GRS Gabriel Roeder Smith & Company
Consultants & Actuaries

VILLAGE OF MORTON POLICE OFFICERS' PENSION FUND

ANNUAL ACTUARIAL VALUATION

AS OF APRIL 30, 2014

CONTENTS

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August 4, 2015

The Pension Board
Village of Morton Police Officers' Pension Fund
Morton, Illinois

Dear Board Members:

We are pleased to provide our formal annual Actuarial Valuation Report as of April 30, 2014, covering the Village of Morton Police Officers' Pension Fund. This report provides, among other things, the minimum annual contribution requirements of the Plan for the Plan Year commencing April 30, 2014, and ending on April 30, 2015, (which directly affects the Village's tax levy in the 2016 fiscal year that is collected and deposited into the Pension Trust in the 2017 fiscal year). This valuation was based on the plan provisions as outlined in Section C of this report, the Plan participant data as provided by the Village of Morton (i.e., plan sponsor), the actuarial cost method and the set of actuarial assumptions as described in Section D of this report and the benefit and funding policy changes included in Public Act 96-1495.

The mortality rates were updated from the 1994 Group Annuity Mortality (GAM) Table for males and females without any age set forward (three years set forward in cases of disability) used in the April 30, 2013, valuation, to the RP 2000 Blue Collar Mortality Table, sex distinct, adjusted for mortality improvements to 2025 using projection scale AA for healthy mortality (disability rates are the healthy rates set forward four years).

Chapter 40, Act 5, Article 1A of the Illinois Compiled Statutes requires an actuarial balance sheet (i.e., actuarial valuation) be prepared by a qualified actuary in order to determine the annual tax levy to meet the annual actuarial requirements of the Pension Fund. Lance Weiss and Paul Wood of Gabriel, Roeder, Smith & Company have the following qualifications:

> **Lance Weiss** is a Member of the American Academy of Actuaries, and an Enrolled Actuary with over 30 years of responsible experience in the actuarial and pension consulting field.
>
> **Paul Wood** is an Associate of the Society of Actuaries and a Member of the American Academy of Actuaries with over 10 years of responsible experience in the actuarial and pension consulting field.

It is our understanding, in accordance with the Illinois Compiled Statutes, that the undersigned more than satisfy the minimum requirements as set forth in the referenced Pension Code as recently amended. In addition, it is also our understanding that the Pension Code does not mandate that the Illinois Department of Insurance's annual actuarial valuation of the Pension Fund be controlling.

Lance Weiss and Paul Wood are Members of the American Academy of Actuaries (MAAA), as indicated, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

This report should not be relied on for any purpose other than the purpose stated.

The signing actuaries are independent of the plan sponsor.

We will be pleased to review this report with you at your convenience.

Sincerely,

Lance J. Weiss

Lance Weiss, EA, FCA, MAAA
Senior Consultant

Paul T Wood

Paul Wood, ASA, FCA, MAAA
Consultant

LW/PW:dj

SECTION A

VALUATION RESULTS

SUMMARY OF ACTUARIAL VALUATION RESULTS

		Actuarial Valuation as of April 30, 2013	Actuarial Valuation as of April 30, 2014
Employee Data	Number of Active Police Officers	23	23
	Number of Service Retirees	8	8
	Number of Disabled Lives	1	1
	Number of Widow Beneficiaries	0	0
	Number of Children Beneficiaries	0	0
	Number of Separated Police Officers	2	1
	Number of Handicapped Beneficiaries	0	0
	TOTAL	34	33
	Total Annual Salaries of Police Officers [1]	$ 1,495,490	$ 1,545,699
Plan Liabilities	Gross Actuarial Accrued Liability:		
	Active Police Officers	$ 8,832,777	$ 10,238,094
	Retirees, Beneficiaries, Disabled and Separated Deferred Retirements	6,519,758	6,384,112
	TOTAL	$ 15,352,535	$ 16,622,206
	Actuarial Value of Assets at Valuation Date	$ 10,207,605	$ 10,884,650
	Unfunded (Overfunded) Actuarial Accrued Liability	$ 5,144,930	$ 5,737,556
	Funded Position of Plan's Gross Actuarial Accrued Liability [2]	66.5 %	65.5 %

[1] *Equals the expected total annual salaries of Police Officers in the coming year.*
[2] *Equals the ratio of the actuarial value of assets to the total gross actuarial accrued liability.*

SUMMARY OF ACTUARIAL VALUATION RESULTS (CONCLUDED)

		For the 2015 Tax Levy Year [2]	For the 2016 Tax Levy Year [3]
Minimum Annual Contribution Requirements	Total Minimum Annual Contribution Requirement for the Fiscal Year [1]	$ 594,586	$ 644,729
	Projected Annual Salaries of Police Officers	$ 1,601,294	$ 1,704,526
	Minimum Annual Contribution (As a percentage of pay)	37.1%	37.8%

[1] The minimum annual contribution requirement determined in accordance with P.A. 96-1495 is equal to the amount sufficient to bring the total assets of the pension fund up to 90% of the total actuarial liabilities of the pension fund by April 30, 2040, calculated each year as a level percentage of payroll under the projected unit credit actuarial cost method.
[2] Affects the Village's tax levy in the 2015 fiscal year that is collected and deposited in the pension trust in the 2016 fiscal year.
[3] Affects the Village's tax levy in the 2016 fiscal year that is collected and deposited in the pension trust in the 2017 fiscal year.

DERIVATION OF EXPERIENCE GAIN (LOSS)
YEAR ENDED APRIL 30, 2014

Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is expected that gains and losses will cancel each other over time, but year-to-year fluctuations are not uncommon. Detail on the derivation of the experience gain (loss) is shown below, along with a year-by-year comparative schedule.

