

*IGFOA Professional Education Committee presents the*

# **ILLINOIS PUBLIC PENSION INSTITUTE PART I**

**APRIL 11, 2019**



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**ILLINOIS GOVERNMENT FINANCE OFFICERS ASSOCIATION**

**2019 Illinois Public Pension I**

**April 11, 2019**

7:40 – 8:25 AM	Registration Check-in, Networking, and Continental Breakfast	<b>Location:</b> NIU Naperville, Conference Center 1120 E. Diehl Rd. Naperville, IL 60563
<b>Time</b>	<b>Session</b>	<b>Speaker</b>
8:25 – 8:30 AM	Welcome Overview of the Program	<b>Mary L. Tomanek</b> , Senior Vice President & Institutional Consultant, Graystone Consulting
8:30 – 9:20 AM	Public Act 100-0281 Part I: The Nuts and Bolts of the New Police Officer Retirement Plan	<b>Jeffrey Van Wagner</b> , Principal, Alliance Pension Consultants  <b>Brian LaBardi</b> , Partner, Reimer & Dobrovolsky PC
9:20 – 10:10 AM	Public Act 100-0281 Part II: Changes to Police Pension Benefits and How it Affects You	<b>Allison Barrett</b> , Director, Lauterbach & Amen, LLP  <b>Todd Schroeder</b> , Director of Actuarial Services, Lauterbach & Amen, LLP
10:10 – 10:20 AM	Morning Break	
10:20 – 11:10 AM	Understanding Negative Amortization	<b>Jason Franken</b> , Actuarial Consultant, Foster & Foster, Inc.
11:10 AM – 12:00 PM	Pension Funding Policy – Time for a Check-UP?	<b>Jason Franken</b> , Actuarial Consultant, Foster & Foster, Inc.  Panel: <b>Elizabeth Holleb</b> , Director of Finance and IT, City of Lake Forest; <b>Melinda Molloy</b> , Finance Director, Village of Wilmette; <b>Maggie Bosley</b> , Lauterbach & Amen (Finance Director, Village of Glenview)
12:00 – 1:00 PM	Networking Luncheon	
1:00 – 2:15 PM	In Search of Best Practices for Pension Funds	<b>Stan Helgersen</b> , Retired, Carol Stream  <b>Dan Ryan</b> , Project Coordinator, Illinois Public Pension Fund Association (IPPFA)
2:15 – 2:30 PM	Afternoon Break	
2:30 – 3:20 PM	Legislative Update	<b>William McCarty II</b> , Director, Office of Budget & Management, City of Springfield
3:20 – 3:30 PM	Afternoon Break	
3:30 – 4:20 PM	Pension Fund Fiduciary Responsibility and Liability	<b>Jerry Marzullo</b> , Esq., Puchalski Goodloe Marzullo, LLP
4:20 - 4:30 PM	Wrap up Discussion/Closing Remarks	<b>Mary L. Tomanek</b> , Senior Vice President & Institutional Consultant, Graystone Consulting

*IGFOA reserves the right to modify the agenda and/or speakers, cancel the trainings due to low enrollment, or to close registration if full.*



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# Public Act 100-0281 – Part 1

The Nuts and Bolts of the New Police Officer  
Retirement Plan Law



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## Discussion Points

### ■ Public Act 100-0281

- ☐ Provisions
- ☐ Gaps

### ■ Defined Contribution Plan

- ☐ Concepts
- ☐ Setup

# Public Act 100-0281

## ■ General Provisions

### ☐ Chief of Police / IMRF

- Cannot elect IMRF as Chief unless IMRF service prior to January 1, 2019

### ☐ Defined Contribution Plan

- Establishment
- Minimum requirements
- Mutual exclusivity
- Population
  - ☐ Mandatory participation
  - ☐ Voluntary participation

### ☐ Effective Date

# Public Act 100-0281

## ■ Defined Contribution Plan Provisions

### ☐ Establishment

- Text (40 ILCS 5/3-109.4(a))
  - ☐ "Each municipality shall establish a defined contribution plan that aggregates police officer and employer contributions in individual accounts used for retirement."
- Required of each municipality
- Retirement plan
- Individual account recordkeeping

# Public Act 100-0281

## ■ Defined Contribution Plan Provisions

### □ Minimum Requirements

- Text (40 ILCS 5/3-109.4(a))
  - “The defined contribution plan, including both police officer and employer contributions, established by the municipality must, at a minimum: meet the safe harbor provisions of the Internal Revenue Code of 1986, as amended; be a qualified plan under the Internal Revenue Code of 1986, as amended; and comply with all other applicable laws, rules, and regulations. Contributions shall vest immediately upon deposit in the police officer’s account.”
- Qualified plan (Internal Revenue Code (IRC) §401)
- Safe harbor provisions
- Other applicable legal compliance
- Immediate vesting

# Public Act 100-0281

## ■ Defined Contribution Plan Provisions

### □ Mutual Exclusivity

- Text (40 ILCS 5/3-109.4(a))
  - “A police officer who participates in the defined contribution plan under this Section may not earn creditable service or otherwise participate in the defined benefit plan offered by his or her employing municipality, except as an annuitant in another fund or as a survivor, while he or she is a participant in the defined contribution plan. The defined contribution plan under this Section shall not be construed to be a pension, annuity, or other defined benefit under this Code.”
- No duplicate participation
  - No Article 3 pension fund creditable service
  - No Article 3 defined benefit disability available
  - But, can rescind defined contribution plan election in writing

# Public Act 100-0281

## ■ Defined Contribution Plan Provisions

### □ Population / Mandatory Participation

#### ■ Text (40 ILCS 5/3-124.1(b))

- “If a police officer who first becomes a member on or after January 1, 2019 is receiving pension payments (other than as provided in Section 3-109.3) and re-enters active service with any municipality that has established a pension fund under this Article, that police officer may continue to receive pension payments while he or she is in active service, but shall only participate in a defined contribution plan established by the municipality pursuant to Section 3-109.4 and may not establish creditable service in the pension fund established by that municipality or have his or her pension recomputed.”

#### ■ Mandatory population

- First becomes a member on or after January 1, 2019
- Receiving pension payments
- Returns to service with any municipality

# Public Act 100-0281

## ■ Defined Contribution Plan Provisions

### □ Population / Voluntary Participation

#### ■ Text (40 ILCS 5/3-109.4(b))

- “If a police officer who has more than 10 years of creditable service in a fund enters active service with a different municipality, he or she may elect to participate in the defined contribution plan under this Section in lieu of the defined benefit plan.”
- A police officer who has elected under this subsection to participate in the defined contribution plan may, in writing, rescind that election in accordance with the rules of the board. Any employer contributions, and the earnings thereon, shall remain vested in the police officer's account....”

# Public Act 100-0281

## ■ Who Can Elect Defined Contribution?

- Unclear at best
- Officers clearly entitled to elect
  - At least 10 years of Article 3 creditable service
  - Transfers to different municipality
  - Written election (subject to future rescission)
- What about newly hired officers with no prior creditable service?
- What about officers with less than 10 years creditable service?

# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

- Vague
  - Definition
    - “of uncertain, indefinite, or unclear character or meaning”
    - “thinking or communicating in an unfocused or imprecise way”
- Identified Requirements
  - Safe Harbor
  - Applicable Law
    - Employee Retirement Income Security Act (ERISA)
    - Social Security Act / Federal Insurance Contributions Act (FICA)
  - Participation

# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

### □ Safe Harbor Requirement

- No defined term within Internal Revenue Code
- Identified within Regulations
  - Most commonly associated with “nondiscrimination requirements”
    - Cannot provide disproportionate benefits based on compensation
    - Requirements generally not applicable to governmental plans
    - Effects design of plan
  - Nondiscrimination Safe Harbors
    - Uniformity
    - Minimums

# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

### □ Applicable Law / ERISA

- Qualified Plan requirement separate from ERISA coverage
- ERISA not applicable to governmental plans
  - ERISA does not preempt state law for governmental plans
- Applicability of Illinois Pension Code / Article 1
  - Fiduciary
    - Definition / Duties / Indemnification
    - ERISA 404(c) protection
  - Regulation / Administration
    - Board / Plan Administrator / Trustee
    - Department of Insurance
    - Claims / Appeals
  - Investment requirements



# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

### □ Applicable Law / SSA - FICA

- Social Security mandatory coverage exclusions
  - Section 218 Agreement voluntary coverage
  - Public Retirement System (FICA Replacement Plan) qualified participation
- OASDI payroll taxes
  - 6.2% employee / employer
- Applicability
  - Public Retirement System
    - Defined Benefit / Defined Contribution
    - Minimum benefit requirement
    - Unconditional benefit eligibility (other than vesting)

# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

### □ Participation

- Disability
  - No Article 3 disability benefit for defined contribution election
- Mandatory
  - Limited to those first becoming Article 3 member on or after January 1, 2019
  - Limited to those re-entering service with any municipality
  - Receiving pension payments
    - Article 3 / Other
- Voluntary – This member definitely able to elect, others unclear.
  - Any officer with at least 10 years creditable service
  - Limited to those re-entering service with a different municipality
  - Requires election / may rescind election (pension fund participation)
    - Rules of Board (pension fund)
    - Process / Limitations

# Public Act 100-0281

## ■ Defined Contribution Plan Gaps

### □ Unidentified Requirements

- Contributions / Benefits
- Ancillary / Non-Retirement benefits
- Plan administration / management
- Investment options
- Investment direction

# Public Act 100-0281

## ■ Self-Managed Plan Comparison

### □ Clearly-Defined

- Establishment / Mutual exclusivity
- Voluntary participation / defined written election
- Participant investment direction / fiduciary protection
- Employee / Employer contribution levels
- Disability / Death / Vesting provisions

### □ Differences

- Wider eligible population
- Irrevocable
- Vesting provisions

# Public Act 100-0281

## ■ Other Provisions

### □ Effective Date

#### ■ Text

- "This Act takes effect upon becoming law."

#### ■ Passed August 24, 2017

#### ■ January 1, 2019 applicable provisions

- Chief's IMRF election
- First entry date for officers re-entering service while receiving pension payments

#### ■ Application to participation

- Voluntary election

# Defined Contribution Plan

## ■ Concepts

- Mechanics
- Design
- Cost
- Investment
- Taxation

# Defined Contribution Plan

## ■ Mechanics

### □ Basic Tenets

- Liability = Assets
- Cost = Contributions + Fees
- Benefits = Individual / Separate Account Values
- Obligation = Annual Determination

### □ General Attributes

- Improved employer cost certainty
- Limited unfunded liability exposure
- Increased participant benefit volatility
- Simplified benefit value communication

# Defined Contribution Plan

## ■ Design

### □ Contributions

- Source
- Types
- Formula

### □ Retirement

- Normal
- Other

### □ Ancillary

- Death
- Disability

### □ Investment

- Options
- Valuation
- Fees

### □ Distributions

- Forms
- Loans
- In-Service

# Defined Contribution Plan

## ■ Qualified Plan

### □ Governmental Plan IRC Requirements / Options

- Written Plan Document
- Exclusive Benefit
- Required Minimum Distributions
- Income Tax Effects / Withholding
- Compensation / Contribution Limits
- Availability of Loans / Rollovers / In-Service Distributions
- Prohibited Transactions (Not Permitted)
- Elective Salary Deferrals (Not Permitted)
  - State / Local government

# Defined Contribution Plan

## ■ Qualified Plan

### □ Governmental Plan IRC / ERISA Exclusions

- IRS Form 5500 / 8955-SSA filing
- Minimum Coverage / Eligibility Requirements
- Nondiscrimination Requirements
- Top-Heavy Requirements
- Joint & Survivor Annuity Requirements
- Summary Annual Report / Summary Plan Document
- Minimum Vesting Standards (Post-ERISA)
- Nonalienation / Nonassignment of Benefits
- Qualified Domestic Relations Order (QDROs)

# Defined Contribution Plan

## ■ Contributions

### ☐ Source / Type

#### ■ Employee

- ☐ Mandatory / Voluntary after-tax contributions
- ☐ No elective salary deferral (IRC §401(k))
- ☐ Employer Pick-Up (IRC §414(h)(2))

#### ■ Employer

- ☐ Match
- ☐ Nonelective

### ☐ Timing

- Periodic
- Discretionary

# Defined Contribution Plan

## ■ Contributions

### ☐ Safe Harbor

#### ■ Uniform

- ☐ Allocation Formula
- ☐ Compensation Determination

#### ■ Minimum

- ☐ Match / nonelective contribution level
- ☐ Aggregate match limit
- ☐ Comparable match rates

#### ■ Other

- ☐ Notice requirements
- ☐ Coordination with 401(k)

# Defined Contribution Plan

## ■ Other

### ☐ Retirement

#### ■ Normal / Early

- ☐ Age
- ☐ Eligibility

### ☐ Ancillary

#### ■ Death / Disability

- ☐ Eligibility
- ☐ Benefits (limited)
- ☐ Participation effects

### ☐ Distributions

#### ■ Lump Sum / Annuity

### ☐ Investment

#### ■ Control

- ☐ Pooled
- ☐ Self-Direction

#### ■ Valuation

- ☐ Daily
- ☐ Balance Forward

#### ■ Fees

- ☐ Sponsor
- ☐ Participant

# Defined Contribution Plan

## ■ Cost

### ☐ Contribution Level

#### ■ Acceptable employer cost

- ☐ Pension fund comparison
- ☐ Variability across contribution sources
- ☐ Discretionary plan provisions

