



REPORT TO CITY COUNCIL

FROM: James Cross, President

DATE: January 7, 2014

SUBJECT: ANNUAL FIRE PENSION FUND REPORT – INFORMATION ONLY

The attached report fulfills the requirements of Public Act 095-0950, which requires that the Fire Pension Board provide a report on the Fire Pension Fund to City Council. This report is supposed to be provided prior to adoption of the annual tax levy. This did not occur due to accounting staff vacancies.

The estimated amount needed during the next succeeding fiscal year (item number four on the attached report) does not come entirely from current funds. It is a combination of amounts budgeted from current funds in addition to the property tax levy that the City will receive later in this year.

Council members are encouraged to contact the Finance Director (who serves as Treasurer of the Fire Pension Fund) with any questions.

Prepared by:

Reviewed by:

Carrie A. Siems
Acting Financial Services Manager /
City Accountant

Richard A. Schnuer
Finance Director

Attachment

**Report of the Board of Trustees of the City of Champaign Firefighters' Pension Fund
to the City of Champaign City Council
For the Fiscal Year Ended June 30, 2013**

1. Total assets in the fund's custody as of June 30, 2013	65,634,854
2. Current market value of those assets as of October 31, 2013	70,337,754
3. Estimated receipts during the next succeeding fiscal year from employee contributions	700,000
4. Estimated amount needed during the next succeeding fiscal year to cover pension payments, employer contributions, & debt reserves	7,851,823
5. Income from investment of assets for the fiscal year ended June 30, 2013	1,125,031
Change in fair value of investments for the fiscal year ended June 30, 2013	4,859,003
6. Assumed investment return for the fiscal year ended June 30, 2013	7.0%
7. Actual investment return for the fiscal year ended June 30, 2013	10.00%
8. Income from investment of assets for the fiscal year ended June 30, 2012	437,687
Change in fair value of investments for the fiscal year ended June 30, 2012	(46,607)
9. Assumed investment return for the fiscal year ended June 30, 2012	7.0%
10. Actual investment return for the fiscal year ended June 30, 2012	0.68%
11. Total number of active employees making contributions to the fund as of June 30, 2013	94
12. Amount disbursed in benefits for the fiscal year ended June 30, 2013	4,168,865
13. Number of annuitants receiving a retirement pension for the fiscal year ended June 30, 2013	57
Amounts of retirement pensions disbursed for the fiscal year ended June 30, 2013	2,863,535
14. Number of annuitants receiving a disability pension for the fiscal year ended June 30, 2013	12
Amounts of disability pensions disbursed for the fiscal year ended June 30, 2013	655,627
15. Number of annuitants receiving a survivor pension for the fiscal year ended June 30, 2013	22
Amounts of survivor pensions disbursed for the fiscal year ended June 30, 2013	649,702
16. Funded ratio of pension fund (as of July 1, 2012)	79.8%
17. Total unfunded liability and actuarial explanation of unfunded liability (as of July 1, 2012) See attached actuarial valuation for explanation of unfunded liability.	15,518,279
18. Investment policy of the pension board as defined by state statute	Attachment A
19. Lauterbach & Amen Actuarial Valuation 07/01/2012	Attachment B

**Statement of Investment Policy for the
Champaign Firefighters'
Pension Fund**

**Updated February 2013
(Replacing May 2011)**

Updated by

**MARQUETTE
ASSOCIATES, INC.
180 North LaSalle
Suite 3500
Chicago, IL 60601
312-527-5500**

Statement of Investment Policy for the Champaign Firefighters' Pension Fund

This document serves as the Statement of Investment Policy for the Champaign Firefighters' Pension Fund ("the Pension Fund"). This document is to be revised and updated periodically, as needed. The Pension Fund has been established by the City of Champaign, Illinois and is governed by the Statutes of the State of Illinois. It is a qualified tax-exempt trust designed to provide the Fund members and/or their spouses a pension benefit at the time of retirement or incurred disability.

Distinction of Responsibility

The Board of Trustees' Authority and Responsibilities

The Board of Trustees will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Board of Trustees may delegate functions that a prudent entity acting in a like capacity and familiar with those matters could properly delegate under the circumstances. The Board of Trustees shall discharge their duties with respect to the Pension Fund solely in the interest of the Pension Fund.

The Board of Trustees will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Selecting all qualified investment professionals.
- 3) Monitoring and evaluating investment performance and compliance with this Policy.
- 4) Reviewing and suggesting changes, as needed, to this Policy.
- 5) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 6) Taking action according to this Policy.

The Investment Manager's Authority and Responsibilities

The Board of Trustees will hire competent, registered professional Investment Managers to manage the assets of the Pension Fund. Investment Managers will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. Investment Managers have the following responsibilities:

- 1) Vote proxy issues on securities held. All proxies will be voted exclusively for the best interests of the Pension Fund and their participants. Investment Managers will maintain written policies for proxy voting and keep a proper record of all proxies to which the Program is entitled. A written report will be provided annually.
- 2) Provide written reports to the Board of Trustees and the Investment Consultant on at least a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets.

- 3) Notify the client and the Investment Consultant on a timely basis of any significant changes in the ownership, organizational structure, investment strategy, portfolio design, or configuration of the investment team.

All qualified investment managers retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines for the portfolio(s) they manage on behalf of the Pension Fund (see Addendum A).

The Investment Consultant's Authority and Responsibilities

The Board of Trustees may hire an Investment Consultant to assist the Board of Trustees in fulfilling their Fiduciary responsibilities and in fulfilling their responsibilities in accord with this Policy. The Investment Consultant will conduct their responsibilities with the care, skill, and caution under the circumstances then prevailing which a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an activity of like character and purpose. The Investment Consultant will generally be responsible for the following:

- 1) Complying with applicable laws, regulations, and rulings.
- 2) Maintaining databases of qualified Investment Managers and Custodians.
- 3) If needed, the Investment Consultant will assist the Board of Trustees with the search and selection of Investment Managers and Custodians.
- 4) Calculate investment performance and reconcile that performance with the Investment Managers.
- 5) Providing written reports that summarize the performance and analysis of the Pension Fund's investments to the Board of Trustees no later than 45 days after of the end of each calendar quarter.
- 6) Monitoring and evaluating investment performance and compliance with this Policy. This includes meeting with the Pension Fund's Investment Managers on the Pension Fund on a regular basis.
- 7) Make long-term assumptions on the capital markets for the purpose of evaluating the Pension Fund's asset allocation policy.
- 8) Establishing and reviewing the appropriateness of the Pension Fund's asset allocation policy.
- 9) Reviewing and suggesting changes, as needed, to this Policy.

The Investment Consultant retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Fund (see Addendum A).

The Custodian's Authority and Responsibilities

The Board of Trustees will select a third party Custodian to safe-keep the assets of the Pension Fund. The Custodian will comply with all of the provisions of the Illinois Pension Code relating to Custody of Investments (40 ILCS 5/1-113.7). The Custodian will perform (but not limited to) the following:

- 1) hold and safeguard the assets of the Pension Fund,
- 2) collect the interest, dividends, distributions, redemptions or other amounts due,

- 3) provide monthly reporting to all necessary parties,
- 4) forward any proxies to the Investment Manager, the Board of Trustees, or their designee,
- 5) sweep all interest and dividend payments and any other un-invested cash into a short-term money market fund for redeployment, and
- 6) other duties as detailed in the respective custodial agreement

The Custodian retained by the Board of Trustees will exercise discretion within the parameters set forth in these guidelines on behalf of the Pension Fund (see Addendum A).

