

**CITY OF EVANSTON
POLICE PENSION FUND**

**ACTUARIAL VALUATION
AS OF MARCH 1, 2011 FOR THE
PLAN YEAR ENDING FEBRUARY 29, 2012**

November 3, 2011

November 3, 2011

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 plan year March 1, 2011 through February 29, 2012.

The results of our valuation indicate that the recommended minimum contribution from the City for the next tax year is **\$8,521,751 or 65.23%** of current payroll. This contribution coupled with the anticipated \$1,244,821 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 \$6,157,223 or 47.13% of current payroll.

In accordance with publication of Statement No. 25 of the Governmental Accounting Standards Board, our report also includes the calculation of the unadjusted Annual Required Contribution (ARC) This contribution is calculated as a level percentage of payroll with 100% funded amortization of the unfunded liability over a closed 40-year period beginning with the date of adoption of GASB 25. This amount is \$7,478,974 or 57.25% of participating payroll. Because of the change in the fiscal year end from February 28 to December 31, only \$6,232,478 (10/12ths of the ARC) will be expensed during the next fiscal year.

We ask that you review the sections entitled "Selection of Actuarial Cost Method" and "Factors Influencing the Choice of Actuarial Assumptions" beginning on page 2 for a complete explanation of what has occurred since the last actuarial valuation.

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

Sincerely,

TEPFER CONSULTING GROUP, LTD.

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

AHT/lf
Encl.

	<u>Page</u>
SECTION I DISCUSSION	
Valuation Objectives	1
SECTION II SUPPORTING EXHIBITS	
Summary of Results	
Exhibit 1 General Valuation Results	8
Exhibit 2 Summary of Specific Valuation Results	9
Exhibit 3-A Development of Recommended Minimum City Contribution	12
Exhibit 3-B Development of Statutorily Required City Contribution	13
Exhibit 4-A Summary Of Demographic Information	14
Exhibit 4-B Age and Service Distribution	15
Exhibit 5-A Asset Information	16
Exhibit 5-B Development of Actuarial Value of Assets	18
Exhibit 5-C Analysis of Investment Return	21
Exhibit 5-D Thirty - Year Projection of Payments	22
APPENDIX 1 GASB NO. 25 DISCLOSURE INFORMATION	23
APPENDIX 2 STATEMENT OF ACTUARIAL ASSUMPTIONS	25
APPENDIX 3 SUMMARY OF PRINCIPAL PLAN PROVISIONS	28
APPENDIX 4 GLOSSARY	31

Tepfer Consulting Group, 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 February 29, 2012 and indicates a **statutorily required contribution in accordance with 40 ILCS 5/3, Section 125 of \$6,157,223 or 47.13% of member payroll, a recommended minimum contribution of \$8,521,751 or 65.23% of payroll, and an Annual Required Contribution in accordance with paragraph 36f of Statement No. 25 of the Governmental Accounting Standards Board of \$7,478,974 or 57.25% 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.

TEPFER CONSULTING GROUP, LTD.

Arthur H. Tepfer, A.S.A., M.A.A.A.
Enrolled Actuary #11-02352

November 3, 2011

VALUATION OBJECTIVES

The **City of Evanston Police Pension Fund** provides benefits to members when they retire, die, become disabled or terminate employment. As with any plan 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 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 predicted 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 predicted 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.

**VALUATION OBJECTIVES
(Continued)**

Selection of the Actuarial Cost Method

An actuarial cost method, sometimes called a “funding method”, therefore, is essentially an approach to budgeting the estimated 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 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 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.

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 in the future amortization payments.

In addition to the methodology changes described above, P.L. 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.

VALUATION OBJECTIVES (Continued)

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.

Appendix 3 of this report contains a summary of the principal provisions of the applicable statute.

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 presents a recommended minimum contribution which 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.L. 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. *I patently consider the calculation methodology under the statute to be actuarially unsound for funding of Downstate municipal retirement programs.*

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.

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.

**VALUATION OBJECTIVES
(Continued)**

Prior to the meeting, 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.

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. In a take-over situation, such as this, the actuarial assumptions used by the prior actuary are given substantial weight in the overall choice of assumptions.

Demographic considerations

For this valuation it was noted that the force is reasonably stable as to its size and demographic composition. In the current valuation, it was observed that the number of inactive participants (171, exclusive of terminated participants who are due a refund of their contributions) as compared to active participants (158) in the Fund is slightly higher than the State average (52% of the total participants are inactive as compared to a State average of 38%); on a liability basis the Fund is also slightly higher than the State averages. Approximately 68%-72% of the Fund's total liability is attributed to inactive participants compared to a State average of about 53%. This means that the fund is in a less favorable position compared to other Police funds in the State. Nonetheless, the average age and service of the active participating group is essentially at the State average.

