8,628,870 or 59.32% of participating payroll.

Factors Influencing the Choice of Actuarial Assumptions

As part of the consulting process, it is our policy to talk with selected members of the Board of Trustees and the Sponsor's representatives for the **City of Evanston Police Pension Fund** in order to obtain information which will enable the Actuary to properly choose the actuarial assumptions which are most appropriate for the current cost determination for the pension fund.

As part of this process, statistics are compiled concerning historical investment returns, salary increases, retirement incidence and other factors which are influential in the actuarial assumption setting process. Based upon an analysis of the specifics as they relate to the **City of Evanston Police Pension Fund** and a general understanding of the inter-relationships of the actuarial assumptions, the Board, the Sponsor and the Actuary reach a mutual agreement as to the assumptions which will be used in the current actuarial valuation. The ultimate decision, nonetheless, remains with the actuary who must abide by his professional standards and judgment.

Published statistics regarding experience for police and firefighters are available from the State of Illinois Department of Insurance. These statistics form the basis of the actuarial assumptions selected by the State Actuary in the valuation of pension funds covered under the Downstate Pension System. We have found in our consulting, that whenever appropriate, the actuarial assumptions used by the State Actuary are relied upon as a starting point. However, in order to make the calculations more "***Evanston-sensitive***", the analysis of the actual historical performance is carefully examined.

Experience Analysis

Actuarial assumptions are not sacrosanct. In fact, it is not uncommon for actuarial assumptions to be changed to better reflect a plan's experience and prognosis. Each year the actuarial process examines the experience of the fund. General parameters indicate that a variance of less than 3% of the actuarial accrued liability is acceptable to assure that the assumptions used remain suitable. The measurement compares the actual unfunded liability to the expected unfunded liability. The total gain and loss developed is then analyzed by individual assumption, where available, to assure appropriateness. Based upon the results of this year's analysis, both in aggregate and individually, we have determined that the chosen assumptions remain suitable for continued use. A single year deviation is not an automatic trigger for a change in assumptions. Instead, multiple years are monitored and changes in assumptions generally occur only after trends are discovered.

Nonetheless, at the request of the client, this valuation is prepared with an assumed rate of return of 6.50%.

*TCG Public Consulting, Ltd. is affiliated with Tepfer Consulting Group, Ltd.

Approach to Setting Actuarial Assumptions (please see the new section in the report beginning on Page 2)

The complete actuarial assumptions used in this valuation are contained in Appendix 1. Although specific assumptions must be used in the mathematical exercise, actuarial assumptions are better viewed as a range. Actuarial Professional Standards indicate that in the selection of economic assumptions, a "best-estimate" range should be developed. Based upon our analysis of Downstate Police and Fire Pension funds we have developed the following best estimate ranges for economic assumptions:

Investment Return	6.50% - 7.50%
Inflation:	1.50% - 2.50%
Compensation Scale	Rates ranging from 4.86% to 1.12% varying by age, plus an inflation factor
Payroll Growth	3.50% - 4.50%

Actuarial Professional Standards indicate that in the selection of non-economic assumptions, a reliance upon published tables and/or individual experience studies pertinent to the group are acceptable procedures. Based upon our analysis of experience for approximately 70 Downstate Police and Fire Pension funds we have developed the following general rates for non-economic assumptions:

Mortality Rates (active and disabled)-Published tables loaded for public safety employees
Termination rates – aged based rates ranging from 7% to 1%
Disability rates - aged based rates ranging from 0.13% to 0.16%
Retirement rates – aged based rates ranging from 36% to 100%

At this point in time, these rates are applied to all participants without regard to tier. It is anticipated that once experience is developed, the retirement rates for tier 2 employees may be modified

Demographic considerations

For this valuation, it was noted that the force continues to remain stable as to its size and demographic composition. In the current valuation, it was observed that the ratio of the number of inactive participants (171, exclusive of terminated employees who are due a refund of their contributions) to the active participants (165) in the Fund is 103.6% which is above many other funds in the State. However, the average age and service of the active participating group is not unreasonable for a fund of this size. As a percentage of the total pension liabilities, the liabilities for inactive participants represent over two-thirds of the total liabilities. This is a disturbing statistic.

Of further concern, is the fact that there are currently 20 police officers who are eligible to retire and 14 additional officers who will become eligible in the next 5 years. This represents about 20% of the current active group. Additionally, pension payments have been escalating. Nonetheless, absent a large growth in the active force, with proper funding, the fund's position should become more favorable for the foreseeable future and although improving the fund is still not in a strong financial condition.

As would be expected in this situation, a very large portion of the assets available for investment has been committed to provide benefits for existing pensioners and beneficiaries. Essentially then, all of the assets in the plan are already dedicated to cover the liabilities for the currently retired participants. Additionally, pension disbursements on an annual basis total approximately $9.4 million and, although improving, investment earnings are currently insufficient to provide for these payments on an ongoing basis and generally have been for the past few years.

As indicated in previous years, municipal contributions and contributions by active police officers are being used to pay current expenses. These funds are generally the major source of new funds for investment purposes to accumulate reserves. Even with improved investment returns, the maturing of the employee group requires that the fund be carefully monitored during the next few years to assure that an orderly funding progress is maintained. If investment income remains insufficient to pay the existing pensioners, then municipal and participant contributions will continue to be used.

Financial considerations

In these uncertain times, the fund continues to experience very limited short-term investment growth. Furthermore, the fund continues to maintain less than adequate funded ratios. The fund has earned marginal rates of return over the short term. As shown in Exhibit 5-C of our report, the composite rate of return for the fund since 2007 is 5.70%., but 7.91% since 2009. The investment smoothing method adopted initially by the fund and now mandated by statute serves to level the contribution and shield against annual investment volatility.

However, it is not unnoticed that annual pension payments still exceeded the investment income during 2013 and an annual investment return of **10.45**% is needed to cover the outgoing benefit expenses. The Trustees should be advised that this remains a potentially dangerous situation regarding the fund. Clearly municipal contributions will remain at current levels until the fund can annually increase its investment return.