1.	Unfunded Actuarial Accrued Liability at 04/30/2013	$ 5,144,930
2.	Normal Cost at 04/30/2013	561,861
3.	Interest on (1) and (2) to 04/30/2014 (at 5.50% per annum)	298,216
4.	Contributions (Employer and Employee) made during the 2014 Fiscal Year, with assumed interest to 04/30/2014	811,621
5.	Expected Unfunded Actuarial Accrued Liability at 04/30/2014 [(1) + (2) + (3) - (4)]	$ 5,193,386
6.	Effect of assumption changes on Unfunded Actuarial Accrued Liability at 04/30/2014	247,345
7.	Expected Unfunded Actuarial Accrued Liability at 04/30/2014 after assumption changes [(5) + (6)]	5,440,731
8.	Actual Unfunded Actuarial Accrued Liability at 04/30/2014	5,737,556
9.	Gain (Loss) for the 2013-2014 Fiscal Year [(7) - (8)]	$ (296,825)

Valuation Date April 30	Experience Gain (Loss) as % of Beginning Accrued Liability
2005	(5.1)%
2006	0.5 %
2007	(9.5)%
2008	(3.1)%
2009	(7.8)%
2010	(2.0)%
2011	(0.3)%
2012	(3.5)%
2013	(0.3)%
2014	(1.9)%

The valuation results pertaining to the current Plan Year are analyzed and discussed in the following paragraphs.

Financing

The Village Council or the Board of Trustees of the municipality shall annually levy a tax upon all the taxable property of the municipality at the rate on the dollar which will produce an amount which, when added to the deductions from the salaries or wages of plan members, and revenues available from other sources, will equal a sum sufficient to meet the annual requirements of the pension fund.

Prior to the enactment of P.A. 96-1495, the annual requirement to be provided by such tax levy was equal to:

1. The normal cost of the pension fund for the year involved; plus
2. The amount necessary to amortize the fund's unfunded accrued liabilities over a closed period of 40 years from July 1, 1993.

After the enactment of P.A. 96-1495, the annual requirement to be provided by such tax levy is equal to:

1. The normal cost of the pension fund for the year involved; plus
2. The amount sufficient to bring the total assets of the pension fund up to 90% of the total actuarial liabilities of the pension fund by the end of municipal fiscal year 2040.

In making these determinations, the required minimum employer contribution shall be calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040 and shall be determined under the projected unit credit actuarial cost method necessary to amortize the fund's unfunded accrued liabilities as provided in Section 3-127. The tax shall be levied and collected in the same manner as the general taxes of the municipality, and in addition to all other taxes now or hereafter authorized to be levied upon all property within the municipality, and shall be in addition to the amount authorized to be levied for general purposes as provided by Section 8-3-1 of the Illinois Municipal Code, approved May 29, 1961, as amended. The tax shall be forwarded directly to the treasurer of the board within 30 business days after receipt by the county.

In effect, P.A. 96-1495 lengthened the amortization period from 22.17 years as of April 30, 2011, to 29 years as of April 30, 2011, with 26 years remaining as of April 30, 2014.

Because the required minimum employer contribution under P.A. 96-1495 is calculated each year as a level percentage of payroll over the years remaining up to and including fiscal year 2040, additional assumptions were necessary in order to determine projected benefits and contribution rates for each year up to and including fiscal year 2040. These assumptions include the following:

- New entrants whose average age and average pay are based on the average age and average pay of new entrants for the current active population with more than one year of service;

- The active member population is assumed to remain level at 23 for all years of the 30-year projection; and
- Projected benefits for members hired on or after January 1, 2011, are based on the new benefit provisions established in P.A. 96-1495.

It is important to note that benefits for new hires are based on capped payroll. All results in this valuation assume that Village contribution rates for fiscal years 2014 through 2040 will be a uniform percentage of capped payroll.

Another change required under P.A. 96-1495 is that for purposes of determining the required employer contribution to a pension fund, the value of the pension fund's assets shall be equal to the actuarial value of the pension fund's assets, which shall be calculated as follows:

1. On April 30, 2011, the actuarial value of the pension fund's assets shall be equal to the market value of the assets as of that date; and
2. In determining the actuarial value of the Plan's assets for fiscal years after April 30, 2011, any actuarial gains or losses from investment return incurred in a fiscal year shall be recognized in equal annual amounts over the 5-year period following that fiscal year.

Please understand that P.A. 96-1495 in effect reduced the amortization goal from 100% funded to only 90% funded and lengthened the amortization period as of April 30, 2011, from 22.17 years to 29 years. This had the effect of significantly reducing the fiscal 2012 minimum contribution requirement for the Village of Morton. The impact of the current funding policy is to defer contributions into future years. Because the minimum contribution requirement is just that – a minimum – the Village of Morton could consider contributing more than the minimum in order to strengthen the funded position of the pension fund. Strategies to strengthen the current statutory funding policy include the following:

- Shortening the projection period needed to reach 90 percent funding; and
- Increasing the 90 percent funding target.

Plan History The following table provides a summary of the Plan's approximate rate of return on the Market Value of plan assets over the last 20 actuarial valuations performed by Gabriel, Roeder, Smith & Company:

Plan Year Ending	Approximate Rate of Return On Plan Assets
4/30/1995	7.7 %
4/30/1996	2.3
4/30/1997	(1.1)
4/30/1998	11.8
4/30/1999	10.1
4/30/2000	8.5
4/30/2001	1.3
4/30/2002	3.3
4/30/2003	1.1
4/30/2004	2.0
4/30/2005	1.6
4/30/2006	3.1
4/30/2007	5.6
4/30/2008	3.8
4/30/2009	(1.2)
4/30/2010	4.3
4/30/2011	3.2
4/30/2012	0.1
4/30/2013	2.3
4/30/2014	5.0

The table shows that the Plan's assets have earned on average 3.68%, per annum over the last 20 plan years. The valuation assumption is based on the future expected asset returns which depend on the asset allocation, and not necessarily historical returns. The plan assets are currently invested in cash equivalents and fixed income securities and there appear to be no equity investments.