Of further concern, is the fact that there are currently 18 police officers who are eligible to retire and 18 officers who will become eligible in the next 5 years. This represents about 23% of the current active group. For the short term, pension payments are now generally fixed and overall financial planning can be achieved. Absent a large growth in the active force, with proper funding, the fund's position should become more favorable for the foreseeable future. The fund, however, is not in a strong financial position.

As would be expected in this situation, a very large portion of the assets available for investment (147%) 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 \$8.1 million and investment earnings are currently insufficient to provide for these payments on an ongoing basis and have been for the past few years.

**VALUATION OBJECTIVES
(Continued)**

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 City and participant contributions will continue to be used. The Trustees should be advised that this is a potentially dangerous situation regarding the fund. **Nonetheless, the fund currently is modestly growing and is clearly on a path to recovery.**

As indicated earlier, the average age and service of the active participating group is at the State average, and at this time, the pension rolls are not growing dramatically (approximately 6% per year), but liabilities continue to increase. We will monitor closely the retirement patterns which emerge in later years to assure that the appropriate retirement rates are in place for our analysis.

Financial considerations

In these uncertain times, the fund continues to experience very limited short-term investment growth as can be noted in the charts in Section 5B and 5C of this valuation. Nonetheless, the fund continues to maintain 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 2008 is 4.33%, but 10.08% if we eliminate the unfortunate 2009 fiscal year.

Selection of assumptions

For a variety of reasons, we find all the demographic assumptions used by the Department of Insurance and the prior actuary to be inappropriate for the Downstate system. As a result of the publication of a recent independent study analyzing demographic experience among police and fire pension funds in the Downstate System, we have chosen to change the retirement, disability and withdrawal assumptions.

Additionally, recent improvements in mortality dictate the use of a more modern mortality table than used by the prior actuary. We have chosen to use a blue collar modification of the recently published RP-2000 Mortality Table to properly reflect recent mortality improvements.

Comparative salary increases and the average rates of investment return over the past years indicate that the general financial assumptions used by the prior actuary are appropriate for this Fund.

Based mainly upon the comparative rate of funding (46%-48%), as well as a comparison of actual rates of investment return to salary increases, a 7.00% assumed investment return rate was deemed acceptable as a long-term assumption to be used in determining the funding requirements for the year March 1, 2011 to February 29, 2012. This rate was chosen to reflect the portfolio composition, investment philosophy and historical performance as compared to other funds in the State. This 7.00% rate includes an inflation component of 2½%.

**VALUATION OBJECTIVES
(Continued)**

As a result of a recent study performed by our firm, we are changing the actuarial assumption with regard to salary increases for active participants to a table which is more representative of increases in the Downstate system. The results of this study indicate that salaries increase more rapidly in the earlier years of employment and level off in the later years.

The prior actuary's assumption anticipated a constant annual increase in salaries and we believe that in our current environment and in analyzing the recent actual salary growth in your fund, which is reasonably flat, this approach is inappropriate. Consistent with the investment assumption, these tabular rates include an inflation component of 2½%.

In an effort to further our generalized approach to provide a smooth contribution pattern of funding, in our calculations of the statutory minimum contribution we have selected a 4% static payroll growth assumption rather than a dynamic assumption based upon actual experience each year. This methodology will produce a more stable and manageable contribution throughout the life of the program.

Finally, a change in the method of valuing assets, which will be mandated by State Law as of March 30, 2011, was early implemented beginning with this valuation to properly account for the market value fluctuations which may occur in a managed portfolio. Retroactively starting with assets as of February 1, 2011, we have chosen to use the mandated actuarial smoothing methodology to record only a portion of the portfolio's performance each year. A complete description of this method is contained in Appendix 2.

Comparison with Other Funds

We are including a comparison to certain State averages which may prove helpful in assessing how the fund compares to similarly situated programs.

	<u>Evanston(2011)</u>		<u>State*</u>
	<u>EANC</u>	<u>PUC</u>	
Funded Ratio	45.68%	47.97%	56.18%
Percentage of Liability for Inactives	68.25%	71.69%	52.55%
Percentage of Total Assets for Inactives (market basis)	147.12%		93.52%

* Based upon published reports for FYE 2008

RESULTS OF VALUATION

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.

The following exhibits present the results of our actuarial valuation of the **City of Evanston Police Pension Fund** for the fiscal year March 1, 2011 through February 29, 2012.

Exhibit 1 indicates that the recommended minimum contribution, calculated using the Entry Age Normal Cost method (EANC), from the City is \$8,521,751 or 65.23% 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 \$6,157,223 or 47.13% 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.

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

Exhibit 5 shows information relating to the pension assets.

Appendix 1 provides information in accordance with the Governmental Accounting Standards Board relating to financial disclosure of pension costs in the auditor's report.