We ask that you review the section entitled "Actuarial experience since the last actuarial valuation" beginning on page 3 for a further explanation of what has occurred since the last actuarial valuation.

Final thoughts on Actuarial Funding

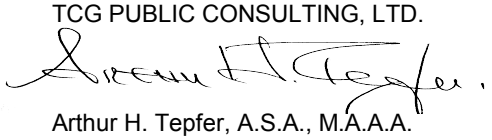
There remains a philosophical divide in the actuarial community concerning the proper target funding level for public plans. Is a target of 90% funding acceptable or is a 100% funding target preferable or required for a sound pension program? In either case one must always keep in mind that actuarial calculations are estimates and not guarantees of future solvency. In my opinion, there is no one answer to the question of proper funding target. It is more a matter of comfort among the parties involved and the statutory requirements which set a base level.

Funding is a team approach requiring full participation from all members--the municipalities which sponsor the program, the Boards which administer the programs, the investment professionals who advise and monitor the progress of the programs and the actuaries who set a funding pathway to success.

Please do not hesitate to contact us if you have any questions concerning our report.

Sincerely,

TCG PUBLIC CONSULTING, LTD.



Arthur H. Tepfer, A.S.A., M.A.A.A.
Consulting Actuary

AHT/lf
Encl.

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ACTUARIAL STATEMENT

TCG Public Consulting, Ltd. was retained by the **City of Evanston and the City of Evanston Police Pension Fund** to perform an independent actuarial valuation for the Police Pension Fund. This valuation is permitted under 40 ILCS 5/22, Section 503.2.

The actuarial valuation was performed for the year ended December 31, 2014 and indicates a **statutorily required contribution in accordance with 40 ILCS 5/3, Section 125 of $6,507,031 or 44.73% of member payroll, a recommended minimum contribution of $8,705,207 or 59.84% of payroll, and an Annual Required Contribution in accordance with paragraph 36f of Statement No. 25 of the Governmental Accounting Standards Board of $8,628,870 or 59.32% of payroll.** These contributions are net of contributions made by active member police officers during the fiscal year.

The results shown in this report have been calculated under the supervision of a qualified Actuary as defined in appropriate State statutes. All results are based upon demographic data submitted by the Police Pension Fund, financial data submitted by the Police Pension Fund, applications of actuarial assumptions, and generally accepted actuarial methods.

In our opinion, all calculations and procedures are in conformity with generally accepted actuarial principles and practices; and the results presented comply with the requirements of the applicable State statute, Actuarial Standards Board, or Statements of Governmental Accounting Standards, as applicable.

In our opinion, the actuarial assumptions used are reasonable, taking into account the experience of the plan and future expectations, and represent a reasonable and adequate approach to the financing of the retirement program. The costs, actuarial liabilities and other information presented in this report, in our opinion, fully and fairly disclose the actuarial position of the plan.

I, Arthur H. Tepfer, am an Enrolled Actuary in good standing under the Employee Retirement Income Security Act of 1974. I am a member of the American Academy of Actuaries and I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein. I certify that the results presented in this report are accurate and correct to the best of my knowledge.

TCG PUBLIC CONSULTING, LTD.

Arthur H. Tepfer, A.S.A., M.A.A.A.
Enrolled Actuary #14-02352

June 10, 2014

VALUATION OBJECTIVES

The **City of Evanston Police Pension Fund** provides benefits to members when they retire, die, become disabled or terminate employment. For plans providing these types of benefits, an appropriate budgeting pattern must be established to enable appropriate funds to be accumulated to meet all payments when due. The actual cost of the plan can best be expressed in the following simplistic manner:

ACTUAL COST EQUALS Benefits Paid

Plus

Expenses Paid

Less

Investment Income Earned

If the actual cost is incurred on a "pay as you go" basis, then the future generations of members will be paying for the benefits of current plan participants. Proper financial planning calls for budgeting for the actual cost of the plan over the working lifetime of current plan membership in order to establish an equitable allocation. An actuarial valuation is the procedure used to determine an appropriate amount to be contributed to the pension plan each year in order to attain this equity.

An actuarial valuation is an estimate at a particular point in time of the assumed incidence of the future benefit costs. Since the total actual cost of the plan is essentially unknown, pre-funding (budgeting for future benefit costs) requires certain assumptions about future events. Assumptions are made for such things as salary increases, terminations of participants, disablement of participants, death of participants and anticipated investment earnings. These assumptions, although not affecting the actual costs of the plan, will affect the incidence of calculated future costs. For proper funding, it is required that the Actuary select assumptions which are appropriate in light of the economic, demographic, and legislative environment as they relate to the pension program. The assumptions we have made concerning these future events are described more fully in Appendix 2 of this report. Based on these assumptions, a projection of future benefits was made and a current contribution level sufficient to provide the anticipated benefit payments was determined through the use of an actuarial cost method.

Selection of the Actuarial Cost Method

An actuarial cost method, sometimes called a “funding method”, therefore, is essentially an approach to budgeting for the calculated future costs. There are many actuarial cost methods which are available to the actuary and each method operates differently. However, all funding methods accomplish the same objective—to assign to each fiscal year of the employer the portion assumed to have accrued in that year. The portion of the actuarial value of benefits assigned to a particular year in respect of an individual participant or the fund as a whole is called the ***normal cost.*** All funding methods are described by how the normal cost is calculated.

The actuarial cost method prescribed by the State statutes to determine the ***statutorily minimum required contribution*** for periods on or after January 1, 2011 is the Projected Unit Credit Cost Method. Under this actuarial cost method, the ongoing cost expressed as a percentage of total payroll will increase. In this method, the normal cost is determined by first calculating the projected dollar amount of each participant’s accumulated benefit under the plan as of both the first day of the fiscal year and as of the last day of the fiscal year and then determining the difference between these two amounts. The second step in deriving the normal cost for a given participant is to multiply the dollar amount of this difference by the actuarial present value of $1 of benefit.

The actuarial cost method selected by our firm to determine the ***recommended plan contribution*** is the Entry Age Normal Cost Method. Under this actuarial cost method, ideally, the ongoing cost expressed as a percentage of total payroll should remain fairly stable. In this method, the normal cost is determined by assuming each participant covered by the plan entered the plan under the same conditions that will apply to future plan entrants. The annual normal cost assigned to each year of an employee's career is calculated as a level percentage of the employees assumed earnings each year. These normal costs accumulate to the present value of the employee's benefit at retirement age.

