November 13, 2014
Peoria, Illinois

PROCEEDINGS OF A SPECIAL MEETING
OF THE BOARD OF TRUSTEES OF THE FIREMEN'S PENSION FUND
OF PEORIA, ILLINOIS

A Special Meeting of the Board of Trustees of the Firemen’s Pension Fund of Peoria, Illinois, was held on November 13, 2014, at 1:05 P.M. at City Hall, Room 110, 419 Fulton Street, Peoria, Illinois, with proper notice having been given for the purpose of conducting Firemen’s Pension Fund business.

ROLL CALL

Roll Call showed the following Board Members present: Ball, Nichting (via teleconference), Phillips, Troglio, President Nieukirk – 5; Absent: None.

Others present: Mr. Jason Franken and Ms. Heidi Andorfer of Foster & Foster; Chief Deputy City Clerk Stefanie Rice; Peoria Fire Chief Kent Tomblin; Peoria Firefighters Local 50 President Tony Ardis; Alex Rusciano of Peoria Public Radio; and Jerry Marzullo, Laura Goodloe and Jeff Goodloe of Puchalski Goodloe Marzullo Law Firm (Arrived at 2:03 P.M.).

INVOCATION

President Nieukirk requested a moment of silence in remembrance of those Firefighters who lost their lives while serving their community.

REGULAR BUSINESS

ITEM NO. 1 PRESENTATION by FOSTER & FOSTER of the PEORIA FIREMEN’S PENSION FUND ACTUARIAL REPORT.

Mr. Jason Franken of Foster & Foster reviewed the Actuarial Valuation as of January 1, 2014. He reviewed the actuarial assumption method changes made since last year’s valuation, noting there were no significant changes. He said the mortality assumption was updated to extend the mortality improvements by one year.

In response to Trustee Nichting’s question regarding the mortality assumption utilized in the report and whether this was the rate adopted by the State or if that rate was coming next year, Mr. Franken responded that what was used for this valuation was the RP-2000 Mortality Table, with projected improvements. He said this was standard in the actuarial field. He said there was a new RP-2014 Mortality Table that was in process of being released. In comparing the two tables, Mr. Franken said the RP-2000 was a bit more aggressive in that it assumed shorter life expectancies than the RP-2014 table. He said the Department of Insurance had not adopted either table, and he said there were no plans for the DOI to update their mortality assumption. He said this was something the DOI wanted to examine every couple of years, but he said he was not expecting a change within the next year.

Mr. Franken continued to review the method changes noting the change in the rate of interest. He reported last year’s valuation utilized an interest rate of 7.075%, and he said this valuation utilized an interest rate of 7.00%, which would be followed by 6.875% and 6.75% consecutively for the following years. He said lowering the interest rate would decrease liabilities. The next change he reported was the salary increase assumption. He said the salary assumption was changed from a flat rate of 4.50% to a graded schedule starting at 9.00% and grading down to a
4.50%. He said this assumption was consistent with the Police plan, and based on prior discussions, raises anticipated between Fire and Police were consistent.

Mr. Franken reviewed the methods that were changed. He said the cost method was changed from Projected Unit Credit to Entry Age Normal. He said the Project Unit Credit method was a backloaded method wherein most of the payments for participants' plans would come late in their career. He said this method was in the Illinois Pension Code, which would set the statutory minimum requirement. However, he said the Entry Age Normal was more prominently used, noting approximately 90% of public pension funds utilized this method. He said a change was made in this valuation from the Projected Unit Credit to the Entry Age Normal because of new GASB requirements that become effective at the end of 2014, and to be more actuarially sound and consistent with GASB. He said using this cost method would include interest to determine contribution requirements for January 1, 2014.