Investment Policy Asset Allocation

In establishing investment policy for the Pension Fund, the Trustees have considered the long-term nature of the asset pool as well as the needs and desires of the participants. In addition, the Trustees considered the risk and return characteristics of the various asset classes available to institutional investors and sought the guidance of outside consultants. The Trustees have established the target asset allocation and permissible percentage ranges shown in the table set forth below

Asset Class	Target	Minimum*	Maximum*
Int. Govt. Fixed Income	17.5%	12.5%	22.5%
Int. Govt/Credit Fixed Income	22.5%	17.5%	27.5%
<u>Total Fixed Income</u>	<u>40.0%</u>	<u>35.0%</u>	<u>45.0%</u>
Core Real Estate	5.0%	0.0%	10.0%
Public REITS	2.5%	0.0%	5.0%
<u>Total Real Estate</u>	<u>7.5%</u>	<u>2.5%</u>	<u>12.5%</u>
Global Tactical Asset Allocation	5.0%	0.0%	10.0%
<u>Total Global Tactical Asset Allocation</u>	<u>5.0%</u>	<u>0.0%</u>	<u>10.0%</u>
Large-Cap Core U.S. Equity	15.0%	10.0%	20.0%
Mid-Cap Core U.S. Equity	10.0%	5.0%	15.0%
Small-Cap Value U.S. Equity	10.0%	5.0%	15.0%
<u>Total U.S. Equity</u>	<u>35.0%</u>	<u>30.0%</u>	<u>40.0%</u>
Core International Equity	10.0%	5.0%	15.0%
Emerging Markets International Equity	2.5%	0.0%	5.0%
<u>Total International Equity</u>	<u>12.5%</u>	<u>7.5%</u>	<u>17.5%</u>
TOTAL	<u>100.0%</u>		

* May not add up to 100%.

Rebalancing

The Trustees will review the asset allocation of the Pension Fund at least quarterly and will adjust the portfolio to comply with the guidelines above as necessary. The Trustees anticipate that the on-going natural cash flow needs of the Pension Fund (contributions and

withdrawals) will be sufficient to maintain the allocation of the Pension Fund within policy guidelines under most market conditions.

Investments and Redemptions

Redemptions: The Fund's Treasurer is authorized to redeem investments when cash is needed to meet the Fund obligations. Typically, redemptions will be made once per month. Such redemptions will be made from all investment types on a pro-rata basis.

Investments: The Fund's Treasurer is also authorized to invest cash in excess of the amount needed to meet the Fund's obligations, when the excess cash is \$100,000 or greater. This includes investment of property tax receipts and other revenues. Such investments will be made so as to bring total investments in line with the investment policy guidelines, or if that is not possible, as close to the guidelines as possible given the amount funds to be invested. All other investments and redemptions must be authorized by the Board.

Fee Disclosure

All investment professionals contractually agree and shall provide, upon request, full disclosure of direct and indirect fees, commissions, penalties, and any other compensation that may be received by the investment adviser, including reimbursement for expenses (40 ILCS 5/1-113.5).

Investment Objective

The Pension Fund assets are to be managed in accordance with the applicable provisions of the Illinois Pension Code. The primary objectives of the Fund are to: (a) earn the highest possible total return consistent with levels of risk prudent to the cash flow requirements of the Fund, and (b) to create a stream of investment returns to insure the systematic and adequate funding of actuarially determined benefits through contributions and professional management of the Fund assets.

The performance objective for the Pension Fund is to exceed, after investment management fees, the actuarial assumed rate of return of 7.0% and a customized blended benchmark. To evaluate success, the Trustees will compare the performance of the Pension Fund to the actuarial assumed rate of return and the performance of a custom benchmark. This benchmark represents a historical passive implementation of the investment policy targets. The data for this benchmark will be re-balanced quarterly and consist of a weighted average of the investment policy targets, utilizing the appropriate quarterly performance of the market indices and weights of the indices as defined in the investment policy at the time of the performance measurement.

Diversification

The Trustees understand their responsibility to diversify the Pension Fund. By investing the Pension Fund's assets in multiple asset classes and using outside investment managers with well-diversified portfolios, diversification accomplishes its goal of insulating the portfolio from the effects of substantial losses in any single security or sector of the market.

Proxy Voting

The Trustees recognize that proxies are assets of the Pension Fund. The Trustees delegate the responsibility for voting proxies to each investment manager retained to manage the Pension Fund's assets. The Trustees will receive periodic reports from each investment manager for separate or commingled accounts acknowledging that they have voted the proxies.

Portfolio Evaluation

The Pension Fund will be evaluated by an Independent Investment Consultant on a quarterly basis. Written reports will be provided to the Trustees no later than 45 days after the end of each calendar quarter. They will meet with the various investment managers and the Pension Fund on a regular basis to review manager and Fund investment performance, compliance with guidelines, and the asset allocation of the Fund. The investment managers shall also provide written reports to the plan sponsor and consultant on a quarterly basis detailing performance for the most recent period as well as the current outlook of the equity and fixed income markets. If needed, the Independent Investment Consultant will assist the Trustees with the selection of investment managers and custodians. Please see Addendum A for the current Independent Investment Consultant of the Pension Fund.

Investment Manager Evaluation Terminology

The following terminology has been devised to facilitate accurate communication between the Investment Manager, Investment Consultant, and the Plan Sponsor. Each term signifies a particular status with the Fund and any conditions which may require improvement. In each case, communication is made only after consultation with the Trustees of the Plan.

<u>Status</u>	<u>Description</u>
"In Compliance"	The investment manager is acting in full compliance with the Investment Policy Guidelines and is performing up to the expectations of the Fund.
"Alert"	The investment manager is notified of a difficulty in his/her performance (usually related to a benchmark, or volatility measure), change in investment characteristics or management style, or any other irregularities for the purpose of improving performance and investment discipline.
"On Notice"	The investment manager is notified of a concern with a continued problem in any of the above issues, which if not improved upon over a specific time frame (usually at least 2 quarters) will be cause for termination.
"Termination"	The Trustees have decided to terminate the manager, a letter has been sent on behalf of the Trustees and transition plans are in place.

Investment Manager Guidelines - Passive Intermediate Government Fixed Income Management

This document contains the guidelines and restrictions that apply to the passive intermediate government fixed income manager of the Pension Fund (see addendum A).

Permissible Fixed Income Investments

1. This fund is governed by the guidelines and restrictions contained in its prospectus or participation agreement and in accordance with Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines - Active Intermediate Government/Credit Fixed Income Management

This document contains the guidelines and restrictions that apply to the active intermediate government/credit fixed income manager of the Pension Fund (see addendum A).