VALUATION OBJECTIVES
(Continued)

Under both the Entry Age Normal Cost Method and the Projected Unit Credit Cost Method, the total funding of projected benefit costs is allocated between an ***unfunded liability***, representing past benefit history, and future normal costs. This allocation is based on the assumption that the municipality will pay the normal cost for each plan year on a regular basis. It should be noted that although the term "unfunded liability" is applied to both funding methods, the resulting amount is different because of the method of calculation. Another feature of these methods is that only the unfunded liability is affected by the experience of the plan, and, therefore, any adjustments are made only in the future amortization payments.

In addition to the methodology changes described above, P.A. 96-1495 also addressed the valuation of pension fund assets—the second component in the determination of the unfunded liability. The statute now provides that the actuarial value of a pension fund's assets be set equal to the market value of the assets on March 30, 2011 and that, in determining the actuarial value of assets after that date, any actuarial gains or losses from investment returns incurred in a fiscal year be recognized in equal amounts over the 5-year period following that fiscal year.

The actuarial valuation process is usually repeated each year and is to a certain extent self-correcting. As part of these actuarial cost methods, any deviation of actual experience from the chosen actuarial assumptions will be reflected in future contributions. A complete description of these actuarial cost methods is explained in Appendix 4 of this report.

Despite the statutory language which requires an application of the Projected Unit Credit method, we feel that funding under this method as a *level percentage of payroll* severely undermines the benefit security of the retirement system and transfers the payment for currently earned pensions to future generations of taxpayers. For these reasons, our valuation report also presents a recommended minimum contribution that will operate to maintain the fundamental fiscal soundness of the retirement program, although a statutorily required contribution has also been calculated. The calculation of the recommended minimum contribution is based upon an amortization payment of 90% of any unfunded accrued liabilities as a *level dollar amount* over 30 years from January 1, 2011, the effective date of P.A. 96-1495. The calculation of the statutorily required contribution is based upon an amortization payment of 90% of any unfunded accrued liabilities as a "*level percentage of payroll"* over 30 years from January 1, 2011, the effective date of P.A. 96-1495.

Although, I do not agree with the statutorily required level percentage of payroll methodology of determining the amortization of the unfunded accrued liability, I would be remiss if I did not advise my funds as to a "statutorily" acceptable calculation under the State law.

Effective for periods beginning after June 15, 1996, the Governmental Accounting Standards Board has issued Statement No. 25 "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans". This Statement establishes a financial reporting framework for defined benefit pension plans that distinguishes between two categories of information: (a) current financial information about plan assets and financial activities and (b) actuarially determined information, from a long-term perspective, about the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due. The calculation of the Annual Required Contribution (ARC) is described in paragraph 36f of the Statement and is based upon an amortization payment of any unfunded accrued liabilities as either a level dollar amount or a level percentage of total payroll over a maximum of 40 years from the effective date of the Statement. Any significant increase in the total unfunded actuarial liability resulting from a change in actuarial methodology should be amortized over a period not less than 10 years.

Approach to Setting Actuarial Assumptions

In February, 2014, the Society of Actuaries released a "Report of the Blue Ribbon Panel on Public Pension Plan Funding" which focuses on the development of recommendation for strengthening public plan funding. Some of the recommendations are as follows:

Adequacy: Funding entities and plan trustees should strive to fund 100% of the obligation for benefits using assumptions that are estimated to be realizable 50% of the time.

Intergenerational Equity: Fully funding pension benefits over the average future service period of employee reasonably aligns the cost of the benefits of the public services with the taxpayers who benefit from those services.

Cost Stability and Predictability: Level costs over an intermediate period is often at odds with the goals of adequacy and intergenerational equity. Funding by allocating a significant portion to higher- risk,more volatile assets will tend to undermine the goal of cost stability. Adequacy and intergenerational equity should take precedence over the goal of cost stability and predictability.

VALUATION OBJECTIVES
(Continued)

Regarding the choice of interest rate, the following is helpful:

According to the report, public retirement systems should use a forward-looking rate to discount pension liabilities rather than actual plan returns.

The new rate would replace the actual long-term rate of return on plan assets generally used now to discount liabilities and set contribution levels

The panel rejected use of a risk-free rate — or rates on the Treasury yield curve — to discount liabilities despite the basis in economic theory to balance generational risks, instead

"Plans should be using rates of return that they believe can be achieved over the next 20- to 30-year period with a 50% probability," the report said.

"The panel does not believe the rate should be aggressively conservative, as doing so may lead to a surplus." When making assumptions, "it is important to consider the extent to which future economic and market conditions may differ from those of today or of the past," … noting that "the long-term secular decline in interest rates … strongly suggests that the robust fixed-income performance of the past is not likely to be repeated in the future."

Actuarial experience since the last actuarial valuation

As part of the actuarial valuation process, it is helpful to examine the actual experience of the fund as compared to the experience that is expected by the actuarial assumptions. The measurement of any deviations of actual to expected experience is commonly referred to as a "Gain and Loss Analysis". In performing this analysis, the actuary analyzes each actuarial assumption used in the valuation process. It is highly unlikely that actual experience will follow expected experience on a year-by-year basis. It is hoped that over the long term, if the actuarial assumptions are "reasonable", the total gains and losses will offset each other.

A "gain and loss analysis' is a useful tool to examine whether the actuarial assumptions used to determine the municipal tax levy are suitable. Care must be taken in placing too much credibility in a short-term analysis as the assumptions are more appropriately measured over the long term. Nonetheless, an annual evaluation of the actuarial assumptions will assist in identifying trends that, if unnoticed, can lead to inappropriate conclusions. When these trends are recognized, it is the actuary's responsibility to modify one or more of the assumptions to better anticipate future experience.

