

# Forest Preserve District Employees' Annuity and Benefit Fund of Cook County

A Component Unit of the Forest Preserve District of Cook County, Illinois



## Popular Annual Financial Report

For the Fiscal Year Ended December 31, 2015

Published December 2016



## ► Overview

The Forest Preserve District Pension Fund (“the fund” or “the plan”) administers retirement, survivor, retiree health and disability benefits to employees and retirees of Cook County and the Forest Preserve District. The fund is pleased to present the very first publication of the Forest Preserve District Pension Fund Popular Annual Financial Report (PAFR) for the fiscal year ended December 31, 2015. This is a user-friendly companion to the Forest Preserve District Pension Fund Comprehensive Annual Financial Report (CARF), making the fund’s finances transparent to all members and constituents. The information is compiled from the December 31, 2015 CAFR which can be found at [CookCountyPension.com](http://CookCountyPension.com).

### **Fiduciary Net Position and Funded Status**

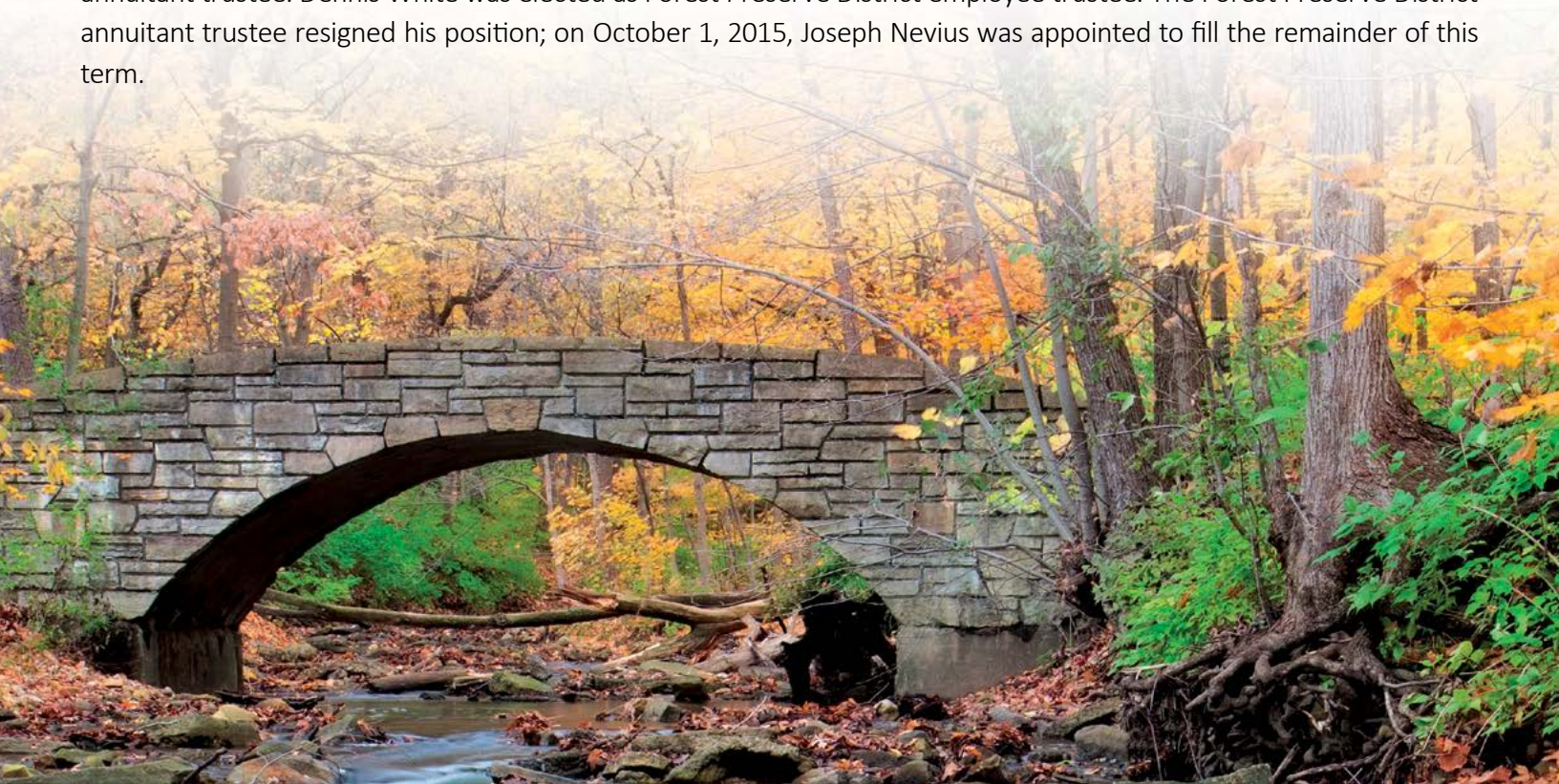
The fund’s fiduciary net position was \$192.3 million as of December 31, 2015. That was a decrease of \$9.0 million, or 4.5%, from 2014.