- 1) The Investment Manager shall comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 1-113.1, 1-113.2, 1-113.3, 1-113.4, and 1-113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. seq.). In accord with the applicable portions of the Pension Code, above referenced, the investment manager may invest in the following fixed income securities:
 - a) Interest bearing direct obligations of the United States of America.
 - b) Interest bearing obligations to the extent that they are fully guaranteed or insured as to payment of principal and interest by the United States of America.
 - c) Interest bearing bonds, notes, debentures, or other similar obligations of agencies of the United States of America. For the purposes of this Section, "agencies of the United States of America" includes: (i) the Federal National Mortgage Association and the Student Loan Marketing Association; (ii) federal land banks, federal intermediate credit banks, federal farm credit banks, and any other entity authorized to issue direct debt obligations of the United States of America under the Farm Credit Act of 1971 or amendments to that Act; (iii) federal home loan banks and the Federal Home Loan Mortgage Corporation; and (iv) any agency created by Act of Congress that is authorized to issue direct debt obligations of the United States of America.
 - d) Interest bearing savings accounts or certificates of deposit, issued by federally chartered banks or savings and loan associations, to the extent that the deposits are insured by agencies or instrumentalities of the federal government.
 - e) Investments in credit unions, to the extent that the investments are insured by agencies or instrumentalities of the federal government.
 - f) Interest bearing bonds of the State of Illinois.
 - g) Pooled interest bearing accounts managed by the Illinois Public Treasurer's Investment Pool in accordance with the Deposit of State Moneys Act, interest bearing funds or pooled accounts of the Illinois Metropolitan Investment Funds, and interest bearing funds or pooled accounts managed, operated, and administered by banks, subsidiaries of banks, or subsidiaries of bank holding companies in accordance with the laws of the State of Illinois.
 - h) Interest bearing bonds or tax anticipation warrants of any county, township, or municipal corporation of the State of Illinois.
 - i) Money market mutual funds managed by investment companies that are registered under the federal Investment Company Act of 1940 and the Illinois Securities Law of 1953 and are diversified, open-ended management investment companies.(See Section 1-113.2(11) for restrictions)
2. Investment grade corporate bonds may be purchased. Corporate bonds must be managed through an investment advisor must meet all of the following requirements: (i)

the bonds must be rated as investment grade by one of the 2 largest rating services at the time of purchase; and (ii) if subsequently downgraded below investment grade, the bonds must be liquidated from the portfolio within 90 days after being downgraded by the manager.

3. No single security should comprise more than 5% of the portfolio's overall allocation after accounting for price appreciation. The only exception to this restriction would be a U.S. Government or U.S. Agency security.
4. The average duration of the portfolio is not to vary more than +/-25% of the duration of the appropriate index (see Addendum A).
5. The average quality of the overall portfolio may not be less than AA- rated.
6. The manager may invest up to 10% of its portfolio in cash or cash equivalents.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines - Passive Large-Cap Core U.S. Equity Management

This document contains the guidelines and restrictions that apply to the passive large-capitalization core U.S. equity manager of the Pension Fund (see addendum A).

Permissible Equity Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines - Passive Mid-Cap Core U.S. Equity Management

This document contains the guidelines and restrictions that apply to the passive mid-capitalization core U.S. equity manager of the Pension Fund (see addendum A).

Permissible Equity Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines – Active Small-Cap Value U.S. Equity Management

This document contains the guidelines and restrictions that apply to the small-capitalization value U.S. equity manager of the Pension Fund (see addendum A).

Permissible Equity Investments

1. The manager is expected to comply with all of the provisions of the Illinois Pension Code relating to Article 4 Pension Funds, specifically Sections 113.1, 113.2, 113.3, 113.4, and 113.4a relating to Permissible Investments (40 ILCS 5/1-113.1 et. Seg.). In accord with the applicable portions of the Pension Code, above referenced, the manager may invest in the following equity securities:
 - a) The common stocks are listed on a national securities exchange or board of trade (as defined in the Federal Securities Exchange Act of 1934 and set forth in paragraph G of Section 3 of the Illinois Securities Law of 1953) or quoted in the National Association of Securities Dealers Automated Quotation System National Market System.
 - b) The securities are of a corporation created or existing under the laws of the United States or any state, district, or territory thereof and the corporation has been in existence for at least 5 years.
 - c) The corporation has not been in arrears on payment of dividends on its preferred stock during the proceeding 5 years.
 - d) The market value of stock in any one corporation does not exceed 5% of the cash and invested assets of the Pension Fund, and the investments in the stock of any one corporation does not exceed 5% of the total outstanding stock of the corporation.
 - e) The straight preferred stocks or convertible preferred stocks are issued or guaranteed by a corporation whose common stock qualifies for investment by the Board.
 - f) The issuer of the stocks has been subject to the requirement of Section 12 of the federal Securities Exchange Act of 1934 and has been current with the filing requirement of the Sections 13 and 14 of that Act during the proceeding 3 years.
2. The manager may invest up to 10% of its portfolio in cash or cash equivalents.
3. Private placements, venture capital, options, or financial futures may not be purchased. The purchase of securities on margin is prohibited.
4. Securities listed on pink sheets may not be purchased or held at any time within the portfolio.
5. No single security in the manager's portfolio will comprise more than 5% of its equity allocation at the time of purchase, nor will it be more than 10% of the equity allocation of the portfolio after accounting for price appreciation.
6. Exchange Traded Funds (ETF's) may be utilized during periods of time when significant cash flows (contributions or withdrawals) are incurred or expected within the

portfolio. ETF's are only to be utilized over very short periods of time. Only ETF's replicating either the Russell 2000 or Russell 2000 Value indices may be utilized.

7. All interest and dividend payments must be swept on a daily basis into a short-term money market fund for re-deployment.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines – Active Core International Equity Management

This document contains the guidelines and restrictions that apply to the active core international equity manager of the Pension Fund (see addendum A).

Permissible Equity Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines - Passive Emerging Markets International Equity Management

This document contains the guidelines and restrictions that apply to the passive emerging markets international equity manager of the Pension Fund (see addendum A).

Permissible Equity Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines – Active Core Real Estate Management

This document contains the guidelines and restrictions that apply to the active core real estate manager of the Pension Fund (see addendum A).

Permissible Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines – Passive Public REITS Management

This document contains the guidelines and restrictions that apply to the passive public REITS manager of the Pension Fund (see addendum A).

Permissible Investments

2. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Investment Manager Guidelines – Active Global Tactical Asset Allocation Management

This document contains the guidelines and restrictions that apply to the active global tactical asset allocation manager of the Pension Fund (see addendum A).

Permissible Investments

1. This Fund is governed by the guidelines and restrictions contained in its prospectuses or participation agreements and in accordance with the Illinois Statutes.

Investment Objective

Over reasonable measurement periods (3 to 5 years), the portfolio's return net of fees should replicate or exceed the return of the appropriate benchmark index (see Addendum A).