"Some assumptions are easier to measure than others. In small plans, credible analysis can generally be made regarding the economic (financial) assumptions. These primarily include investment and salary increase assumptions. Unfortunately, it is often impossible to establish credible long term analysis of demographic assumptions (rates of termination, disability, retirement and mortality). Therefore, in choosing demographic assumptions, the actuary generally relies upon standardized tabular assumptions modified only by fund-specific characteristics.

The actuarial gain and loss analysis for the current year is presented in Exhibit 3-C and 3-D of the report. Exhibit 3-C shows the impact of the actuarial gains or losses on the recommended minimum contribution through a reconciliation of this contribution from the end of the prior valuation year to the end of the current valuation year. Exhibit 3-D derives the actuarial gain or loss in total as well as separating the individual financial and demographic components.

The overall experience gain (loss) for the year was $1,129,280 or 0.63% of the accrued liability at the beginning of the plan year. The dollar amount for the plan's current **recommended minimum contribution** is 104.14% of the prior year's contribution. When measured as a percentage of payroll, the contribution level has changed from 58.78% to 59.84%.

Thirty-year Projection of Liabilities

The final section of our report illustrates projected payments from the Trust Fund for a 30-year period commencing with the valuation date. These projections are based upon the actuarial assumptions selected for the fund concerning death, disability and retirement actually occurring. Care should be taken in interpreting or relying on these results-- particularly for Funds with fewer than 200 participants. The credibility of this type of projection is rarely realized beyond 10 years. Exhibit 5D presents this projection.

RESULTS OF VALUATION

The following exhibits present the results of our actuarial valuation of the **City of Evanston Police Pension Fund** for the fiscal year January 1, 2014 through December 31, 2014.

Exhibit 1 indicates that the recommended minimum contribution, calculated using the Entry Age Normal Cost method (EANC), from the City is $8,705,207 or 59.84% of total participating payroll. **Under the Entry Age Normal actuarial cost method selected, this percentage of payroll should remain reasonably level over the lifetime of the plan.**

Exhibit 1 also indicates that the statutory minimum contribution, calculated using the Projected Unit Credit method (PUC), from the City is $6,507,031 or 44.73% of total participating payroll. **Under the Projected Unit Credit actuarial cost method selected, this percentage of payroll should increase over the lifetime of the plan.**

Exhibits 2 and 3 provide specific information used to develop the recommended minimum and statutorily required City contribution and GASB Annual Required Contribution (ARC).. The Annual Required Contribution as of January 1, 2014 has been determined under the Governmental Accounting Standards Board Statement No. 25 and is required disclosure for the fiscal year ending December 31, 2014. The Entry Age Normal Cost and the Actuarial Accrued Liability were determined using the Entry Age Normal Cost Actuarial Cost Method.

The Entry Age Normal Cost has been determined as a level percentage of projected payroll of the active members of the group. The amortization method for the Unfunded Actuarial Accrued Liability is determined as a level percentage of payroll amount over a closed Amortization Period as permitted in Governmental Accounting Standards Board Statement No. 25.

Contribution amounts presented in this report have not been adjusted for interest to the date of payment. All values were determined on the basis of the actuarial assumptions and methods as more fully described in Appendix 1 of this report.

Exhibit 4 presents a brief description of the demographic characteristics of the current member group.

Exhibit 5 shows information relating to the pension assets.

GENERAL VALUATION RESULTS FOR FISCAL YEAR
JANUARY 1, 2014 THROUGH DECEMBER 31, 2014

Recommended Minimum Contribution

1.	Entry Age Normal Cost:	$ 3,914,171
2.	Unfunded Actuarial Accrued Liability (or Surplus):	92,433,524
3.	Actuarial Value of Assets:	87,135,559
4.	Annual Salaries of Active Police Officers:	13,987,391
5.	Recommended Minimum Contribution from the City:	8,705,207
	Contribution Percentage:	59.84%*

Statutory Minimum Contribution

1.	Projected Unit Credit Normal Cost:	$ 4,120,738
2.	Unfunded Actuarial Accrued Liability (or Surplus):	83,418,225
3.	Actuarial Value of Assets:	87,135,559
4.	Annual Salaries of Active Police Officers:	13,987,391
5.	Statutory Minimum Contribution from the City:	6,507,031
	Contribution Percentage:	44.73%*

* Projected for the fiscal year ending December 31, 2014.

SUMMARY OF SPECIFIC VALUATION RESULTS

		Number	Actuarial Present Value of Projected Benefits	Entry Age Normal Cost	Projected Unit Credit Normal Cost
1.	Active Police Officers:	165			
	Retirement Pension:		$82,805,428	$2,811,058	$3,068,128
	Survivors Pension:		2,889,920	154,763	157,787
	Disability Pension:		11,482,893	708,052	685,487
	Withdrawal Pension:		2,989,547	240,298	209,336
	TOTAL	165	$100,167,788	$3,914,171	$4,120,738
2.	Inactive Police Officers and Survivors:				
	Normal Retirees:	128	$101,782,251		
	Widows (Survivors):	28	6,388,973		
	Children (Survivors):	0	0		
	Disabled Retirees:	15	9,177,005		
	Deferred Vested:	6	1,257,313		
	Terminated/Separated:	8	40,784		
TOTAL		185	$118,646,326		

SUMMARY OF SPECIFIC VALUATION RESULTS
(Continued)

		Entry Age Normal (EAN)	Projected Unit Credit (PUC)
3.	Total Actuarial Present Value of Projected Benefits:	$218,814,114	N/A
4.	Actuarial Present Value of Future Normal Costs:	39,245,031	N/A
5.	Actuarial Accrued Liability: [(3) - (4)]	179,569,083	170,553,784
6.	Actuarial Value of Assets:	87,135,559	87,135,559
7.	Unfunded Actuarial Accrued Liability (or Surplus) [(5) - (6)]	92,433,524	83,418,225
8.	Funded Ratio Percentage: [(6) ÷ (5)] x 100	48.52%	51.09%

