



SPRINGFIELD FIREFIGHTERS' PENSION FUND

ACTUARIAL VALUATION
AS OF FEBRUARY 29, 1988

August 5, 1988

Mr. Jim Kane
City Comptroller
City of Springfield
Room 210 - Municipal Building
Springfield, Illinois 62701

Re: Actuarial Valuation of Springfield Firefighters' Pension Fund

Dear Mr. Kane:

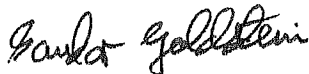
I am pleased to submit my actuarial report based on an actuarial valuation of the Springfield Firefighters' Pension Fund as of February 29, 1988.

The report consists of 9 Sections and 2 Appendices as follows:

	<u>Page No.</u>
Section A - Purpose and Summary	1
Section B - Data Used For Valuation	1
Section C - Fund Provisions	2
Section D - Actuarial Assumptions and Cost Method	3
Section E - Actuarial Liability	4
Section F - Reconciliation of Change in Unfunded Liability	5
Section G - Normal Cost	5
Section H - Annual Actuarial Requirements	6
Section I - Certification	7
Appendix 1 - Summary of Principal Provisions	8
Appendix 2 - Glossary of Terms	10

I would be pleased to discuss any aspects of this report with you and other interested persons.

Respectfully submitted,



Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 3402



A. PURPOSE AND SUMMARY

We have carried out an actuarial valuation of the Springfield Firefighters' Pension Fund as of February 29, 1988. The purpose of the valuation was to determine the financial position and the annual actuarial requirements of the pension fund. This report is intended to present the results of the valuation. The results of the valuation are summarized below:

1. Total actuarial liability	\$33,541,636
2. Actuarial value of assets	\$30,675,031
3. Unfunded actuarial liability	\$ 2,866,605
4. Funded Ratio	91.5%
5. Total normal cost	\$ 1,514,304
6. Annual actuarial requirement for year beginning March 1, 1988	\$ 1,764,991
7. Amount of tax to be levied by City so that total revenue will be sufficient to meet annual actuarial requirement	\$ 1,293,944

B. DATA USED FOR THE VALUATION

Participant Data. The participant data required to carry out the valuation was supplied by the pension fund. The participant data for the pension fund as of February 29, 1988 on which the valuation is based is summarized in Exhibit 1. It can be seen that there were 180 active members and 133 members receiving benefits. The total active payroll as of February 29, 1988 was \$5,709,662.



Exhibit 1

Summary of Participant Data

1. Number of Members.	
(a) Active Members	180
(b) Members Receiving	
(i) Retirement Pensions	61
(ii) Survivor Pensions	50
(iii) Disability Pensions	22
(c) Total	<u>313</u>
2. Annual Salaries	
(a) Total salary	\$5,709,662
(b) Average Salary	\$31,720
3. Total accumulated contributions of contributors	\$3,089,736
4. Annual Benefit Payments Currently Being Made	
(a) Retirement Pensions	707,800
(b) Survivor Pensions	201,117
(c) Disability Pensions	272,840

Assets. The asset values used for the valuation were based on the asset information contained in the audited financial statements of the pension fund as of February 29, 1988. For purposes of the valuation, the book value of the assets of the fund less the amount of current liabilities was used. The resulting actuarial value of assets is \$30,675,031. The development of this value is outlined in Exhibit 2.

Exhibit 2

Actuarial Value of Assets

1. Cash	\$ 837,198
2. Receivables	1,414,319
3. Investments at Cost or Amortized Cost	<u>28,423,514</u>
4. Total Assets	<u>\$30,675,031</u>
5. Current Liabilities	<u>0</u>
6. Actuarial Value of Assets (4.-5.)	<u>\$30,675,031</u>

C. FUND PROVISIONS

Our valuation was based on the provisions of the fund in effect as of February 29, 1988 as provided in Article 4 of the Illinois Pension Code. A summary of



the principal provisions of the Fund is provided in Appendix 1.