Addendum A - Defining the Investments and Benchmark Indexes

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Benchmark Index</u>
Int. Government Fixed Income	Northern Trust	BarCap Int. Government
Int. Govt/Credit Fixed Income	Mesirow	BarCap Int. Govt/Credit
Large-Cap Core U.S. Equity	MetLife	S&P 500
Mid-Cap Core U.S. Equity	Vanguard	MSCI US Mid Cap 450
Small-Cap Value U.S. Equity	Fiduciary Management	Russell 2000 Value
Core International Equity	Manning & Napier	MSCI ACWI ex US
Emerging Markets International Equity	Vanguard	MSCI Emerging Markets
Core Real Estate	Principal	NCREIF
Public REITS	Vanguard	MSCI US REIT
Global Tactical Asset Allocation	PIMCO	CPI + 5%

<u>Investment Professional</u>	<u>Service Provider</u>
Custodian	PNC Bank
Investment Consultant	Marquette Associates, Inc.

Addendum B – Investment Professional Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Champaign Firefighters' Pension Fund on February 19, 2013.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its' provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy. Additionally, the firm acknowledges that it is a Fiduciary in regards to the Pension Fund.

Marquette Associates
Firm Name

[Signature]
Investment Professional

2/21/13
Date

Addendum B – Investment Professional Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Champaign Firefighters' Pension Fund on February 19, 2013.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its' provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy. Additionally, the firm acknowledges that it is a Fiduciary in regards to the Pension Fund.

MESIROW FINANCIAL
Firm Name

Peter W. Hegel
Investment Professional

March 4, 2013
Date

Addendum B – Investment Professional Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Champaign Firefighters' Pension Fund on February 19, 2013.

Investment Professional's Acknowledgments:

The firm has received this copy of the Pension Fund's Investment Policy. The firm has studied its' provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy. Additionally, the firm acknowledges that it is a Fiduciary in regards to the Pension Fund.

FIDUCIARY MANAGEMENT ASSOCIATES, LLC
Firm Name

Kathryn A. Vorisek
Investment Professional KATHRYN A. VORISEK, CIO

3-14-2013
Date

Addendum C – Board of Trustees Adoption of Policy

This Policy document was adopted by the Board of Trustees for the Champaign Firefighters' Pension Fund on February 19, 2013.

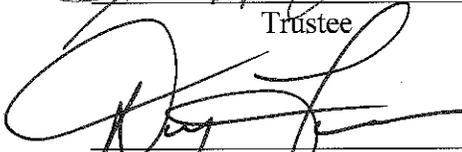
Board of Trustees' Acknowledgments:

We have received this copy of the Fund's Investment Policy. We have studied its provisions and believe that we can both abide by its restrictions and fulfill its goals and expectations over the timetables set forth in the Policy.



Trustee

2-19-13
Date



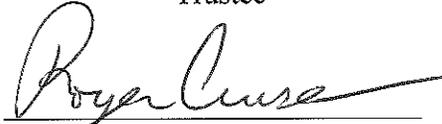
Trustee

2-19-13
Date



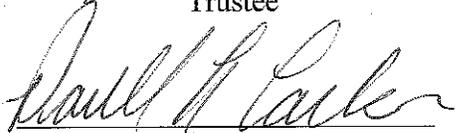
Trustee

2-19-13
Date



Trustee

2-19-13
Date



Trustee

2-19-13
Date

Lauterbach & Amen, LLP
27W457 Warrenville Road
Warrenville, IL 60555-3902

Actuarial Valuation
as of July 1, 2012

CHAMPAIGN FIREFIGHTERS'
PENSION FUND

Utilizing Data as of June 30, 2012
For the Contribution Year July 1, 2012 to June 30, 2013

LAUTERBACH & AMEN, LLP

Actuarial Valuation
as of July 1, 2012



CHAMPAIGN FIREFIGHTERS' PENSION FUND

Utilizing Data as of June 30, 2012
For the Contribution Year July 1, 2012 to June 30, 2013

Submitted by:

Lauterbach & Amen, LLP
27W457 Warrenville Road
Warrenville, IL 60555-3902
630.393.1483 Phone
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www.lauterbachamen.com

Contact:

Todd A. Schroeder, EA

September 13, 2013

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INTRODUCTION

Statement of Actuarial Opinion

This report documents the results of the Actuarial valuation of the Champaign Firefighters' Pension Fund. The purpose is to report the actuarial contribution requirement for the contribution year July 1, 2012 to July 1, 2013. Determinations for purposes other than meeting the employer's actuarial contribution requirements may be significantly different from the results herein.

The results in this report are based on information and data submitted by the Champaign Firefighters' Pension Fund including studies performed by prior actuaries. We did not prepare the actuarial valuations for the years prior to July 1, 2011. Those Valuations were prepared by other actuaries whose reports have been furnished to us, and our disclosures are based upon those reports. An audit of the information was not performed, but high-level reviews were performed for general reasonableness, as appropriate, based on the purpose of the valuation. The accuracy of the results is dependent upon the accuracy and completeness of the underlying information. The results of the actuarial valuation and these supplemental disclosures rely on the information provided.

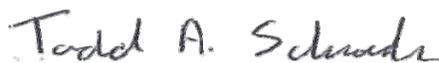
The valuation results summarized in this report involve actuarial calculations that require assumptions about future events. The Champaign Firefighters' Pension Fund selected certain assumptions, while others were the result of guidance and/or judgment. We believe that the assumptions used in this valuation are reasonable and appropriate for the purposes for which they have been used.

To the best of our knowledge, all calculations are in accordance with the applicable funding requirements, and the procedures followed and presentation of results conform to generally accepted actuarial principles and practices. The undersigned of Lauterbach & Amen, LLP, with actuarial credentials, meets the Qualification Standards of the American Academy of Actuaries to render this Actuarial Opinion. There is no relationship between the Champaign Firefighters' Pension Fund and Lauterbach & Amen, LLP that impairs our objectivity.

The information contained in this report was prepared for the use of the Champaign Firefighters' Pension Fund and the City of Champaign in connection with our actuarial valuation. It is not intended or necessarily suitable for other purposes. It is intended to be used in its entirety to avoid misrepresentations.

Respectfully Submitted,

LAUTERBACH & AMEN, LLP



Todd A. Schroeder, EA



SUMMARY OF ACTUARIAL VALUATION

Contribution Requirement

	Prior Valuation	Current Valuation
Contribution Requirement	\$3,459,609	\$3,381,486
Expected Payroll	\$7,232,821	\$6,905,707
Contribution Requirement as a Percent of Expected Payroll	47.83%	48.97%

*Recommended
Contribution
has Decreased
\$78,123 from
Prior Year.*

Recommended Contribution is based on the Funding Policy agreed upon by the Board.

Funded Status

	Prior Valuation	Current Valuation
Normal Cost	\$1,881,870	\$1,775,260
Market Value of Assets	\$58,697,642	\$59,645,781
Actuarial Value of Assets	\$58,887,635	\$61,429,036
Actuarial Accrued Liability	\$75,351,909	\$76,947,315
Unfunded Actuarial Accrued Liability	\$16,464,274	\$15,518,279
Percent Funded		
Actuarial Value of Assets	78.15%	79.83%
Market Value of Assets	77.90%	77.52%

*Funded
Percentage
has Increased
by 1.68 on an
Actuarial
Value of Assets
Basis.*



COMMENTS AND ANALYSIS

Funding Policy

The Recommended contribution is based on the Funding Policy for the Plan. A Funding Policy has three key numerical components:

1. **The Actuarial Cost Method:** The Actuarial Cost Method budgets a contribution for each year of an employee's working career. Cash contributions are made according to the budget ("Normal Cost" contributions). In addition the Actuarial Cost Method can measure how well the funding is progressing compared to the budgeted contributions.
2. **Amortization Policy:** When Plan funding is not where expected (according to budget), procedures are put into place to pay down any shortfall. This leads to a second piece of the cash contribution (the "Amortization Payment").
3. **Actuarial Value of Assets:** Fluctuations in the plans assets due to short-term gains and losses may be smoothed over some period of time to minimize long-term contribution volatility.