HISTORY OF FUNDED PERCENTAGES

For the Year beginning May 1	Valuation Assets	EAN Accrued Liabilities	EAN Funded Percentage	PUC Accrued Liabilities	PUC Funded Percentage
2014	$87,135,559	$179,569,083	48.52%	$170,553,784	51.09%
2013	80,127,621	169,353,377	47.31	160,799,924	49.83
2012	72,266,706	158,457,577	45.61	150,604,357	47.98
2011*	71,347,257	156,201,256	45.68	148,719,446	47.97
2010*	68,998,555	166,228,478	41.51	N/A	N/A
2009*	66,514,296	154,971,310	42.92	N/A	N/A
2008*	64,355,691	145,458,945	44.24	N/A	N/A

*Fiscal year beginning March 1

DEVELOPMENT OF RECOMMENDED MINIMUM CITY CONTRIBUTION

		Fiscal Year January 1, 2014 through December 31, 2014
1.	Entry Age Normal Cost:	$3,914,171
2.	Recommended Minimum Payment to Amortize 90 % of the Entry Age Normal Unfunded Accrued Liability as a level dollar amount over 26.99795 Years from January 1, 2014:	5,561,282
3.	Interest on (1) and (2):	615,904
4.	Credit for Surplus:	0
5.	Total Recommended Minimum Contribution for Fiscal Year 2014: [(1) + (2) + (3) + (4)], but not less than Statutorily Required	10,091,357
6.	Active Member Contributions (9.91% of Salaries):	1,386,150
7.	Net Recommended Minimum City Contribution: [(5) - (6)]	8,705,207

DEVELOPMENT OF STATUTORILY REQUIRED CITY CONTRIBUTION
(NOTE THAT THIS CONTRIBUTION CALCULATION IS NOT RECOMMENDED)

		Fiscal Year January 1, 2014 through December 31, 2014
1.	Projected Unit Credit Normal Cost:	$4,120,738
2.	Minimum Payment to Amortize 90% of the Projected Unit Credit Unfunded Accrued Liability as a level percentage of payroll over 26.99795 Years from January 1, 2014:	3,290,700
3.	Interest on (1) and (2):	481,743
4.	Credit for Surplus:	0
5.	Total Statutorily Required Contribution for Fiscal Year 2014: [(1) + (2) + (3) + (4)]	7,893,181
6.	Active Member Contributions (9.91% of Salaries):	1,386,150
7.	Net Statutorily Required City Contribution: [(5) - (6)]	6,507,031

GASB STATEMENT NO. 25 DISCLOSURE INFORMATION

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION OF THE MUNICIPALITY

		Fiscal Year January 1, 2014 through December 31, 2014
1.	Entry Age Normal Cost	$3,914,171
2.	Actuarial Accrued Liability	179,569,083
3.	Actuarial Value of Assets	85,553,862
4.	Unfunded Actuarial Accrued Liability	94,015,221
5.	Payment to Amortize Unfunded Actuarial Accrued Liability Over 40 Years from Effective Date of Application of GASB 25 (19 years remaining)	6,100,849
6.	Total Annual Required Contribution for Fiscal Year December 31, 2014: [(1) + (5)]	10,015,020
7.	Active Member Contributions (9.91% of Salaries):	1,386,150
8.	Annual Required Contribution (ARC) payable at the beginning of the current fiscal year: [(6) - (7)]	8,628,870

RECONCILIATION OF THE CHANGE IN THE RECOMMENDED MINIMUM CITY CONTRIBUTION

1.	Recommended Minimum Contribution for Year ending 12/31/2013:	$8,358,924
2.	Increase in Normal Cost and Amortization Payment due to anticipated pay changes:	374,886
3.	Increase/(Decrease) in Normal Cost resulting from actual pay changes:	(28,299)
4.	Effect of Asset Smoothing:	190,438
5.	Increase/(Decrease) resulting from changes in assumptions:	298,333
6.	Increase/(Decrease) resulting from other demographic and financial sources (retirements, deaths, new entrants, salary changes, etc.):	(489,075)
7.	Recommended Minimum Contribution for Year ending December 31, 2014:	$8,705,207

DERIVATION OF EXPERIENCE GAIN(LOSS) AND COST METHOD CHANGE
AS OF JANUARY 1, 2014

1.	EANC Unfunded Actuarial Accrued Liability at 1/1/2013:	$89,225,756
2.	Entry Age Normal Cost Due at 1/1/2013:	3,648,185
3.	Interest on (1) and (2) to January 1, 2014 (at 6.75% per year):	6,268,991
4.	Contributions made for the prior year with interest to January 1, 2014:	10,538,697
5.	Expected EANC Unfunded Actuarial Accrued Liability at January 1, 2014 Before Assumption Changes [(1) + (2) + (3) - (4)]:	88,604,235
6.	Change in EANC Unfunded Actuarial Accrued Liability due to Assumptions Change at January 1, 2014:	4,958,569
7.	Expected EANC Unfunded Actuarial Accrued Liability at January 1, 2014 [(5) + (6)]:	93,562,804
8.	Actual EANC Unfunded Actuarial Accrued Liability at January 1, 2014:	92,433,524
9.	Gain (Loss) for the prior Plan Year [(7) – (8)]:	$1,129,280

The experience gain (loss) reported above is the net result of the following:

1.		FINANCIAL SOURCES	
	a)	Investment experience (based upon market value of assets):	$ 4,195,519
	b)	Contribution experience:	498,367
	c)	Benefit Payments experience:	229,154
	d)	Salary increases (greater)/lower than expected:	(61,008)
		Total from Financial Sources:	4,862,032
2.		DEMOGRAPHIC SOURCES	
		Mortality, retirement, disability, termination, etc.:	(567,507)
3.		ACTUARIAL ADJUSTMENTS	
		Market value adjustment for asset smoothing, including expenses	(3,165,245)
4.		GAIN (LOSS) ALL SOURCES	
		Total Gain (Loss) for the prior Plan Year [(1) + (2) + (3)]	$1,129,280

SUMMARY OF DEMOGRAPHIC INFORMATION AS OF JANUARY 1, 2014

	Number	Projected Annual Salaries (Fiscal Year 2014)
Active Police Officers:	165	$13,987,391

	Number	Total Monthly Benefits
Normal Retirees:	128	$655,827
Survivors (Widows):	28	73,985
Survivors (Children):	0	0
Disabled Retirees:	15	48,833
Deferred Vested:	6	0
Terminated/Separated:	8	40,784 *

* Return of Contributions

The actuarial valuation was performed as of January 1, 2014 to determine contribution requirements for fiscal year 2014.

