FRANKFORT FIRE PROTECTION DISTRICT
FRANKFORT FIRE DEPARTMENT

Minutes of the Special Public Meeting of the Board of Trustees of the Frankfort Fire Protection District, Will County, Illinois, held at Fire Station Number One, 333 West Nebraska Street, Frankfort, Illinois, in said District at 9:30 A.M. on the 16th day of September 2014.

CALL TO ORDER:

Trustee Robert Jacobs announced this was a Special meeting with the Board of Trustees and the Pension Board.

President Jacobs called the meeting to order and asked for a roll call of the Board of Trustees.

Upon the roll being called, the following Trustees answered present:
Robert Jacobs, Michael Kavanagh, Donald Lorenz and Daniel Rossi.

Trustee William F. Hoffmeister was absent from said meeting.

President of the Pension Board asked for a roll call of its Trustees.

Upon the roll being called, the following Pension Board Trustees answered present:
Dan Faber, Todd Hamm, Alphonso Jackson, Michael Kavanagh and Asst. Chief Wilson.

The following were also in attendance:
Colleen Trela, Todd Schroeder, Sherry Lauterbach from Lauterbach & Amen; Tom Sawyer from Sawyer & Falduto; and, Atty. Carolyn Clifford.

PLEDGE OF ALLEGIANCE:

All present stood for the Pledge of Allegiance.

PUBLIC COMMENTS:

None.

DISCUSSION OF PENSION FUNDING POLICY:

On behalf of both Boards, Trustee Robert Jacobs welcomed the representatives from Lauterbach & Amen.

Sherry Lauterbach stated the purpose of this meeting on "Pension Funding Policy" is strictly educational and presented the following "overview" on how to make a sound decision on a funding policy, based on how a plan affects how you obtain funding.

Sherry stressed the following: **Investment returns are the main source of funding Pension Funds.**

1. Four Goals --
   - Benefit Security for Participants
   - Affordability and Budget Stability
   - Effective Funding of Costs
   - Inter-period Equity (fairness to taxpayers)

DISCUSSION OF PENSION FUNDING POLICY: [Continued]

Cash Flow Analysis is a better monitor of Funding "health" than Funding Percentages because percentages are too easily manipulated and are considered short-term.

GASB (Governmental Accounting Standards Board) is implementing changes effective 2016 --
Defines what a District must report in Financial Statements to maintain consistency among all Government entitles (eliminates manipulation). Also, report any Liability on the Balance Sheet, rather than in the "Notes Section", on a government wide level.

In answer to the question posed by Trustees Jacobs and Rossi, the concept of a "Pension Funding Policy" is in its infancy, due to the fact the reliance was always on State Government to set the "Funding Policy". The State of Illinois and the political process, does not have a mandatory Funding Policy, merely a minimum funding requirement -- a recommended minimum.

In an answer to Trustee Donald Lorenz's question, GASB allows you to disclose your Funding Policy in the "Notes" on your Financial Statement. GASB's position is -- they have nothing to do with funding, they define how to report the liability.

2. Contribution Components consist of two (2) Actuarial Cost Methods:
   Normal Cost (today's costs) and Amortization Unfunded Liability (liability from the past).

   A. The Normal Cost method allocates future costs to specific periods by using either of the following calculation modes: "Entry Age Normal" (EAN) or "Projected Unit Credit" (PUC).
      Entry Age Normal (EAN) allocates costs evenly over an employee's working career -- "Level Funding". Within the "EAN" mode, two (2) additional calculation methods are available: EAN - Level Dollar (a specific amount consistently) or EAN - Level Percent of Pay (amount increased due to inflation and employee's increased "value").
      Projected Unit Credit (PUC) contributes less money at the early part of an employee's career and much more money towards the end of an employee's career -- "Escalating Funding". The two (2) additional methods for "PUC" are PUC Level Dollar or PUC Level % of Pay.

   The Entry Age Normal (EAN) calculation reduces total costs over the life of the plan compared to the Projected Unit Credit (PUC).

The FFPD is currently using the "Entry Age Normal - Level Percent of Pay" method.

Pension funding comes from three (3) sources: Employees - District (tax payers) - Interest Income.

Todd Schroeder noted that per the most recent Quarterly Report from Sawyer & Falduto (the FFPD's Investment Manager since May 2008) $10.5 million is sitting in the pension fund, with $3.0 million of that figure (30%) coming from investment income.

In reference to the "Tier Two" participant Benefit re-structure in 2011, Tier Two only has an impact when there are participants. The FFPD currently has two (2) participants in Tier Two and will not experience any significant amount of savings until the majority of the participant base are Tier Two. It is estimated the FFPD could attain about a 12-15% savings impact on the required Contribution in about 20 years.

Attorney Carolyn Clifford noted that since the Tier Two Disability benefits were changed to mirror the Tier One Disability benefits, there may be an increase in the number of Disability Pensions awarded to Tier Two career participants.