#### ■ Considerations

- ☐ Public Retirement System
  - 7.5% of Compensation (reasonably defined)
  - (Compare to 9.91% for defined benefit plan)
- ☐ Qualified Participant requirement
  - Limited eligibility provisions
- ☐ FICA OASDI payroll tax
  - Applicable if mandatory coverage requirement

# Defined Contribution Plan

## ■ Cost

### □ Administrative Expense

- Simplified vs. complex plan provisions
  - Contribution types / sources
  - Valuation type
  - Allocation complexities
- Expense type
  - Investment management
  - Administrative cost
    - General vs. Participant-Initiated
- Fee reimbursement
  - Sponsor general funds
  - Participant accounts

# Defined Contribution Plan

## ■ Investment

### □ Plan Asset Management / Advisory

- Plan benefit structure
  - Pooled
  - Self-Directed
- Fiduciary considerations
  - Investment management
  - Allocation of duties
- Investment management
  - Reasonable return / performance monitoring
  - Fund line-up selection



# Defined Contribution Plan

## ■ Taxation

### □ Income Tax

#### ■ Participation

- Employee contributions (mandatory / voluntary) – Immediate
- Employer pick-up / match / nonelective – Deferred
- Investment earnings – Deferred

#### ■ Distribution

- Employee contributions – None
- Employer pick-up / match / nonelective – At distribution
- Investment earnings – At distribution
- Rollover – Permissible deferral (subject to Required Minimum Distributions)

# Defined Contribution Plan

## ■ Taxation

### □ OASDI Payroll Tax

#### ■ Public Retirement System / Qualified Participant

- Not applicable

#### ■ Mandatory Coverage

- 6.2% payroll tax rate (up to \$132,900 for 2019)
- Payable by both employee / employer

# Defined Contribution Plan

## ■ Setup

- ☐ Plan / Trust Document
- ☐ Custodial Account
- ☐ Asset Selection / Monitoring
- ☐ Administration / Recordkeeping

# Defined Contribution Plan

## ■ Plan / Trust Document

- ☐ Individually Designed
  - Attorney Prepared / Drafted
  - Allow for more complicated / nuanced provisions
  - IRS Determination Letter filing
  - Generally more expensive
- ☐ Pre-Approved Document
  - Vendor sponsored / supported
  - Permutations of commonly adopted provisions
  - Reliance on prior IRS approval
  - Generally less expensive

# Defined Contribution Plan

## ■ Custodial Account

- Financial Institution
  - Trust account
  - Compliance with IRC retirement plan requirements
- Selection
  - Accessibility / Limit of fund / investment universe
  - Direct / Indirect fees
- Consideration
  - Fees generally as percentage of assets
  - Need participant(s) to establish account

# Defined Contribution Plan

## ■ Asset Selection / Monitoring

- Fiduciary Duty
  - Committee / Governing body establishment
  - Investment direction (if pooled investment)
  - Fund lineup selection (if participant directed)
  - Investment Policy Statement
  - Established / Documented procedures

# Defined Contribution Plan

## ■ Asset Selection / Monitoring

### □ Allocation of Functions

#### ■ Investment Manager / Advisor

- Policy
- Strategy
- Selection
- Allocation
- Monitoring
- Education

#### ■ Co-Fiduciary

- Legal relationship
- Levels of discretion
- Actions in best interest of participants

# Defined Contribution Plan

## ■ Administration / Recordkeeping

### □ Plan Administrator

- Named responsible party / entity
- Interpret plan document
- Authorize distributions / loans /
- Manage plan administrative operations

### □ Allocation of Functions

- Third-Party Administrator (TPA) / Recordkeeper
- Outsourced provider of day-to-day operations
- Integration between employer / participant / custodian

# Defined Contribution Plan

## ■ Administration / Recordkeeping

### □ Data

- Individual account maintenance
- Payroll / human resources integration
- Participant elections (as applicable)
  - Contributions
  - Investment elections

### □ Trust Accounting

- Contributions / Distributions
- Deposits / Withdrawals / Transfers
- Reconciliation

# Defined Contribution Plan

## ■ Administration / Recordkeeping

### □ Interface

- Online system
- Mobile accessibility
- Call center
- Cybersecurity

### □ Communication

- Participant statements
- Plan notices
- Sponsor reports

# Defined Contribution Plan

## ■ Administration / Recordkeeping

### □ Education

- Financial analysis tools
- Retirement modeling
- Financial wellness
- Enrollment meetings

### □ Processing

- Distribution elections
- Loan requests
- Contribution / benefit determinations

# Questions / Contacts

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# Public Act 100-0281 – Part 2

Changes to Police Pension Benefits  
and How It Affects You



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## Discussion Points

- Tier 1 vs Tier 2
  
- Public Act 100-0281
  - Plan options upon re-entry

## Tier 1 and Tier 2

- Anyone having service with a Pension Fund **UNDER THIS ARTICLE** before 01/01/11 is Tier 1.
- Anyone having service with a Pension Fund **UNDER THIS ARTICLE** *only* after 01/01/11 is Tier 2.
- Under *this article*
- Prior Fund status irrelevant
- What if Fund wasn't established until after 01/01/11?

## Public Act 100-0281

- HB 418
- Police Chiefs & IMRF
- Municipal Defined Contribution Plan
- Re-entry/"double dipping"



# Public Act 100-0281

## ■ Police Chiefs & IMRF

- **Old:** Police Chief can elect to participate in Article 3 or IMRF or neither
- **New:** As of 01/01/19, new Chief cannot elect to join IMRF unless s/he has IMRF service prior to 01/01/19  
5/3-109.1(a-5)

# Public Act 100-0281

## ■ Municipal DC Plan

- **New:** “Each municipality shall establish a defined contribution plan that aggregates police officer and employer contributions in individual accounts used for retirement.” 5/3-109.4(a)

# Public Act 100-0281

## ■ Re-entry 5/3-124.1(b) & Double Dipping 5/3-109.4(b)

## So, what do you do with your new Chief?

When Chief first becomes a member *before* 01.01.19:

- Does Chief have more than 10 years of Article 3 service with a different municipality?
  - ☐ YES → Options: IMRF / DC plan / Article 3 / full opt-out.
  - ☐ NO → Options: IMRF / Article 3 / full opt-out / (DC plan???)

# So, what do you do with your new Chief?

## When Chief first becomes a member *after* 01.01.19:

- Does Chief have prior IMRF service?
  - YES → Is Chief collecting monthly pension benefit from any Art 3 Fund?
    - YES → Options: IMRF / DC plan / full opt-out.
    - NO → Does Chief have more than 10 years with a different Article 3 Fund?
      - YES → Options: IMRF / DC / Article 3 / full opt-out.
      - NO → Options: IMRF / Article 3 / full opt-out / (DC plan??).
  - NO → Is Chief collecting monthly pension benefit from any Art 3 Fund?
    - YES → Options: DC plan / full opt-out.
    - NO → Does Chief have more than 10 years with a different Article 3 Fund?
      - YES → Options: DC plan / Article 3 plan / full opt-out.
      - NO → Options: Article 3 plan / full opt-out / (DC plan??).

# So, what do you do with your new non-Chief?

## When Non-Chief first becomes a member *before* 01.01.19:

- Does member have more than 10 years of Article 3 service with a different municipality?
  - YES → Options: DC plan / Article 3 / full opt-out.
  - NO → Options: Article 3 / full opt-out / (DC plan??).

## So, what do you do with your new non-Chief?

When Non-Chief first becomes a member *after* 01.01.19:

- Is member collecting monthly pension benefit from any Article 3 Fund?
  - YES → Options: DC plan / full opt-out.
  - NO → Does member have more than 10 years with a different Article 3 Fund?
    - YES → Options: DC plan / Article 3 plan / full opt-out.
    - NO → Options: Article 3 plan / full opt-out / (DC plan??).

## Rescinding DC Plan Election

5/3-109.4 (b)

- Any time after electing to participate in DC plan
- Member may submit written intent to rescind election *in accordance with rules of the board*
- Member may begin participation in Article 3 Fund as of first day of month following rescission
- Any employER contributions, and the earnings thereon, shall remain vested in the member's account



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# Public Act 100-0281 – Actuarial Implications



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## Overview

- Defined Benefits vs Defined Contribution
- Public Act 100-0281
  - Goal of Pension Funding – Article 3 Fund
  - Source of Funding

# Defined Benefit vs Defined Contribution

## DB versus DC Plans

Equation of Balance:  $C + I = B + e$

- C = Contributions
- I = Investment Income
- B = Benefit Payments
- e = Expenses

## DB versus DC Plans

Equation of Balance:  $C + I = B + e$

- True for All Retirement Plans
- Inflows = Outflows

## DB versus DC Plans

### Defined Benefit

Equation of Balance:  $C + I = \textcircled{B} + e$

- “B” Defined by Document
- Example: IL Police Pension Article 3
- “C” is Determined by an Actuary

# DB versus DC Plans

## Defined Contribution

Equation of Balance:  $\textcircled{C} + I = B + e$

- “C” Defined by Document
- Example: 401(k) Savings Plan
- “B” is Volatile

# DB versus DC Plans

## Characteristics

- Investment Risk
- Investment Efficiency
- Longevity Risk



# DB versus DC Plans

## Investment Risk

Defined Benefit	Defined Contribution
Employer	Employee

# DB versus DC Plans

## Investment Efficiency

Defined Benefit	Defined Contribution
<ul style="list-style-type: none"> <li>• Ongoing Process</li> <li>• Professional Management</li> <li>• Efficient</li> </ul>	<ul style="list-style-type: none"> <li>• Changing Profile</li> <li>• Often Employee Managed</li> <li>• Lost efficiency</li> </ul>

# DB versus DC Plans

## Longevity Risk

Defined Benefit	Defined Contribution
Employer	Employee

# Public Act 100-0281

## Pension Funding

# Public Act 100-0281

## Impact on Pension Funding - General

- Immediate Impact is Minimal
- Volatility Profile Changes Later

# Public Act 100-0281

## Immediate Impact – Pension Funding

- Current Fund Members – Not Impacted
- New Hires – Not Assumed in Process

# Public Act 100-0281

## New Hire Assumptions

- Not Used in Basic Funding Determination
- Pension Funding Goals

# Public Act 100-0281

## New Hires – Future Impact

- Late Career Hires
  - Generally Increase in Cost
  - Shorter Working Period
  - Compound Interest

## *Contact Information*

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# Understanding Negative Amortization

Jason Franken, Foster & Foster

## UNFUNDED LIABILITIES IN PUBLIC PENSION PLANS



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- Somewhere in this country, there is a newspaper article on the unfunded liabilities in public pension plans every day
- Many factors are mentioned as the source of these liabilities including:
  - Benefits that are too rich
  - Lack of investment returns
  - Plan sponsors not meeting statutory requirements
- How many of these article address “negative amortization”?
- This occurs when the statutory requirements are designed to defer contributions into future years
  - Plan sponsors can claim to be making required contributions even though their liability is growing uncontrollably

- Negative amortization
  - Plan sponsor makes required contribution based on the normal cost and an amortization payment
  - The amortization payment is not large enough to cover the interest accruing on the unfunded liabilities
  - Example:
    - \$27.5 million of unfunded liabilities using an investment return assumption of 7%
    - Unfunded liabilities accrue \$1.925 million of interest each year
    - An amortization payment of \$1.5 million does not cover the interest
    - The unfunded liabilities increases by \$425,000 even though the required contribution is made
- The contributions need to be sufficient to systematically pay down the liability or the unfunded liability will never be contained

## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

- The actuarial cost method determines the actuarial accrued liability.
  - Entry Age Normal or Projected Unit Credit have an effect
- In the actuarial valuation, the accrued liability is compared to the actuarial value of assets.
- If the accrued liability is larger, unfunded liabilities exist and need to be paid down, similar to a mortgage.
- The amortization method determines if the liabilities are paid down in an orderly manner
- Currently, the amortization period in Illinois Pension Code ends in 2040 (target is 90% of accrued liability).

## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*

- Many considerations when selecting an amortization method:
  - Length of the amortization period?
  - Open (rolling) or closed amortization?
  - Level dollar or level percentage of payroll basis?
    - If level percentage basis, what is the payroll growth assumption?

## METHOD SELECTION

### AMORTIZATION OF *UNFUNDED LIABILITIES*

- Length of amortization period?
  - Typically, funds rely on the Illinois Pension Code.
  - Currently, the amortization period is through the year 2040.
    - This is an arbitrary date arrived at through the political process.
  - Amortization periods that end at an arbitrary date can be dangerous.
    - The plan is going to be around for a lot longer than this “end date.”
    - This date is often pushed back without any consideration of the effect on the plan or the municipality.
- Increasing contributions and volatility as you approach the end of the amortization period will be difficult for the municipality to manage.



## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

- Open (rolling) or closed amortization?
  - An amortization with a finite period is called a closed amortization.
    - 2040 is a closed amortization.
    - Or is it?!?! The date will be moved at some point in the future.
  - An open amortization is one that always uses the same number of years.
    - For example, IMRF is going to an open 15 year amortization.
    - Opponents do not like it because it does not get you to 100% by any specific date.

## METHOD SELECTION

### AMORTIZATION OF UNFUNDED LIABILITIES

- Level dollar or level percentage of payroll basis?
  - The level dollar approach produces an amortization payment that is always the same amount.
    - Becomes a smaller percentage of payroll over time.
  - The level percentage of payroll produces a payment stream that is designed to increase based on the expected growth in payroll.
    - Payments start out small and increase over time.
    - The actuary uses a payroll growth assumption to determine the payment pattern; the higher the assumption, the more the payment will increase over time.
    - The current payment is less than the level dollar approach since future payments get larger each year.
    - The level dollar method is the same as the level percentage approach with a 0% payroll growth assumption.

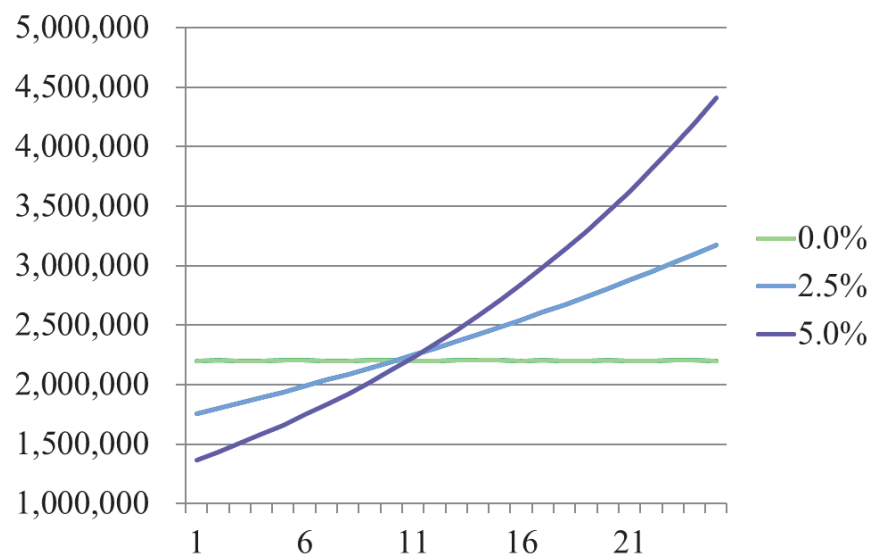
## EXAMPLE 1 – 25-YEAR CLOSED AMORTIZATION

- Example 1 – 25-Year Closed Amortization
  - Unfunded Actuarial Liability = \$27,500,000
  - Interest Rate = 7.0%
  - Impact of various payroll growth assumptions are below:

Payroll Growth Rate	UAL Payment
0.0% (Level \$)	\$2,205,410
2.5%	\$1,756,562
5.0%	\$1,366,828

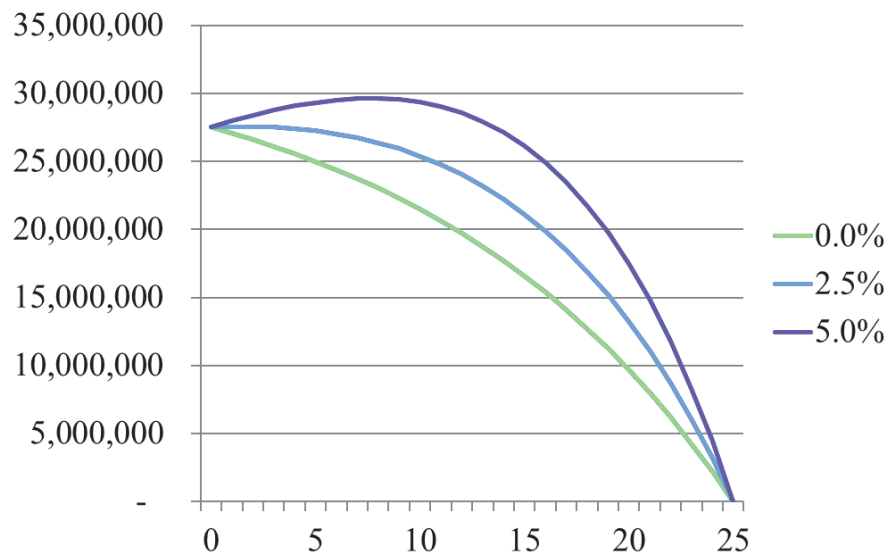
## EXAMPLE 1 – 25-YEAR CLOSED AMORTIZATION

- How do the amortization payments change over time?



## EXAMPLE 1 – 25-YEAR CLOSED AMORTIZATION

- What happens to the unfunded liabilities?



## EXAMPLE 1 – 25-YEAR CLOSED AMORTIZATION

- Sum of total amortization payments
  - Level dollar = \$55.1 million
  - 2.5% payroll growth assumption = \$60.0 million
  - 5.0% payroll growth assumption = \$65.2 million
- Unfunded liability at the end of 25 years
  - Level dollar = \$0
  - 2.5% payroll growth assumption = \$0
  - 5.0% payroll growth assumption = \$0
- First year in which unfunded liability is less than \$27.5 million
  - Level dollar = 2017
  - 2.5% payroll growth assumption = 2020
  - 5.0% payroll growth assumption = 2030

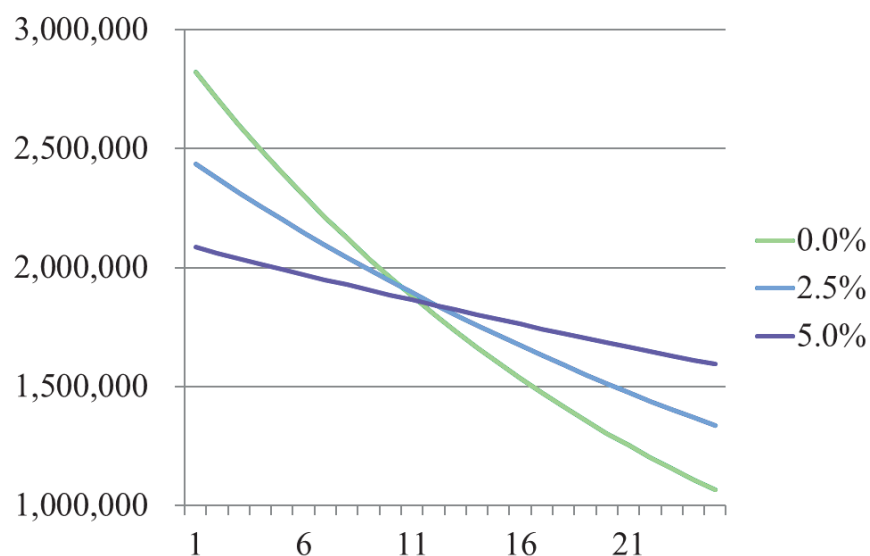
## EXAMPLE 2 – 15-YEAR OPEN AMORTIZATION

- Example 2 – 15-Year Open Amortization
  - Unfunded Actuarial Liability = \$27,500,000
  - Interest Rate = 7.0%
  - Impact of various payroll growth assumptions are below:

Payroll Growth Rate	UAL Payment
0.0% (Level \$)	\$2,821,824
2.5%	\$2,434,466
5.0%	\$2,085,262

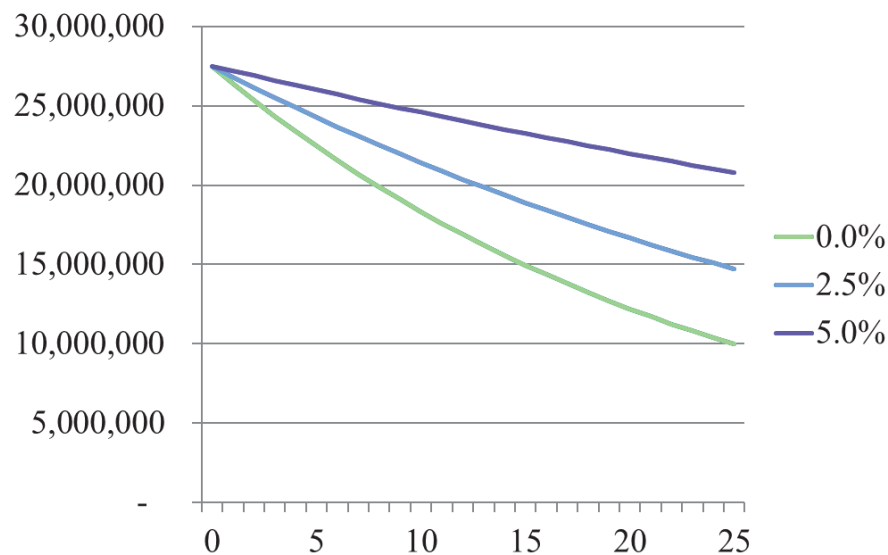
## EXAMPLE 2 – 15-YEAR OPEN AMORTIZATION

- How do the amortization payments change over time?



## EXAMPLE 2 – 15-YEAR OPEN AMORTIZATION

- What happens to the unfunded liabilities?



## EXAMPLE 2 – 15-YEAR OPEN AMORTIZATION

- Sum of total amortization payments
  - Level dollar = \$45.2 million
  - 2.5% payroll growth assumption = \$45.8 million
  - 5.0% payroll growth assumption = \$45.7 million
- Unfunded liability at the end of 25 years
  - Level dollar = \$10.0 million
  - 2.5% payroll growth assumption = \$14.7 million
  - 5.0% payroll growth assumption = \$20.8 million
- First year in which unfunded liability is less than \$27.5 million
  - Level dollar = 2017
  - 2.5% payroll growth assumption = 2017
  - 5.0% payroll growth assumption = 2017

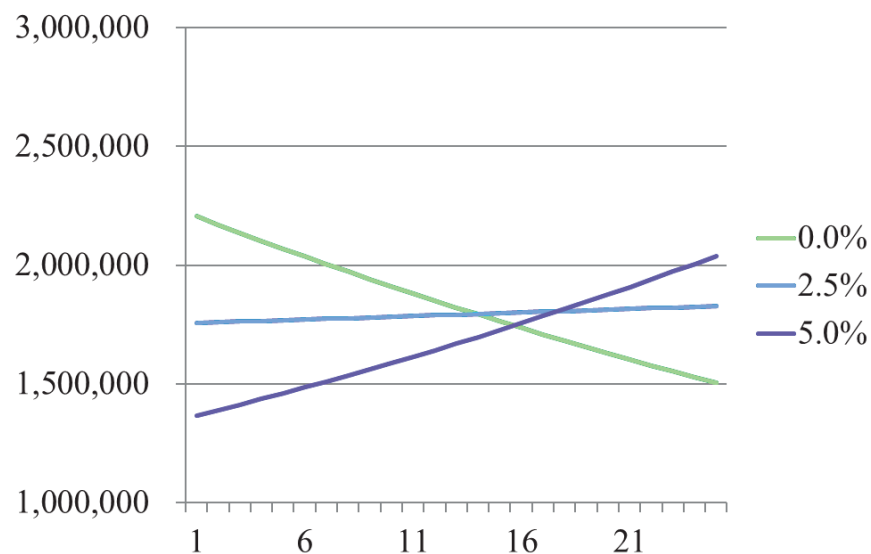
## EXAMPLE 3 – 25-YEAR OPEN AMORTIZATION

- Example 3 – 25-Year Open Amortization
  - Unfunded Actuarial Liability = \$27,500,000
  - Interest Rate = 7.0%
  - Impact of various payroll growth assumptions are below:

Payroll Growth Rate	UAL Payment
0.0% (Level \$)	\$2,205,410
2.5%	\$1,756,562
5.0%	\$1,366,828

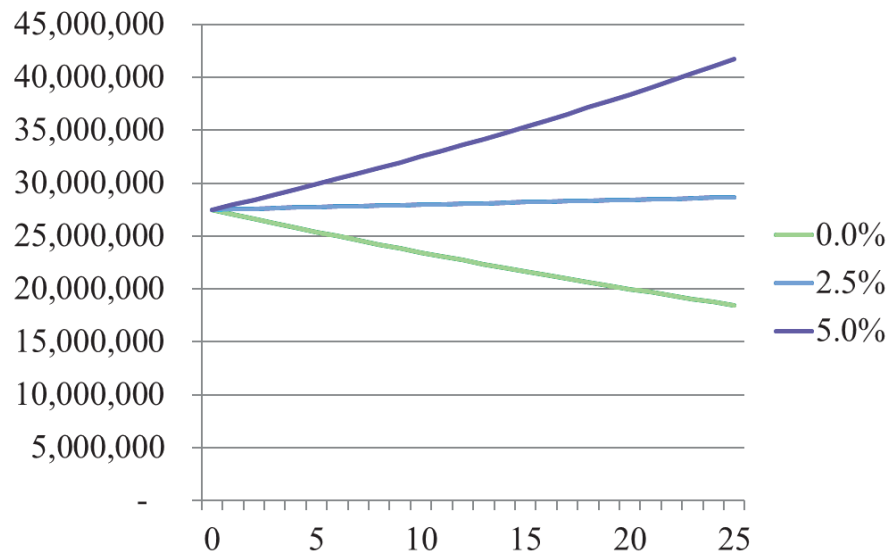
## EXAMPLE 3 – 25-YEAR OPEN AMORTIZATION

- How do the amortization payments change over time?