AGE AND SERVICE DISTRIBUTION

Attained Age	COMPLETED YEARS OF SERVICE											Average Salaries
	0-1	2-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+	Total	
15-19											0	-
20-24		1									1	67,812
25-29	6	14	5								25	70,245
30-34	1	18	19	1							39	78,806
35-39	1	4	14	12							31	82,594
40-44		1	6	12	4						23	88,082
45-49			1	6	3	10					20	98,877
50-54					1	11	3				15	96,233
55-59			1	1	2	1	2				7	101,802
60-64					1		1	1	1		4	92,502
65+											0	-
TOTAL	8	38	46	32	11	22	6	1	1	0	165	84,772

Age = 38.69 Years

Service = 10.96 Years

ASSET INFORMATION

Cash, Money Market, IL Funds	$3,123,126
Certificates of Deposit	0
State, Local and Corporate Obligations	0
U.S. Government and Agency Obligations	25,168,929
Insurance Company Contracts	0
Pooled Investment Accounts	0
Mutual Funds & Corporate Bonds	44,504,231
Common & Preferred Stocks	16,385,160
Taxes Receivable	0
Accrued Interest	410,188
Other Receivables	1,171,509
Net Liabilities	0
Net Present Assets at Market Value	$90,763,143

The chart on the following page shows the percentage of invested assets.

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

1.	Market Value of Assets, January 1, 2013**				$80,589,961
2.	Actual Income and Disbursements in prior year weighted for timing				
	Item	**Amount**	**Timing**	**Weight for Amount**	**Weighted Amount**
	Contributions Received During 2012-2013	10,222,440		50.00%	5,111,220
	Miscellaneous Revenue	0		50.00%	0
	Benefit Payments and Expenses Made During 2012-2013	9,702,159		(50.00)%	(4,851,080)
	Total				260,141
3.	Market Value of assets adjusted for actual income disbursements [(1) + 2(d)]				80,850,102
4.	Assumed rate of return on plan assets for the year				6.75%
5.	Expected return on assets [(3) x (4)]				5,457,382
6.	Market Value of Assets, January 1, 2013				80,589,961
7.	Income (less investment income) for prior year				10,222,440
8.	Disbursements paid in prior year				9,702,159
9.	Market Value of Assets, January 1, 2014				$90,763,143
10.	Actual Return [(9) + (8) – (7) – (6)]				9,652,901
11.	Investment Gain/(Loss) for Prior Year [(10) – (5)]				4,195,519

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(Continued)

12. Market Value of Assets, January 1, 2014: $90,763,143

13. Deferred investment gains and (losses) for last 4 years:

	Plan Year Beginning	Gain/(Loss)	Percent Deferred	Deferred Amount
a)	2014**	$ 4,195,519	80%	$ 3,356,415
b	2013	$ 1,803,623	60%	$ 1,082,174
c)	2012	$ (3,207,261)	40%	$ (1,282,904)
d)	2011	$ 2,359,495	20%	$ 471,899
e)	Total	$ 5,151,376		$ 3,627,584

14. Actuarial value of plan assets for funding,, January 1, 2014: Item (12) less item 13(e): $ 87,135,559

15. Amounts receivable: 1,581,697

16. Actuarial value of plan assets for GASB reporting January 1, 2014 item (14) less item (15)*: $ 85,553,862

Notes: * excluding taxes receivable

* *The calculated value is determined by adjusting the market value of assets to reflect investment gains and losses (the difference between the actual investment return and the expected investment return) during each of the last five years at the rate of 20% per year.

ANALYSIS OF INVESTMENT RETURN

Fiscal Year Ending December 31	Annual Rate of Return
2013	**11.66%**
2012	9.15
2011	1.11
2011*	10.24
2010*	17.26
2009*	-11.17
2008*	3.18
Composite	
2007-2013	5.70%
2009-2013	7.91%

*Fiscal Year ending March 31

THIRTY - YEAR PROJECTION OF PAYMENTS

	Payouts from Active Group Upon					Payouts from		Total
	Termination		Death	Retirement	Disability	Retired Group	Deferred Pensioners	
Year	Lump Sum	Deferred Pension						
2014	37,448	0	42,516	359,467	49,433	9,343,753	71,927	9,904,544
2015	35,899	0	55,569	680,974	98,456	9,251,452	31,783	10,154,133
2016	25,512	0	57,766	946,647	148,600	9,143,026	32,397	10,353,948
2017	23,671	0	73,909	1,232,129	199,625	9,035,387	32,979	10,597,700
2018	17,616	0	89,844	1,609,242	252,216	8,913,083	33,520	10,915,521
2019	8,879	0	106,056	1,886,943	305,760	8,787,427	56,937	11,152,002
2020	5,430	0	122,542	2,186,856	362,574	8,634,883	57,867	11,370,152
2021	0	0	139,108	2,501,582	420,048	8,489,615	58,698	11,609,051
2022	0	0	156,034	2,815,361	479,246	8,304,601	83,146	11,838,388
2023	0	0	171,998	3,170,947	536,848	8,117,170	115,216	12,112,179
2024	0	0	189,076	3,515,812	594,922	7,894,303	116,840	12,310,953
2025	0	0	204,797	3,852,679	652,067	7,650,476	118,283	12,478,302
2026	0	0	222,257	4,355,384	713,173	7,401,365	119,493	12,811,672
2027	0	0	237,162	4,798,251	775,464	7,116,653	138,081	13,065,611
2028	0	0	253,454	5,306,012	844,242	6,811,238	139,139	13,354,085
2029	0	0	266,792	5,739,410	905,055	6,506,916	139,868	13,558,041
2030	0	0	280,917	6,326,681	971,621	6,163,690	140,201	13,883,110
2031	0	0	291,175	6,973,071	1,030,856	5,803,652	140,130	14,238,884
2032	0	0	303,890	7,565,315	1,084,413	5,429,456	139,625	14,522,699
2033	0	0	311,337	8,114,037	1,133,980	5,072,783	138,649	14,770,786
2034	0	0	321,504	8,724,871	1,190,012	4,681,139	137,139	15,054,665
2035	0	0	325,749	9,254,879	1,228,608	4,286,269	135,082	15,230,587
2036	0	0	333,284	9,779,378	1,282,195	3,892,272	157,370	15,444,499
2037	0	0	335,061	10,232,315	1,317,935	3,503,872	154,615	15,543,798
2038	0	0	339,036	10,637,733	1,363,665	3,125,973	151,215	15,617,622
2039	0	0	338,580	11,011,748	1,383,796	2,763,050	147,178	15,644,352
2040	0	0	339,578	11,295,132	1,426,067	2,419,104	142,521	15,622,402
2041	0	0	334,965	11,519,937	1,460,122	2,097,852	137,264	15,550,140
2042	0	0	332,719	11,686,049	1,486,057	1,802,007	131,462	15,438,294
2043	0	0	326,693	11,802,812	1,501,462	1,533,427	125,144	15,289,538