DISCUSSION OF PENSION FUNDING POLICY: [Continued]

3. The Amortization of Unfunded Liability is amortization of the current unfunded accrued liability.

Attorney Carolyn Clifford stressed the better the current unfunded liability can be managed, without accumulating any additional unfunded liability, is a "win-win" for the FFPD and the taxpayers.

Todd Schroeder stated the payment for the unfunded liability for the FFPD is in the 10-12% range and of the recommended total Contribution, this 10-12% is directed towards this unfunded liability. The unfunded liability will grow forward at the expected interest rate, until the gap is closed.

Todd confirmed for Trustee Daniel Rossi that the recommended actuarial contribution (tax levy) for this year, includes a portion that goes towards the current unfunded liability. This portion does not totally pay off the unfunded amount -- it is merely a part of a plan to pay off the unfunded liability.

Dan Faber clarified to the Boards that a 7% rate of return has been used in these calculations, rather than using the Pension Board's requested 6.75% rate, due to the fact the final figures are not yet available. It is assumed the new rate will have an effect on the final figures.

The Boards held a brief discussion on the interest investment rates.

Unfunded Liability has two (2) payment options: Level Dollar Basis or Level Percent of Pay Basis.

A. Level Dollar Basis is like a mortgage -- specific monthly payments for a specific period of time.
B. Level Percent of Pay Basis -- decrease payments early on and increase them throughout the payment period (defers payment and significantly increases in cost).

The Boards discussed the Unfunded Liability history and how the State of Illinois allowed, through legislation in 1993 and 2011, the Unfunded Liability to grow to an unmanageable level.

Deferral of unfunded liability payments directly relates to unearned interest income.

A percent (%) of funding level (100, 90, 80, 75) and length of amortization period (30, 40 years) is an important factor regarding unfunded liability.

The FFPD is currently using the Level Dollar Basis option -- targeting a 100% pay off of unfunded liability by 2040.

(At 11:55 A.M., Trustee Donald Lorenz left the meeting.)

4. Actuarial Value of Assets.

The Plan Liability is offset by the value of Plan Assets to determine unfunded accrued Liability.

There are two (2) methods to value Assets: Actual Market Value Gain/(Loss) and Smoothed Market Value, 5-Year Smoothing (Actuarial Assets).

The FFPD uses the 5-Year Smoothing Market Value (Actuarial Assets) method and went into effect as of the 2011 Legislation date.

Attorney Carolyn Clifford noted that going forward the tax cap will likely reach a limit, whereby what can be levied, will not be enough to cover pensions.

It is important to choose a method and stay with it.

DISCUSSION OF PENSION FUNDING POLICY: [Continued]

5. Plan Assumptions -- Projecting the Benefits to be Paid.

Review the following current Assumptions:
- Retirement
- Termination
- Disability
- Mortality
- Projected Salary Increases

Lauterbach & Amen's Assumptions are specific to Firefighters, as opposed to the State's average "blue collar" worker Assumptions.

6. Investment Returns -- Expected Return on Plan Assets.

The majority of money should come from Investment Income.

When projecting Benefits to be paid, the following should be considered:
- Reasonable ranges by Portfolio size
- Short-Term versus Long-Term returns
- Nature/mix of current and expected Assets
- Impact of volatility in the Market
- Sensitivity Analysis

The Boards held an open discussion regarding the effect of administrative costs on percentage of Interest Income.

In closing, Sherry Lauterbach "thanked" Tom Sawyer for his presence at this meeting.

Sherry stressed the following -- in general, do not allow unfunded liability to grow and take a conservative approach in the Interest Rate Assumption (6.50%-6.75%).

Todd Schroeder answered Trustee Robert Jacobs' question that fees for their Actuarial Service is based on the amount of "work effort" to produce the Report, rather than the percent of funding level.

Tom Sawyer stated their Investment Advisor fee is Market Value based.

Trustee Dan Faber and Trustee Robert Jacobs "thanked" the Representatives from Lauterbach & Amen, Attorney Carolyn Clifford and Tom Sawyer for their participation in this meeting.

CLOSED SESSION PER STATUTE 5ILCS120/2C FOR THE PURPOSE OF DISCUSSING LITIGATION, COLLECTIVE NEGOTIATING MATTERS, REAL ESTATE, AND PERSONNEL:

None requested.

POSSIBLE ACTION ON ITEMS DISCUSSED IN CLOSED SESSION:

None.

ADJOURNMENT/RECESS:

At 12:50 P.M., a **Motion** was made by Trustee Michael Kavanagh, seconded by Trustee Daniel Rossi that this meeting be adjourned.

President Jacobs called for a voice vote upon said Motion. All in favor. Motion carried.

Michelle Selvaggio, Recording Secretary

Secretary, Board of Trustees

Transcription by: Carolyn J. Williams, Administrative Receptionist