Actuarial Cost Method

The Actuarial Cost Method under the Funding Policy is the Entry Age Normal (EAN) Cost Method (as a percent of payroll). The EAN method creates budgeted contributions that are expected to be stable as a percent of payroll over time, creating equity over generations of taxpayers.

Amortization Policy

The Funding Policy amortizes the portion of the Unfunded Liability attributable to benefit increases under PA 93-0689 on a level dollar basis over a 25 year period beginning July 1, 2004.

The remaining unfunded liability is funded on a level dollar basis over a 40 year period beginning January 1, 1980.

Actuarial Value of Assets

The actuarial value of assets under the funding policy is equal to the fair market value of assets, with unexpected gains and losses smoothed over 4 years.

The net impact is that the actuarial value of assets is higher than the market value of assets, or about 103% of the market value of assets.



COMMENTS AND ANALYSIS - CONTINUED

Actuarial Liability/Contribution Requirement Changes

Actuarial liability is expected to increase each year for both interest for the year and as active employees earn additional service years towards retirement. Similarly actuarial liability is expected to decrease when the fund pays benefits to inactive employees. Other increases or decreases in actuarial liability (key changes noted below) will increase or decrease the amount of unfunded liability in the plan. To the extent unfunded liability increases or decreases unexpectedly, the contribution towards unfunded liability will also change unexpectedly.

Contributions are expected to increase at the rate of expected pay increases under the funding policy for the Fund.

	Actuarial Liability	Contribution Requirement
Prior Valuation	\$ 75,351,909	\$ 3,459,609
Expected Changes	3,202,522	53,190
Initial Expected Current Valuation	78,554,431	3,512,799
Salary Increase Less than Expected	(1,452,460)	(282,337)
Demographic Changes	(154,656)	33,372
Assumption Changes	-	-
Asset Return Less than Expected	-	136,817
Contributions Greater than Expected	-	(19,164)
Current Valuation	<u>\$ 76,947,315</u>	<u>\$ 3,381,486</u>

The increase in contribution due to asset losses was mitigated by the deferral of a portion of the loss. Losses refer to the Actuarial Value of Assets, and are not necessarily reflective of the Market Value of Assets for the year.



ASSETS

MARKET VALUE OF ASSETS

Market Value of Assets

	Prior Valuation	Current Valuation
Money Market Mutual Funds	\$ 60,721	\$ 2,271,005
State and Local Obligations	-	7,339,525
US Govt and Agency Obligations	-	7,213,976
Insurance Contracts	11,980,114	10,036,834
Pooled Investment Accounts	31,652,961	12,826,729
Stock Equities	1,578,452	5,618,507
Mutual Funds	13,720,565	14,349,178
Net Assets Available for Pensions	<u>\$ 58,697,642</u>	<u>\$ 59,645,781</u>

The Total Value of Assets has Increased \$948,139 from the Prior Valuation.

Change in Market Value of Assets

Total Market Value - Prior Valuation	\$ 58,697,642
Plus - Employer Contributions	3,821,175
Plus - Employee Contributions	672,998
Plus - Return on Investments	391,080
Less - Benefit and Related Payments	(3,754,398)
Less - Other Expenses	(182,716)
Prior Period Audit Adjustment	<u>0</u>
Total Market Value - Current Valuation	<u>\$ 59,645,781</u>

The Return on Investment on the Market Value of Assets for the Fund was Approximately 0.4% Net of Administrative Expenses.



ACTUARIAL VALUE OF ASSETS

Current Year Loss/(Gain) Assets

Total Market Value - Prior Valuation	\$ 58,697,642
Contributions	4,494,173
Benefit Payments	(3,754,398)
Expected Return on Investments	<u>4,292,023</u>
Initial Expected Total Market Value - Current Valuation	63,729,440
Prior Period Audit Adjustments	0
Expected Total Market Value - Current Valuation	63,729,440
Actual Total Market Value - Current Valuation	<u>59,645,781</u>
Current Market Value Loss/(Gain)	<u>\$ 4,083,659</u>
Expected Return on Investments	\$ 4,292,023
Actual Return on Investments (Net of Expenses)	<u>208,364</u>
Current Market Value Loss/(Gain)	<u>\$ 4,083,659</u>

The Current Year Loss/Gain is the Difference in Earnings Between the Actuarial Assumed Rate of Return on Investments and the Actual Investment Returns.

Development of the Actuarial Value of Assets

Total Market Value - Current Valuation			\$ <u>59,645,781</u>
Adjustment for Prior Losses/(Gains)			
	<u>Full Amount</u>		
First Proceeding Year	\$ 4,083,659	3,062,744	
Second Proceeding Year	(3,512,485)	(1,756,242)	
Third Proceeding Year	1,907,013	476,753	
Fourth Proceeding Year	-	-	
Total Deferred Loss/(Gain)		<u>1,783,255</u>	
Initial Actuarial Value of Assets - Current Valuation			61,429,036
Less Contributions for the Current Year and Interest			-
Less Adjustment for the Corridor			<u>-</u>
Actuarial Value of Assets - Current Valuation			<u>\$ 61,429,036</u>

The Actuarial Value of Assets is Equal to the Fair Market Value of Assets with Unanticipated Gains/Losses Recognized over 4 Years. The Actuarial Value of Assets is Currently 103% of the Market Value.



RECOMMENDED CONTRIBUTION DETERMINATION

ACTUARIAL ACCRUED LIABILITY AND FUNDED STATUS

Actuarial Accrued Liability

	Prior Valuation	Current Valuation
Active Employees	\$ 36,655,572	\$ 36,311,540
Inactive Employees		
Terminated Employees - Vested	-	-
Retired Employees	28,940,404	31,246,591
Disabled Employees	5,847,008	5,606,248
Other Beneficiaries	3,908,925	3,782,936
Total Inactive Employees	38,696,337	40,635,775
Total Actuarial Accrued Liability	\$ 75,351,909	\$ 76,947,315

*Total Actuarial
Accrued Liability has
Increased \$1,595,406
from the Prior
Valuation (See Table
on Page 4).*

Funded Status

	Prior Valuation	Current Valuation
Total Actuarial Accrued Liability	\$ 75,351,909	\$ 76,947,315
Total Actuarial Value of Assets	58,887,635	61,429,036
Unfunded Actuarial Accrued Liability	\$ 16,464,274	\$ 15,518,279
Total Market Value of Assets	\$ 58,697,642	\$ 59,645,781
Percent Funded		
Actuarial Value of Assets	<u>78.15%</u>	<u>79.83%</u>
Market Value of Assets	<u>77.90%</u>	<u>77.52%</u>

*The Current
Funding Policy is
for the Uses
Multiple Periods to
Pay for Unfunded
Liability. Please
See Page 9 For
More Detail.*



UNFUNDED ACTUARIAL LIABILITY

Development of the Normal Cost

	Prior Valuation	Current Valuation
Total Normal Cost	\$ 1,881,870	\$ 1,775,260
Estimated Employee Contributions	(683,863)	(652,935)
Employer Normal Cost	<u>\$ 1,198,007</u>	<u>\$ 1,122,325</u>

At a 100% Funding Level, the Normal Cost Contribution is Still Required.