ACTUARIAL ASSUMPTIONS

(Economic)

Investment Return
6.50% per annum, compounded annually (net of expenses).

Salary Increases
Representative values of assumed salary increases are as follows:

Age	Increase %
25	4.8611
30	2.9848
35	2.0341
40	1.5239
45	1.3083
50	1.1846
55	1.1220

An additional inflation allowance of 2.50% per year is added to the above.

Payroll Growth
It was assumed that payroll will grow 4.00% per year.

Cost of Living Adjustments
It was assumed that the Consumer Price Index – Urban (CPI-U) would increase 2.50% per year

Actuarial Asset Basis
The actuarial value of assets recognizes future gains and losses based on a 5-year smoothed market method as prescribed by Statute

In a 5-year smoothed market method, the current market value of assets is reduced (increased) for the current year and each of three succeeding years, by a portion of the gain/(loss) in market value during the prior year. Such gain/(loss) is determined as the excess/(deficit) of the current market value of assets over the market value of assets as of the prior year, increased to reflect interest at the actuarial rate and adjusted to reflect contributions and benefit payments during the prior year. The portion of such gain/(loss) by which the current market value of assets is reduced (increased) shall be 80% in the current year, 60% in the first succeeding year, 40% in the second succeeding year and 20% in the third succeeding year.

Additionally, in accordance with government accounting standards, the actuarial value of assets is adjusted to remove any contributions receivable on the reporting date.

Expenses
None assumed.

(Demographic)

Mortality
Active Lives
RP-2000 Combined Healthy Mortality Table (male) with blue collar adjustment and with a 200% load for participants under age 50 and 125% for participants age 50 and over. Five percent (5%) of deaths amongst active police officers are assumed to be in the performance of their duty.

Non-Active Lives
RP-2000 Combined Healthy Mortality Table (male) with blue collar adjustment and with a 200% load for participants under age 50 and 125% for participants age 50 and over.

Termination
Illustrative rates of withdrawal from the plan for reasons other than death or disability are as follows:

Age	Rate of Withdrawal
25	.0734
30	.0416
35	.0223
40	.0119
45	.0102

It is assumed that terminated police officers will not be rehired.

Disability Rates
Incidence of disability amongst police officers eligible for disability benefits:

Age	Rate
25	.0013
30	.0026
35	.0044
40	.0071
45	.0108
50	.0159

15% of disabilities amongst active police officers are assumed to be in the performance of their duty.

Retirement Rates
Retirements are assumed to occur between the ages of 50 and 69 in accordance with the following table:

Age	Rate of Retirement	Age	Rate of Retirement
50	.36	60	.22
51	.22	61	.30
52	.18	62	.39
53	.19	63	.48
54	.19	64	.57
55	.20	65	.65
56	.20	66	.74
57	.20	67	.83
58	.21	68	.91
59	.21	69	1.00

(Additional)

Marital Status
85% of police officers are assumed to be married.

Spouse's Age
Wives are assumed to be 3 years younger than their husbands.

Actuarial Cost Method:
Projected Unit Credit for statutory minimum
Entry Age Normal for recommended and GASB reporting

SUMMARY OF PRINCIPAL PLAN PROVISIONS

Definitions

Tier 1 – For Police Officers first entering Article 3 prior to January 1, 2011

Tier 2 – For Police Officers first entering Article 3 after December 31, 2010

Police Officer (3-106): Any person appointed to the police force and sworn and commissioned to perform police duties.

Persons excluded from Fund (3-109): Part-time officers, special police officer, night watchmen, traffic guards, clerks and civilian employees of the department. Also, police officers who fail to pay the required fund contributions or who elect the Self-Managed Plan option.

Creditable Service (3-110): Time served by a police officer, excluding furloughs in excess of 30 days, but including leaves of absences for illness or accident and periods of disability where no disability pension payments have been received and also including up to 3 years during which disability payments have been received provided contributions are made.

Pension (3-111)

Normal Pension Age
Tier 1 - Age 50 with 20 or more years of creditable service.

Tier 2 - Age 55 with 10 or more years of creditable service.

Normal Pension Amount
Tier 1 - 50% of the greater of the annual salary held in the year preceding retirement or the annual salary held on the last day of service, plus 2½% of such annual salary for service from 20 to 30 year (maximum 25%)].

Tier 2 - 2½% of Final Average salary for each year of service. Final Average Salary is the highest salary based on the highest consecutive 96 months of the final 120 months of service

Early Retirement at age 50 with 10 or more years of service but with a penalty of ½% for each month prior to age 55.

Annual Salary capped at $106,800 increased yearly by the lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3%. Salary for valuations beginning in 2014 is $110,631.26.

Minimum Monthly Benefit: $1,000

Maximum Benefit Percentage: 75% of salary

Termination Retirement Pension Date
Separation of service after completion of between 8 and 20 years of creditable service.

Termination Pension Amount
Commencing at age 60, 2½% of annual salary held in the year preceding termination times years of creditable service or refund of contributions, or for persons terminating on or after July 1, 1987, 2½% of annual salary held on the last day of service times years of credible service, whichever is greater.