## EXAMPLE 3 – 25-YEAR OPEN AMORTIZATION

- What happens to the unfunded liabilities?



## EXAMPLE 3 – 25-YEAR OPEN AMORTIZATION

- Sum of total amortization payments
  - Level dollar = \$45.8 million
  - 2.5% payroll growth assumption = \$44.8 million
  - 5.0% payroll growth assumption = \$42.0 million
- Unfunded liability at the end of 25 years
  - Level dollar = \$18.5 million
  - 2.5% payroll growth assumption = \$28.7 million
  - 5.0% payroll growth assumption = \$41.7 million
- First year in which unfunded liability is less than \$27.5 million
  - Level dollar = 2017
  - 2.5% payroll growth assumption = Never
  - 5.0% payroll growth assumption = Never

# METHOD SELECTION

## AMORTIZATION OF *UNFUNDED LIABILITIES*

- Each municipality should select its own amortization approach rather than relying on pension legislation from Springfield.
- Need to consider how all of the factors work together and select those that will help you succeed.
  - Cannot cherry pick the “cheapest” approach from each category.
- Once you have made a selection, stick with it and do not change the rules along the way.
  - Changing the rules will set you up for failure.

*Questions?*

Jason Franken, FSA, EA, MAAA

[jason.franken@foster-foster.com](mailto:jason.franken@foster-foster.com)

(630) 620-0200





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## Pension Funding Policy – Time for a Check-Up?



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### Funding Policy

- Rising pension contributions are a major concern for almost every municipality
- The pension ramp inherent in the Illinois Pension Code is not always the best approach
- Many of our clients have expressed interest in developing a strategy that better suits their community

# Funding Policy

- Our firm has helped many municipalities review their current funding approach and examine alternatives
- In today's session, we will review the process three communities have gone through to reach a more favorable outcome

# Today's Panelists

- Elizabeth Holleb, Finance Director, City of Lake Forest
- Maggie Bosley, Finance Director, Village of Glenview
- Melinda Molloy, Finance Director, Village of Wilmette



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## Lake Forest Pension Funding Policy Revisions



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### City of Lake Forest

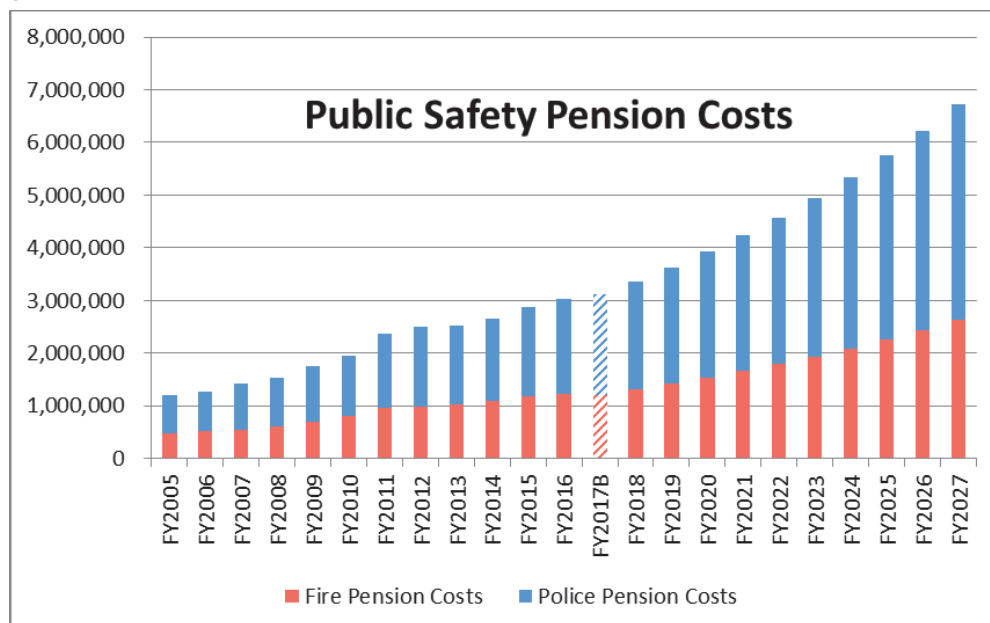


- Population: 19,375
- A “North Shore” community located 30 miles north of Chicago in Lake County with land area of 17 square miles
- Home Rule – 2004 Referendum
- Aaa Bond Rating – Moody’s
- Lowest property tax rate in Lake County

# Pension Funding Policy

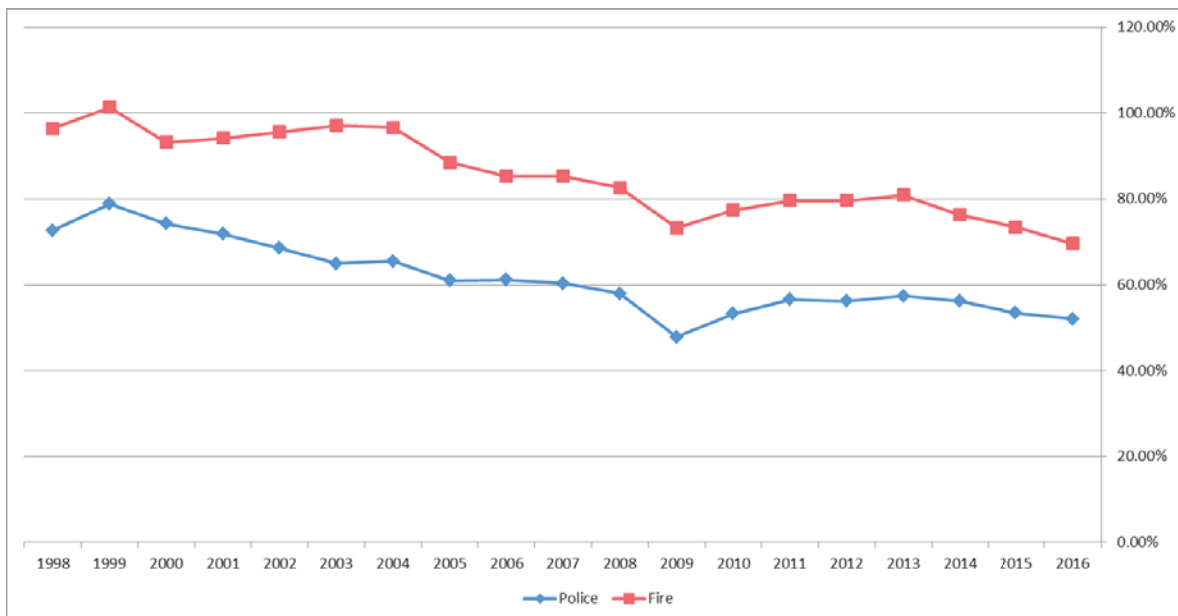
- Lake Forest initial policy - August 2015
  - Investment Assumption 7.0%
  - Salary Increase Assumption 5.5%
  - 100% funding by 2040
  - Entry age normal; level percentage of payroll

# City Contribution Requirements



Public Safety pension costs have increased from \$1.2 million in FY2005 to \$3.1 million in FY2017. Current projections forecast another \$3.6 million increase to \$6.7 million annually by FY2027. Annual contributions will continue to grow through FY2040 – the current projected date for full funding.

# Funded Ratios



## New Direction: Starting The Conversation

- September 2016 City Council Workshop
- Invited all Fire/Police Pension Board Members and Actuary
- Topics:
  - Pension Primer
  - 4/30/16 Pension Fund Summaries/2016 Levy
  - Report and Recommendation of Fire Service Vision 2020 Committee

# Continuing the Dialogue

- City Council Finance Committee – Oct 2016
  - Three Options for Public Safety Pension Fee
    - To be added to quarterly utility bill
    - Increase public awareness of pension crisis
- New Actuary for 4/30/16 Police and Fire
  - Actuary recommendations – mortality; salary increase assumptions; payroll growth assumptions; amortization period

# Continuing the Dialogue

- April 2017 Finance Committee recommendation
  - City Council workshop in June
  - Present preliminary 4/30/17 actuarial data
  - Alternate scenarios to be presented
- June 2017 City Council workshop
  - Police/Fire pension board encouraged to attend
  - 4/30/17 preliminary valuations
  - Actuary presentation of alternate scenarios

# Alternate Scenarios

	Police	Fire
4/30/16 funding requirement	\$ 1,832,059	\$ 1,298,188
4/30/17 STATUS QUO	1,928,236	1,364,837
\$ change prior year	96,177	66,649
% change prior year	5.25%	5.13%
Alternatives:		
Reduce IR assumption 7.0% to 6.75%	Liability + \$1.7m & contribution + 113,000	Liability + \$1.5m & contribution + 111,000
Mortality RP-2000, but projected to valuation date using Scale BB	Liability + \$2.4m & contribution + 155,000	Liability + \$2.1m & contribution + 135,000
Salary increase (individual) from 5.5% to DOI service-based table (11% - 4%)	Liability - \$1.2m & contribution - 120,000	Liability - \$676k & contribution - 75,000
Payroll growth (department) assumption determines the annual amortization of unfunded liability (currently 5.5%)	The higher the payroll growth, the lower the current amortization payment	

# Amortization Period

- Current amortization period per State Statute is 2040
- Who remembers 2033?
- 2020?



Open or Closed Amortization?

## Still Continuing the Dialogue

- City Council Direction – June 2017
  - ☐ Accept Mortality Table Recommendation
  - ☐ Accept Salary Increase Assumption
  - ☐ More information on Payroll Growth Needed
  - ☐ Examine impact of additional contribution from fund balance reserves
- July 2017 Finance Committee
  - ☐ Pension Board presentations – investment policy and procedures

## Still Continuing the Dialogue

- September 2017 City Council Workshop
  - ☐ Continued discussion on alternate scenarios and recommendations
  - ☐ Actuary Modeler
  - ☐ City Council direction:
    - Reduce payroll growth assumption from 5.5% to 2.0% for 4/30/17
    - Mayor established Pension Subcommittee to review alternative long-term funding strategies
- Pension Funding Policy revised 4/16/18



# What have we accomplished?



*Projections based on pension modeler forecast; 4/30/17 assumptions*

## Looking ahead...

- 2/4/19 – Joint meeting of Pension Subcommittee, Fire Pension Board, Police Pension Board
  - Recommend:
    - Phase in Open 15-year Amortization Period
    - Revise Pension Funding Policy to reflect intent
- 4/15/19 – Finance Committee to consider revised Pension Funding Policy

# Impact of Open Amortization



*Projections based on pension modeler forecast; 4/30/17 assumptions*

## Key Success Factors

- City Council willing to address long-term issue today
- Home Rule Status – greater flexibility
- No property tax freeze – YET!

# Lessons Learned

- Lots of time needed!
- Engage all stakeholders in discussions
  - Fire and Police Pension Boards
  - Actuary
- Examine alternative funding options to property tax levy
- COMMUNICATION!