Normal Cost as a Percentage of Expected Payroll

	Prior Valuation	Current Valuation
Expected Payroll	<u>\$ 7,232,821</u>	<u>\$ 6,905,707</u>
Employee Normal Cost Rate	<u>9.455%</u>	<u>9.455%</u>
Employer Normal Cost Rate	<u>16.56%</u>	<u>16.25%</u>
Total Normal Cost Rate	<u>26.02%</u>	<u>25.71%</u>

Ideally the Employer Normal Cost Rate will Remain Stable.

Contribution Requirement

	Prior Valuation	Current Valuation
Employer Normal Cost*	\$ 1,329,738	\$ 1,246,593
Amortization of Unfunded Accrued Liability/(Surplus)	<u>2,129,871</u>	<u>2,134,893</u>
Funding Requirement	<u>\$ 3,459,609</u>	<u>\$ 3,381,486</u>

The Recommended Contribution has Decreased 2.3% from the Prior Valuation (See Table on Page 4).

*Employer Normal Cost Contribution includes interest through the end of the year.



UNFUNDED ACTUARIAL LIABILITY

Schedule of Amortization – Unfunded Actuarial Liability

Amortization Policy

The Funding Policy amortizes the portion of the Unfunded Liability attributable to benefit increases under PA 93-0689 on a level dollar basis over a 25 year period beginning July 1, 2004.

The remaining unfunded liability is funded on a level dollar basis over a 40 year period beginning January 1, 1980.

Below is the schedule of remaining amortization balances for the unfunded liability. The payments are intended to cover 100% of the unfunded liability.

Unfunded Liability Source	7/1/2012 Balance	Years Remaining	Payment
Increase due to PA 93-0689	5,753,104	18.0	571,931
Remaining Unfunded Liability	9,765,175	8.5	1,562,962
Total	15,518,279	10.51	2,134,893

The years remaining represent the number of payments needed to pay off the unfunded liability starting with the current year. The total number of years remaining is a weighted average number. If the total payment was made against the total outstanding balance, then the balance would be paid off in the total number of years shown.



ACTUARIAL METHOD AND ASSUMPTIONS

Actuarial Method and Assumptions Utilized

Actuarial Valuation Date	July 1, 2012
Actuarial Cost Method	Entry Age Normal (Level % Pay)
Amortization Method	Level Dollar (Closed)
Amortization Target	Varies (see page 9)
Asset Valuation Method	4-Year Smoothed Market Value
Actuarial Assumptions	
Investment Rate of Return	7.00%
Projected Salary Increases	4.00%
Aggregate Payroll Increases	4.00%
Inflation Rate Included	3.00%

A Summary of the Key Actuarial Assumptions and Funding Policy Decisions used in the Determination of the Recommended Contribution are Shown. More Detail is Available Later.

Actuarial assumptions are based upon per year compounded annually.

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described. The actuarial cost and amortization method allocates the projected obligations of the plan over the working lifetimes of the plan participants.



ALTERNATIVE CONTRIBUTION DETERMINATION

SUMMARY OF ACTUARIAL VALUATION

Alternative Requirement

	<u>Current Valuation</u>
Contribution Requirement	\$3,814,450
Expected Payroll	\$6,905,707
Contribution Requirement as a Percent of Expected Payroll	55.24%

*The Alternative
Contribution Has
Been Determined
Using a 6.75%
Long-Term Rate of
Return*

The Alternative Contribution is based on a 6.75% expected return on assets with all other assumptions and methods being the same as the Recommended Contribution. The results have been shown for sensitivity purposes.

Funded Status

	<u>Current Valuation</u>
Normal Cost	\$1,886,447
Market Value of Assets	\$59,645,781
Actuarial Value of Assets	\$61,314,071
Actuarial Accrued Liability	\$79,049,320
Unfunded Actuarial Accrued Liability	\$17,735,249
Percent Funded	
Actuarial Value of Assets	77.56%
Market Value of Assets	75.45%



STATUTORY MIMIMUM DETERMINATION

SUMMARY OF ACTUARIAL VALUATION

Statutory Minimum Requirement

	<u>Minimum Contribution</u>
Contribution Requirement	\$1,416,051
Expected Payroll	\$6,905,707

Funded Status

	<u>Minimum Contribution</u>
Normal Cost	\$2,012,590
Market Value of Assets	\$59,645,781
Actuarial Value of Assets	\$61,429,036
Actuarial Accrued Liability	\$66,536,652
Unfunded Actuarial Accrued Liability	\$5,107,616
Percent Funded	
Actuarial Value of Assets	92.32%
Market Value of Assets	89.64%



**GOVERNMENT ACCOUNTING STANDARDS BOARD
DISCLOSURE**

GASB DISCLOSURE

Annual Pension Cost and Net Pension Obligation

	For the Year Ended June 30					
	2008	2009	2010	2011	2012	2013
Annual Required Contribution (ARC)	\$		3,738,786	3,865,208	3,459,609	3,381,486
Interest on Net Pension Obligation (NPO)				–	142,136	108,389
Adjustment to ARC				–	(262,674)	(207,341)
Annual Pension Cost			3,657,755	3,865,208	3,339,071	3,282,534
Employer Contribution			3,202,615	3,486,399	3,821,175	3,752,286
Increase/(Decrease) in NPO			455,140	378,809	(482,104)	(469,752)
NPO Beginning of Year			1,196,569	1,651,709	2,030,518	1,548,414
NPO End of Year	\$	1,196,569	1,651,709	2,030,518	1,548,414	1,078,661

Information shown for the Fiscal Year ending June 30, 2009 to June 30, 2011 is from the City of Champaign Annual Financial Report as of June 30, 2011. Lauterbach & Amen prepared the ARC beginning the 2012 Fiscal Year.

NPO is the accumulated difference between the Annual Pension Cost and the Employer Contribution.



GASB DISCLOSURE

Schedule of Funding Progress

Actuarial Valuation Date Jun. 30	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL) - Entry-Age	(3) Funded Ratio (1) ÷ (2)	(4) Unfunded (Overfunded) Actuarial Accrued Liability (2) - (1)	(5) Annual Covered Payroll	(6) Unfunded (Overfunded) Actuarial Accrued Liability as a Percentage of Covered Payroll (4) ÷ (5)
2007	\$ 47,396,949	64,364,423	73.64%	16,967,474	6,489,359	261.47%
2008	50,393,274	67,687,588	74.45%	17,294,314	6,623,914	261.09%
2009	52,125,331	70,880,310	73.54%	18,754,979	7,196,912	260.60%
2010	54,144,243	72,951,486	74.22%	18,807,243	7,017,586	268.00%
2011	58,887,635	75,351,909	78.15%	16,464,274	7,091,001	232.19%
2012	61,429,036	76,947,315	79.83%	15,518,279	6,770,301	229.21%

Information shown for the Fiscal Years ending June 30, 2006 through June 30, 2010 is from the City of Champaign Annual Financial Report as of June 30, 2011. Lauterbach & Amen prepared the June 30, 2011 and June 30, 2012 Actuary's Report to show measurements as of those dates.