Analysis of the Experience Gain (Loss) for the 2014 Fiscal Year

The experience gain(loss) reported on page A-3, is the net result of the following:

(a) From plan asset performance	$	(202,062)
(b) From salary increases		(68,581)
(c) From assumption changes		(247,345)
(d) Other sources ("net effect" of terminations, new entrants, retirements, etc.)		221,163
Total Gain/(Loss): [(a) + (b) + (c) + (d)]	$	(296,825)

Changes in the Minimum Annual Contribution for the 2015 Fiscal Year

The dollar amount for the plan's annual minimum required contribution for the 2015 fiscal year is approximately 8.4% higher than the level for the 2014 fiscal year. As a percentage of payroll, the contribution requirement is higher than last year (i.e., increasing from 37.1% to 37.8%). The important factors producing this change are summarized as follows:

1. Minimum Annual Contribution Requirement for the 2014 fiscal year	$	594,586
2. Actual Asset Performance		2,965
3. Increase in Normal Cost and Amortization Amount due to anticipated pay increases		20,995
4. Changes in Assumptions		20,712
5. Other Sources ("net effect" of terminations and salary increases greater than expected and unexpected population growth, etc.)		5,471
6. Minimum Annual Contribution Requirement for the 2015 fiscal year (sum of items 1 through 5)	$	644,729

Comments on Actuarial Value of Assets

Government accounting standards mandate the use of market value of assets or market-related value of assets for accounting purposes. The Pension Fund uses market-related value of assets for both government accounting and funding purposes. Previously, the market-related value of assets recognized gains and losses due to return on plan assets over a four-year period.

Effective April 30, 2011, the actuarial value of the pension fund's assets was set equal to the market value of the assets as of that date.

In determining the actuarial value of assets for fiscal years after April 30, 2011, actuarial gains or losses from investment return incurred in a fiscal year shall be recognized in equal annual amounts over a 5-year period following that fiscal year.

GASB Statements No. 25 and 27

GASB Statement No. 25 is applicable to fiscal years beginning after June 15, 1996. It was adopted by the Village of Morton Police Officers' Pension Fund in the January 1997 report. GASB Statement 27 is applicable to fiscal years beginning after June 15, 1997. It was adopted by the Village of Morton in the 1998 report. A transition pension liability (asset) has been developed under GASB Statement No. 27 equal to the cumulative difference between the actuarially determined funding requirement and the actual amount contributed for fiscal years 1987 to the date GASB Statement No. 27 is adopted. As of the adoption date, all outstanding pension liabilities (assets) are adjusted to equal the transition NPO. Section E of this report provides further details and explanations on these regulations.

GASB Statements No. 67 and 68

Effective with fiscal year ending April 30, 2015, GASB Statement No. 67 is replacing GASB Statement No. 25 for pension plan financial reporting requirements. GASB Statement No. 68 is replacing GASB Statement No. 27 for employer financial reporting effective with fiscal year ending April 30, 2016. The discount rate used for GASB Statements No. 67 and No. 68 reporting purposes will be based on a single equivalent discount rate using a combination of 5.5 percent for the projected benefits for all current members that can be paid from current assets and projected investment return, future employee contributions from current members, and future employer contributions attributable to current members, and a municipal bond rate for the portion of the projected benefits after assets are depleted. The municipal bond rate is based on a yield or index rate for 20-year, tax exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

Due to the single equivalent discount rate and shorter amortization periods required under GASB Statements No. 67 and No. 68, the unfunded liabilities and pension expense will likely be higher and more volatile than under the current standards. A measurement of the single equivalent discount rate, unfunded liability and pension expense has not yet been performed.

SECTION B

PROJECTIONS UNDER P.A. 96-1495

Village of Morton Police Officers' Pension Fund

Actuarial Valuation Projection Results Based on P.A. 96-1495 as of May 1, 2014 (Based on Projected Unit Credit Cost Method)

($ in Thousands)

Year	Actuarial Accrued Liability	Market Value of Assets	Actuarial Value of Assets	Unfunded Liability	Actuarial Value Funded Ratio	Uncapped Payroll	Capped Payroll	Employer Normal Cost	Statutory Minimum Contribution*	Statutory Contribution % of Projected Pay	Employee Contributions	Benefit Payments
2014	$ 16,622	$ 10,474	$ 10,885	$ 5,737	65.48%	$ 1,546	$ 1,546	$ 415	$ 595	36.06%	$ 147	$ 481
2015	17,719	11,304	11,549	6,170	65.18%	1,597	1,597	465	645	37.82%	153	440
2016	18,833	12,186	12,265	6,568	65.12%	1,649	1,649	470	665	37.82%	158	492
2017	19,968	13,119	13,129	6,839	65.75%	1,705	1,705	477	690	37.82%	163	544
2018	21,113	14,071	14,071	7,042	66.65%	1,759	1,759	479	706	37.82%	169	601
2019	22,281	15,050	15,050	7,231	67.55%	1,825	1,825	488	734	37.82%	174	656
2020	23,429	16,028	16,028	7,401	68.41%	1,866	1,866	476	762	37.82%	181	732
2021	24,571	17,015	17,015	7,556	69.25%	1,940	1,940	479	789	37.82%	185	807
2022	25,760	18,056	18,056	7,704	70.09%	2,016	2,016	492	810	37.82%	192	842
2023	26,972	19,136	19,136	7,836	70.95%	2,085	2,085	495	840	37.82%	200	894
2024	28,165	20,222	20,222	7,943	71.80%	2,141	2,141	484	867	37.82%	207	974
2025	29,354	21,327	21,327	8,027	72.66%	2,221	2,221	485	889	37.82%	212	1,049
2026	30,544	22,459	22,459	8,085	73.53%	2,293	2,293	484	917	37.82%	220	1,117
2027	31,693	23,584	23,584	8,109	74.42%	2,351	2,351	467	943	37.82%	227	1,212
2028	32,795	24,705	24,705	8,090	75.33%	2,425	2,425	454	971	37.82%	233	1,311
2029	33,861	25,827	25,827	8,034	76.27%	2,495	2,494	443	995	37.82%	240	1,402
2030	34,881	26,948	26,948	7,933	77.26%	2,570	2,567	430	1,025	37.82%	247	1,497
2031	35,837	28,057	28,057	7,780	78.29%	2,640	2,630	409	1,055	37.82%	254	1,600
2032	36,743	29,164	29,164	7,579	79.37%	2,730	2,711	399	1,084	37.82%	261	1,696
2033	37,621	30,288	30,288	7,333	80.51%	2,822	2,789	397	1,115	37.82%	269	1,778
2034	38,473	31,429	31,429	7,044	81.69%	2,920	2,866	396	1,147	37.82%	276	1,857
2035	39,306	32,595	32,595	6,711	82.93%	3,025	2,947	398	1,181	37.82%	284	1,931
2036	40,126	33,794	33,794	6,332	84.22%	3,137	3,032	403	1,208	37.82%	292	2,002
2037	40,941	35,033	35,033	5,908	85.57%	3,258	3,121	412	1,244	37.82%	300	2,068
2038	41,730	36,297	36,297	5,433	86.98%	3,368	3,194	413	1,281	37.82%	309	2,147
2039	42,507	37,601	37,601	4,906	88.46%	3,505	3,290	424	625	17.97%	317	2,218
2040	43,304	38,973	38,973	4,331	90.00%	3,647	3,386	439	643	18.03%	326	2,266