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## Village of Glenview Pension Funding Policy

# Village of Glenview

- Home Rule Community
- Moody's Aaa
- Police and Firefighters' Pension Funds
- Police funded @ 75.86%
- Firefighters funded @ 66.68%

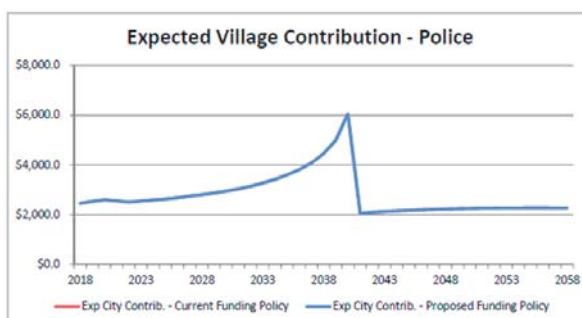
## Current Public Safety Pension Funding Policy

- 90% Funded by 2040 – “Closed”
- Entry Age Normal; level dollar approach

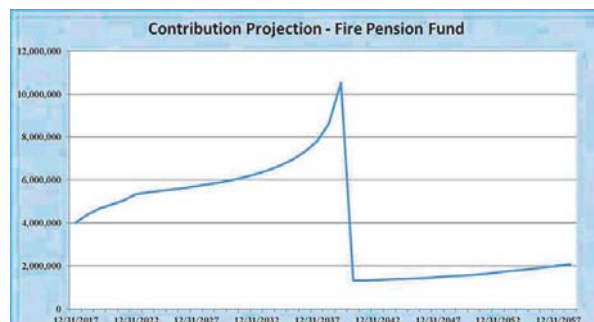
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## Village of Glenview Status Quo – “Closed” Funding Policy *Expected Future Village Contributions*

### Police Pension



### Fire Pension



Identified large escalation of contributions as 2040 draws near

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# Village of Glenview

## Steps to Revising Pension Funding Policy

### ■ Pension Boards Met

#### □ Develop New Funding Policy with Pension Boards, Actuaries and Staff

- Set goals
  - Meet or Exceed State Requirements
  - Still Achieve a Funding Level Close to 90%
  - Keep Annual Village Contributions Level

#### □ New Open/Rolling Funding Policy

- The amortization period would reset to 20 years every year
  - *Phase-in by starting with 30-year amortization period and reduce by 2 years every year for 5 years – will be then be 20-year period*
- Village Contributions are more stable year over year
- Achieve Close to 90% Funding in 2040
- Lower Village Costs Between Now and 2040 vs. Closed Policy
- Matches Business Plan as Fire and Police are not “Going Out of Business” in 2040

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# Village of Glenview

## Meeting with Village Board

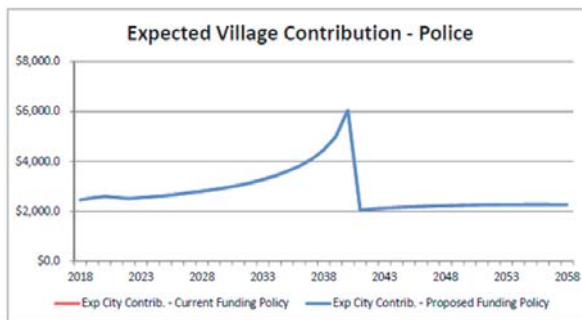
### ■ Village Board Workshop – *to obtain feedback on new funding policy*

- Police and Fire Pension Boards Attended
- Police and Fire Actuaries
- Finance Director
  - Presented data on current “closed” funding policy vs. “open” funding policy

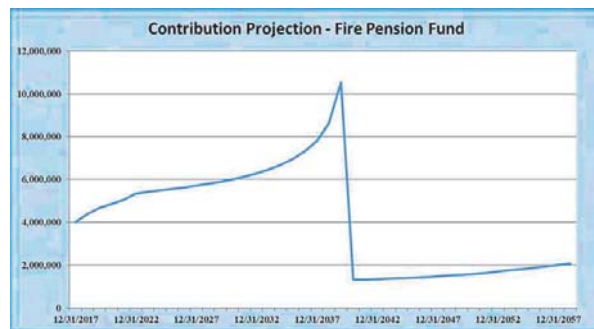
26

## Village of Glenview Status Quo – “Closed” Funding Policy *Expected Future Village Contributions*

### Police Pension



### Fire Pension

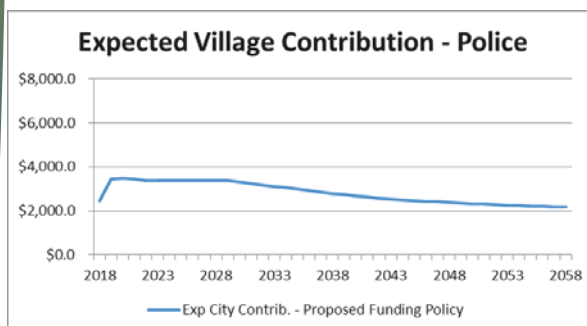


Identified large escalation of contributions as 2040 draws near

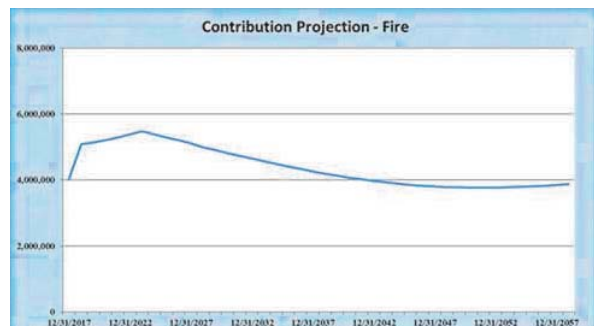
27

## Village of Glenview Revised – “Open” Funding Policy *Expected Future Village Contributions*

### Police Pension



### Fire Pension

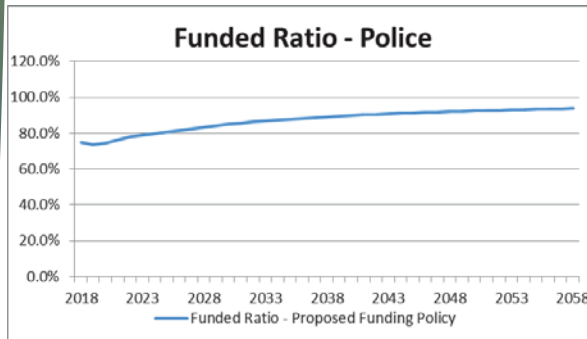


Contributions increase at onset of Open Funding Policy – but level off

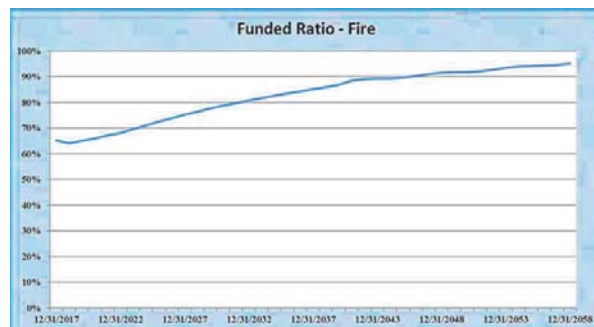
28

## Village of Glenview Revised – Police “Open” Funding Policy *Expected Funded Ratio*

### Police Pension



### Fire Pension



Funding Ratio Close to 90% at 2040

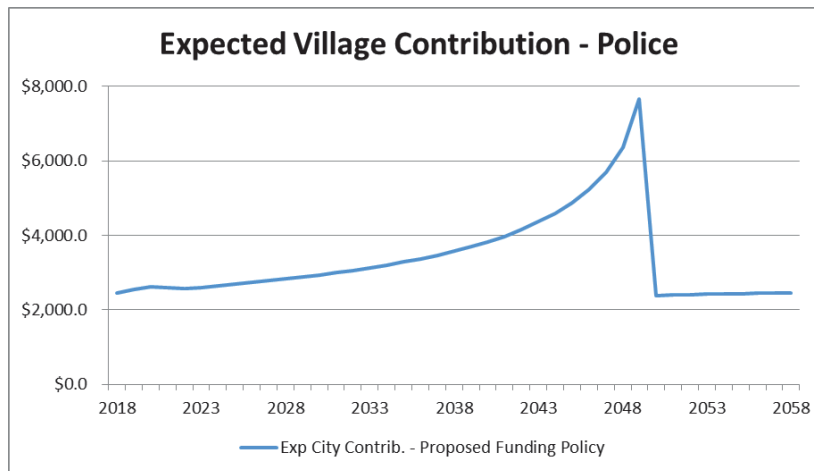
29

## Village of Glenview Total Costs – Closed vs Open

Total Village Contributions from now to 2040		
	Police	Fire
Current Closed Funding Policy	80,160,000	141,800,000
New Open Funding Policy	72,546,000	115,000,000
Difference in Village Contributions	7,614,000	26,800,000

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## Village of Glenview Police Proposed “Closed” Funding Policy Proposed State Policy - 90% Funded by “2050”



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## Village of Glenview Total Village Contributions

### Police Pension Fund - Total Village Contributions

90% Funded by 2040	Village Contributions thru 2058	\$	122,354,734
90% Funded by 2050	Village Contributions thru 2058	\$	137,277,504
Open	Village Contributions thru 2058	\$	115,007,473

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## Village of Glenview Meeting with Village Board

- Q&A session followed
  - What happens if actuarial assumptions are not met in any given year?
  - What happens if actuarial assumptions are changed?
  - Is it a problem that our funding policy will no longer match the State of IL funding policy?
  - Is it true that if we stay with the “closed” policy and we experience a large negative investment return in 2038 there would be a significant increase to the contribution since it is so close to 2040?
- Results
  - Village Board acknowledged the positive effect on total costs when switching to the Open Funding Policy
  - Village Board will consider the increase in contribution with their 2020 Budget/2019 Levy Discussions in the Fall of 2019

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## Village of Wilmette Public Safety Pension Funding

# Village of Wilmette

## Highlights

- A “North Shore” community located 16 miles from downtown Chicago in New Trier Township
- Population: 27,087
- Home Rule Community
- Moody’s Aaa Bond Rating

# Village of Wilmette

## Pension Challenges

Despite responsibly funding public safety pensions and routinely making the actuarially required contributions, costs have continued to escalate

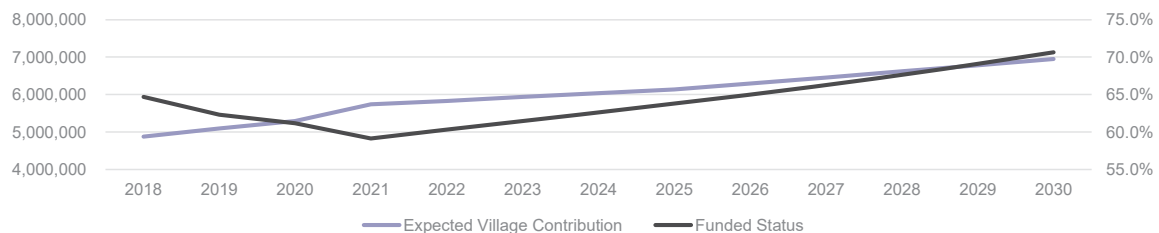
	1998	2019
<b>Village Contribution</b>	\$596,800	\$5,096,000 754% increase
<b>Pensions as a % of Tax Levy</b>	8%	27%
<b>Pensions as a % of General Fund Expense</b>	3%	14%
<b>Total Pension Liabilities</b>	\$-2.7 million (over funded)	\$56.5 million under funded
<b>Funded Status</b>	Police: 105.67% Fire: 106.90%	Police: 64.60% Fire: 60.80%

# Village of Wilmette

## Current Funding Policy

- 100% funding by 2040 – “closed system”

Village Contribution & Funding Level Trend  
Current Policy



Contributions are projected to exceed \$9 million by 2040

# Village of Wilmette

## Process to Address Pension Challenges

- Two years of education, review and evaluation
  - Benefits – Legislative changes
  - Contributions – Formula (employee share plus investments returns plus employer share)
  - Investment rate of return
  - Actuarial Assumptions
  - Rating Agency Perspective
  - Peer Review
  - Closed vs. Open funding policy

# Village of Wilmette

## Various entities involved in Process

- Finance and Manager's Office staff
- Actuary
- Investment Consultant
- Rating Agency Analyst
- Other Municipalities
- Pension Board Trustees
- Village Finance Committee Trustees
- Village Board Trustees

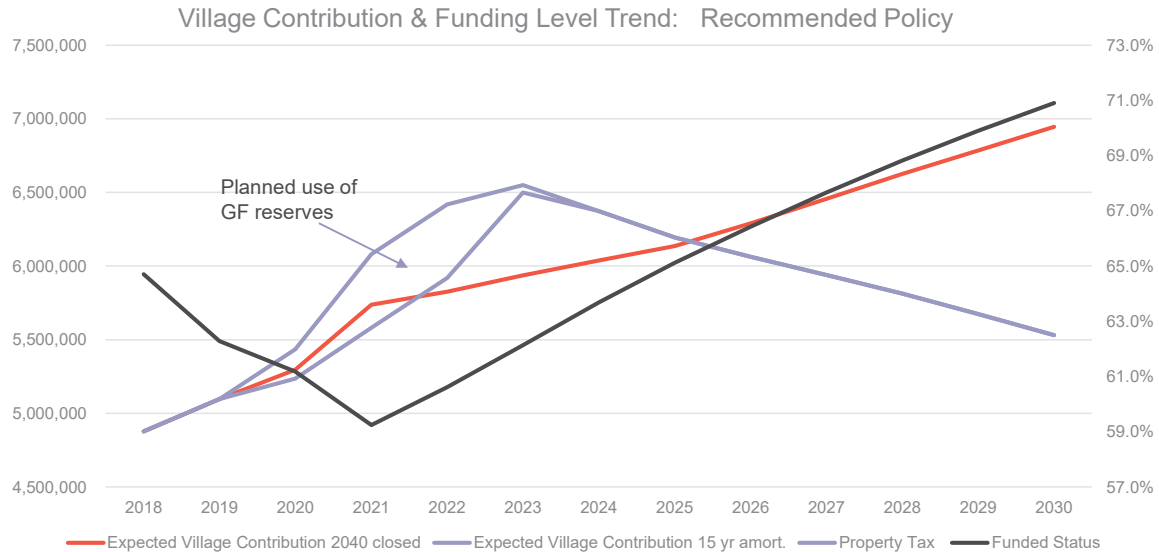
# Village of Wilmette

## Policy Recommendation

- Transition to an open 15-year rolling amortization policy starting in 2020
- The open system is projected to require an additional \$1.4 million in pension contributions between 2020 – 2023
- To limit the immediate impact to taxpayers, it is recommended that General Fund reserves be utilized to offset portions of the tax levy increase

# Village of Wilmette

## Policy Change Impact



# Village of Wilmette

## Next Steps

- Presentation to the Village Board of Trustees – April 9, 2019
- The FY 2020 Budget will be prepared assuming the transition to an open 15-year rolling amortization for the public safety pension funds
- The Village will inform Moody's of the funding policy change when it goes to the bond market later this year



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## **In Search of Best Practices for Illinois Public Pensions**

Stan Helgerson and Dan Ryan  
IGFOA Past Presidents

1



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## **Introduction**

- Greetings from Stan and Dan
- Are there really “best practices”? *Yes and No*
- Topics for Review
  - Investments
  - Disability Management
  - Finance and Administration
  - The Role of the Finance Director
  - Actuarial Issues
  - Stan and Dan’s Personal Concerns
  - Discussion and Questions – Mandatory!

