ILLINOIS POLICE OFFICERS' PENSION INVESTMENT FUND
POLICY AND PROCEDURE

POLICY NUMBER:	**PP-2025-01**
SUBJECT:	**ACTUARIAL VALUATION POLICY**
EFFECTIVE DATE:	**APRIL 14, 2025**
AMENDED:	**N/A**

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A. PURPOSE:

The Illinois Police Officers' Pension Investment Fund (IPOPIF) is charged with preparing the Actuarial Valuation Reports for the Article 3 Police Pension Funds. Administering this system includes establishing systematic funding for current and future benefits payments for the members of the Article 3 Police Pension Funds. In doing so, the Board of Trustees engages in the services of an actuary to assist in calculating the statutory minimum required contributions that will fully fund the pension liabilities for each municipality. In order for the actuary to perform the requested services, the Board must approve specific funding objectives, methods, and assumptions to be used in the actuarial valuation for the purpose of funding member benefits.

B. AUTHORITY:

1. The Illinois Police Officers' Pension Investment Fund was established under Article 22B of the Illinois Pension Code.
2. IPOPIF's statutory duty to provide actuarial valuation reports for the Article 3 Police Pension Funds exists under the Illinois Pension Code (40 ILCS 5/1A-111 and 22B) and was codified in a Memorandum of Understanding (MOU) with the Illinois Department of Insurance (IDOI).

C. POLICY OBJECTIVES:

1. To ensure compliance with the Illinois Pension Code with regards to conducting annual actuarial valuations that:
   a. determine the value of assets and liabilities and the funding requirements of the system and
   b. ensure that all Article 3 Police Pension Funds are treated equitably.
2. To provide transparency and guidance, define roles and responsibilities of staff, actuary and Board of Trustees, in preparing an annual actuarial valuation for the Article 3 police pension funds.
3. Support the IPOPIF policy goals of accountability and transparency by being clear as to the annual valuation process that includes the use of complete and accurate data.
4. To ensure that the Article 3 Police Pension Funds and Municipalities receive the information in a timely manner to ensure that the tax levy can be completed.
5. To review the actuarial assumptions in conjunction with the periodic review of the actuarial experience study.

D. DEFINITIONS:

1. **Actuarial Accrued Liability (AAL)** – The portion of the present value of projected benefits that is attributed to past service by the actuarial funding method.
2. **Actuarial Gains and Losses** – The changes in unfunded actuarial accrued liability or surplus due to actual experience different from what is assumed in the actuarial valuation. For example, if during a given year the assets earn more than the investment return assumption, the amount of earnings above the assumption will cause an unexpected reduction in unfunded actuarial accrued liability, or "actuarial gain" as of the next valuation.
3. **Actuarial Methods:**
    a. **Actuarial Funding Method.** This method is an actuarial approach to allocating the present value of benefits into two pieces: actuarial accrued liability for past service, and normal cost for future service. There are several actuarial methods available for this purpose, but the Projected Unit Credit cost method is required, by Illinois law, to be used in determining the statutory minimum contribution amount.
    b. **Asset Method.** The goal of an asset method is to smooth actual return experience over a period of years to help reduce the volatility of the contribution from year to year. Under Illinois law, investment gains and losses are smoothed over a five-year period.
    c. **Amortization Method.** The method used to systematically eliminate the Plan's unfunded actuarial accrued liability. Under current Illinois law, the annual amortization payments are based on attaining a 90% funded ratio. The unfunded liability is to be amortized over a period ending in 2040. The amortization is permitted to make use of a payroll growth assumption, so if all assumptions are met, the amortization payment will remain a level percentage of the Fund's payroll for the entire period.
4. **Actuarial Surplus** – The positive difference, if any, between the Actuarial Value of Assets and the Actuarial Accrued Liability

5. **Actuarial Value of Assets (AVA)** – The market value of assets less or plus the net deferred investment gains or losses not yet recognized by the asset smoothing method.

6. **Annual Actuarial Valuation Report.** A report generated by IPOPIF retained actuary as of the end of the fiscal year for each Article 3 Police Pension Fund, and in accordance with the Pension Code, the report is provided to the Article 3 Police Pension Fund for statutory minimum funding purposes only.

7. **Entry Age Method (EAN)** – An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method is designed to produce stable employer and employee contributions in amounts that increase at the same rate as the members' payroll (i.e., level % of payroll). This method is required in the calculations each municipality must complete to be compliant with Governmental Accounting Standards Board (GASB) statements.

8. **Funded Ratio** – The Actuarial Value of Assets (AVA) divided by the Actuarial Accrued Liability (AAL).

9. **Market Value of Assets (MVA)** – The fair value of assets of the plan as reported under generally accepted accounting principles.

10. **Normal Cost** – The portion of the present value of projected benefits that is attributed to service earned in the current year by the actuarial funding method.

11. **Pension Fund.** The term "Pension Fund" or "IPOPIF" shall refer to the Illinois Police Officers' Pension Investment Fund created by 40 ILCS 5/22b-101 *et seq*.

12. **Projected Unit Credit (PUC).** An actuarial cost method designed to fund a member's total plan benefit over the course of his or her career. This method assigns benefit costs to the year in which they are earned. This method is required to be used in the calculation of the statutory minimum contribution.