D. ACTUARIAL ASSUMPTIONS AND COST METHOD

The actuarial assumptions used for the current valuation are the same as those used for the February 28, 1987 valuation. These actuarial assumptions are based on an experience analysis of the fund that was carried out last year. The actuarial assumptions used for the February 29, 1988 valuation are outlined below:

Mortality Rates. The UP-1984 Mortality Table, rated up 1 year, was used for the valuation.

Termination Rates. Termination rates based on the recent experience of the fund. The following is a sample of the termination rates that were used:

<u>Age</u>	<u>Rate of Termination</u>
25	.048
30	.036
35	.020
40	.010
45	.002
50	.000

Disability Rates. Disability rates based on the recent experience of the fund and on published disability rate tables. The following is a sample of the disability rates that were used:

<u>Age</u>	<u>Rate of Disability</u>
25	.0033
30	.0041
35	.0058
40	.0085
45	.0129
50	.0211

Retirement Rates. Rates of retirement for each age from 50 to 60 based on the recent experience of the fund were used. The following is a sample of the retirement rates that were used for the valuation:

<u>Age</u>	<u>Rate of Retirement</u>
50	.1
55	.1
60	1.0

Salary Progression. 6.0% per year, compounded annually.



Investment Return Rate. 8.0% per year, compounded annually.

Marital Status. 85% of participants were assumed to be married.

Spouse's Age. The age of the spouse was assumed to be 4 years younger than the age of the employee.

Actuarial Value of Assets. The book value of the assets of the fund was used.

Actuarial Cost Method. The entry age actuarial cost method was used, with costs allocated on the basis of earnings.

E. ACTUARIAL LIABILITY

The actuarial liability as determined under the valuation for the various classes of members is summarized in Exhibit 3. The total actuarial liability is then compared with the actuarial value of assets in order to arrive at the unfunded actuarial liability. (The actuarial terms used in this report are defined in Appendix 2.)

As of February 29, 1988 the total actuarial liability is \$33,541,636, the actuarial value of assets is \$30,675,031, and the unfunded actuarial liability is \$2,866,605. The ratio of the actuarial value of assets to the actuarial liability, or funded ratio, is 91.5%.

Exhibit 3

Actuarial Liability as of February 29, 1988

1. Actuarial Liability For Members Receiving Benefits	
(a) Retirement Pensions	\$ 8,127,195
(b) Survivor Pensions	1,643,091
(d) Disability Pensions	3,542,429
(e) Total	\$ 13,312,715
2. Actuarial Liability For Active Members	\$ 20,029,179
3. Actuarial Liability For Inactive Members	199,742
4. Total Actuarial Liability	<u>\$ 33,541,636</u>
4. Actuarial Value of Assets	<u>\$ 30,675,031</u>
5. Unfunded Actuarial Liability	<u>\$ 2,866,605</u>
6. Funded Ratio	91.5%



F. RECONCILIATION OF CHANGE IN UNFUNDED LIABILITY

The net actuarial experience during the period March 1, 1987 to February 29, 1988 resulted in an increase in the fund's unfunded liability of \$1,955,826. This increase in unfunded liability is a result of several kinds of gains and losses. The financial effect of the most significant gains and losses is illustrated in Exhibit 4.

The net rate of investment return earned by the fund during the year was approximately 7.6%, in comparison to the assumed rate of 8.0%. This resulted in an increase in the unfunded liability of \$119,000

Salaries increased at an average rate of 14.6% during year, in comparison to the assumed rate of 6.0%. This resulted in an increase in the unfunded liability of \$2,516,000.

The various other aspects of the fund's experience results in a net decrease in the unfunded liability of \$679,174. The aggregate financial experience of the fund resulted in an increase in the unfunded liability of \$1,955,826. It can be seen that the primary reason for the increase in the unfunded liability was salary increase in excess of the assumed rate of 6.0% per year.