**GENERAL VALUATION RESULTS FOR FISCAL YEAR
MARCH 1, 2011 THROUGH FEBRUARY 29, 2012**

Recommended Minimum Contribution

1.	Entry Age Normal Cost:	\$ 3,314,573
2.	Unfunded Actuarial Accrued Liability (or Surplus):	84,853,999
3.	Actuarial Value of Assets:	71,347,257
4.	Annual Salaries of Active Police Officers:	12,561,260
5.	Recommended Minimum Contribution from the City:	8,521,751
	Contribution Percentage:	65.23%*

Statutory Minimum Contribution

1.	Projected Unit Credit Normal Cost:	\$ 3,478,980
2.	Unfunded Actuarial Accrued Liability (or Surplus):	77,372,189
3.	Actuarial Value of Assets:	71,347,257
4.	Annual Salaries of Active Police Officers:	12,561,260
5.	Statutory Minimum Contribution from the City:	6,157,223
	Contribution Percentage:	47.13%*

* Projected for the full fiscal year ending February 29, 2012.

SUMMARY OF SPECIFIC VALUATION RESULTS

	<u>Number</u>	<u>Actuarial Present Value of Projected Benefits</u>	<u>Entry Age Normal Cost</u>	<u>Projected Unit Credit Normal Cost</u>
1. Active Police Officers:	158			
Retirement Pension:		\$67,795,377	\$2,381,760	\$2,638,470
Survivors Pension:		2,394,260	131,129	127,604
Disability Pension:		9,323,640	601,165	547,532
Withdrawal Pension:		2,364,520	200,519	165,374
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
TOTAL	158	\$81,877,797	\$3,314,573	\$3,478,980
2. Inactive Police Officers and Survivors:				
Normal Retirees:	121	\$89,522,368		
Alternate Payees:	1	246,275		
Widows (Survivors):	29	6,861,141		
Children (Survivors):	0	0		
Disabled Retirees:	16	8,902,770		
Deferred Vested:	4	953,314		
Terminated/Separated:	<u>12</u>	<u>128,011</u>		
TOTAL	183	\$106,613,879		

**SUMMARY OF SPECIFIC VALUATION RESULTS
(Continued)**

	<u>Entry Age Normal (EAN)</u>	<u>Projected Unit Credit (PUC)</u>
3. Total Actuarial Present Value of Projected Benefits:	\$188,491,676	N/A
4. Actuarial Present Value of Future Normal Costs:	32,290,420	N/A
5. Actuarial Accrued Liability: [(3) - (4)]	156,201,256	148,719,446
6. Actuarial Value of Assets:	71,347,257	71,347,257
7. Unfunded Actuarial Accrued Liability (or Surplus): [(5) - (6)]	84,853,999	77,372,189
8. Funded Ratio Percentage: [(6) ÷ (5)] x 100	45.68%	47.97%

HISTORY OF FUNDED PERCENTAGES

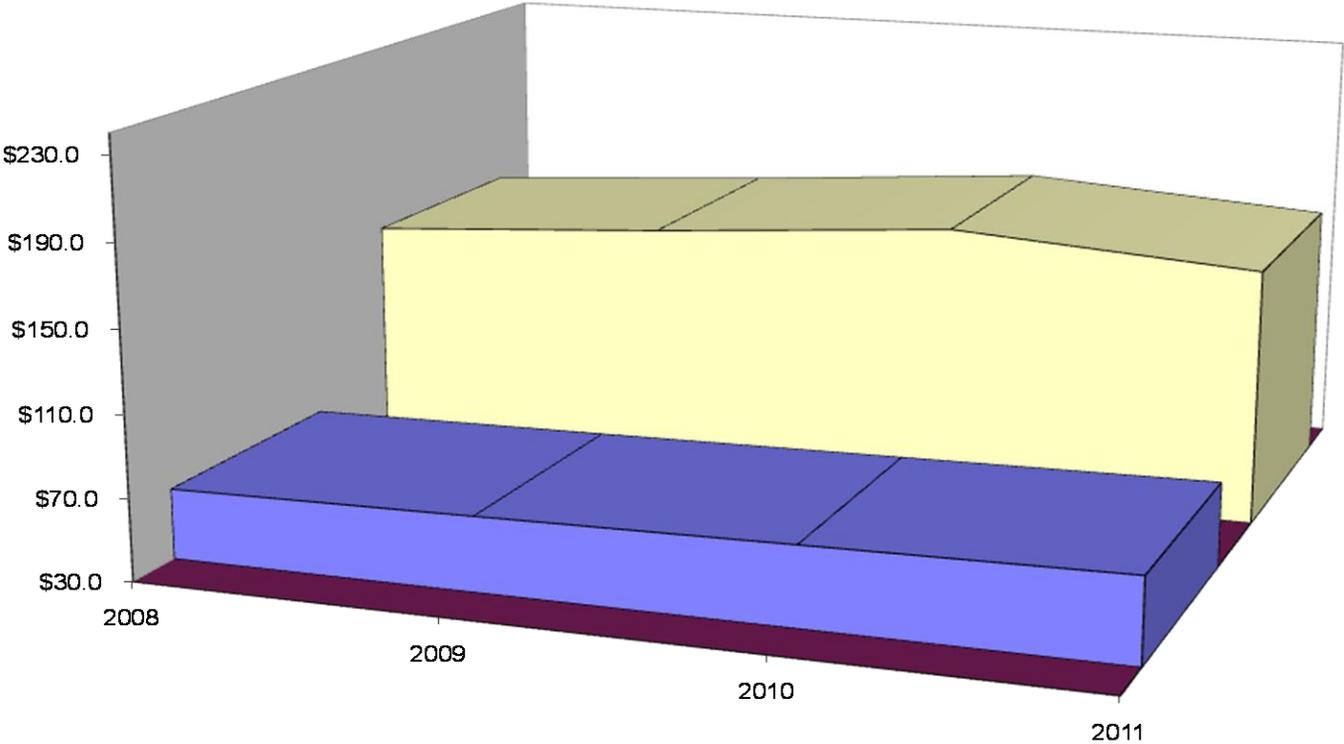
<u>For the Year beginning March 1</u>	<u>Valuation Assets</u>	<u>EAN Accrued Liabilities</u>	<u>EAN Funded Percentage</u>	<u>PUC Accrued Liabilities</u>	<u>PUC Funded Percentage</u>
2011	\$71,347,257	\$156,201,256	45.68%	\$148,719,446	47.97%
2010 ¹	68,998,555	166,228,478	41.51	N/A	N/A
2009	66,514,296	154,971,310	42.92	N/A	N/A
2008	64,355,651	145,458,945	44.24	N/A	N/A