As of December 31, 2015, the fund was 60.0% funded on an actuarial basis. This means that the fund has \$0.60 for every \$1 in promised benefits.

### **About the Retirement Board**

The pension fund is governed by a nine-member Retirement Board (“Board”), seven of whom are elected and two of whom are appointed. Of the elected members, four are elected by the employees of Cook County and the Forest Preserve District and three are elected by the annuitants of Cook County and the Forest Preserve District. The elected trustees serve staggered three-year terms, so that no more than three positions are subject to election in any given year. Of the appointed members, one is appointed by the Cook County Comptroller and one is appointed by the Cook County Treasurer. The appointed members serve for a term of two years.

Diahann Goode, who has served as a trustee since 2012, was reelected to her second term as a Cook County employee trustee. Patrick J. McFadden, who has served as a trustee since 2009, was reelected to his third term as a Cook County annuitant trustee. Dennis White was elected as Forest Preserve District employee trustee. The Forest Preserve District annuitant trustee resigned his position; on October 1, 2015, Joseph Nevius was appointed to fill the remainder of this term.



## ► Overview

### Members and Employees

	2015	2014
<b>Employees</b>	568	525
<b>Annuitants &amp; Beneficiaries</b>	529	535
<b>Actuarial Value of Assets</b>	\$193.7 Million	\$189.9 Million
<b>Fair Value of Assets</b>	\$192.3 Million	\$201.3 Million
<b>Employer Contributions</b>	\$3.5 Million	\$3.1 Million
<b>Employee Contributions</b>	\$2.8 Million	\$2.6 Million
<b>Funded Ratio</b>	60.0%	60.2%
<b>Projected Insolvency Date</b>	2040	2036

### Revenue

The fund receives income from employee and employer contributions as well as investment earnings.

- Employees contribute 8.5% of their salary.
- Employer contributions are statutorily set at 1.3 times employee contributions collected two years prior.
- Investment earnings are used to make up the shortfall of contributions to help meet benefit payments.

### Expenses

The fund paid \$15.1 million in annuity benefit payments during 2015 to 529 annuitants and beneficiaries; \$0.2 million in disability benefits and \$3.1 million in health benefits. Total expenses for 2015 were about \$19.1 million.

### Investments

In 2015, the fund returned 1.5% after net of fees and the portfolio was valued at \$189.4 million as of December 31, 2015. Investment returns have accounted for approximately 62% of the fund's income over the last 15 years.

### Funding

For 2015, the funded status of the fund decreased modestly, as inflows from investment earnings and contributions were not sufficient to keep pace with benefit payments. On an actuarial basis, the funded status for the fund is 60.0% (relative to 60.2% in 2014). In 2015, the actuarial projected insolvency date is 2040.

Over the last decade, the fund has been facing a long-term funding shortfall. The current funding policy projects insolvency in 2040 as employer contribution did not meet the fund's actuarial needs in 2015. The employer contribution is determined as a multiple of employee contributions from two year earlier. Based on the most recent actuarial valuation, an actuarially determined tax multiple of 5.78 is needed to adequately fund the plan in 2016 and the current tax multiple of 1.3 has been less than the actuarially determined contribution requirement for more than 20 years.

## ► Members

The fund had 2,246 active members, inactive members and retirees on December 31, 2015.