Exhibit 4

Reconciliation of Change in Unfunded Actuarial Liability
Over the Period March 1, 1987 to February 29, 1988

1. Unfunded liability as of 3/1/87	\$ 910,779
2. Increase in unfunded liability due to investment return lower than assumed	119,000
3. Increase in unfunded liability due to salary increases greater than assumed	2,516,000
4. Decrease in unfunded liability due to other sources	679,174
5. Net increase in unfunded liability for the year (2+3-4)	1,955,826
6. Unfunded liability as of February 29, 1988 (1+5)	\$2,866,605

G. NORMAL COST

The normal cost for the year beginning March 1, 1988 is developed in Exhibit 5. For the year beginning March 1, 1988, the total normal cost is estimated to be \$1,514,304, which can be expressed as 26.52% of payroll.



Exhibit 5

Normal Cost For Year Beginning March 1, 1988

	<u>Dollar Amount</u>	<u>Per Cent Of Payroll</u>
1. Basic Retirement Pension	\$ 546,166	9.57%
2. Annual Increases in Pension	151,832	2.66
3. Survivor's Pension	195,893	3.43
4. Disability Pension	572,853	10.03
5. Refunds	20,725	.36
6. Administrative Expenses	26,835	.47
7. Total Normal Cost	<u>\$1,514,304</u>	<u>26.52%</u>

Note. The above normal cost figures have been adjusted to include interest to the end of the year, as payments will not be made until the end of the year. The figures are based on a total active payroll of \$5,709,662 as of March 1, 1988.

H. ANNUAL ACTUARIAL REQUIREMENTS FOR YEAR BEGINNING MARCH 1, 1988

According to Section 4-118 of the Illinois Pension Code, the City Council shall annually levy a tax which, when added to employee contributions, will produce an amount sufficient to meet the annual actuarial requirements of the pension fund. Section 4-118 defines the annual actuarial requirements of the pension fund to be equal to (1) the normal cost of the pension fund, plus (2) the annual amount required to amortize the fund's unfunded actuarial liability over a period of 40 years subsequent to January 1, 1980.

The annual actuarial requirements of the pension fund for the year beginning March 1, 1988 and the amount of tax to be levied for the year are developed in Exhibit 6. As can be seen from Exhibit 5, for the year beginning March 1, 1988, the annual actuarial requirements of the pension fund amount to \$1,764,991, or 30.91% of payroll. Employee contributions for the year are estimated to be \$471,047, or 8.25% of payroll. The amount of tax to be levied by the City so that total revenues will be sufficient to meet the annual actuarial requirement is therefore \$1,293,944, or 22.66% of payroll.

In comparison, the City's tax levy requirement for the year beginning March 1, 1987 was \$1,039,545. The factors contributing to the increase in the tax levy requirement for the current year are similar to the factors resulting in the increase in the unfunded liability for the current year that were outlined in Section F of this report, primarily, salary increases in excess of the 6.0% assumed rate.



Exhibit 6

Annual Actuarial Requirements For Year Beginning March 1, 1988

	<u>Annual Amount</u>	<u>Per Cent Of Payroll</u>
1. Total normal cost	\$1,514,304	26.52%
2. Annual amount required to amortize unfunded liability over 40 years subsequent to January 1, 1980	<u>250,687</u>	<u>4.39</u>
3. Annual actuarial requirement for year beginning March 1, 1988 (1.+2.)	\$1,764,991	30.91%
4. Employee contributions for year	<u>471,047</u>	<u>8.25</u>
5. Amount of tax to be levied by City so that total revenue will be sufficient to meet annual actuarial requirement (3-4)	<u>\$1,293,944</u>	<u>22.66%</u>

Note. The above figures have been adjusted to include interest to the end of the year, as payments will not be made until the end of the year.

I. CERTIFICATION

This actuarial report has been prepared in accordance with generally accepted actuarial principles and practices and to the best of my knowledge, fairly represents the financial condition of the Springfield Firefighters' Pension Fund as of February 29, 1988.

Respectfully submitted

Sandor Goldstein

Sandor Goldstein
Fellow of the Society of Actuaries
Enrolled Actuary No. 3402



Appendix 1

Summary of Principal Provisions

Pension Benefits

A firefighter age 50 or over who has at least 20 years of creditable service and is no longer in service as a firefighter is entitled to a monthly pension of $\frac{1}{2}$ of the monthly salary attached to the firefighter's rank at the date of retirement. The pension is increased by $\frac{1}{12}$ of 2% of such monthly salary for each additional month over 20 years of service through 30 years of service, and $\frac{1}{12}$ of 1% of such monthly salary for each additional month over 30 years of service, to a maximum of 75% of such monthly salary.

