

HIGHLAND PARK PENSION SYSTEMS: MINIMUM CONSTITUTIONAL CONTRIBUTION

The attached is the determination of the minimum constitutionally required pension contribution for the City of Highland Park. The constitution requires that contributions cover both the financial benefits arising on account of service rendered in that fiscal year and that that amount not be used for financing the unfunded accrued liability. For the City of Highland Park, that minimum is almost \$3.5 million.

The current service contribution for the Policemen and Firemen Retirement System is salary, including the eight percent raise, multiplied by the actuarially determined current service contribution requirement, as a percent of payroll, after the employee's contribution requirement is excluded. The past service amount is the June 1980 pension payroll plus the eight percent raise they receive plus the cost of 16 additional retirees at \$14,000 each. The total required contribution for the Policemen and Firemen Retirement System is \$2,470,138.

The current service contribution for the Employees Retirement System is salary, including a four percent increase, multiplied by the actuarially determined current service contribution requirement, as a percent of payroll, after the employee's contribution requirement is excluded. The past service amount is salary, including a four percent increase, multiplied by the actuarially determined contribution requirement, as a percent of payroll, necessary to amortize the unfunded accrued service cost. In addition, the unfunded accrued service cost for former hospital and recreation members, which is amortized as level payments, and interest on the contribution receivable must be contributed. The total required contribution for the Employees Retirement System is \$999,159.

The city's contribution of almost \$3.5 million is simply a constitutional minimum. The amount does not improve the long-term viability of the plans but rather simply provides the city with some time within which to seek changes in the pension systems. To put the plans back on a fully funded path would cost the city about \$4 million. If the city does not amend

the pension plans, the minimum constitutionally required contribution will approach and exceed \$4 million within a few years. Thus, the city must contribute \$3,469,297. In addition, the water fund must make their actuarially determined contribution.

Since at least 1970, the City of Highland Park has met computed contribution requirements, the amount necessary to keep a pension system on a fully funded path, by contributing cash and a “contribution receivable,” an IOU. In 1980, the total contribution receivable was \$9,605,893 (\$4,008,819 is owed to the policemen and Firemen Retirement System and \$5,597,074 is owed to the Employees Retirement System). This is in part the reason the financial condition of both pension systems has deteriorated since 1970.

Table 1
Financial Status

<u>Year</u>	<u>Employes Retirement System</u>			<u>Policemen/Firemen Retirement System</u>		
	<u>Assets¹</u> (000)	<u>Accrued Service Costs</u> (000)	<u>Percent Funded</u>	<u>Assets¹</u> (000)	<u>Accrued Service Costs</u> (000)	<u>Percent Funded</u>
1970	\$8,917	\$12,646	70.5%	\$5,258	\$19,666	26.7%
1980	8,867	18,151	48.9	2,810	33,409	8.4

¹ Excluding contributions receivable.

In fact, the assets are overstated. As of April 30, 1982, the market value of the assets was \$1,457,132 in the Policemen and Firemen Retirement System and \$6,416,045 in the Employes Retirement System.

At the same time that the financial condition of the systems is deteriorating, the number of retirees has increased, active members decreased and total annual pensions increased.

(continued)

Change in Pension Recipients, Payments and members: 1970-1980

<u>Year</u>	<u>Policemen/Firemen Retirement System</u>			<u>Employes Retirement System</u>		
	<u>Recipients</u>	<u>Active Members</u>	<u>Total Annual Pension</u>	<u>Recipients</u>	<u>Active Members</u>	<u>Total Annual Pension</u>
1970	166	193	\$816,913	259	1,042	\$406,055
1980	187	145	1,745,278	357	300	1,036,834
% Change	12.7%	(24.9%)	113.6%	37.8%	(71.2%)	155.3%

HIGHLAND PARK PENSION SYSTEMS:
CONSTITUTIONAL MINIMUM CONTRIBUTION

Police and Fire System

Current Service		
Post-1970	.1081 X \$1,187,579 =	128,377
Pre-1970	.1135 X \$2,051,641 =	<u>232,861</u>

\$ 361,238

Post Service		
Payroll (6/80)		\$1,745,278
8% Increase		139,622
16 Retires (at \$14,000)		<u>224,000</u>

\$2,108,900

TOTAL POLICE-FIRE CONTRIBUTION \$2,470,138

Employees (General)

Current Service	.1049 X \$4,404,709 X 1.04 =	480,536
UAL	.0317 X \$4,404,709 X 1.04 =	145,214
Hospital	=	43,726
Recreation	=	4,913
Interest on Contribution Receivable	=	<u>324,770</u>

\$ 999,159

TOTAL CONTRIBUTION \$2,470,138 + \$999,159 = \$3,469,297