

**RESOLUTION 2015-122**

**A RESOLUTION APPROVING THE PENSION FUNDING POLICY FOR THE VILLAGE OF VERNON HILLS**

**WHEREAS**, the Governmental Accounting Standards Board ("**GASB**") provides authoritative guidance on the Generally Accepted Accounting Principles ("**GAAP**") to which the Village of Vernon Hills ("**Village**") must adhere in its financial reporting; and

**WHEREAS**, GASB has issued Statement Number 68 ("**GASB S68**") on Accounting and Financial Reporting for Pensions, which is effective for the City's fiscal year ending May 30, 2015; and

**WHEREAS**, GASB S68 requires that the Village adopt a formal pension funding policy; and

**WHEREAS**, the Village has drafted a policy that defines how the annual required contribution will be calculated for the Vernon Hills Police Pension Fund and Illinois Municipal Retirement Fund; and

**WHEREAS**, the Village Board has determined that that approval of the Village of Vernon Hills Pension Funding Policy is in the best interest of the Village of Vernon Hills and its residents;

**NOW THEREFORE BE IT RESOLVED BY THE VILLAGE PRESIDENT AND BOARD OF TRUSTEES OF THE VILLAGE OF VERNON HILLS, LAKE COUNTY, ILLINOIS:**

**THAT**, the Village of Vernon Hills Pension Funding Policy shall be, and it is hereby approved, in the form attached to this Resolution as Exhibit A.

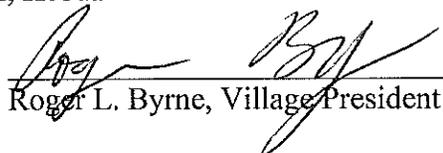
Dated the 7<sup>th</sup> day of July 2015

Adopted by roll call vote as follows:

AYES: 4 – Koch, Marquardt, Schwartz, Williams

NAYS: 0 - None

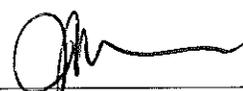
ABSENT AND NOT VOTING: 2 – Schultz, Hebda

  
Roger L. Byrne, Village President

PASSED: 7/7/2015

APPROVED: 7/7/2015

ATTEST: 7/8/2015

  
John M. Kalmar, Village Clerk

**RESOLUTION 2015-122**  
**EXHIBIT A**



**VILLAGE OF VERNON HILLS  
PENSION FUNDING POLICY**

**I. INTRODUCTION**

The purpose of this policy statement is to define the manner in which the Village of Vernon Hills funds the long-term cost of benefits promised to plan participants and defines the calculation of Vernon Hills' "annual required contribution" (ARC) to the Police Pension and Illinois Municipal Retirement Funds.

**II. SCOPE**

This Pension Funding Policy applies to the pension funds in which employees of the Village of Vernon Hills are enrolled. The specific funds covered by this policy include:

- A. Vernon Hills Police Pension Fund
- B. Illinois Municipal Retirement Fund (IMRF)

**III. OBJECTIVES**

- A. **Actuarially Determined Contributions** - Ensure pension funding plans are based on actuarially determined annual required contributions (ARC) that incorporates both the cost of current benefits and the amortization of the plan's unfunded actuarial accrued liability.
- B. **Funding Discipline** - Build funding discipline into the policy to remit timely contributions to the pension funds to ensure that sufficient assets will be available to pay benefits as promised.
- C. **Intergenerational Equity** - Maintain intergenerational equity so that the cost of benefits is paid by the generation of taxpayers who receive services from pension participants.
- D. **Contributions as a Stable Percentage of Payroll** - Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
- E. **Accountability and Transparency** - Clear reporting of pension funding should include an assessment of whether, how and when the Village will ensure sufficient assets will be available to pay benefits as promised.

**VILLAGE OF VERNON HILLS  
PENSION FUNDING POLICY****IV. ETHICS AND CONFLICTS OF INTEREST**

Officers and employees involved in the pension funding process shall refrain from personal business activity that could conflict with the proper execution and management of the pension funding program, or that could impair their ability to make impartial decisions.

**V. ACCOUNTING**

The Village of Vernon hills will determine its Annual Required Contribution (ARC) using the following principles:

- The ARC will be calculated by an enrolled actuary.
- The ARC will include the normal cost for current service and amortization to collect or refund any under- or over-funded amount.
- The normal cost will be calculated using the entry age normal level of percentage of payroll actuarial cost method using the following assumptions:
  - The investment rate of return assumption will be 6.0% per year.
  - The salary increase assumption will be 4.75% per year.
  - Non-economic assumptions, such as rates of separation, disability, retirement, mortality, etc., shall be determined by Village management in consultation with the actuary to reflect current experience. Examples include the following:
    - Rates of disability among active members
    - Rates of retirements
    - Rates of mortality
- The difference between the accrued liability and actuarial value of assets will be amortized to achieve 100% funding in 2040 (a 30 year closed period that began in 2011) based upon a level percentage of payroll.
- Actuarial assets will be determined using market valuation.

**VILLAGE OF VERNON HILLS  
PENSION FUNDING POLICY**

The Village will make its actuarially determined contribution to the Police Pension Fund in one installment each year. Contributions to the IMRF Fund will occur on a bi-weekly basis in accordance with statutory requirements.

**VI. REPORTING**

Funding of the Vernon Hills' Police Pension and IMRF funds shall be transparent to vested parties including plan participants, annuitants, the Vernon Hills' Police Pension Boards of Trustees, the Village Board of Trustees and Vernon Hills' residents. To achieve this transparency, the following information shall be distributed:

- A copy of the annual actuarial evaluation for all funds shall be made available to the Village Board and Police Pension Board of Trustees.
- The Village's annual operating budget shall include the Village's contribution to the Village of Vernon Hills' Police Pension and IMRF Funds.
- The Village's Comprehensive Annual Financial Report shall be published on its website. In this report, the Village will reflect the Village's annual required contribution and the value of the outstanding pension liabilities as directed by the Governmental Accounting Standards Board.

**VII. AUDIT**

In conjunction with the annual examination of the books and records of the Village by an independent certified public accountant, all pension funding documents will be reviewed with the Village's consulting actuary. The annual financial statement will also include information as to the current funding status of all public pension funds examined.

**VIII. FUTURE AMENDMENTS**

Funding a defined benefit pension plan requires a long term horizon. Assumptions and inputs into the policy focus on long-term trends, not year-to-year shifts in the economic or non-economic environments. If, in the opinion of the Finance Director, conditions change to such an extent so as to alter the effectiveness of this policy statement, such changed circumstances shall be brought to the attention of the Village Board of Trustees for their consideration and review.



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**IX. EFFECTIVE DATE**

This policy shall be effective immediately upon approval by the Village Board of Trustees.