Separation Benefits

A firefighter who is separated from service having at least 10 but less than 20 years of creditable service is entitled upon attainment of age 60 to a pension based on the monthly salary attached to his or her rank in the fire service on the date of separation of service, according to the following schedule:

- For 10 years of service, 15.0% of salary;
- For 11 years of service, 17.6% of salary;
- For 12 years of service, 20.4% of salary;
- For 13 years of service, 23.4% of salary;
- For 14 years of service, 26.6% of salary;
- For 15 years of service, 30% of salary;
- For 16 years of service, 33.6% of salary;
- For 17 years of service, 37.4% of salary;
- For 18 years of service, 41.4% of salary;
- For 19 years of service, 45.6% of salary;

Annual Increases In Pension

The monthly pension of a firefighter who retires after January 1, 1977, shall, upon either the first of the month following the first anniversary of the date of retirement, if 55 years of age or over at retirement date, or upon the first day of the month following attainment of age 55 if it occurs after the first anniversary of retirement, be increased by 3% of the originally granted monthly pension for each full year that has elapsed since the pension began, and by an additional 3% in each January thereafter.

The monthly pension of a firefighter who is receiving a disability pension shall be increased in January of the year following the year the firefighter attains age 60 by 3% of the originally granted monthly pension for each year that pension payments have been made. In each January thereafter, the firefighter shall receive an additional increase of 3% of the original monthly pension.

Disability Pension



If a firefighter, as a result of an act of duty, or an occupational disease, is found to be disabled for service in the fire department, the firefighter shall be granted a disability pension of 65% of the monthly salary attached to the rank held by the firefighter at the date of removal from the municipality's payroll. If the disability is the result of any other cause, and the firefighter has a minimum of 7 years of creditable service, the disability pension is 50% of monthly salary.

In addition, any firefighter disabled by an act of duty or an occupational disease is entitled to receive a child's disability benefit of \$20 a month for each dependent minor child, provided that the total benefits received does not exceed 75% of the salary he or she was receiving at the date of removal from the municipality's payroll.

Pension To Survivors

Upon the death of an active, disabled, or retired firefighter, his or her surviving spouse, children, or dependent parents, are entitled to a survivor's pension as follows: To the surviving spouse, a monthly pension of 40% of the firefighter's monthly salary, and to the guardian of each minor child, 12% of such monthly salary for each child, until attainment of age 18.

Contributions By Firefighters

Firefighters are required to contribute to the pension fund $8 \frac{1}{4}\%$ of their salary, as a condition of participation in the fund.



Appendix 2

Glossary of Terms used in Report

1. Actuarial Present Value. The value of an amount or series of amounts payable at various times, determined as of a given date by the application of a particular set of actuarial assumptions.
2. Actuarial Cost Method or Funding Method. A procedure for determining the actuarial present value of pension plan benefits and for determining an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability.
3. Normal Cost. That portion of the actuarial present value of pension plan benefits which is allocated to a valuation year by the actuarial cost method.
4. Actuarial Accrued Liability or Accrued Liability. That portion, as determined by a particular actuarial cost method, of the actuarial present value of pension benefits which is not provided for by future normal costs.
5. Actuarial Value of Assets. The value assigned by the actuary to the assets of the pension plan for purposes of an actuarial valuation.
6. Unfunded Actuarial Liability. The excess of the actuarial liability over the actuarial value of assets.
7. Entry Age Actuarial Cost Method. A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit age. 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 at a valuation date by the actuarial present value of future normal costs is called the actuarial liability.
8. Actuarial Assumptions. Assumptions as to future events affecting pension costs.
9. Actuarial Valuation. The determination, as of a valuation date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.
10. Accrued Benefit or Accumulated Plan Benefits. The amount of an individual's benefit as of a specific date determined in accordance with the terms of a pension plan and based on compensation and service to that date.
11. Vested Benefits. Benefits that are not contingent on an employee's service.