

Report on the Retirement Fund 2019 CAFR at the August 6, 2020 BOC Mtg

On behalf of the Retirement Fund Trustees, it is my pleasure to present the results of the audit and actuarial valuation for the 2019 fiscal year. The details of these reports have been included in the Fund's Comprehensive Annual Financial Report (CAFR) which have been distributed electronically to the Board of Commissioners prior. This report and previous year's reports can be found on the Fund's website, mwrdrf.org.

I'm happy to report that the auditor's opinion on the Fund's Financial Statements is unqualified, which means in their judgement that the Fund's Financial Statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles (GAAP). An unqualified opinion is the highest opinion an auditor can render on the presentation of financial statements.

Highlights from the 2019 financial and actuarial reports include:

The Fund's net position grew by \$162.8M, achieving its highest valuation on Fund assets at both market and actuarial values. The market value of Fund assets at year-end was \$1.507B and the actuarial value or smoothed value, was \$1.489B.

Contributions from employee and the employer remained static in 2019 at \$108.6M while payouts grew to \$171M, up 4.9%. This led to a \$62.2M operating cash flow deficit which was 4.1% of year-end Fund assets.

Investment returns rebounded from the previous year. The Fund's investment portfolio returning 18.3% net of fees in 2019 compared to 2018 return of -7.5%.

The 10-year annualized rate of return on the Fund's investments at 12/31/19 was an impressive 8.8%, versus the actuarial assumed rate of return of 7.25%. This return ranked in the 20th percentile compared to peers.

The Fund's funding ratio using the actuarial value of assets was 55.9% as of 12/31/19, slightly down from 56.5% at 12/31/18. Using the market value of assets, the Fund's funding ratio went to 56.5%, up over 480 basis points compared to 2018 funding ratio of 51.7%.

The Fund continued to receive a higher employer contribution than required by Illinois Pension Code. The statutory contribution for 2019 was \$74.3M, while the Fund received \$87.4M per District Commissioner's funding policy.

The number of active employees decreased by 15 employees to 1,817. Tier 2 employees as a percentage of total active employees continues to grow. As of the end of 2019, 33% of active employees are Tier 2, up from 28% in 2018.

The number of retired members and beneficiaries grew to 2,465, up 22, at the end of 2019. The average annual annuity to a retired member was \$75,584, up over 3% from 2018.

Ten-year analysis of Fund demographics reflect that active membership has gone from 2,024 in 2010 to 1,817 in 2019; down over 10%. Retirees and beneficiaries went to 2,444 in 2019, up over 9% from 2010. The average annual annuity to retired employees of \$75,584 at year-end 2019, is up \$18,287 or 32% since 2010.

2020 Year-to-date Highlights:

Year-to-date 2020 returns as of 6/30/20 was -6.5% net of fees vs. policy index return of -6.6%. This is a significant rebound from the -17.2% return as of 3/31/20.

6/30/20 invested assets are \$1.324B, up \$126M or over 10% from \$1.198B on 3/31/20.

More in-depth returns can be found on our website. Because of the high volatility in the markets, we have been reflecting Fund returns on a monthly basis instead of quarterly.

In early March, the Board of Commissioners prudently directed an additional \$20M to the Fund to reduce the unfunded liabilities. Those additional funds were invested in accordance with the Board's target asset allocation. I am happy to report that as of July 20, 2020 those additional funds are valued at over \$21M, up over 5% since invested.