Members						
	2010	2011	2012	2013	2014	2015
Active	448	408	467	534	525	568
Retired	344	348	355	378	384	383
Beneficiaries	161	160	156	153	151	146
Inactives	1,049	1,110	1,057	1,122	1,186	1,149
<b>Total</b>	<b>2,002</b>	<b>2,026</b>	<b>2,035</b>	<b>2,187</b>	<b>2,246</b>	<b>2,246</b>

### Breakdown of Annuitant Pension Amount

The typical Forest Preserve District annuitant receives a modest benefit, earned after decades of service. In 2015, about a third of annuitants receive an annual benefit of \$18,000 or less.

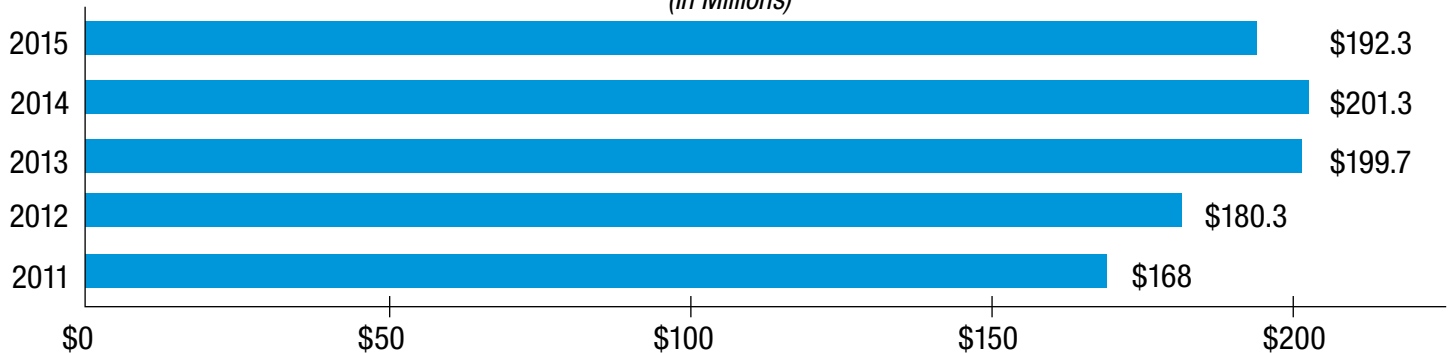
Annuitants by Pension Amount		
Annual Pension Benefit	Number of Recipients	%
Under \$6,000	72	13.6%
\$6,001-12,000	70	13.2%
\$12,001-18,000	64	12.1%
\$18,001-30,000	99	18.7%
\$30,001-42,000	94	17.8%
\$42,001-60,000	72	13.6%
\$60,001-78,000	45	8.5%
Over \$78,001	13	2.5%
<b>Total</b>	<b>529</b>	<b>100.0%</b>

## ► Fiduciary Net Position and Funded Status

### Fiduciary Net Position

The fund's fiduciary net position was \$192.3 million as of December 31, 2015. That was a decrease of \$9.0 million, or 4.5%, from 2014. Over the last five years, the fund's fiduciary net position has increased by \$24.3 million.