In response to Trustee Nichting regarding distributions received from the Personal Property Replacement Tax and the Real Estate Tax during the year, he said the interest could be adjusted to account for those distributions. He remarked on the importance of accounting for interest that would accumulate for payment that was not made on January 1, 2014. He said the interest on the valuation would be adjusted for those distributions. He said, on average, contributions were made on July 1, which would lower the amount calculated by 3.5% because there is an assumption of 7.0% to the end of the year.

For next year's valuation, Trustee Nichting said he would advise Mr. Franken of the dates of distributions, and he said he would provide the approximate data in advance for more accurate calculations.

Mr. Franken said the third method used in the January 1, 2014, valuation was utilizing a closed group valuation approach versus an open group valuation. He said the use of a closed group approach required just to include the participants in the plan to date and not to included projected participants. He said the standard actuarial evaluation has always utilized a closed group.

In response to Trustee Nichting regarding the accounting for employees under the Tier 2 plan and the assumption for the same, Mr. Franken said the normal valuation approach calculated liabilities for every single participant in the plan. He remarked that when participants left the plan, the calculation would not assume new participants. He said the liability for current participants was the liability of the plan. He said, with Tier 1 and Tier 2, it was based on the number of people who participated in each as of the valuation date. He reported that the plan currently had approximately 8% of the participants in Tier 2, so there would be little savings reflected from this group.

Mr. Franken reviewed the summary of the valuation report, which compared 2013 and 2014. He said the 2014 City Required Contribution was approximately $8.8 million, up from last year's required contribution of $8.1 million. He remarked on the difference between the two amounts noting 2013 numbers had not incorporated interest to the end of the year versus 2014 added interest to the end of the year. He said had interest been added to the end of the year for 2013, the required contribution for the City would have been $8.7 million. He remarked that the increase year over year was not that dramatic due to the change in methods.

Mr. Franken said the Department of Insurance calculated a required contribution amount of approximately $7.3 million, or $1.5 million less. He noted that the State utilized the Projected
United Credit while the Fund utilized Entry Age Normal. He said the biggest difference was that the DOI, by statute, based its calculations on the Illinois Pension Code, which required a funding status of 90% of the liability by 2040. He said this current valuation amortized the entire unfunded liability with the goal of 100% funding by 2040. He said the plan had approximately $92 million of unfunded liability as of January 1, 2014, and going from the DOI rate of 90% to the rate of 100% cause the noticeable gap between the two funding requirements.

Mr. Franken remarked that the biggest assumption was the investment rate of return. He said this year the Fund was at 7.075%, with decreased steps for the following years. He said the actual market return for 2014 was approximately 12.0%. He said the Fund significantly outperformed its assumption by 5.0%. However, he said the Fund would only be able to recognize 25.0% of that gain for this year. He said those gains would continue to be recognized for the next three years, which was part of the smoothing process that would help eliminate some volatility. He said the Fund had unrecognized gains of approximately $2.5 million, which would help with the smoothing process over the next three years.

In response to Trustee Nichting’s question regarding incorporating a restart into the calculation, Mr. Franken said a restart would benefit the fund, noting that the fund would recognize all outstanding gains and losses. He said the Fund’s actuarial value of assets equals would equal the market value. He reported that the Fund previously implemented a restart in 2011.

Mr. Franken reviewed the schedule of funding progress for the last five years in accordance with the requirements of paragraph 37 of Statement No. 25 of GASB. He remarked that the funding ratio had remained constant at approximately 58.0% for the last three years. He reported the unfunded liability had increased along with the annual required contribution, and he noted that the City's contribution had decreased from 2012 to 2013. He said the City only contributed approximately 81.0% to the Fund.

In response to Trustee Nichting regarding the City's contribution portion to the Fund, Mr. Franken said prior to 2013, the City contributed the recommended amount; however, last year, he said the City paid according to the numbers provided by the Department of Insurance.

