

45-R-23

A RESOLUTION

Adopting the Pension Funding Policy for Public Safety Pension Plans

WHEREAS, the City of Evanston (“City”) funds the Police Pension Fund and the Firefighters’ Pension Fund (collectively, the “Public Safety Pension Plans”); and,

WHEREAS, the purpose of the Public Safety Pension Plans is to provide long-term benefits promised to participants in the City of Evanston Police Pension Fund and the City of Evanston Firefighters’ Pension Fund; and,

WHEREAS, the State of Illinois requires that municipal governments have Public Safety Pension Plans 90% funded by 2040; and,

WHEREAS, the City’s Finance and Budget Committee desires that the City increase the amount of funding it is committing towards Public Safety Pension Plans to ensure the plans are 100% funded by 2040, and proposes the Pension Funding Policy for Public Safety Pension Plans (the “Pension Funding Policy”) to meet that goal; and,

WHEREAS, the Pension Funding Policy provides direction on long-term funding to systematically eliminate any unfunded liabilities while producing a contribution requirement that is predictable and reflected in the City’s long-term financial forecasts; and,

WHEREAS, the Pension Funding Policy sets forth the objectives, actuarially determined contribution funding principles, and sources of pension contributions as a means for the City to reach its full funding goal; and

WHEREAS, in order to implement the Pension Funding Policy, the City Council has determined it to be in the best interests of the City to adopt this Resolution.

NOW BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EVANSTON, COOK COUNTY, ILLINOIS:

SECTION 1. The foregoing recitals shall be and are hereby incorporated as findings of fact as if said recitals were fully set forth herein.

SECTION 2. The Pension Funding Policy as set forth in Exhibit A, attached, is hereby adopted.

SECTION 3. . That this Resolution 45-R-23 shall be in full force and effect from and after its passage and approval in the manner provided by law.

Daniel Biss
Daniel Biss, Mayor

Attest:

Stephanie Mendoza
Stephanie Mendoza, City Clerk

Approved as to form:

Nicholas E. Cummings
Nicholas E. Cummings, Corporation Counsel

Adopted: July 24, 2023

Exhibit A
City of Evanston
Pension Funding Policy
Public Safety Pension Plans
_____, 2023

I. INTRODUCTION

Policy Statement

The purpose of this Policy is to establish how the City of Evanston annually fully funds the long-term cost of benefits promised to the participants in the City of Evanston Police Pension Fund and the City of Evanston Firefighters' Pension Fund (Public Safety Pension Plans). It also defines the calculation of the City's actuarially determined contribution (ADC) to such plans.

Policy Goal- Fully Funded by 2040

The goal of this Policy is to ensure that pension benefits can be paid by adopting a long-term funding plan that systematically eliminates any unfunded liabilities while producing a contribution requirement that is predictable and reflected in the City's long term financial forecasts. It is the goal of this Policy to achieve full funding by 2040 and that on an annual basis 100% or more of the ADC is contributed to the Public Safety Pension Plans.

II. GENERAL FUNDING POLICY OBJECTIVES

The objective of a public employee defined benefit pension plan is to fund the long-term cost of retirement benefits provided to the plan participants. These benefits include statutory retirement, death and disability payments. To assure the plan remains sustainable, the plan must accumulate adequate resources for future benefit payments in a systematic and disciplined manner during the active service life of the benefiting employees. There are several factors to consider in achieving this:

- 1) **Actuarially Determined Contributions** - This should be determined annually in an actuarially sound manner, based on an actuarially determined contribution that incorporates both the cost of current benefits being earned by the active plan participants and the amortization of any unfunded actuarial accrued liability.
- 2) **Funding Discipline** - Funding should be based on a consistent methodology each year that will ensure that adequate funds are contributed on an annual basis.
- 3) **Accountability and Transparency** - Clearly defined reporting of pension funding, including an assessment of whether, how and when the City will ensure sufficient assets will be available to pay benefits as promised.

