

**Metropolitan Water Reclamation District of Greater Chicago**  
**FUNDING POLICY**

Recommended by the Retirement Fund Board of Trustees: August 27, 2014

**I. INTRODUCTION**

The purpose of this funding policy is to establish the objectives, goal, and funding source for the annual contribution to the Metropolitan Water Reclamation District Retirement Fund (Fund).

<sup>1</sup>The Board of Commissioners of the Metropolitan Water Reclamation District of Greater Chicago (District) developed this Policy in conjunction with the Fund to ensure the long-term financial health of the pension program while balancing the interests of employees, retirees, taxpayers, and the District. This is to be achieved by accumulating adequate resources for future benefit payments in a manner that fully funds the long-term costs of benefits and reduces volatility in the employer contribution amounts, in accordance with 40 ILCS 5/13-503.<sup>2</sup>

**II. POLICY OBJECTIVES**

The MWRD and the Fund believe this funding policy and its implementation meet the following general policy objectives:

- A. Provide for a funding plan based on actuarially determined contributions;
- B. Provide funding discipline to ensure promised benefits can be paid;
- C. Seek reasonable and equitable allocation of the cost of benefits over time;
- D. Minimize volatility of the District's contributions to the extent reasonably possible, consistent with other policy goals; and
- E. Support the goals of accountability and transparency with clear benchmarks and reporting.

**III. FUNDING GOAL**

The funding goal of the District is to contribute annually to the Fund an amount that over time will increase the ratio of Fund assets to accrued liabilities to 100% by the year 2050.

**IV. SOURCE OF FUNDING**

The source of funding for the employer contribution is the annual real estate tax levy and personal property replacement tax receipts as allowed under 40 ILCS 5/13-503.

The District may at its discretion transfer excess interest income to the Fund in accordance with 70 ILCS 2605/5.9. Such transfers will be made in addition to the annual tax levy amount funded by real estate and personal property replacement tax receipts.

**V. BENCHMARKS**

Progress toward the above funding goal will be determined in part by an actuarial projection to be performed by the Fund's actuary every three years. This triennial projection will calculate a consistent multiple through the year 2050 that 1) satisfies the statutory requirements every year and, 2) achieves a funded ratio of 100% by 2050. The projection multiple will serve as a guide for determining employer contributions until the next projection is performed. In addition to the

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<sup>1</sup> Attached hereto as Exhibit 1 are certain definitions used in this Policy.

<sup>2</sup> Attached hereto as Exhibit 2 are statutory requirements, actuarial methods and assumptions.

triennial projection, the funded ratio calculated each year by the Fund actuary will serve as a benchmark to determine progress toward the funding goal.

## **VI. METHODS AND ASSUMPTIONS**

The actuarial methods and assumptions used in the annual valuation and the triennial funding projection are adopted by the Fund Board of Trustees based upon the advice and recommendations of the Fund's actuary on an annual basis. The actuary shall conduct an investigation into the Fund's experience every 3 to 5 years, and utilize the results of the investigation to form the basis for those recommendations. The methods and assumptions currently in use are based upon the latest experience study performed.

## **VII. IMPLEMENTATION OF FUNDING POLICY**

In order to achieve the above goals and objectives, the District will annually contribute 1) an amount equivalent to the maximum employer contribution allowable by statute, or 2) if the maximum amount exceeds the amount available for contribution from the District's tax levy in any budget year, the District may contribute an amount determined by the Fund actuary based on a triennial projection that exceeds the minimum employer contribution required by the statute and achieves a funded ratio of 100% by the year 2050. Determination of the annual contribution will utilize the following:

1. The actuarially determined contribution requirement (ADCR) as determined by the Fund actuary during the course of the annual actuarial valuation which includes amounts for normal costs for current service, and amortization of any unfunded liability
  - a. Normal cost will be calculated using the entry age normal level percentage of payroll actuarial cost method utilizing the following assumptions based upon the latest experience study:
    - i. Economic assumptions including investment rate of return and assumed wage inflation rate
    - ii. Non-economic assumptions including rates of withdrawal among actives, rates of disability among actives, rates of retirement and mortality
  - b. Amortization of the unfunded liability will be determined based upon the following:
    - i. Actuarial value of assets will be determined using a five-year smooth market related basis with a 20% corridor
    - ii. Amortization of any unfunded liability will be based on a level percentage of payroll
    - iii. The amortization period will be a closed period to the year 2050
2. The minimum and maximum employer contribution allowable by statute as determined by the Fund actuary each year.

3. The employer contribution based on the constant projection multiple as determined by the Fund actuary in the most recent triennial projection, which falls between the minimum and maximum described in 1 and 2.

The annual amount contributed by the District to the Fund is to be determined as described above, consistent with the overall fiscal goals of the District.

**Metropolitan Water Reclamation District of Greater Chicago**

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**EXHIBIT 1**

**I. DEFINITIONS**

For the purposes of this Funding Policy, the following definitions apply:

**A. Minimum employer contribution**

The contribution amount determined by application of the statute is the minimum employer contribution (i.e. the lesser of the ADCR or the employee contributions 2 years prior multiplied by 4.19).

**B. Maximum employer contribution**

The contribution amount equal to employee contributions 2 years prior multiplied by 4.19.

**C. Triennial Projection**

This is a special projection to be performed by the Fund actuary every three years for the purpose of determining a constant multiple to be used to determine employer contributions in a budget year in which the maximum employer contribution exceeds the amount available for contribution from the District's tax levy. This special projection will also be used as a benchmark to measure progress towards the funding goal.

**D. Projection multiple**

The constant multiple determined by the Fund actuary in the triennial projection that results in an employer contribution that falls between the minimum and maximum contribution allowable by statute and achieves a funded ratio of 100% by the year 2050.

**Metropolitan Water Reclamation District of Greater Chicago**

**FUNDING POLICY**

**EXHIBIT 2**

**II. STATUTORY REQUIREMENTS**

40 ILCS 5/13-503. "Beginning in fiscal year 2013, the District shall annually levy a tax upon all the taxable real property within the District at a rate which, when extended, will produce a sum that (i) will be sufficient to meet the Fund's actuarially determined contribution requirement, but (ii) shall not exceed an amount equal to the total employee contributions 2 years prior multiplied by 4.19. The actuarially determined contribution requirement is equal to the employer's normal cost plus the annual amount needed to amortize the unfunded liability by the year 2050 as a level percent of payroll. The funding goal is to attain a funded ratio of at least 90% by the year 2050, with the funded ratio being the ratio of the actuarial value of assets to the total actuarial liability."

**III. ACTUARIAL METHODS AND ASSUMPTIONS**

The latest experience study of the years 2006-2009 was performed in 2010. Methods and assumptions adopted by the MWRD Retirement Fund Board of Trustees as of December 31, 2013, based on the 2010 experience analysis, follow:

Actuarial methods:

|                        |                                |
|------------------------|--------------------------------|
| Actuarial cost method  | Entry age normal               |
| Amortization method    | Level percent of payroll       |
| Amortization period    | Closed period to the year 2050 |
| Asset valuation method | 5-year smoothed market         |

Actuarial assumptions:

|                                  |       |
|----------------------------------|-------|
| Investment rate of return        | 7.75% |
| Projected salary increases       | 5.00% |
| Post-retirement cost of living   |       |
| Members hired on or after 1/1/11 | 1.25% |
| Members hired before 1/1/11      | 3.00% |
| Payroll growth                   | 3.70% |