** Statutory Minimum Contribution for the fiscal year will be levied the following year and deposited the year after that.*

SECTION C

BENEFIT PROVISIONS AND VALUATION DATA

BRIEF SUMMARY OF PLAN PROVISIONS
(APRIL 30, 2014)

Plan	Police Pension Fund as Incorporated in Chapter 40, Act 5, Article 3 of the Illinois Compiled Statutes
Effective Date	Enacted: July 25, 1963 Last Amended Effective: August 26, 2014
Eligibility to Participate	Generally, any person who is in the Police Department of a city, village or incorporated town (whose population is 500,000 or less) which has adopted the provisions of Chapter 40, Act 5, Article 3 of the Illinois Compiled Statutes concerning Police Officers' pensions, is eligible to participate, subject to the following: (a) The person has been appointed to the Police force of a Police Department and sworn and commissioned to perform Police duties; and (b) Within three months after receiving his/her first appointment (or within three months after any re-appointment) the person makes written application to the Board to be covered under the provisions of the Article; and (c) The person is found to be physically and mentally fit to perform the duties of a Police Officer. Notwithstanding, the following persons are <u>not</u> considered eligible for participation in this Fund: part-time Police Officers, special Police Officers, night watchmen, temporary employees, traffic guards, or auxiliary Police Officers (specially appointed to aid or direct traffic at or near schools or public functions, or to aid in civil defense), municipal parking lot attendants, clerks or other civilian employees of a Police Department who perform clerical duties exclusively.

Employee Contributions (Mandatory)

In order to participate in the plan, each Police Officer must contribute 9.910% of his/her regular salary. "Salary" in this instance means annual salary and includes longevity pay attached to the Police Officer's rank but excludes overtime pay, holiday pay, bonus pay, merit pay or any other cash benefit over and above the salary established by the appropriation ordinance.

Creditable Service

"Creditable Service" is the time period during which a person serves as a Police Officer of a regularly constituted Police force of a municipality. Furloughs without pay exceeding 30 days in any one year shall not be counted, but all leaves of absence for illness or accident, regardless of length, shall be counted. Also, time attributable to disability for which the Police Officer does not receive disability pension benefits under this Article shall be counted as "Creditable Service."

In addition, creditable service includes all periods of service in the Military, Naval or Air Forces of the United States of America, entered into when the person was an active Police Officer, provided that the Police Officer contributes to the Fund the amount that he/she would have paid had he/she been a regular contributor during such Military service. Not more than five years may be counted under this provision.

Eligibility for and Amount of Regular Retirement Benefits

I. Age 50 (or More) and 20 or More Years of Creditable Service

Benefit: A Police Officer who is age 50 (or more) and has 20 years (or more) of Creditable Service and is no longer in service as a Police Officer is entitled to a pension payable for life equal to 50% of his/her salary attached to the rank held by the Officer one year immediately prior to retirement.

Effective July 1, 1987, for persons terminating service on or after that date, the applicable salary will be the greater of: (1) the salary attached to the rank held on the last day of service; or (2) the salary one year prior to the last day of service.

For Creditable Service over 20 years, the pension is increased as follows:

- 2.5% of the Police Officer's salary for each additional year over 20 years of Creditable Service, up to 30 years, subject to the maximum of 75% of his/her salary.

Notwithstanding the above, no Pension in effect or granted for a Police Officer with 20 or more years of service after January 1999 is to be less than $600.00 per month. This increases to $800.00 per month on January 1, 2000, and $1,000.00 per month on January 1, 2001.

II. Eligibility Age 60 (or More) and 8 (but Less than 20) Years of Creditable Service

Benefit: A Police Officer who retires or is separated from service having at least 8 years (but less than 20) of Creditable Service and who does not apply for a refund of contributions at separation from service, is entitled to a monthly pension upon attaining age 60, payable for life, equal to years of Creditable Service multiplied by 2-1/2% of the salary attached to the rank he/she held in the Police force one year prior to retirement. Effective July 1, 1987, for persons terminating service on or after that date, the applicable salary will be the greater of: (1) the salary attached to the rank held on the last day of service; or (2) the salary one year prior to the last day of service.