13. **"Qualified Actuary"**. Qualified Actuary means an actuary: (i) who is a member of the American Academy of Actuaries; or (ii) an individual who has demonstrated to the satisfaction of the Director that he or she has the educational background necessary for the practice of actuarial science and has at least 7 years of actuarial experience. (40 ILCS 5/1A-111 (b)).
14. **Risk.** Actuarial results are determined based on a number of various assumptions. These results are based on the premise that all future plan experience will align with the actuarial assumptions; however, there is no guarantee that actual plan experience will align with the assumptions. It is possible that actual plan experience will differ from anticipated experience in an unfavorable manner that will negatively impact the plan's funded position. These uncertainties arise from factors including but not limited to investment risk, longevity risk, inflation risk and regulatory risk.
15. **Statutory Minimum Contribution.** The contribution is due from the municipality before adjusting for the phase-in of assumption changes. This amount reflects the required contribution if the entire impact of the assumption changes was reflected immediately. It is made up of a normal cost plus an amortization payment and is partially offset by contributions made by the members.
16. **Statutory Minimum Required Contribution (after phase-in).** - The bottom-line contribution due from the municipality after reflecting the three-year phase-in of assumption changes.
17. **Unfunded Actuarial Accrued Liability (UAAL)** – The portion of the Actuarial Accrued Liability that is not currently covered by plan assets. It is calculated by subtracting the Actuarial Value of Assets from the Actuarial Accrued Liability.
18. **Valuation Period** – The year for which the actuarial valuation is being performed, which is the twelve-month period preceding the fiscal year end date. The fiscal year end date is individually determined by the municipality and the date varies across the Article 3 Police Pension Funds.

E. KEY ACTUARIAL ASSUMPTIONS

1. **Actuarial Assumptions**: Actuarial assumptions are generally grouped into two major categories:
   a. **ECONOMIC ASSUMPTIONS**:
      i. **Interest Rate**. The interest rate is used to discount the valuation's projected cash flows to the measurement date. It is based on the long-term expected return of the IPOPIF trust fund assets, net of investment related expenses. The rate is reviewed more frequently than the other assumptions, but that does not imply that it will regularly change.
      ii. **Inflation / Cost-of-Living Adjustment.** Inflation underlies all of the economic-related assumptions but is set on its own for its role in the cost-of-living adjustment (COLA). While the COLA for Tier 1 members is fixed in law, the COLA for Tier 2 members is tied to inflation. Similar to the interest rate, the rate used should be tied to long-term expectations and not be overly influenced by short-term changes in actual inflation.
      iii. **Salary Increases**. This assumption projects current individual member salaries into the future, so that projected benefits can be determined.
      iv. **Payroll Growth**: This assumption projects growth in the employer payroll over time.
   b. **DEMOGRAPHIC AND OTHER ASSUMPTIONS**:
      i. **Demographic assumptions**. These assumptions, including mortality, retirement, disability and withdrawal/termination rates, allow the valuation to model how members will leave active service and receive any benefits earned over time.

F. POLICY GUIDELINES

1. Beginning July 1, 2022, pursuant to 40 ILCS 5/1A-111 the IPOPIF will prepare annual actuarial valuations for each Participating Pension Fund to determine the required minimum employer contribution for each Participating Pension Fund.
    a. Actuarial valuations must be completed within 9 months following the closing of each Participating Pension Fund's fiscal year end.
    b. Actuarial valuations must be provided to the municipalities in a timely manner to permit the municipalities to complete their tax levy determinations.
2. The accurate and complete reporting of member demographic, employment, payroll and contribution data is required from all Article 3 Police Pension Funds. This data is provided separately by each municipality to the IDOI and once approved it is released to the Actuary to complete the report. This data is not reviewed by IPOPIF. .
3. Actuarial Valuation Reports provided by IPOPIF are for statutory minimum funding purposes only. Accounting information for GASB 67/68 disclosures are not included as they are considered outside the scope of IPOPIF's statutory authority.
4. The Board of Trustees will prepare an actuarial experience study analyzing the assumptions used for actuarial valuation purposes for valuation reports produced on behalf of IPOPIF for actuarial valuations performed on or after July 1, 2022. The actuarial experience study will be conducted every three to five years at the direction of the Board of Trustees. The most recent experience study was completed on March 4, 2022.
5. Actuarial experience study and Annual Actuarial Valuation Reports will be prepared by a Qualified Actuary chosen by the IPOPIF Board of Trustees. IPOPIF requires a Qualified Actuary to provide actuarial and consulting services to IPOPIF, including but not limited to: (i) a review of the IPOPIF approved asset allocation; (ii) a recommendation on the reasonableness of IPOPIF's actuarial assumptions; and (iii) preparation of annual actuarial valuations for each Participating Pension Fund to determine the required minimum employer (municipal) contribution for each Participating Pension Fund.

6. Based on common practice, IPOPIF supports the application of the funding required by the statutory minimum contribution rates determined in each valuation will apply to the fiscal year beginning at least 12 months after the valuation date. This lag is intended to assist the municipality's ability to more accurately budget pension contributions and other practical considerations. Any shortfall or excess contribution as a result of the implementation lag will be amortized in the UAAL in the following valuation.

G. POLICY REVIEW

1. The Policy is subject to change in the exercise of the Board's judgement.
2. The Board of Trustees will review this policy at least every two (2) years to ensure that it remains relevant and appropriate and consistent with state and federal laws and regulations.
3. In the event of legislative changes to the pertinent sections addressed in this policy the Board will review the policy as appropriate.
4. This policy was adopted by the Board of Trustees on April 14, 2025.