The following chart presents a progression of these percentages in graphical form.

¹ Values prior to March 1, 2011 were taken for the actuarial valuation report as of March 1, 2010 as performed by Gabriel Roeder Smith & Company.

COMPARISON OF ASSETS AND LIABILITIES
(amount in millions)

■ Valuation Assets □ Accrued Liabilities



DEVELOPMENT OF RECOMMENDED MINIMUM CITY CONTRIBUTION

	Fiscal Year March 1, 2011 through <u>February 29, 2012</u>
1. Entry Age Normal Cost:	\$3,314,573
2. Recommended Minimum Payment to Amortize 90 % of the Entry Age Normal Unfunded Accrued Liability <u>as a level dollar amount</u> over 29.00205 Years from March 1, 2011:	5,813,064
3. Interest on (1) and (2):	638,935
4. Credit for Surplus:	0
5. Total Recommended Minimum Contribution for Fiscal Year 2012: [(1) + (2) + (3) + (4)]	9,766,572
6. Active Member Contributions (9.91% of Salaries):	1,244,821
7. Net Recommended Minimum City Contribution: [(5) - (6)]	\$8,521,751

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

	Fiscal Year March 1, 2011 through <u>February 29, 2012</u>
1. Projected Unit Credit Normal Cost:	\$3,478,980
2. Minimum Payment to Amortize 90% of the Projected Unit Credit Unfunded Accrued Liability <u>as a level percentage of payroll</u> over 29.00205 Years from March 1, 2011:	3,438,818
3. Interest on (1) and (2):	484,246
4. Credit for Surplus:	0
5. Total Statutorily Required Contribution for Fiscal Year 2012: [(1) + (2) + (3) + (4)]	7,402,044
6. Active Member Contributions (9.91% of Salaries):	1,244,821
7. Net Statutorily Required City Contribution: [(5) - (6)]	\$6,157,223

SUMMARY OF DEMOGRAPHIC INFORMATION AS OF MARCH 1, 2011

	<u>Number</u>	<u>Projected Annual Salaries (Fiscal Year 2012)</u>
Active Police Officers:	158	\$12,561,260

	<u>Number</u>	<u>Total Monthly Benefits</u>
Normal Retirees:	121	\$573,573
Alternate Payees:	1	1,543
Survivors (Widows):	29	68,592
Survivors (Children):	0	0
Disabled Retirees:	16	50,164
Deferred Vested:	4	0
Terminated/Separated:	12	128,011 *

* Return of Contributions

The actuarial valuation was performed as of March 1, 2011 to determine contribution requirements for plan year 2012.