A Police Officer who is mandatorily retired from service by reason of age through an operation of law, and has accumulated at least 8 years (but less than 20 years) of Creditable Service, is entitled to a pension payable for life equal to years of Creditable Service multiplied by 2-1/2% of the salary attached to the rank he/she held on the Police force one year immediately prior to retirement. Effective July 1, 1987, for persons terminating service on or after that date, the applicable salary will be the greater of: (1) the salary attached to the rank held on the last day of service; or (2) the salary one year prior to the last day of service.

III. Pension Allowance Increases

- A Police Officer who retired from service with 20 or more years of Creditable Service on or before July 1, 1971, is entitled to an increase of 3% of his/her original monthly pension for each year the Police Officer was in receipt of pension payments; such increase takes effect in the January of the year following the year in which he/she attains age 65, or January of 1972, if then age 65. Each subsequent January thereafter, the monthly pension is increased by 3% of the original monthly pension amount.

- A Police Officer who retired from service after July 1, 1971, and prior to January 1, 1986, is entitled to an increase of 3% of his/her original monthly pension either upon: (a) the first of the month following the first anniversary of his/her date of retirement if he/she was age 60 or more on the retirement date, or (b) the first of the month following the Police Officer's attainment of age 60 (if such occurs after the first anniversary of his/her retirement date). Each subsequent January thereafter, the monthly pension is increased by 3% of the original monthly pension amount.

- A Police Officer who retired from service on or after January 1, 1986, is entitled to an increase of 3% of his/her original monthly pension for each full year that has elapsed since the pension began. This occurs either upon: (a) the first of the month following the anniversary of his/her date of retirement if he/she was age 55 or older on the retirement date, or (b) the first of the month following the Police Officer's attainment of age 55 (if such occurs after the first anniversary of his/her retirement date). Each subsequent January thereafter, the monthly pension is increased by 3% of the original monthly pension amount.

- Notwithstanding the provisions of the second paragraph listed above, a Police Officer who retired from service after January 1, 1977, and prior to January 1, 1986, and did not receive a pension increase before July 1, 1987, is entitled to a 3% increase of his/her original monthly pension for each full year that has elapsed since the pension began. This occurs on the first day of the month following the later of either: (a) the first anniversary of the date of retirement, or (b) the attainment of age 55, or (c) July 1, 1987. Each subsequent January thereafter, the monthly pension is increased by 3% of the original pension amount.

- Notwithstanding the provisions of the previous paragraphs, beginning with increases granted on or after July 1, 1993, the second and all subsequent automatic annual increases under these provisions shall be calculated as 3% of the amount of pension payable at the time of the increase, including any increases previously granted under the prior provisions, rather than 3% of the originally granted pension amount.

Eligibility for and Amount of Disability Benefits

I. Disability Incurred in the Line of Duty

If a Police Officer is injured or suffers an accident or sickness as the result of carrying out his/her duties as a Police Officer (even if those duties take him/her to a place away from the municipality in which he/she serves as a Police Officer, and assuming such duties are related to the Police protection service of such municipality), then such a disabled Police Officer is entitled to a disability retirement pension equal to the maximum of: (a) 65% of the monthly salary attached to the rank held by the officer in the Police Department at the date of suspension of duty or retirement, or (b) his/her accrued benefit.

II. Disability on Account of Occupational Hazards

If a Police Officer suffers a heart attack as a result of the performance and discharge of duties as a Police Officer, then he/she is eligible for any benefits provided under this Article for Police Officers who are injured in the performance of an act of duty.

III. Disability Due to Occurrences Unrelated to Duties

If a Police Officer becomes mentally or physically disabled as the result of any cause other than the performance of an act of duty, he/she is entitled to a disability pension equal to 50% of the salary attached to the rank held by the officer in the Police Department at the date of suspension of duty or retirement.

Notwithstanding the provisions of I, II and III above, no disability pension in effect or granted after January 1, 1987, is to be less than $600.00 per month. This increases to $800.00 per month on January 1, 2000 and $1,000.00 per month on January 1, 2001.

IV. Special Disability Pension Option

A Police Officer, age 50 or more, who is receiving a disability pension and who has completed 20 years of service may apply for a retirement pension equal to 1/2 of the salary attached to his/her rank on the Police force at the date of his/her retirement for disability. In computing years of service for this benefit option, the period during which the Police Officer received a disability pension should be added to his/her period of active service.

V. Disability Pension Allowance Increase

A Police Officer who is receiving a disability pension is entitled to receive an automatic increase upon the attainment of age 60. At this date, the monthly pension is increased by 3% of the original monthly pension <u>for each year the Police Officer was in receipt of monthly pension payments</u>. Each subsequent January thereafter, the monthly pension is again increased by 3% of the <u>original</u> monthly pension amount.

Death Benefits to Surviving Spouse or Dependents

I. Death in Line of Duty

If a Police Officer dies while in the line of duty as a result of any injuries or if a Police Officer sustains injuries from which he/she thereafter dies, then the surviving spouse is entitled to a pension equal to 100% of the salary attached to the rank the Police Officer held for one year immediately prior to his/her death. This benefit is payable to the survivors in the sequence noted in Section VI — Rights on Death of a Pensioner.

II. Death in Service With 10 or More but Less than 20 Years of Creditable Service

If a Police Officer dies while in service after having at least 10 but less than 20 years of Creditable Service, then his/her surviving spouse is entitled to a pension equal to 50% of the salary attached to the rank held by the Police Officer for one year immediately prior to his/her death. Such benefit is payable to the survivors in the sequence noted in Section VI — Rights on Death of a Pensioner.

III. Death in Service With 20 or More Years of Creditable Service

If a Police Officer dies while in service after having at least 20 years of Creditable Service (regardless of age), then the surviving spouse is entitled to a pension earned by the Police Officer as of the date of death. Such benefit is payable to the survivors in the sequence noted in Section VI — Rights on Death of a Pensioner.