III. ACTUARIALLY DETERMINED CONTRIBUTION FUNDING PRINCIPLES

The annual required contribution will be determined as follows:

- 1) The **Actuarially Determined Contribution (ADC)** will be calculated by an enrolled actuary (Actuary). The Actuary shall be engaged by the City of Evanston and the Boards of the Public Safety Pension Plans.
- 2) The ADC will include the normal cost, amortization of any unfunded liability, and an estimate of the annual cost to administer the Public Safety Pension Plans.
- 3) The **Actuarial Accrued Liability**, which is the liability accrued in the fund as of the valuation date, and **Normal Cost**, which is the annual cost of pension accruals by the active employees each year, will be calculated using the Entry Age Normal Level Percentage of Payroll Actuarial Cost Method using the following assumptions:
 - a. The investment rate of return assumption will be recommended annually to the City Council by the Finance and Budget Committee. The Finance and Budget Committee will consider input from representatives of the Public Safety Pension Boards. The rate shall be reviewed by the Actuary for reasonableness.
 - b. Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined from experience studies to most accurately reflect current experience.
- 4) The **Actuarial Value of Assets** will be determined using a smoothing method to reduce the effects of market volatility on the City's contributions. A **5-year smoothed market value** method, or other method considered reasonable by the Actuary, will be used to recognize variances from the actuarial investment rate of return assumption to actual market returns.
- 5) The **Unfunded Actuarial Accrued Liability (UAAL)**, which is the difference between the Actuarial Accrued Liability and the Actuarial Value of Assets shall be eliminated by the end of 2040 (the **Full Funding Date**). Once 100% funding is achieved, the City Council shall consider if funding over 100% is desirable, to help ensure the long-term funding status of the pension plans.
- 6) Periodic Reforecasting-- To help ensure that the City is on a path to 100% funding by the Full Funding Date, the City shall engage with the Actuary to periodically reforecast the required contributions in accordance with this Policy. The City shall reflect those required contributions into its long-term planning.

IV. SOURCES OF PENSION CONTRIBUTIONS

Required Contribution based on the actuarial valuation report using 100% funding by 2040 will come from any one or more of the following:

- 1) A Pension Property Tax levy that is at the same dollar value level as the prior year adjusted for allocated PPRT per item 2 below;
- 2) The maximum allowable PPRT allocation.
- 3) Additional unrestricted revenues, net of expenses available in the General Fund.
 - a. If the subsequent year budget, after due consideration of discretionary and non-discretionary expenses such as the ADC, is in deficit, then the ADC may be funded, in

part, by any General Fund Reserves in excess of the General Fund required fund balance.

- b. The City Council may, at its discretion, also consider transferring to the General Fund, for use in making the ADC, any excess fund balances in other unrestricted City Funds.
- 4) If there are not excess reserves available to make the full ADC, then the City Council shall raise the Pension Property Tax levy in order to fund the ADC.
 - a. It is the intent of this Funding Policy that if adequate budget revenues net of expenses or reserves are not available to make the full ADC, then the Pension Property Tax levy shall be raised in order to provide additional funds to achieve the required contribution.
 - 5) The City Council is encouraged to devote a portion of any unrestricted proceeds from asset sales or any other non-recurring revenue sources to fund incremental pension contributions above the ADC for that year. Any incremental contributions shall then be considered in calculating the required future contributions under this Policy.

V. TRANSPARENCY

Funding of the Public Safety Pension Plans shall be transparent to vested parties including plan participants, annuitants, the Pension Boards, the City Council and residents. To achieve this transparency, the following information shall be distributed and/or published on the City's website:

- 1) A copy of the annual actuarial valuation for all plans shall be made available to the City Council and Pension Boards.
- 2) The City's annual operating budget shall clearly state the City's required contribution to the Public Safety Pension Plans. As part of the budget process, the required contribution to the fund shall be reviewed and discussed at an open meeting of the Finance and Budget Committee and City Council and include a 5- year or more historical perspective on recent contributions, asset returns and funding levels.
- 3) The City's Annual Comprehensive Financial Report reflects the City's annual required contribution and the value of the outstanding pension liabilities as directed by the Governmental Accounting Standards Board.

V. 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 City will review this policy every four years to determine if changes to this policy are needed to ensure adequate resources are being accumulated in the Public Safety Pension Plans. The City Council, in consultation with its designated committee, reserves the right to make changes to this Policy at any time if it is deemed appropriate.