AGE AND SERVICE DISTRIBUTION

Attained Age	COMPLETED YEARS OF SERVICE										Total	Average Salaries
	0-1	2-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40+		
15-19											0	-
20-24		1									1	\$63,113
25-29		27	2								29	66,738
30-34	2	11	20								33	73,078
35-39		6	15	3							24	77,203
40-44		2	11	11	5						29	84,632
45-49				2	8	8					18	88,677
50-54			1		2	8	2				13	96,160
55-59			1	2		1	2	4			10	91,718
60-64						1					1	80,460
65+											0	-
TOTAL	2	47	50	18	15	18	4	4	0	0	158	\$79,502

Age = 38.63 Years

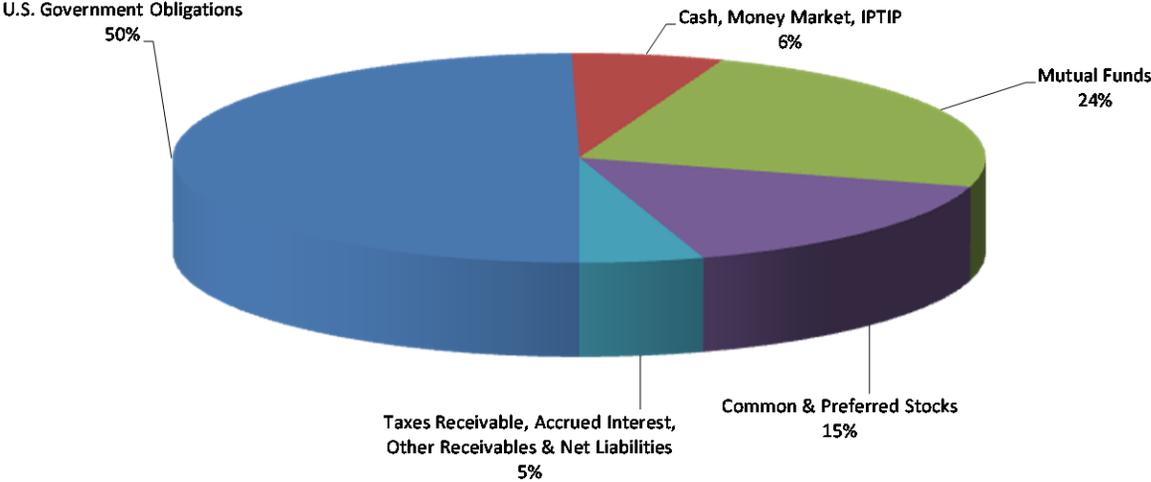
Service = 10.73 Years

ASSET INFORMATION

Cash, Money Market, IPTIP	\$4,385,350
Certificates of Deposit	0
State and Local Obligations	0
U.S. Government Obligations	36,009,348
Insurance Company Contracts	0
Pooled Investment Accounts	0
Mutual Funds	17,186,689
Common & Preferred Stocks	11,316,009
Taxes Receivable	3,265,995
Accrued Interest	217,149
Other Receivables	88,072
Net Liabilities	3,099
	<hr/>
Net Present Assets at Market Value	\$72,465,513

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

ASSET INFORMATION



DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

1.	Market Value of Assets, March 1, 2010.*			\$65,449,707
2.	Actual Income and Disbursements in prior year weighted for timing			
		Amount	Weight for Timing	Weighted Amount
	<u>Item</u>			
	Contributions Received During 2010-2011	\$8,487,277	50.00%	4,243,639
	Miscellaneous Revenue	95	50.00%	48
	Benefit Payments and Expenses Made During 2010-2011	8,415,070	(50.00)%	<u>(4,207,535)</u>
	Total			36,151
3.	Market Value of assets adjusted for actual income disbursements [(1) + 2(d)]*			\$65,485,858
4.	Assumed rate of return on plan assets for the year			7.00%
5.	Expected return on assets [(3) x (4)]			\$ 4,584,010
<hr/>				
6.	Market Value of Assets, March 1, 2010*			\$65,449,707
7.	Income (less investment income) for prior year			8,487,277
8.	Disbursements paid in prior year			8,415,070
9.	Market Value of Assets, March 1, 2011*			\$72,465,514
10.	Actual Return [(9) + (8) – (7) – (6)]			6,943,505
<hr/>				
11.	Investment Gain/(Loss) for Prior Year [(10) – (5)]			\$ 2,359,495

**DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
(Continued)**

12. Market Value of Assets, March 1, 2011:*				\$72,465,514
13. Deferred investment gains and (losses) for last 4 years:				
	Plan Year Beginning	Gain/(Loss)	Percent Deferred	Deferred Amount
a)	2010**	2,195,780	80%	1,887,596
b)	2009	5,567,670	50%	2,783,835
c)	2008	(14,212,697)	25%	(3,553,174)
d)	Total	\$ (6,451,149)		\$1,118,257
14. Actuarial value of plan assets for funding, March 1, 2011: Item (12) less item 13(e)*				\$71,347,257
15. Taxes receivable:				3,265,995
16. Actuarial value of plan assets for GASB reporting March 1, 2011 :				\$68,081,262