IV. Death While on Disability

If a Police Officer who is receiving a disability pension dies while still disabled, his/her disability pension shall continue to be paid to the surviving spouse or dependents in the sequence noted in Section VI — Rights on Death of a Pensioner.

Notwithstanding the provisions of I, II, III or IV above, effective January 1, 1999, the minimum death benefit payable to the surviving spouse or dependents is $400.00 per month. This increases to $800.00 per month on January 1, 2000, and $1,000 per month on January 1, 2001.

V. Less than 10 Years of Creditable Service

If a Police Officer dies before he/she has 10 years of Creditable Service, all contributions made by the Officer shall be refunded to the surviving spouses without interest.

VI. Rights on Death of a Pensioner

If a Police Officer who was receiving or was entitled to receive a monthly pension dies, the surviving spouse is entitled to the pension to which the Police Officer was then entitled. Upon the surviving spouse's death or re-marriage, the Police Officer's unmarried children (under age 18) or unmarried children who are dependent because of a physical or mental disability are entitled to equal shares of the pension. If there is no eligible surviving spouse and no eligible children, the dependent parent or parents of the Police Officer are entitled to receive or share such pension until their death, or marriage, or remarriage.

Special Note: If a Police Officer marries subsequent to retirement on any pension, the surviving spouse and the children of such surviving spouse shall receive no pension on the death of the Officer.

Termination of Employment Benefits

Refund of Employee Contributions

A Police Officer who has less than 20 years of service and who resigns or is discharged (and has not received any disability payments) is entitled to a refund of his/her total amount contributed to the Police Pension Fund during his/her period of service. If the Police Officer should be subsequently re-employed, he/she must repay to the fund the amount of refund which was received, plus interest at 2% per annum from the date of refund to the date of repayment, before commencing service. When repayment is made, the Police Officer will receive credit for the previous years of service for which the refund was received.

Financing of Pension Benefits

Pension benefits are to be funded by "employee" deductions from wages and salaries of Police Officers and by a property tax levied by the Municipality. The amount derived from these two sources should equal the sum sufficient to meet the annual actuarial requirements of the pension fund as stated below:

(1) Provide a reserve for the pensions and benefits earned by the Police Officers and all beneficiaries — provided that the reserve to be accumulated shall not exceed the estimated total actuarial requirements of the fund,

and

(2) In a municipality that has a reserve less than the actuarial requirements of the fund, the Board of the Pension Fund shall designate the proportionate amount needed annually to insure the accumulation of such actuarial reserve over a period of 40 years subsequent to July 1, 1993, in the case of pension funds in operation on that date.

The Minimum Funding Requirements under P.A. 96-1495, effective for plan years after 4/30/2011, are disclosed on the following page.

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

Benefits Under P.A. 96-1495

Under P.A. 96-1495, members of the Village of Morton Police Officers' Pension Fund hired after December 31, 2010, are eligible for the following tier-two benefits:

- Minimum retirement eligibility at age 55 with 10 years of service with annuity based on accrual rate of 2.5 percent, subject to a maximum of 75 percent;
- Minimum retirement eligibility at age 50 with 10 years of service with annuity based on accrual rate of 2.5 percent, reduced by ½ of a percent per month for retirement prior to age 55, subject to a maximum of 75 percent;
- Final average salary based on 96 consecutive months within last 120 months;
- Annual salary capped at $106,800, indexed annually at lesser of 3.0 percent and 50 percent of CPI-U;
- COLA equal to lesser of 3.0 percent and 50 percent of CPI-U, commencing at age 60, with no cap, applied to originally granted retirement annuity;
- Widow benefits at 66-2/3 percent of retiree’s benefit; and,
- Widow COLAs equal to the lesser of 3.0 percent and 50 percent of CPI-U, commencing when the survivor reaches age 60 and applied to originally granted retirement annuity.

Minimum Funding Requirements under P.A. 96-1495

P.A. 96-1495 includes the following changes to the statutory funding requirements:

- Employer contribution (combined with members contributions and other fund revenue) produces 90 percent funding by the end of fiscal year 2040;
- Contributions based on open group projection and level percent of pay financing;
- Actuarial liabilities based on projected unit credit cost method; and
- Assets marked to market at April 30, 2011. For fiscal years after April 30, 2011, actuarial value of assets based on 5-year smoothing.

If the Village does not make the statutorily required contributions, then the State, starting in FY 2016, could withhold State grants to the Village, and directly deposit the withheld funds into the Village of Morton Police Officers' Pension Fund. The withheld funds are limited to 33 percent of total State grants to the Village in FY 2016, 67 percent in FY 2017, and 100 percent on and after FY 2018.

The contribution determined in accordance with P.A. 96-1495 serves as a minimum contribution requirement.

Salary and COLA Development for Members hired on or after January 1, 2011

Year Ending	CPI-U	½ CPI-U	COLA	Maximum Annual Pensionable Earnings
2011			3.00%	$ 106,800.00
2012	3.90%	1.95%	1.95%	$ 108,882.60
2013	2.00%	1.00%	1.00%	$ 109,971.43
2014	1.20%	0.60%	0.60%	$ 110,631.26
2015	1.70%	0.85%	0.85%	$ 111,571.63

ACTIVE MEMBERS AS OF APRIL 30, 2014
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	0	1-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35	Totals	Totals: Valuation Payroll
Under 20										**0**	**$ 0**
20-24		1								**1**	**44,531**
25-29			3							**3**	**171,856**
30-34			1	2	1					**4**	**246,351**
35-39					4	1				**5**	**342,410**
40-44					1	3	2			**6**	**425,283**
45-49							1			**1**	**66,541**
50-54								2		**2**	**181,576**
55-59							1			**1**	**67,151**
60-64										**0**	**0**
65-69										**0**	**0**
Over 70										**0**	**0**
Total	**0**	**1**	**4**	**2**	**6**	**4**	**4**	**2**	**0**	**23**	**$ 1,545,699**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	38.9	years
Service:	13.8	years
Annual Pay:	$67,204	