GASB DISCLOSURE

Schedule of Employer Contributions

Year Ended Jun. 30	Employer Contributions	Annual Required Contribution	Percent Contributed	Net Pension Obligation
2008				
2009				\$ 1,196,569
2010	\$ 3,202,615	\$ 3,738,786	85.66%	1,651,709
2011	3,486,399	3,865,208	90.20%	2,030,518
2012	3,821,175	3,459,609	110.45%	1,548,414
2013	3,752,286	3,381,486	110.97%	1,078,661

Information shown for the Fiscal Year ending June 30, 2009 to June 30, 2011 is from the City of Champaign Annual Financial Report as of June 30, 2011. Lauterbach & Amen prepared the ARC beginning the 2012 Fiscal Year.

NPO is the accumulated difference between the Annual Pension Cost and the Employer Contribution.



GASB DISCLOSURE

Actuarial Methods and Assumptions

Contribution Rates	
Employer	57.32%
Employee	9.455%
Actuarial Valuation Date	7/1/12
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar - Closed
Remaining Amortization Period*	Varies
Asset Valuation Method	4 year smoothed Market
Actuarial Assumptions	
Investment Rate of Return	7.00% per Year Compounded Annually
Projected Salary Increases	4.00% per Year Compounded Annually
Inflation Rate Included	3.00% per Year Compounded Annually
Cost-of-Living Adjustments	3.00% per Year Compounded Annually

*The Funding Policy amortizes the portion of the Unfunded Liability attributable to benefit increases under PA 93-0689 on a level dollar basis over a 25 year period beginning July 1, 2004. The remaining unfunded liability is funded on a level dollar basis over a 40 year period beginning January 1, 1980.



VALUATION DATA AND PROCEDURES

SUMMARY OF PLAN PARTICIPANTS

Active Employees

	Prior Valuation	Current Valuation
Vested	77	73
Nonvested	20	20
Total Active Employees	97	93
Total Payroll	\$ 7,091,001	\$ 6,770,301

Inactive Employees

	Prior Valuation	Current Valuation
Terminated Employees - Vested	0	0
Retired Employees	46	50
Disabled Employees	10	10
Other Beneficiaries	20	23
Total Inactive Employees	76	83

Inactive Employees – Summary of Monthly Benefits

	Prior Valuation	Current Valuation
Terminated Employees - Vested	\$ -	\$ -
Retired Employees	211,504	227,619
Disabled Employees	38,091	38,091
Other Beneficiaries	47,911	47,991
Total Inactive Employees	\$ 297,505	\$ 313,701

Benefits shown for terminated employees under deferred retirement are not currently in pay status.



ACTUARIAL METHODS AND ASSUMPTIONS

Nature of Actuarial Calculations

The results documented in this report are estimates based on data that may be imperfect and on assumptions about future events. Certain plan provisions may be approximated or deemed immaterial, and, therefore, are not valued. Assumptions may be made about participant data or other factors. Reasonable efforts were made in this valuation to ensure that significant items in the context of the actuarial liabilities or costs are treated appropriately, and not excluded or included inappropriately.

Actual future experience will differ from the assumptions used in the calculations. As these differences arise, the expense for accounting purposes will be adjusted in future valuations to reflect such actual experience.

A range of results different from those presented in this report could be considered reasonable. The numbers are not rounded, but this is for convenience only and should not imply precision which is not inherent in actuarial calculations.

Actuarial Cost Methods

The actuarial cost method allocates the projected obligations of the plan over the working lifetimes of the plan participants.

In accordance with the Pension Fund's Funding Policy the actuarial cost method for the recommended contribution basis is Entry Age Normal (Level Percent of Pay). The Entry Age Normal Cost Method is 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 normal cost. The portion of the actuarial present value not provided at a valuation date by the actuarial present value of future normal costs is called the actuarial liability.



ACTUARIAL METHODS AND ASSUMPTIONS - CONTINUED

Financing of Unfunded Actuarial Accrued Liabilities

The Unfunded Actuarial Accrued Liability may be amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

In accordance with the Pension Fund's Funding Policy for the recommended contribution the unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions to 100% funding target over the remaining 28 future years including the municipality's fiscal year 2040.

Asset Valuation Method

The Actuarial Value of Assets is equal to the Market value of assets with unanticipated gains/losses recognized over five years (beginning with gains/losses in 2011).



ACTUARIAL METHODS AND ASSUMPTIONS - CONTINUED

Actuarial Assumptions in the Valuation Process

The contribution and benefit values of the Pension Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost methods described in the previous section.

The principal areas of financial risk which require assumptions about future experience are:

- Long-term Rates of Investment Return
- Patterns of Pay Increases for Members
- Rates of Mortality Among Members and Beneficiaries
- Rates of Withdrawal of Active Members
- Rates of Disability Among Members
- Age Patterns of Actual Retirement

Actual experience of the Pension Fund will not coincide exactly with assumed experience. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution requirement.

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

Actuarial Assumptions Utilized

Investment Return	Are Described in the Prior Sections of this Report
Salary Increases	Are Described in the Prior Sections of this Report
Inflation Rate Included	Are Described in the Prior Sections of this Report
Cost-of-Living Adjustments	Are Described in the Prior Sections of this Report



ACTUARIAL METHODS AND ASSUMPTIONS - CONTINUED

Actuarial Assumptions Utilized - Continued

Retirement Rates

Sample Rates as Follows:

Age	Rate	Age	Rate
55	0.135	58	0.135
56	0.135	59	0.135
57	0.135	60	0.301

Withdrawal Rates

Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.018	40	0.001
30	0.011	45	0.007
35	0.005	50	0.000

Disability Rates

Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.002	40	0.007
30	0.003	45	0.010
35	0.004	50	0.016

Mortality Rates

UP84 Mortality table. Sample Rates as Follows:

Age	Rate	Age	Rate
25	0.001	40	0.002
30	0.001	45	0.003
35	0.001	50	0.006

Married Participants

80% of Active Participants are Assumed to be Married. Spouses are Assumed to be the same age.



SUMMARY OF PRINCIPAL PLAN PROVISIONS

Establishment of the Fund

The Firefighters' Pension Fund is established and administered as prescribed by "Article 4. Firefighters' Pension Fund – Municipalities 500,000 and Under" of the Illinois Pension Code.

Administration

The Firefighters' Pension Fund is administered by a Board of Trustees located in each municipality maintaining a pension fund for its firefighters. Its duties are to control and manage the pension fund, to hear and determine applications for pensions, to authorize payment of pensions, to establish rules, to pay expenses, to invest funds, and to keep records.

Employee Contributions

Employees contribute 9.455% of salary.

