



Illinois Department of Insurance

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Actuarial Services Bulletin

The Public Pension Division of the Department of Insurance will resume production of suggested tax levy reports effective September 24, 2012. Production was suspended for Fiscal Year 2011 tax levy reports due to implementation of Public Act 96-1495.

The legislation made key changes impacting the actuarial calculation required under 40 ILCS 5/3-125 and 40 ILCS 5/4-118, including:

- Suggested tax levies calculated by the Department must be determined by an Enrolled Actuary;
- The minimum employer contribution is to be calculated using the projected unit credit actuarial cost method. The amount of the amortization payment is based on attaining a 90% funded ratio by the end of the 2040 fiscal year. It will be calculated using the level percent of payroll methodology; and
- In determining the actuarial value of the fund's assets for reports issued after March 30, 2011, any actuarial gains or losses from investment returns incurred in a fiscal year shall be recognized in equal annual amounts over the 5-year period following that fiscal year.

To implement the new requirements, the Department has contracted with Foster & Foster Actuaries and Consultants.

The Department will resume providing suggested tax levy reports to all Article 3 Police pension funds and Article 4 Firefighter pension funds beginning with fiscal years ending May 2011. The funds with annual statements filed and accepted as of Friday, October 12, 2012 will have a suggested tax levy produced and available no later than November 30, 2012.

Suggested tax levies will continue to be produced for the funds with annual statements filed after October 12, 2012. However, the department cannot guarantee the reports will be received in time for the setting of municipal tax levies this year.

Please note that there will be a lag between the annual statement submission and the availability of the suggested tax levy report to the pension fund due to the new Enrolled Actuary review process. For this year only, tax levy reports will be e-mailed to the current e-mail address of the pension fund's president and secretary on file with the Public Pension Division. Please ensure that this information is accurate in the fund's most current annual statement. In 2013, tax levy reports will be accessible via the online annual statement system.

The new tax levy report will consist of three pages. It will provide a summary of the pension fund liabilities, the determination and explanation of the pension fund's actuarial value of assets, the actuarially determined tax levy amount and an explanation of the actuarial methods and assumptions used in determining the liabilities and tax levy amounts.

As part of the new actuarial process to comply with Public Act 96-1495, an experience study was performed to update the actuarial assumptions used in producing the tax levies. The new assumptions resulting from the study will be incorporated into the new reports to more appropriately reflect the actual experience impacting the police and firefighter pension funds.

One substantial change the Department has implemented is to assume different "rate of return" assumptions for the funds that fall into the different asset level investment tiers (40 ILCS 5/1-113.2 to 113.4a). The new rate of return assumptions by investment tier are as follows:

<u>Fund Net Asset Value</u>	<u>Rate of Return Assumption</u>
Under \$2.5 Million	5%
\$2.5 Million - \$5 Million	6%
\$5 Million – \$10 Million	6.5%
Over \$10 Million	6.75%

Previously, a flat investment rate of return of 7% was utilized for all funds. The new rate of return assumptions are based on the results of the experience study and more accurately reflect anticipated future investment returns by fund asset tier.

Adjustments to other assumptions were also made as a result of the experience study, including adjustments to retirement, withdrawal, mortality and disability rates. Additional changes were incorporated to refine the salary progression and payroll growth rates.

The new actuarial assumptions will most likely result in higher annual employer contribution requirements to the pension fund. The amount of the change will vary depending on factors such as fund asset size, average age of fund participants and the funded status of the pension fund.

Article 3 Police and Article 4 Firefighter pension funds and their associated municipalities have the option of utilizing the Department's recommended tax levy or retaining an independent enrolled actuary to determine the annual funding requirements. Hiring an independent actuary is allowed under 40 ILCS 5/3-125 and 4-118, respectively.

If you have questions regarding this bulletin, please contact the Public Pension Division of the Department of Insurance at (800) 207-6958.