DEVELOPMENT OF ACTUARIAL (MARKET-RELATED) VALUE OF ASSETS

Year Ending April 30	2014	2015	2016	2017	2018
Beginning of Year:					
(1) Market Value of Assets	$ 9,680,662				
(2) Actuarial Value of Assets	10,207,605				
End of Year:					
(3) Market Value of Assets	10,473,790				
(4) Contributions and Disbursements					
(4a) Village Contributions & Misc. Revenue	643,343				
(4b) Member Contributions	146,839				
(4c) Benefit Payouts & Refunds	(480,885)				
(4d) Administrative Expenses	(7,206)				
(4e) Net of Contributions and Disbursements	302,091				
(5) Total Investment Income =(3)-(1)-(4e)	491,037				
(6) Projected Rate of Return	5.50%				
(7) Projected Investment Income =(1)x(6)+([1+(6)]^.5-1)x(4e)	540,633				
(8) Investment Income in Excess of Projected Income	(49,596)				
(9) Excess Investment Income Recognized This Year (5-year recognition)					
(9a) From This Year	$ (9,919)				
(9b) From One Year Ago	(59,666)	$ (9,919)			
(9c) From Two Years Ago	(96,094)	(59,666)	$ (9,919)		
(9d) From Three Years Ago	0	(96,094)	(59,666)	$ (9,919)	
(9e) From Four Years Ago	0	0	(96,093)	(59,664)	$ (9,920)
(9f) Total Recognized Investment Gain	(165,679)	(165,679)	(165,678)	(69,583)	(9,920)
(10) Change in Actuarial Value of Assets =(4e)+(7)+(9f)	677,045				
End of Year:					
(3) Market Value of Assets	**$ 10,473,790**				
(11) Actuarial Value of Assets = (2)+(10)	**$ 10,884,650**				

SECTION D

VALUATION PROCEDURES

ACTUARIAL COST METHOD

Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using the ***Projected Unit Credit actuarial*** *cost method* having the following characteristics:

- The normal cost for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during the current year.
- The actuarial accrued liability for each individual active member equals the portion of the actuarial present value of projected benefits allocated to service earned during prior plan years. The actuarial accrued liability for retired and inactive members equals the present value of benefits.

Actuarial Value of Pension Plan Assets. The current market value of assets (including discounted contributions due for prior Plan Years and not received as of the valuation date) is reduced (increased) for the current year and each of three succeeding years, by a portion of the gain/(loss) in market value during the prior year. Such gain/(loss) is determined as the excess/(deficit) of the current market value of assets over the market value of assets as of the prior year, increased to reflect interest at the actuarial rate and adjusted to reflect contributions and benefit payments during the prior year. The portion of such gain/(loss) by which the current market value of assets is reduced (increased) shall be 80% in the current year, 60% in the first succeeding year, 40% in the second succeeding year, and 20% in the third succeeding year.

For the valuation as of April 30, 2011, actuarial assets were marked to market value of assets. Beginning with the valuation as of April 30, 2012, actuarial value of assets will be based on 5-year smoothing.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The contribution and benefit values of the Fund are calculated by applying actuarial assumptions to the benefit provisions and census information furnished, using the actuarial cost method described on the previous page.

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

- Long-term rates of investment return to be generated by the assets of the Fund;
- Patterns of pay increases to members;
- Rates of mortality among members, retirees and beneficiaries;
- Rates of withdrawal of active members;
- Rates of disability among members; and
- The age patterns of actual retirement.

In a valuation, the monetary effect of each assumption is calculated for as long as a present covered person survives; a period of time which can be as long as a century.

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

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

The assumed rate of investment return used was 5.50%, net of expenses, annually.

The mortality table used to measure pre and post-retirement mortality was the RP-2000 Blue Collar Mortality Table, sex-distinct, adjusted for mortality improvements to 2025 using projection scale AA for healthy mortality. This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

	Single Life Retirement Values			
Sample Attained Ages	**Present Value of $1 Monthly for Life**		**Future Life Expectancy (years)**	
	Men	**Women**	**Men**	**Women**
50	$ 177.64	$ 181.60	32.32	34.33
55	165.15	170.13	27.59	29.59
60	150.32	156.32	23.06	25.00
65	133.70	140.61	18.84	20.69
70	115.84	123.77	15.02	16.78
75	96.11	105.99	11.49	13.27
80	75.85	86.88	8.42	10.09

It was assumed that 75% of deaths from active status are duty related deaths, while 25% are ordinary.

The disability retirement mortality table used was the RP-2000 Blue Collar Mortality Table, sex-distinct, adjusted for mortality improvements to 2025 using projection scale AA, with ages set forward four years to reflect impaired longevity.

	Single Life Retirement Values			
Sample Attained Ages	**Present Value of $1 Monthly for Life**		**Future Life Expectancy (years)**	
	Men	**Women**	**Men**	**Women**
50	$ 167.87	$ 172.62	28.53	30.53
55	153.45	159.28	23.94	25.90
60	137.13	143.84	19.65	21.52
65	119.54	127.23	15.75	17.53
70	100.20	109.65	12.17	13.95
75	79.81	90.76	8.98	10.69
80	61.08	71.36	6.43	7.84

Rates of separation from active membership are represented by the following table (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment.