Normal Retirement Pension Benefit

Hired Prior to January 1, 2011

Eligibility: Age 50 with at least 20 years of creditable service and no longer a firefighter.

Benefit: 50% of final salary is payable commencing at retirement for 20 years of service. An additional 2.5% of final salary is added for each additional year of service (prorated monthly) in excess of 20 years of service (not to exceed 75% of final salary). "Final salary" is based on the pay rate for the firefighter at retirement.

Annual Increase in Benefit: A firefighter is entitled to an initial pension increase equal to 1/12 of 3% of the original monthly benefit for each full month that has passed since the pension began. The initial increase date will be the later of the first day of the month following the attainment of age 55, or the first anniversary of the date of retirement. Subsequent increases of 3% of the current pension amount will be provided in each January thereafter.



SUMMARY OF PRINCIPAL PLAN PROVISIONS - CONTINUED

Normal Retirement Pension Benefit - Continued

Hired on or After January 1, 2011

Eligibility: Age 55 with at least 10 years of creditable service and no longer a firefighter.

Benefit: 2.5% of final average salary for each year of service is payable at retirement (not to exceed 75% of final average salary). "Final average salary" is determined by dividing the highest total salary over 96 consecutive months of service in the last 120 months of service by the total number of months of service in the period. Annual salary for this purpose will not exceed \$106,800, indexed by the lesser of 3% or $\frac{1}{2}$ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or $\frac{1}{2}$ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original pension amount.

Early Retirement Pension Benefit

Hired Prior to January 1, 2011

None

Hired on or After January 1, 2011

Eligibility: Age 50 with at least 10 years of creditable service and no longer a firefighter.

Benefit: The normal retirement pension benefit reduced by $\frac{1}{2}$ of 1% for each month that the firefighter's age is under age 55.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60, or the first anniversary of the date of retirement. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or $\frac{1}{2}$ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original pension amount.



SUMMARY OF PRINCIPAL PLAN PROVISIONS - CONTINUED

Pension to Survivors

Hired Prior to January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the firefighter on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners): Surviving spouse to receive continuation of the pension at the time of death or 54% of pensionable salary at the time pension began, if greater.

Active Employee with 20+ Years of Service: Surviving spouse is entitled to the full pension earned by the firefighter at the time of death, or 54% of the pensionable salary at death if greater.

Active Employee with 10-20 Years of service: Surviving spouse is entitled to 54% of the salary attached to the rank of the firefighter on the last day of service, payable immediately

Annual Increase in Benefit: None.

Hired on or After January 1, 2011

Death - Line of Duty

Surviving spouse is entitled to 100% of the salary attached to the rank of the firefighter on the last day of service, payable immediately.

Death - Non-Duty

Current Pensioners (Including Disabled Pensioners), Active Employee with 20+ Years of Service, and Active Employee with 10-20 Years of service: Surviving spouse to receive 66 $\frac{2}{3}$ % of the firefighter's earned pension at the date of death.

Annual Increase in Benefit: The initial increase date will be the January 1st after the attainment of age 60 by the recipient of the survivor's pension. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or $\frac{1}{2}$ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original survivor's pension amount.



SUMMARY OF PRINCIPAL PLAN PROVISIONS - CONTINUED

Termination Benefit

Hired Prior to January 1, 2011

Eligibility: At least 10 years but less than 20 years of creditable service.

Benefit: An accrual factor times final salary for each year of service is payable beginning at age 60. "Accrual Factor" is a factor of 1.5% at 10 years of service, increasing ratably up to 2.4% at 19 years of service. "Final salary" is based on the pay rate for the firefighter on the date of separation.

Annual Increase in Benefit: A firefighter will receive an initial increase of 3% on the first anniversary of the date of start of payments. Subsequent increases of 3% of the current pension amount will be provided in each January thereafter.

Hired on or After January 1, 2011

Eligibility: At least 10 years but less than 20 years of creditable service.

Benefit: An accrual factor times final salary for each year of service is payable beginning at age 60. "Accrual Factor" is a factor of 1.5% at 10 years of service, increasing ratably up to 2.4% at 19 years of service. "Final salary" is based on the greater of salary during the last year of service prior to termination of employment or the pay rate for the firefighter at termination of employment. Annual salary for this purpose will not exceed \$106,800, indexed by the lesser of 3% or ½ of the CPI-U for the 12 months ending with the September preceding each November 1. The salary cap will not decrease.

Annual Increase in Benefit: The initial increase date will be the January 1st following the first payment. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original pension amount.



SUMMARY OF PRINCIPAL PLAN PROVISIONS - CONTINUED

Disability Benefit

Hired Prior to January 1, 2011

Eligibility: Disability (duty; or non-duty with 7 years of service).

Benefit: A firefighter who becomes disabled on duty is entitled to receive a pension equal to the greatest of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the firefighter is entitled to 50% of final salary. "Final salary" is based on the pay rate for the firefighter at retirement.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase is 3% of the original benefit for each full year that has passed since the pension began. Subsequent increases are 3% of the original pension benefit amount.

Hired on or after January 1, 2011

Eligibility: Disability (duty; or non-duty with 7 years of service).

Benefit: A firefighter who becomes disabled on duty is entitled to receive a pension equal to the greater of 65% of final salary or the pension they would have been entitled to upon retirement at the time of disability. For a non-duty disability, the firefighter is entitled to 50% of final salary. "Final salary" is based on the pay rate for the firefighter at last day of service.

Annual Increase in Benefit: The initial increase date will be the January 1st following the attainment of age 60. Subsequent increases will occur on each subsequent January 1st. The first increase and subsequent increases will be the lesser of 3% of the original benefit or ½ of the CPI-U for the 12 months ending with the September preceding each November 1, applied to the original pension amount.



GLOSSARY OF TERMS

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Actuarial Accrued Liability –The actuarial present value of future benefits based on employees’ service rendered to the measurement date using the selected actuarial cost method. It is that portion of the Actuarial Present Value of plan benefits and expenses allocated to prior years of employment. It is not provided for by future Normal Costs.

Actuarial Cost Method – The method used to allocate the projected obligations of the plan over the working lifetimes of the plan participants.

Actuarial Value of Asset – The value of the assets used in the determination of the Unfunded Actuarial Accrued Liability. The Actuarial Value of Assets is related to Market Value of Assets, with adjustments made to spread unanticipated gains and losses for a given year over a period of several years. Actuarial Value of Assets is generally equally likely to fall above or below the Market Value of Assets, and generally does not experience as much volatility over time as the Market Value of Assets.

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.

Funding Policy – A set of procedures for a Pension Fund that outlines the “best practices” for funding the pension benefits based on the goals of the plan sponsor. A Funding Policy discusses items such as assumptions, Actuarial Cost Method, assets, and other parameters that will best help the sponsor meet their goal of working in the best interest of the plan participant.

Market Value of Assets – The value of the cash, bonds, securities and other assets held in the pension trust as of the measurement date.

Normal Cost –The present value of future benefits earned by employees during the current fiscal year. It is that portion of the Actuarial Present Value of benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Unfunded Actuarial Accrued Liability – The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets. The Unfunded Actuarial Accrued Liability is amortized over a period either in level dollar amounts or as a level percentage of projected payroll.