2

# Investment Policies - Stan

- Consultant or Investment Manager
- Asset Allocation and Benchmark
- Passive or Active or Both
- Mutual Fund or Separately Managed Account.
- International Stocks – yes/no/how much
- Rebalancing

3

VILLAGE OF ALGONQUIN POLICE PENSION FUND				
ASSET ALLOCATION				
As of September 30, 2018				
	% of Portfolio	Balance		
Segall Bryant - Gov/Credit	33.5%	\$	9,953,318	
Eaton Vance - High Yield (EIBIX)	0.4%	\$	108,179	
<b>Total Fixed Income</b>	<b>33.9%</b>	<b>\$</b>	<b>10,061,497</b>	
Great Lakes - Large Value	7.3%	\$	2,159,049	
Vanguard 500 Index Index (VFIAX)	20.5%	\$	6,069,054	
Vanguard Growth Index (VIGAX)	10.7%	\$	3,185,104	
Vanguard Value Index (VVIAX)	6.6%	\$	1,960,786	
<b>Total Large Cap</b>	<b>45.1%</b>	<b>\$</b>	<b>13,373,992</b>	
RBC Global Small Cap Growth	3.9%	\$	1,163,260	
Vanguard Small Cap Value Index VSIAX)	2.2%	\$	664,879	
Victory Integrity Small Cap Value (MVSSX)	1.6%	\$	464,164	
<b>Total Small Cap</b>	<b>7.7%</b>	<b>\$</b>	<b>2,292,304</b>	
American Funds - EuroPacific Gr (RERGX)	5.6%	\$	1,674,475	
Invesco European Growth (AEDYX)	2.9%	\$	870,841	
Oakmark International (OAYIX)	1.2%	\$	367,341	
<b>Total International</b>	<b>9.8%</b>	<b>\$</b>	<b>2,912,657</b>	
DWS RREEF Global Infrastructure (TOLIX)	1.9%	\$	555,790	
Gateway Fund - Defensive (GTEYX)	1.0%	\$	300,834	
<b>Total Alternatives</b>	<b>2.9%</b>	<b>\$</b>	<b>856,624</b>	
<b>Total Equity</b>	<b>65.5%</b>	<b>\$</b>	<b>19,435,577</b>	
US Bank Cash + Accruals - Equity Mutual Fund Acct	0.6%	\$	173,841	
US Bank Cash + Accruals - FI Mutual Fund Acct	0.01%	\$	2,997	
Managed Account Cash*	0.97%	\$	288,503	
<b>Total Cash</b>	<b>0.6%</b>	<b>\$</b>	<b>176,837</b>	
<b>Total Portfolio</b>	<b>100.0%</b>	<b>\$</b>	<b>29,673,911</b>	
<b>Allocation Monitoring</b>				
<b>Allocation</b>	<b>Current</b>	<b>Target</b>	<b>Minimum</b>	<b>Maximum</b>
Fixed Income	34%	N/A	N/A	N/A
Equity	65%	65%	45%	65%
Corporates	47%			50%
<b>Allocation</b>	<b>Current</b>	<b>Target</b>	<b>Maximum</b>	
Large Cap	68%	65%	90%	
Small Cap	12%	12%	25%	
International	15%	14%	25%	
Other:	5%	9%	25%	
Global	3%	4%		
Natural Res.	0%	0%		
Real Estate	0%	1%		
Defensive	2%	2%		
Emerg. Mkts.	0%	0%		
High Yield	1%	2%		
<b>Mutual Funds - IL Pension Code</b>	<b>66%</b>		<b>65%</b>	
(Includes High Yield and excludes Total Cash)				
<b>Equity Sub-Style</b>	<b>Current</b>	<b>Maximum</b>		
Growth	47%			
Value	53%			

\*Great Lakes, RBC Global and Segall Bryant

This spreadsheet is an unaudited "snapshot" or intra-quarter glimpse of asset values. The snapshot is to be used for discussion purposes only and is not to be used for performance measurement or official calculation of asset values. It may or may not include all assets. It may or may not include assets in transfer to or from a manager or custodian. Data has not been reconciled with official statements and may not match the most recent market prices. While data is from sources believed reliable, the compilation process is subject to human error.



**Algonquin Police Pension Fund**  
**Annualized Performance Summary**  
**As of September 30, 2018**

	Performance(%)							Inception Date
	Quarter To Date	YTD	1 Year	3 Years	5 Years	7 Years	Since Inception	
<b>Combined Portfolio</b>	<b>3.44</b>	<b>3.76</b>	<b>7.17</b>	<b>8.75</b>	<b>6.54</b>	<b>7.25</b>	<b>6.97</b>	<b>12/01/2008</b>
Algonquin Total Fund Idx	3.47	4.31	7.83	9.61	7.12	8.01	8.22	
<b>Total Fixed Income</b>	<b>-0.17</b>	<b>-1.48</b>	<b>-1.41</b>	<b>0.80</b>	<b>1.73</b>	<b>1.57</b>	<b>4.69</b>	<b>07/01/1996</b>
Algonquin Total Fixed Income Blend	0.11	-1.42	-1.20	1.29	1.98	1.92	4.57	
Segall Bryant & Hamill	-0.19	-1.56	-1.49	0.71	1.53	1.43	4.64	07/01/1996
Algonquin SBH Index	0.04	-1.54	-1.33	1.19	1.92	1.88	4.56	
<b>Total Equity</b>	<b>5.42</b>	<b>6.76</b>	<b>12.35</b>	<b>14.15</b>	<b>9.97</b>	<b>12.78</b>	<b>11.70</b>	<b>12/01/2008</b>
Algonquin Total Equity Blend	5.74	8.16	14.14	15.30	11.28	14.64	13.57	
Great Lakes - Large Value (Since Mgr Chg)	6.66	2.57	7.35	13.59	11.14	13.31	13.26	01/01/2013
Russell 1000 VL	5.70	3.92	9.45	13.55	10.72	15.02	12.86	
RBC Global - Small Growth	7.39	19.67	21.98	16.76	10.95	16.41	10.53	11/01/2006
Russell 2000 Gr	5.52	15.76	21.06	17.98	12.14	17.52	9.81	
<b>Mutual Funds - US Bank:</b>								
American Fds - EuroPac - Intl (RERG)	-0.84	-2.65	1.47	9.93	6.20	9.54	8.25	06/01/2009
MSCI AC World ex US Net	0.71	-3.09	1.76	9.97	4.12	7.25	6.83	
MSCI EAFE Net	1.36	-1.43	2.74	9.23	4.42	8.30	7.37	
DWS RREEF Global Infra. (TOLIX)	-0.40	-3.50	-2.41	5.21	5.26	8.77	6.80	07/01/2008
DJ Brookfield Gbl Infra Comp TR	0.11	-1.21	-0.93	6.96	5.44	8.99	7.72	
Eaton Vance Income Fd Boston (EIBIX)	2.05	1.77	2.01	6.50	4.95	6.88	6.38	08/01/1999
BC Corp High Yield TR	2.40	2.57	3.05	8.15	5.54	7.64	6.97	
Gateway Fund - Defensive (GTEYX)	3.67	3.56	5.67	7.28	5.71	6.30	3.90	03/01/2008
HFRX Equity Hedge	-1.14	-0.90	1.80	3.22	2.40	3.22	-0.43	
HFRX EH Equity Market Neutral	0.77	1.64	3.69	3.29	3.73	3.93	1.96	

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**Algonquin Police Pension Fund**  
**Annualized Performance Summary**  
**As of September 30, 2018**

	Performance(%)							Inception Date
	Quarter To Date	YTD	1 Year	3 Years	5 Years	7 Years	Since Inception	
Invesco European Growth (AEDYX)	-1.89	-7.00	-3.58	6.15	3.95	8.84	9.70	11/01/2008
MSCI Europe Net	0.80	-2.46	-0.30	7.71	3.70	8.30	7.45	
Oakmark International (OAYIX)	-0.87	-8.43	-6.25	N/A	N/A	N/A	11.97	12/01/2016
MSCI AC World ex US Net	0.71	-3.09	1.76	9.97	4.12	7.25	13.69	
Vanguard 500 Index;Adm (VFIAX)	7.70	10.53	17.87	17.27	13.91	16.87	6.63	12/01/2000
S&P 500 Total Return	7.71	10.56	17.91	17.31	13.95	16.91	6.65	
Vanguard Growth Index - Lg Growth (VIGAX)	7.78	15.48	22.67	18.60	15.20	17.86	6.72	12/01/2000
CRSP Lg Cap Gr	7.78	15.51	22.70	18.65	15.26	N/A	N/A	
Russell 1000 Gr	9.17	17.09	26.30	20.55	16.58	18.69	6.33	
Vanguard SC Val Idx;Adm (VSIAX)	3.19	6.38	11.23	15.10	11.45	16.57	16.57	10/01/2011
CRSP SM VL	3.20	6.35	11.20	15.12	11.48	N/A	N/A	
Russell 2000 VL	1.61	7.14	9.33	16.12	9.92	15.26	15.26	
Vanguard Value Index - Lg Value (VVIAX)	7.32	6.17	13.57	15.85	12.43	15.91	6.87	12/01/2000
CRSP Lg VL	7.32	6.18	13.59	15.88	12.48	N/A	N/A	
Russell 1000 VL	5.70	3.92	9.45	13.55	10.72	15.02	7.14	
Victory Integrity Small Cap Value (MVSSX)	1.20	2.34	8.11	13.39	9.44	N/A	13.64	07/01/2012
Russell 2000 VL	1.61	7.14	9.33	16.12	9.92	15.26	13.05	

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## Investment Policies - Dan

- Strategic vs. Tactical
- Real Estate: yes or no
- Real Estate: REIT vs. Insurance Contract
- Independent Custodian

7

## Disability Management

Article 3/4 Disability Levels as a percent of pensions paid in disability form:

Fire:	17.3 %
Police:	9.8 %
Combined:	13.1 %

*All rates are lower than they were 10 years ago.*

8

## Disability Management

■ <i>Article 3/4 Disability Rate</i>	13.1 %
■ Article 3/4 and Chicago:	9.6 %
■ Ohio Police/Fire	28.8 %
■ Iowa Muni Fire/Police	35.9 %
■ New York (ex NYC)	19.8 %
■ <i>Arizona Public Safety</i>	13.2 %
■ Colorado Fire/Police	9.1 %

9

## Disability Management Issues

- Intervention by municipality or fire district in disability proceedings.
- Annual re-examinations. By who? How thorough? Ethical issues involved.
- Legislative Opportunity for Improvement. Disability adjudication is complex and expensive. Florida police/fire use a two-step process. Could that be used in Illinois?

10

## Finance/Administration - Stan

- Administrative Service Firm. Yes/No
- Direct Deposit Participation Rate
- Separate Audit Report
- Adoption of Rules and Regulations

11

## Finance/Administration - Dan

- Adoption of Rules and Regulations
- Deceased Payee Monitoring
  - manual via US Mail
  - technology based via IPPFA/L&A.
- Legal Firm Portfolio Monitoring
- Participant Education

12

## The Role of the Finance Director

- Be engaged.
- Understand the role and goals of the Fund.
- Provide thoughts, insights and recommendations.
- Help trustees through their processes.