Mr. Franken reported that beginning at the end of 2014, the Plan would have to adopt GASB 67 standards, and in 2015 the City would have to adopt GASB 68 standards. He said this would cause the City to recognize its unfunded liability on its balance sheet. He commented that GASB required how the Fund determined liability. He said valuations would have to use Entry Age Normal and an interest rate of 6.75%, but only if the Fund qualified. He said if the Fund did not qualify, he remarked that a lower rate may have to be used. He said that would be the number recognized on the balance sheet.

In response to Trustee Nichting regarding differentiating between State Law and Federal Mandate, Mr. Franken said GASB was mainly for accounting. He said there were two completely different valuations, but the DOI would not change their process. He commented that at the City Level, the Fund needed to have a valuation done in accordance with GASB in order to determine GASB liability numbers.

In response to Trustee Troglio, Mr. Franken said the City had to adopt GASB 68. He commented that one thing to worry about was the contribution levels and how the City was going to contribute.
It was discussed that the City fell short of their contribution last year by 20% by using the State Law Mandate. It was noted that if the City continued to fund at the State level, it could result in an immediate increase in GASB liability.

In discussions regarding bond issuance, Mr. Franken said the Plan currently had $92.3 million of unfunded liability. He remarked that if a bond was issued to bring the Fund up to 100%, there would still be bond payments that had to be made. He said the Plan had a normal cost of approximately $5.5 million, and even with a zero unfunded liability, there would be a required amount of $5.5 million annually.

Trustee Troglio moved to adopt the Valuation Report as of January 1, 2014, prepared by Foster & Foster and recommend the City to levy $8,825,900.00 for the Firemen’s Pension Fund; seconded by Trustee Phillips.

It was noted that Trustee Nichting was unable to vote. Trustee Nichting commented that even though his vote could not be recognized, he said he supported the Board’s decision.

Trustee Troglio requested to schedule actuarial valuation discussions in the spring in order to prepare for budget discussions in the fall.

Trustee Nichting requested Trustee Ball to draft a letter to the Mayor and City Manager with the Board’s recommendation to the Council.

It was discussed that the Board would request, by letter to the City Council, a contribution of $8,825,900.00, which would go on the City Council Agenda for November 25, 2014.

Motion to adopt the Valuation Report as of January 1, 2014, as prepared by Foster & Foster and recommend a levy amount of $8,825,900.00 was approved by roll call vote.

Yeas: Ball, Phillips, Troglio, President Nieukirk – 4.
Nays: None.

Fire Chief Tomblin, Peoria Firefighters Local 50 President Tony Ardis, Mr. Jason Franken, and Ms. Heidi Andorfer left the meeting at 2:00 P.M.

**ITEM NO. 2 PRESENTATION by PUCHALSKI, GOODLOE & MARZULLO Regarding Legal Services.**

Mr. Jerry Marzullo, Ms. Laura Goodloe and Mr. Jeff Goodloe of Puchalski, Goodloe, Marzullo provided a presentation regarding their legal services for the pension fund, with an emphasis placed on accessibility to legal advice and customer service. They provided a history of the firm along with their services. They remarked that 75-80% of their practice were dedicated to downstate fire pension funds.

Discussions were held regarding attendance at monthly meetings and attorney fees, noting they would charge a monthly retainer. The services covered by the retainer were discussed along with the hourly rate.

Mr. Jerry Marzullo, Ms. Laura Goodloe and Mr. Jeff Goodloe left the meeting at 2:45 P.M.

Discussions regarding attorney fees were held by the Board.
CITIZENS' OPPORTUNITY TO ADDRESS THE BOARD OF TRUSTEES

It was determined there were no citizens present to address the Board of Trustees.

EXECUTIVE SESSION

It was determined that an Executive Session was not needed at this time.

ADJOURNMENT

Trustee Phillips moved to adjourn the Special Firemen's Pension Board Meeting; seconded by Trustee Troglio.

Approved by viva voce vote.

The meeting adjourned at 2:51 P.M.

Beth Ball, MMC, City Clerk
Trustee and Board Secretary,
Firemen's Pension Fund of Peoria, Illinois

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