Pension Increase

Non-Disabled
Tier 1 - 3% increase of the original pension amount after attainment of age 55 for each year elapsed since retirement, followed by an additional 3% of the original pension amount on each January 1 thereafter. Effective July 1, 1993, 3% of the amount of pension payable at the time of the increase including increases previously granted, rather than 3% of the originally granted pension amount.

SUMMARY OF PRINCIPAL PLAN PROVISIONS
(Continued)

Tier 2 - The lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3% increase of the original pension amount after attainment of age 60, followed by an additional 3% of the original pension amount on each January 1 thereafter.

Disabled
3% increase of the original pension amount after attainment of age 60 for each year he or she received pension payments, followed by an additional 3% of the original pension amount in each January 1 thereafter.

Pension to Survivors (3-112)

Death of Retired Member
Tier 1 - 100% of pension amount to surviving spouse (or dependent children).

Tier 2 – 66 2/3% of pension amount to surviving spouse (or dependent children), subject to the following increase: the lesser of ½ of the Consumer Price Index- Urban (CPI-U) or 3%.increase of the original pension amount after attainment of age 60, followed by an additional 3% of the original pension amount on each January 1 thereafter.

Death While in Service (Not in line of duty)
With 20 years of creditable service, the pension amount earned as of the date of death.

With between 10 and 20 years of creditable service, 50% of the salary attached to the rank for the year prior to the date of death.

Death in Line of Duty
100% of the salary attached to the rank for the last day of service year prior to date of death.

Minimum Survivor Pension
$1,000 per month to all surviving spouses.

Disability Pension - Line of Duty (3-114.1)

Eligibility
Suspension or retirement from police service due to sickness, accident or injury while on duty.

Pension
Greater of 65% of salary attached to rank at date of suspension or retirement and the retirement pension available. Minimum $1,000 per month.

Disability Pension - Not on Duty (3-114.2)

Eligibility
Suspension or retirement from police service for any cause other than while on duty.

Pension
50% of salary attached to rank at date of suspension or retirement. Minimum $1,000 per month.

Other Provisions

Marriage After Retirement (3-120)
No surviving spouse benefit available.

Refund (3-124)
At death prior to completion of 10 years of service, contributions are returned without interest to widow.

At termination with less than 20 years of service, contributions are refunded upon request.

Contributions by Police Officers (3-125.1)
Beginning January 1, 2001, 9.91% of salary including longevity, but excluding overtime pay, holiday pay, bonus pay, merit pay or other cash benefit.

GLOSSARY

Actuarial Accrued Liability
See ***Entry Age Normal Cost*** *Method and* ***Projected Unit Credit Cost*** *Method.*

Actuarial Assumptions
The economic and demographic predictions used to estimate the present value of the plan's future obligations. They include estimates of investment earnings, salary increases, mortality, withdrawal and other related items. The *Actuarial Assumptions* are used in connection with the *Actuarial Cost Method* to allocate plan costs over the working lifetimes of plan participants.

Actuarial Cost Method
The method used to allocate the projected obligations of the plan over the working lifetimes of the plan participants. Also referred to as an *Actuarial Funding Method.*

Actuarial Funding Method
See *Actuarial Cost Method*

Actuarial Gain (Loss)
The excess of the actual *Unfunded Actuarial Accrued Liability* over the expected *Unfunded Actuarial Accrued Liability* represents an *Actuarial Loss.* If the expected *Unfunded Actuarial Accrued Liability* is greater, an *Actuarial Gain* has occurred.

Actuarial Present Value
The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of *Actuarial Assumptions*.

Actuarial Value of Assets
The asset value derived by using the plan's *Asset Valuation Method.*

Asset Valuation Method
A valuation method designed to smooth random fluctuations in asset values. The objective underlying the use of an asset valuation method is to provide for the long-term stability of employer contributions.

Employee Retirement Income Security Act of 1974 (ERISA)
The primary federal legislative act establishing funding, participation, vesting, benefit accrual, reporting, and disclosure standards for pension and welfare plans.

Entry Age Normal Cost Method
One of the standard actuarial funding methods in which the *Present Value of Projected Plan Benefits* of each individual included in the *Actuarial Valuation* is allocated on a level basis over the earnings of the individual between entry age and assumed exit age(s). The portion of this *Actuarial Present Value* allocated to a valuation year is called the *Normal Cost*. The portion of this *Actuarial Present Value* not provided for at a valuation date by the *Actuarial Present Value* of future *Normal Costs* is called the *Actuarial Accrued Liability*.

Normal Cost
The portion of the *Present Value of Projected Plan Benefits* that is allocated to a particular plan year by the *Actuarial Cost Method*. See *Entry Age Normal Cost Method* for a description of the Normal Cost under the *Entry Age Normal Cost Method.* See *Projected Unit Credit Cost Method* for a description of the Normal Cost under the *Projected Unit Credit Cost Method.*

Present Value of Future Normal Costs
The present value of future normal costs determined based on the *Actuarial Cost Method* for the plan. Under the *Entry Age Normal Cost Method*, this amount is equal to the excess of the *Present Value of Projected Plan Benefits* over the sum of the *Actuarial Value of Assets* and *Unfunded Actuarial Accrued Liability.*

Present Value of Projected Plan Benefits
The present value of future plan benefits reflecting projected credited service and salaries. The present value is determined based on the plan's actuarial assumptions.

GLOSSARY
(Continued)

Projected Unit Credit Cost Method
One of the standard actuarial funding methods in which the *Present Value of Projected Plan Benefits* of each individual included in the *Actuarial Valuation* is allocated by a consistent formula to valuation years. The *Actuarial Present Value* allocated to a valuation year is called the *Normal Cost*. The *Actuarial Present Value* of benefits allocated to all periods prior to a valuation year is called the *Actuarial Accrued Liability*.

Statement No. 25 of the Governmental Accounting Standards Board (GASB No. 25)
The accounting statement that established the standards of financial accounting and reporting for the financial statements of defined benefit pension plans.

Unfunded Actuarial Accrued Liability
The excess of the *Actuarial Accrued Liability* over the *Actuarial Value of Assets.*

NOTES