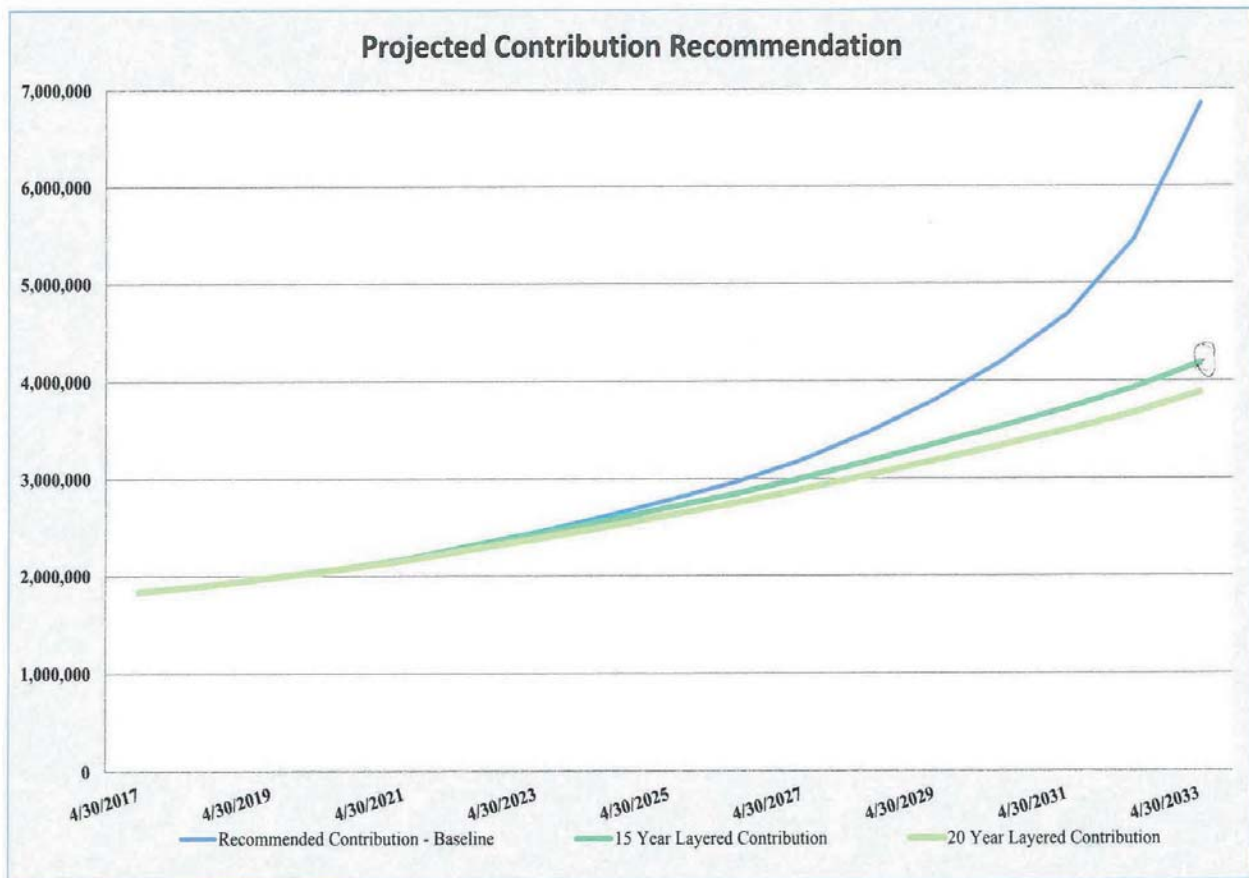
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## Actuarial

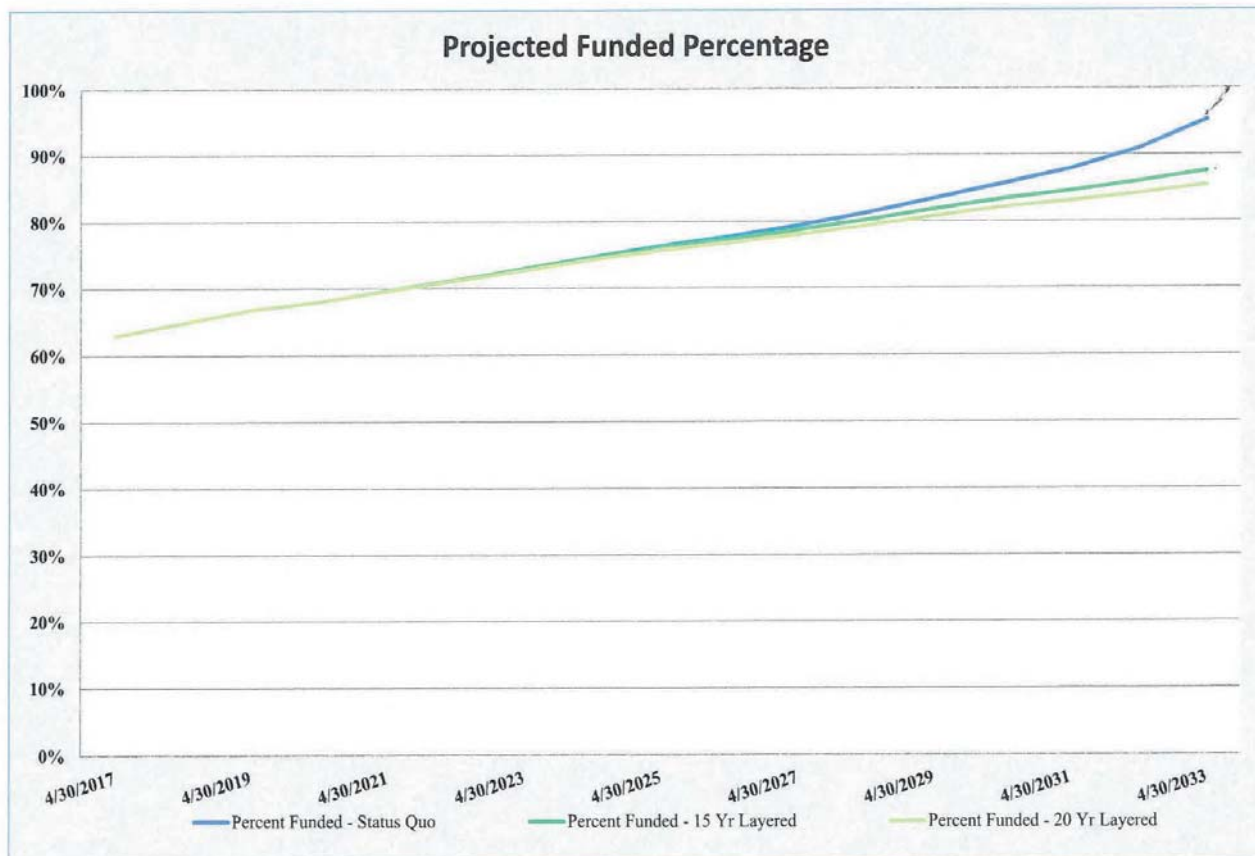
- Work with muni/fire district on selection of the actuary and the key assumptions.
- Understand unfunded liability: where it comes from and how it grows.
- The “whip” – what happens as 2040 approaches?
- Amortization periods – fixed or rolling. And the concept of “layering.”

14

Algonquin Police Pension Fund  
Projected Recommended Contribution



Algonquin Police Pension Fund  
Projected Funded Percentage



## Stan and Dan's Issues

- Stan: the municipality is not the “bad guy.”
- Dan: most actions don’t “kick the can down the road.”
- Stan: quarterly investment reports are for reading and questioning, not filing.
- Dan: public employees pay a substantial amount of their own pensions. Why is this hard for some people to admit?

17

## Mandatory Discussion !

- IGFOA Attendees: what do you propose for a “best practice?”
- Questions and Further Discussion

18



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## **LEGISLATIVE UPDATE**

**William D. McCarty II**

**Director - Office of Budget & Management  
City of Springfield, IL**



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## **QUESTIONS**

**William D. McCarty II**

**Director - Office of Budget & Management  
City of Springfield, IL  
[william.mccarty@springfield.il.us](mailto:william.mccarty@springfield.il.us)**



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# Pension Fund Fiduciary Responsibility & Liability

I KNOW I'M EXCITED!!!!!!!!!!



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- Brought to you by.....
- Jerry Marzullo Super Amazing Attorney Extraordinaire (Is That Spelled Right?)
- Whatevs.
- Puchalski Goodloe Marzullo, LLP 2100 Sanders Road Suite 110 Northbrook, IL 60062 847.666.5680 Jmarzullo@pgm-law.com



# Fiduciary Responsibility & Liability

- Why is this important?
- What are the pitfalls?
- What are we seeing out there?
- How to avoid “The Issues”
- How Much Wood Could a Woodchuck Chuck if a Woodchuck Could Chuck Wood?

# Fiduciary Responsibility & Liability

- Let's talk about “make-up.”



# Fiduciary Responsibility & Liability

- The Mayor, or head of Government, has two picks for the Pension Fund.
- What does this mean?
- Who should serve?
- What could possibly go wrong?

# Fiduciary Responsibility & Liability

- Recusal (Hearings)
- Levy (When to get mad and when to breathe.....)
- PSEBA
- PEDDA
- Comptroller Seizure (Be Nice?)
- Lawsuits

# Fiduciary Responsibility & Liability

- The Mona Lisa Has No Eyebrows
- Women Blink Nearly Twice as Much as Men
- You cannot kill yourself by holding your breath (Sorry, this means you have to sit through this presentation)
- It's impossible to lick your elbow.

# Fiduciary Responsibility & Liability

- Investments (How to Choose your provider?)

40 ILCS 5/1-113.22 (a) No later than January 1, 2018 and each January 1 thereafter, each consultant retained by the board of a retirement system, board of a pension fund, or investment board shall disclose to that board of the retirement system, board of the pension fund, or investment board:

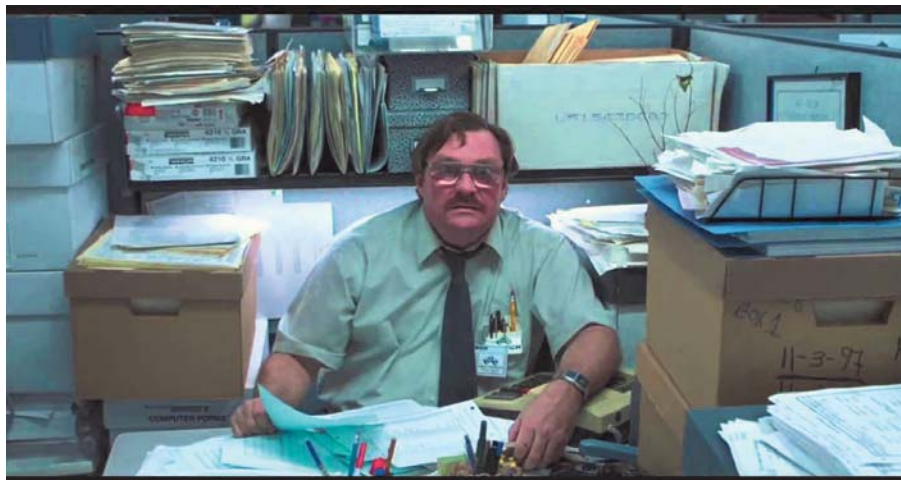
- (1) the total number of searches for investment services made by the consultant in the prior calendar year;
- (2) the total number of searches for investment services made by the consultant in the prior calendar year that included (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability;
- (3) the total number of searches for investment services made by the consultant in the prior calendar year in which the consultant recommended for selection (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability;
- (4) the total number of searches for investment services made by the consultant in the prior calendar year that resulted in the selection of (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability; and (5) the total dollar amount of investment made in the previous calendar year with (i) a minority-owned business, (ii) a women-owned business, or (iii) a business owned by a person with a disability that was selected after a search for investment services performed by the consultant.

# Fiduciary Responsibility & Liability

- Outsource your Investment Search
- Use a Written RFP and Interview!

# Fiduciary Responsibility & Liability

- DOCUMENT DOCUMENT DOCUMENT
- MEETING MINUTES



# Fiduciary Responsibility & Liability

- FOIA.....
- EVERYTHING IS PRETTY MUCH FOIABLE
- TEXT MESSAGES?
- E-MAILS?

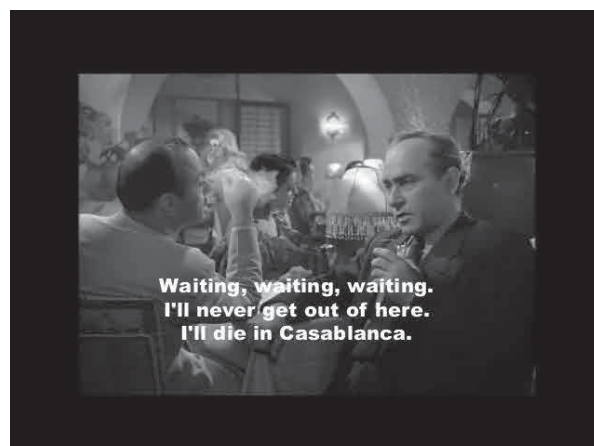
# Fiduciary Responsibility & Liability

- RULES & REGS
- Outsource, and take seriously. Boards are allowed to promulgate rules and regulations.
- Give to every Applicant

# Fiduciary Responsibility & Liability

- Hearings. Disability and Other
- Best Practices for Disability Hearings (Remember, be consistent)
- Best Practices for Other Types of Hearings.
- Why? Hearing after Hearing after Hearing.....