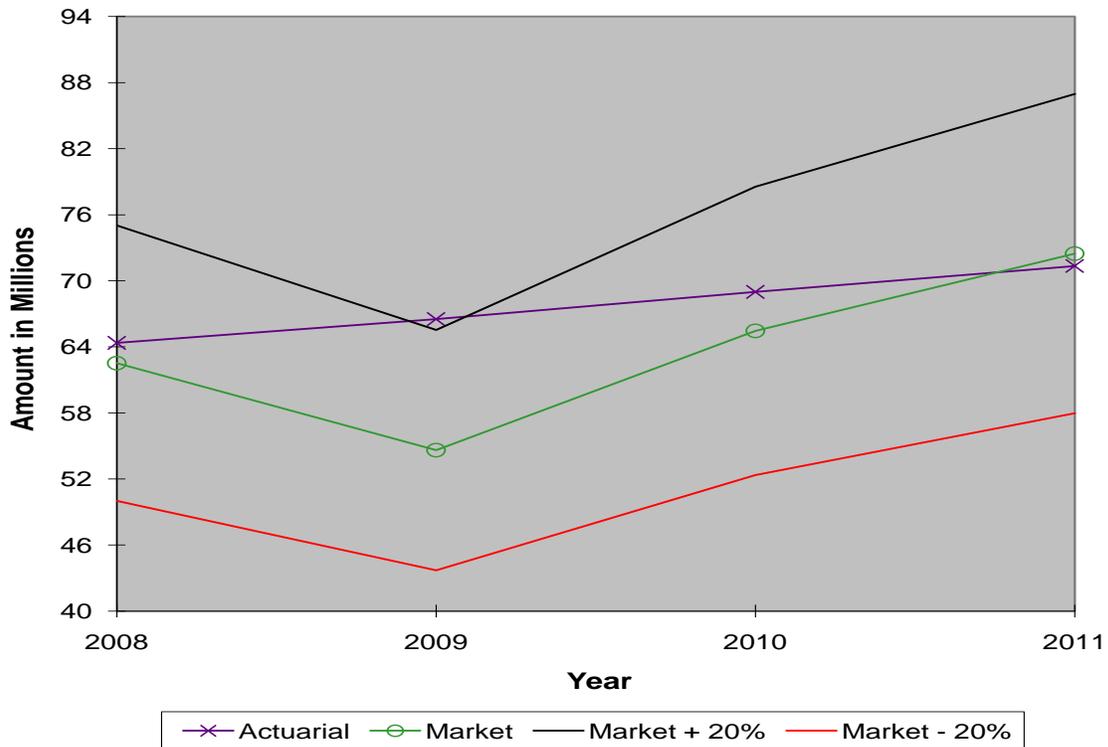
Notes: * excluding taxes receivable

* **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 years prior to 2010 at 25% per year and during years following 2009 at 20% per year.

ASSET HISTORY

<u>For the Year beginning March 1</u>	<u>Actuarial Value of Assets</u>	<u>Market Value of Assets</u>
2011	\$71,347,257	\$72,465,513
2010 ²	68,998,555	65,449,707
2009	66,514,296	54,618,269
2008	64,355,651	62,525,333

The chart below presents a comparison between the Actuarial Value of Assets and the Market Value of Assets for the current year and the three preceding years. The chart also illustrates a corridor 20% above and 20% below the Market Value of Assets.

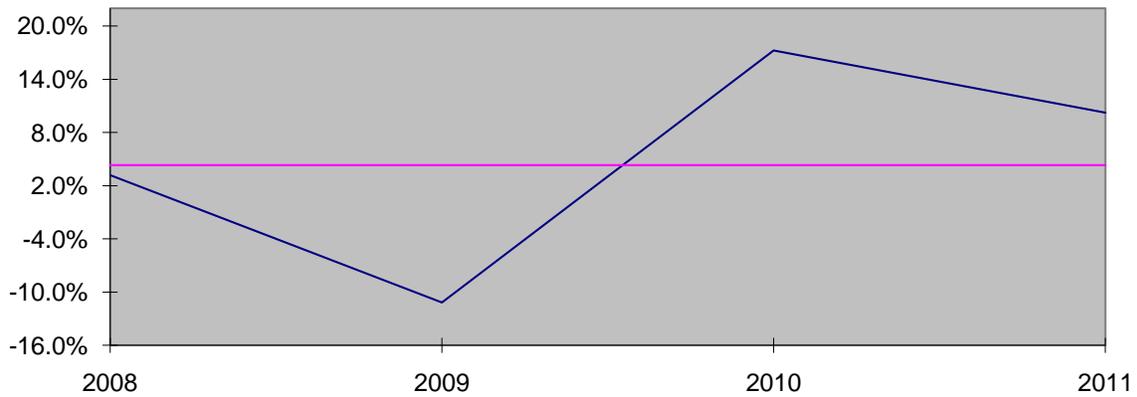


² Values prior to March 1, 2011 were taken for the actuarial valuation report as of March 1, 2010 as performed by Gabriel Roeder Smith & Company

ANALYSIS OF INVESTMENT RETURN

<u>Fiscal Year Ending February 28</u>	<u>Annual Rate of Return</u>
2011	10.24%
2010	17.26
2009 ³	-11.17
2008	3.18
<u>Composite</u>	
2008-2011	4.33%

The following chart presents a progression of these percentages in graphical form.