	Employee Withdrawal Rate Per 1,000 Employees	
Age	**Males**	**Females**
25	85	85
30	70	85
35	45	59
40	29	38
45	17	24
50	9	14
55	0	5
60 and Over	0	0

The rates of salary increase used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

	Salary Increase Assumptions for an Individual Member
Sample Ages	**Increase Next Year**
20	5.00%
25	5.00%
30	5.00%
35	5.00%
40	5.00%
45	5.00%
50	5.00%
55	5.00%
60	5.00%

Sample rates of disability were as follows:

Employee Disablement Rate Per 1,000 Employees		
Age	**Male**	**Female**
25	1	1
30	1	1
35	1	1
40	2	2
45	3	2
50	5	4
55	10	7
60	17	13
65	29	21
70	43	34

It was assumed that 25% of disability is ordinary related disablement, while 75% is duty related.

Probabilities of retirement for members eligible to retire during the next year were as follows:

Forty percent of Active Police Officers are assumed to retire at the later of: (a) later of 20 years of service and age 50, and (b) the later of 8 years of service and age 60. Thereafter, the rates of retirement are determined as follows:

For ages (x) between the first retirement age (r) and age 69, the retirement rate is determined by the formula (x-r)/(69-r). For example:

	Rate of Retirement			Rate of Retirement	
Age	**20 Yrs. of Service at Age 50**	**20 Yrs. of Service at Age 55**	**Age**	**20 Yrs. of Service at Age 50**	**20 Yrs. of Service at Age 55**
50	40.0 %	- %	60	52.6 %	35.7 %
51	5.3	-	61	57.9	42.9
52	10.5	-	62	63.2	50.0
53	15.8	-	63	68.4	57.1
54	21.1	-	64	73.7	64.3
55	26.3	40.0	65	78.9	71.4
56	31.6	7.1	66	84.2	78.6
57	36.8	14.3	67	89.5	85.7
58	42.1	21.4	68	94.7	92.9
59	47.4	28.6	69	100.0	100.0

Early retirement rate of 5% per year is assumed for members hired after December 31, 2010, beginning at age 50 with 10 years of service.

SECTION E

GASB STATEMENT NO. 27

This information is presented in draft form for review by the Village's auditor. Please let us know if there are any changes so that we may maintain consistency with the Village's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	GASB Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b – a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Payroll [(b – a)/c]
4/30/2009	$7,732,841	$13,107,331	$5,374,490	59.0 %	$1,147,139	468.5 %
4/30/2010	8,413,892	13,924,245	5,510,353	60.4	1,195,486	460.9
4/30/2011	8,743,425	13,400,313	4,656,888	65.2	1,092,813	426.1
4/30/2012	9,483,443	14,560,834	5,077,391	65.1	1,287,524	394.4
4/30/2013	10,207,605	15,352,535	5,144,930	66.5	1,442,567	356.7
4/30/2014	10,884,650	16,622,206	5,737,556	65.5	1,545,699	371.2

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution (a)	Total Employer Contribution (b)	Percentage Contributed (b / a)
4/30/2009	$ 551,312	$ 710,845	128.9%
4/30/2010	577,843	729,280	126.2
4/30/2011	544,942	691,493	126.9
4/30/2012 [1]	564,015	626,716	111.1
4/30/2013 [2]	608,308	645,570	106.1
4/30/2014 [3]	642,179	643,343	100.2
4/30/2015	713,749	TBD	TBD

[1] *Based on the results of the April 30, 2011, valuation increased with wage inflation of 3.50 percent.*
[2] *Total Employer Contribution includes $50,265 in Replacement Tax revenue.*
[3] *Total Employer Contribution includes $51,269 in Replacement Tax revenue.*

Contribution rates:

Village	Proceeds from a tax levy equal to the sum of: (a) annual normal cost plus (b) the amount sufficient to bring the total assets of the pension fund up to 90% of the total actuarial liabilities of the pension fund by the end of fiscal year 2040.
Plan members	9.910% of regular salary

Net Pension Obligation (NPO):	Net Pension Obligation (NPO) at Beginning of year, April 30, 2013:	$ (1,111,886)
	Total Annual Pension Cost for FYE 04/30/2014:	629,278
	Total Employer Contribution for year ended April 30, 2014 [1]:	(643,343)
	Net Pension Obligation (NPO) at End of year, April 30, 2014:	**$ (1,125,951)**

Annual Pension Cost for fiscal year ending April 30, 2015:	Employer Normal Cost	$ 464,754
	Amortization Payment of Unfunded Actuarial Accrued Liability	248,995
	Annual Required Contribution (ARC) [2]	$ 713,749
	Interest on Net Pension Obligation	(61,927)
	Adjustment to ARC	48,863
	Total Annual Pension Cost	$ 700,685

[1] *Total Employer Contribution includes $51,269 in Replacement Tax revenue.*
[2] *The Annual Required Contribution is equal to the sum of: (a) annual normal cost plus (b) amortization of unfunded liability as a level percent of pay over 30 years.*

PENSION COST SUMMARY FOR GASB STATEMENT NO. 27

Year Ended April 30	Annual Pension Cost	Total Employer Contribution	% of Annual Pension Cost Contributed	Net Pension Obligation
2011	$ 535,290	$ 691,493	129.2%	$ (988,133)
2012	552,550	626,716	113.4	(1,062,299)
2013 [1]	595,983	645,570	108.3	(1,111,886)
2014 [2]	629,278	643,343	102.2	(1,125,951)
2015	700,685	TBD	TBD	TBD

[1] Total Employer Contribution includes $50,265 in Replacement Tax revenue.
[2] Total Employer Contribution includes $51,269 in Replacement Tax revenue.

SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS

The information requested in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	April 30, 2014
Actuarial Cost Method	Projected Unit Credit
Actuarial Value of Assets	5-year smoothed market
Amortization Method	Level percent open
Remaining Amortization Period	30 years
Actuarial Assumptions:	
Investment Rate of Return	5.50% per year
Wage Inflation	3.50% per year
Projected Salary Increases	5.00% per year
Cost-of-Living Increases	3.00% per year for Tier 1 Lesser of ½ CPI or 3.00% per year for Tier 2 (assumed increase is 1.50% per year)