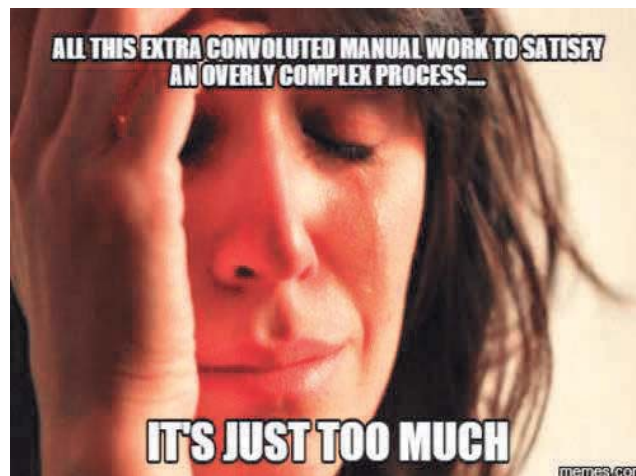
# Fiduciary Responsibility & Liability



# Fiduciary Responsibility & Liability

- Annual Evaluations for Disability
- Administrative Review
- Overpayments and Underpayments
- FIDUCIARY LIABILITY INSURANCE

# Fiduciary Responsibility & Liability



# Fiduciary Responsibility & Liability

- Remember, the attorney on the other side will throw EVERYTHING against the wall to see what sticks.....
- What about municipal intervention on a disability hearing? How does that affect you?

# Fiduciary Responsibility & Liability

- Remember, in the end.....



# Fiduciary Responsibility & Liability



# Fiduciary Responsibility & Liability (Gratuitous Pug Photo)



# Fiduciary Responsibility & Liability

- Questions?
- Jerry Marzullo, PGM Law
- [jmarzullo@pgm-law.com](mailto:jmarzullo@pgm-law.com)
- 847 666 5680

**Allison R. Barrett, Lauterbach & Amen, LLP**

Ms. Barrett has over 25 years of experience in payroll and has been working with Lauterbach & Amen since 2002. As a Director, Allison works with pension boards, pension fund members, the Illinois Department of Insurance and the IRS to ensure the accuracy and timeliness of pension benefit calculations, payments, and reporting. Allison has been actively involved with the Coalition for Qualified Plan Status, working directly with its members and attorneys. Allison is an instructor of sections of the IPPFA Certified Trustee Program and the IPPFA Retirement Coordinator Program, and has spoken at AFFI, IAFPD, IGFOA, IMTA, IPFA, IPPFA, and NIAFPD conferences on pension benefits and IRS issues.

**Maggie Bosley, Lauterbach & Amen, LLP**

Ms. Bosley has over 30 years of experience in accounting and 21 of these years have been served in the governmental sector. She has served as a municipal Finance Director and has participated in numerous governmental engagements, including municipalities, park districts, libraries and various other units of government during her career. Prior to joining Lauterbach & Amen, Ms. Bosley was with a local municipality for 13 years and served as their Finance Director for the last 5 years of her employment. During her municipal tenure, she coordinated their annual audits which were all awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting. In addition, Ms. Bosley prepared the biennial budgets, all of which received the Distinguished Budget Award by GFOA. This high-level and detailed municipal experience makes Ms. Bosley very skilled to support a local government with their current financial issues. Since joining Lauterbach & Amen, Ms. Bosley has been extensively involved in consulting with governments to assist them on their advanced financial issues such debt issuances, policy development, internal controls, budget preparation, public pensions and financial reporting. She has also been instrumental in helping numerous governments with their daily financial operations such as general ledger maintenance, payroll processing and taxability issues, accounts payable processing and year-end processes. Since 2012 Ms. Bosley has been serving as the Finance Director for the Village of Glenview.

**George P. Colis, Oxford Bank & Trust**

Since 1987, George Colis has been Chairman of the Board of Oxford Bank & Trust, which is based in Oak Brook, IL. Over that time period, the bank has enjoyed substantial growth and today operates as both a commercial and retail lender with branches located in the western suburbs of Chicago. George is also a Director of Euclid Insurance Services, Inc., which operates as a manager and underwriter of specialty insurance programs throughout the United States and Europe. George was the Co-Founder of SurePayroll, Inc., which became the nation's leading provider of Software-as-a-Service online payroll processing solutions for small businesses. This company was sold to Paychex, Inc. in 2011. George continues to invest in early stage companies both as an active and a passive investor. George received his B.A. from Northwestern with a major in economics and his M.B.A. from the Kellogg School of Management with majors in finance and accounting. For several years following business school, he worked as an investment banker at Merrill Lynch. George is currently a member of the World Presidents Organization and a Trustee of the Village of Glenview Police Pension Board. He was, previously, the Executive Vice President and Director of the University of Chicago Foundation for Emotionally Disturbed Children.

**Jason Franken, Foster & Foster**

Jason Franken is a consulting actuary and principal with Foster & Foster in Naperville, IL. Jason has 21 years of experience consulting employers on a wide range of pension and postretirement welfare plan issues, including statutory funding requirements, Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) accounting for pension and postretirement medical plans, plan administration, experience studies and plan design. Mr. Franken is a frequent speaker at retirement conferences across the country. He has worked with retirement programs ranging in size from small and large public plans to large Taft-Hartley and Fortune 500 plans. Jason is a Fellow of the Society of Actuaries, a Member of the American Academy of Actuaries and is an Enrolled Actuary per ERISA. He earned a B.S. degree in actuarial science from the University of Iowa.

**Stan Helgersen**

Stan Helgersen was the Finance Director for the Village of Carol Stream for 25 years. He is a past member of the GFOA's Executive Board, former Chair of the GFOA's Treasury and Investment Management Committee and a past president of the Illinois GFOA. Mr. Helgersen has over 40 years experience in the field of government finance. Mr. Helgersen has an undergraduate degree in finance from Northern Illinois University. In addition, he is a Certified Public Finance Officer and a graduate of the Advanced Government Finance Institute at the University of Wisconsin-Madison.

**Elizabeth A. Holleb, City of Lake Forest, IL**

Elizabeth Holleb is the Finance Director and Treasurer for The City of Lake Forest, Illinois, having joined the City staff in June of 2012. She has her BS in Accounting from Ball State University, where she was a Cum Laude graduate of the Honors College. She is a Certified Public Accountant with more than 25 years of work experience in municipal finance. Previous employers include the Government Finance Officers Association, the Village of Northbrook, the Village of Oak Park and the City of Highland Park. Current professional contributions include serving on the GFOA Governmental Budgeting and Fiscal Policy Committee, the Intergovernmental Risk Management Agency's Administration and Finance Committee and its Board of Directors. She has previously served in various roles with the Metro Chapter of the Illinois GFOA and the Illinois Metropolitan Investment Fund Board of Trustees. She is a member of the Government Finance Officers Association and the Illinois GFOA.

**Brian LaBardi, Reimer & Dobrovolny PC**

Brian LaBardi is a partner with the law firm of Reimer & Dobrovolny PC. He concentrates his practice in public sector pension law and civil litigation with a focus on the employment and labor issues faced by police officers and firefighters. Prior to joining Reimer & Dobrovolny, Mr. LaBardi was an Assistant State's Attorney with the Kendall County State's Attorney's Office heading its civil division. While at the State's Attorney's Office, Mr. LaBardi was responsible for advising governmental entities on open government regulations such as the Open Meetings Act and the Freedom of Information Act. Handling a variety of civil litigation defense claims on behalf of County entities and employees, Brian litigated civil and quasi-criminal claims in both the Circuit Court and before administrative bodies. Mr. LaBardi also has an extensive background in private practice civil litigation. Brian has defended professional malpractice claims, commercial litigation claims, business litigations claims and serious injury claims. In addition, he has argued cases in multiple State Appellate Districts as well as the 7th Circuit Court of Appeals and

United States Supreme Court. Mr. LaBardi received his undergraduate degree from Valparaiso University and his law degree from The John Marshall Law School in 2006 where he was on the Dean's List. He is licensed to practice law in Illinois, the United States District Court for the Northern District of Illinois, and the 7th Circuit Court of Appeals. He is a member of the Illinois State Bar Association.

**Jerry Marzullo, Puchalski Goodloe Marzullo, LLP**

Jerry Marzullo is a founding partner with the law firm of Puchalski Goodloe Marzullo, LLP. His firm represents over ninety police and fire pension funds throughout the State of Illinois. He is a former Director of the Illinois Public Pension Fund Association and currently serves as a Deputy General Counsel of that organization. He has successfully represented clients in both pension and labor matters including collective bargaining, arbitrations, pension hearings (representing both Applicants and Pension Boards), administrative review and declaratory judgment proceedings in both State and Federal Courts. Jerry earned his undergrad in Accounting from DePaul, his law Degree from Loyola and his MBA from the Loyola University Chicago Booth School of Business. He has also taught undergraduate and graduate degree courses at Morton College and Lewis University and has spoken at numerous labor and pension conferences for AFFI, IPPFA, MAP, IPFA and NIPSTA. He also has over 19 years of service with the Berwyn Fire Department and has the rank of Deputy Chief of Shift (Berwyn speak for Battalion Chief). He was President of the Berwyn Firefighters' Pension Fund for two terms.

**William D. McCarty II, City of Springfield, IL**

William D McCarty II became Director of Budget and Management (OBM) on May 2, 2011. As Director of OBM, Director McCarty is responsible for overseeing accounting, budgeting, payroll, purchasing, and citywide fleet maintenance services. From October 2007 through May 2011, William was Chief Financial Officer, Bureau of Property Management for the State of Illinois Central Management Services. From April 2005 through April 2009, he served as Village President of Williamsville, Illinois. Prior to becoming Mayor, he spent three years as Village Trustee in Williamsville. He received a bachelor's degree in finance from the University of Notre Dame and holds a master's degree in public administration from the University of Illinois – Springfield. Currently, William is Treasurer of the Illinois Government Finance Officers Association Executive Board and is Chair of the IGFOA Legislative Committee. He is also a member of the Illinois Municipal League Legislative Committee and Vice Chairman of the National Association of Fleet Administrators US Legislative Affairs Committee.

**Melinda Molloy, Village of Wilmette, IL**

Melinda is the Finance Director and Treasurer for the Village of Wilmette, Illinois. In this role, she oversees the Village's accounting systems, directs the collection of funds, approves disbursements, manages investments, provides debt service planning, ensures the accurate and timely completion of the CAFR, is a member of the Budget team, is the staff liaison to the public safety pension funds, and is a Trustee for the Firefighters' Pension Fund. She joined the Village in 2012 after more than a decade as the Treasurer of the Chicago Park District. Melinda earned a bachelor's degree in Economics and Political Science from Elmhurst College, and holds a MPA degree from the University of Illinois-Springfield. The Village of Wilmette is rated AAA by Moody's and for more than twenty years has been a recipient of the GFOA's Certificate of Achievement for Excellence in Financial Reporting as well as the Distinguished Budget Award.

**Daniel W. Ryan, Illinois Public Pension Fund Association (IPPFA)**

Dan Ryan is the former Finance Director in Skokie and a retired union health and pension plan administrator. He is the author of *Retirement Income for Illinois Fire and Police: Pensions, Social Security and Deferred Compensation*. Dan is currently a part-time educational coordinator for the Illinois Public Pension Fund Association (IPPFA). He is a Past President of IGFOA.

**Todd Schroeder, Lauterbach & Amen, LLP**

Mr. Schroeder has over 19 years of experience providing actuarial services to clients in the governmental and private sectors. Todd has participated in numerous governmental engagements, including valuations of public pension funds, school districts, municipalities, and various other units of government. Todd has consulted with government entities on a variety of pension fund issues including proper pension funding and financial statement reporting. Todd's experience includes determining funding requirements for Illinois Police and Firefighters' pension funds and identifying actuarial determinations for financial statement reporting. Todd has co-developed an invaluable program by which Municipalities, Districts and Pension Fund Boards work together to create Funding Policies for use in financial statements and levy determinations. Todd is a recurring speaker for IPPFA, IPFA, AFFI, IGFOA and other public government conference sponsors.

**Jeffrey M. Van Wagner, FSA, EA, MAAA, Alliance Pension Consultants, LLC**

Throughout his career, Jeff has been engaged in helping employers manage their total retirement programs. This includes design and implementation of several types of qualified and nonqualified retirement plans, including Defined Benefit Plans, Cash Balance Plans, Age-Weighted Profit Sharing Plans, Pension Equity Plans, Floor Offset Plans, SERPs, IRC Section 457 Plans and Other Post-Employment Benefit (OPEB) Plans. He also has experience providing actuarial valuation and consulting services within many industries, including not-for-profit, tax-exempt, privately held and publicly traded Fortune 500 companies. At Alliance, Jeff's duties will include design, implementation, administration and strategic planning relating to these programs as well as ensuring that clients receive the most complete and highest quality service available. Prior to joining Alliance, Jeff led relationships with a number of organizations for Watson Wyatt Worldwide. Before Watson Wyatt Worldwide, Jeff was with Ernst & Young and served as a "pension and retirement resource" for transaction services engagements in addition to his primary responsibilities as a consulting actuary. Jeff graduated from Indiana University with a BS in Mathematics and an MA in Applied Mathematics. He is a Fellow of the Society of Actuaries (FSA), an Enrolled Actuary under ERISA (EA) and a Member of the American Academy of Actuaries (MAAA).

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