³ annual rate of return for 2009 computed differently than by prior actuary

THIRTY - YEAR PROJECTION OF PAYMENTS

Year	-----Payouts from Active Group Upon-----					-----Payouts from-----		<u>Total</u>
	<u>Termination</u>		<u>Death</u>	<u>Retirement</u>	<u>Disability</u>	<u>Retired Group</u>	<u>Deferred Pensioners</u>	
	<u>Lump Sum</u>	<u>Deferred Pension</u>						
2011	46,624	0	36,589	243,592	45,453	8,324,834	128,011	8,825,103
2012	39,655	0	52,282	543,206	89,717	8,281,517	0	9,006,377
2013	29,756	0	52,243	821,485	131,894	8,229,416	0	9,264,794
2014	23,688	0	67,656	1,156,799	174,708	8,171,478	31,143	9,625,472
2015	16,506	0	80,260	1,453,130	218,498	8,107,788	31,783	9,907,965
2016	3,921	0	95,615	1,707,589	265,149	8,026,265	32,397	10,130,936
2017	477	0	109,433	1,997,455	313,603	7,930,947	32,979	10,384,894
2018	0	0	124,235	2,354,925	365,095	7,820,214	33,520	10,697,989
2019	0	0	138,027	2,660,670	416,865	7,705,982	56,937	10,978,481
2020	0	0	152,482	2,978,199	470,165	7,562,409	57,867	11,221,122
2021	0	0	167,108	3,300,839	522,077	7,423,582	82,406	11,496,012
2022	0	0	181,703	3,640,555	576,906	7,243,321	83,632	11,726,117
2023	0	0	196,525	3,954,375	628,464	7,073,714	115,684	11,968,762
2024	0	0	210,134	4,294,681	682,476	6,854,283	117,283	12,158,857
2025	0	0	224,272	4,630,797	732,531	6,613,854	118,694	12,320,148
2026	0	0	236,320	5,102,526	787,418	6,352,851	119,872	12,598,987
2027	0	0	249,585	5,548,742	841,970	6,071,938	120,807	12,833,042
2028	0	0	258,840	6,031,165	904,233	5,772,002	121,441	13,087,681
2029	0	0	271,450	6,479,743	955,975	5,475,465	121,771	13,304,404
2030	0	0	277,824	7,018,312	1,014,392	5,143,238	121,718	13,575,484
2031	0	0	288,504	7,623,078	1,059,698	4,797,990	121,278	13,890,548
2032	0	0	291,809	8,125,977	1,104,240	4,442,725	120,412	14,085,163
2033	0	0	300,640	8,608,463	1,137,976	4,109,143	119,093	14,275,315
2034	0	0	301,462	9,098,322	1,182,203	3,745,332	117,275	14,444,594
2035	0	0	307,221	9,502,735	1,206,974	3,383,082	114,934	14,514,946
2036	0	0	306,083	9,876,632	1,247,761	3,026,690	112,028	14,569,194
2037	0	0	308,816	10,149,773	1,273,414	2,680,879	108,545	14,521,427
2038	0	0	302,830	10,367,324	1,304,760	2,350,207	104,490	14,429,611
2039	0	0	302,710	10,546,504	1,318,298	2,038,741	99,882	14,306,135
2040	0	0	295,953	10,664,363	1,346,762	1,749,922	94,754	14,151,754

GASB STATEMENT NO. 25 DISCLOSURE INFORMATION

DEVELOPMENT OF THE ANNUAL REQUIRED CONTRIBUTION OF THE MUNICIPALITY

	Fiscal Year March 1, 2011 through <u>February 29, 2012⁴</u>
1. Entry Age Normal Cost	\$3,314,573
2. Actuarial Accrued Liability	156,201,256
3. Actuarial Value of Assets*	68,081,262
4. Unfunded Actuarial Accrued Liability	88,119,994
5. Payment to Amortize Unfunded Actuarial Accrued Liability Over 40 Years from Effective Date of Application of GASB 25 (22.33 years remaining)	5,409,222
6. Total Annual Required Contribution for Fiscal Year February 29, 2012: [(1) + (5)]	8,723,795
7. Active Member Contributions (9.91% of Salaries):	1,244,821
8. Annual Required Contribution (ARC) payable at the beginning of the current fiscal year: [(6) - (7)]	\$7,478,974

*Excluding Contributions Receivable

⁴ Because of the change in the fiscal year end from February 28 to December 31, only \$6,232,478 (10/12ths of the ARC) will be expensed during the fiscal year March 1, 2011 to December 31, 2011.

