

**Finance Committee of the Village Board
Thursday September 6, 2012**

APPROVED MINUTES

I. Call to order at 7:30 pm

Village President David Pope, Trustee Glenn Brewer, Trustee John Hedges and Trustee Robert Tucker present.

Also present: Interim Manager Cara Pavlicek, Deputy CFO Jason Paprocki, Budget & Financial Manager James Harris III and Deputy Manager Lisa Shelley. Both Fire and Police Pension Boards

II. Minutes- no minutes approved at this meeting

III. Public Comment

Resident George Lazewski presented positive comments on the new budget look and was seeking more information on a new law related to restrictions on the age of firefighters.

IV. New Business

Those present from both the Fire and Police Pension Boards were invited to join the Finance Committee at the table for discussion.

Interim Manager Pavlicek provided an overview of the budget process at it relates to pensions. For this meeting, it will be organized in the following manner:

1. A review of the law
2. Seek agreement among the Finance Committee and both Fire and Police Pension Boards on the following in order to gain a realistic set of assumptions so that the numbers are not too low and then presumably, left for another governing body in the future to solve.
 - Rate of return
 - Rate of increase in salary
 - Total payroll

A brief review of the recent pension law changes was discussed and commitments/funding levels required and target deadlines. The new law allows the Village to base its actuarial analysis on 90% funded from 100%, however the Village is

not expected to change given these new laws which reduce short term obligations but do not alleviate long-term commitments. However President Pope stated that he would hope the Village could use the “entry-age normal” calculation method and be 100% funded by 2040. President Pope asked Interim Manager Pavlicek to summarize the status of the Village’s funding levels. Interim Manager Pavlicek stated that per the 2011 audit, the Fire Pension is 46% funded and the Police Pension is 62% funded. Trustee Hedges asked for the reason in the differences in funding. The Committee discussed a variety of factors potentially, such as disability, number of personnel in the department over time, age of the membership, and the level of contribution required by police, fire. The Committee also discussed the need to be aware of years without a contract during negotiations can create a calculation that is artificially low. Going forward, if there is an expired contract; the Village should work with the actuarial for a rational, reasonable projection.

I. Rate of Return

The Committee and Pension Boards discussed how the Village can determine a reasonable rate of return going forward. The Fire Pension mentioned that 7% is a typical rate of return accepted by most cities; some cities have dipped lower. Fire noted for example, they are seeing most cities between 7-7.5%, some cities holding on to 8%. Legislation now gives the pension funds the ability to invest in more equities (vs fixed income). There was discussion to understand each pension fund and how they determine what level of risk and where the pension funds are comfortable. Trustee Hedges talked about the “likely risk” of any pension and questioned if a pension is truly “at risk” being backed by the Village.

Both the Fire Pension and the Police Pension agreed that 7% seemed like a reasonable assumption.

II. Projected Rate of Salary Increase

The Committee noted that a 5% annual salary increase isn’t sustainable. There was considerable discussion on the impacts of different assumptions.

Both the Fire Pension and the Police Pension agreed that 4.5% was reasonable (adding that it didn’t appear to be much different dropping from 5% to 4.5%)

III. Total Payroll and Size of Department

The Committee stated that they don’t anticipate any material changes into the future.

The Committee also discussed the surplus distributions received by the pension funds and the need to clean-up/ record those so that the fund is not artificially inflating the fund.

The meeting adjourned at 9:30 pm.