**GASB STATEMENT NO. 25 DISCLOSURE INFORMATION
(Continued)**

NOTES:

- The Annual Required Contribution as of March 1, 2011 has been determined under the Governmental Accounting Standards Board Statement No. 25 and is required disclosure for the fiscal year ending December 31, 2011. 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.
- All values were determined on the basis of the actuarial assumptions and methods as more fully described in Appendix 2 of this report.

**ACTUARIAL ASSUMPTIONS
(Economic)**

Investment Return

7.00% per annum, compounded annually (net of expenses).

Salary Increases

Representative values of assumed salary increases are as follows:

<u>Age</u>	<u>Increase %</u>
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.

Actuarial Asset Basis

The Pension Fund previously used an actuarial value of assets for both government accounting and funding purposes which recognized future gains and losses based on a 4-year smoothed market method. Starting with the actuarial valuation as of January 1, 2011, the actuarial value of assets recognizes future gains and losses based on a 5-year smoothed market method.

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.

**ACTUARIAL ASSUMPTIONS
(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:

<u>Age</u>	<u>Rate of Withdrawal</u>
25	.0734
30	.0416
35	.0223
40	.0119
45	.0102
50	---

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

Disability Rates

Incidence of disability amongst police officers eligible for disability benefits:

<u>Age</u>	<u>Rate</u>
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.

**ACTUARIAL ASSUMPTIONS
(Demographic)**

Retirement Rates

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

<u>Age</u>	<u>Rate of Retirement</u>	<u>Age</u>	<u>Rate of Retirement</u>
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

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 ASSUMPTIONS
(Additional)**

Expenses

None assumed.

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%.

Minimum Monthly Benefit: \$1,000

Maximum Benefit Percentage: 75% of salary

**SUMMARY OF PRINCIPAL PLAN PROVISIONS
(Continued)**

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 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.

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.

SUMMARY OF PRINCIPAL PLAN PROVISIONS
(Continued)

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.

**GLOSSARY
(Continued)**

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.

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*.

REQUIRED REPORTING TO MUNICIPALITY BY PENSION BOARD

As of February 28, 2011 fiscal year end

(40 ILCS 5/3-143) (from Ch. 108 1/2, par. 3-143)

Sec. 3-143. Report by pension board.

The pension board shall report annually to the city council or board of trustees of the municipality on the condition of the pension fund at the end of its most recently completed fiscal year. The report shall be made prior to the council or board meeting held for the levying of taxes for the year for which the report is made.

1.

Total Trust Assets (see attachment 1 for complete listing)

Total Assets (market value):	\$72,465,513
Actuarial Value of Assets (see item 8 for explanation):	\$71,347,257

2.

Estimated receipts during the next succeeding fiscal year from:

Participant Contributions deducted from payroll:	\$1,244,821
Employer Contributions and all other sources:	\$6,157,223

3.

Estimated amount required during the next succeeding fiscal year to:

(a) pay all pensions and other obligations provided in this Article:	\$8,825,103
(b) meet the annual requirements of the fund as provided in Sections 3-125 and 3-127:	\$7,402,044

4.

Total Net Income received from investment of net assets:	\$6,943,505
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Assumed Investment Return:	7.00%
Actual Investment Return:	10.24%

Total Net Income received from investment of net assets (FYE February 28, 2010):	\$9,723,087
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Assumed Investment Return (FYE February 28, 2010):	7.00%
Actual Investment Return (FYE February 28, 2010):	17.26%

5.

Total number of Active Employees that are financially contributing to the fund:	158
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6.

Disbursements to:

(i) Annuitants in receipt of a regular retirement pension:

Total number of annuitants:	122
Total amount that was disbursed in benefits:	\$6,689,949

(ii) Recipients being paid a disability pension:

Total number of annuitants:	16
Total amount that was disbursed in benefits:	\$599,831

(iii) Survivors and children in receipt of benefits:

Total number of annuitants:	29
Total amount that was disbursed in benefits:	\$751,109

7.	
Funded ratio of the fund:	45.68%
8.	
Unfunded Actuarial Accrued Liability:	\$84,853,999

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

The Actuarial Accrued Liability is the portion of the present value of future plan benefits reflecting projected credited service and salaries determined by the actuarial cost method based upon the plan's actuarial assumptions and not provided for at a valuation date by the actuarial present value of future normal costs. The normal cost is the portion of this present value which is allocated to the current valuation year.

The Actuarial Value of Assets is the asset value derived by using the plan's asset valuation method which is a 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 municipal contributions.

9.
Investment Policy of the pension board under the statutory investment restrictions imposed on the fund. (See attachment 2)

Certification

I, Timothy Schoolmaster, President of the Evanston Police Pension Board, City of Evanston, Cook County, Illinois, do hereby certify that this document is a true and correct copy of: "Required Reporting to Municipality By Pension Board" as outlined in 40 ILCS 5/3-143.

Witness my hand this _____ day of _____, 2011.

Timothy Schoolmaster
President of Evanston Police Pension Board

Source: P.A. 95-950, eff. 8-29-08