**Fiduciary Net Position**  
(In Millions)

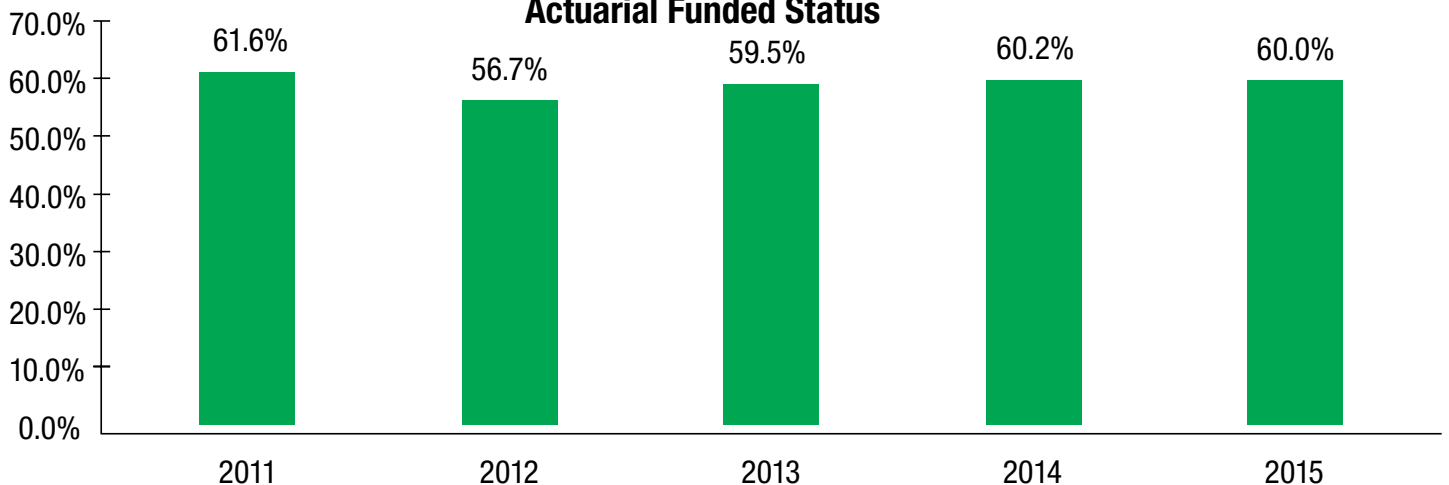


### Actuarial Funded Status

The funded status is a measure to determine the financial strength of the plan as of the valuation date. It is determined as a ratio of the actuarial value of assets divided by the total actuarial accrued liability on the valuation date. A ratio of over 100% represents a pension fund that is fully funded, and a ratio of less than 100% represents a pension fund that is underfunded on the valuation date. As of December 31, 2015, the funded ratio of the fund is 60.0%. This represents a decrease of 0.2% from last year's funded ratio of 60.2%, as contributions remain flat while benefits are increasing.

Where presented, references to "funded ratio" and "unfunded accrued liability" are typically measured on an actuarial value of assets basis. It should be noted that the same measurements using fair value of assets would result in different funded ratios and unfunded accrued liabilities.

**Actuarial Funded Status**



### GASB Statement 67 Accounting Standard Impact on Funded Ratio

The fund adopted Governmental Accounting Standards Board (GASB) Statement 67, Financial Reporting for Pension Plans, during the year ended December 31, 2014. One noteworthy change was the required use of a blended discount rate to value the fund's pension liability when future contributions are expected to be insufficient to cover future benefit payments. For 2015, this methodology produced a blended investment rate of return of 4.23% rather than the fund's assumed actuarial investment rate of return of 7.50%. This resulted in a significantly lower funded ratio of 42.0% for the pension plan component of the fund (on an accounting basis).

## ► Health Benefits Overview

The healthcare plan is composed of annuitants and surviving spouse annuitants who have last worked for Cook County or the Forest Preserve District and meet eligibility criteria. The healthcare plan is self-insured, which means there is no underlying health insurance contract.

Effective January 1, 2015, UnitedHealthcare administers and provides administrative and health program management services for the plan. At December 31, 2015, and 2014, the number of annuitants and surviving spouses participating in the healthcare plan totaled 278 and 287, respectively.

In coordination with the Cook County fund, the combined plan participates in a city agencies coalition for negotiating pharmacy benefits management and CVS/Caremark is the contract holder. The pension fund received \$0.1 million in drug rebates during 2015, and \$0.1 million in Retiree Drug Subsidy funds from Medicare. Medicare and pharmacy expenses are subsidized based on the discretion of the Board. In 2015, the subsidy was 52% of the total medical and pharmaceutical cost for annuitants, and 66% of the total cost for surviving spouses was subsidized. Members are able to insure their dependents at the same cost-share percentage.

### Medical Plan Cost Control

During the past three years the combined plan developed a strategy that includes increased financial control and lower administration costs. These cost-control efforts steer services to higher quality and shift costs to Medicare where possible.

The following is a reconciliation of healthcare benefits payable for the years ended December 31, 2015 and 2014:

#### Healthcare Benefits Payable

	2015	2014
Healthcare benefits payable, January 1	\$0.31 million	\$0.26 million
Claims incurred	\$3.09 million	\$3.06 million
Claims paid	(\$3.06) million	(\$3.01) million
Healthcare benefits payable, December 31	\$0.34 million	\$0.31 million

The Board reviews the health benefits plan and costs annually. The health benefits program is subject to change at any time at the discretion of the Board. Any information on the current program of benefits is approved for the current year only and is not a guarantee of future benefits.

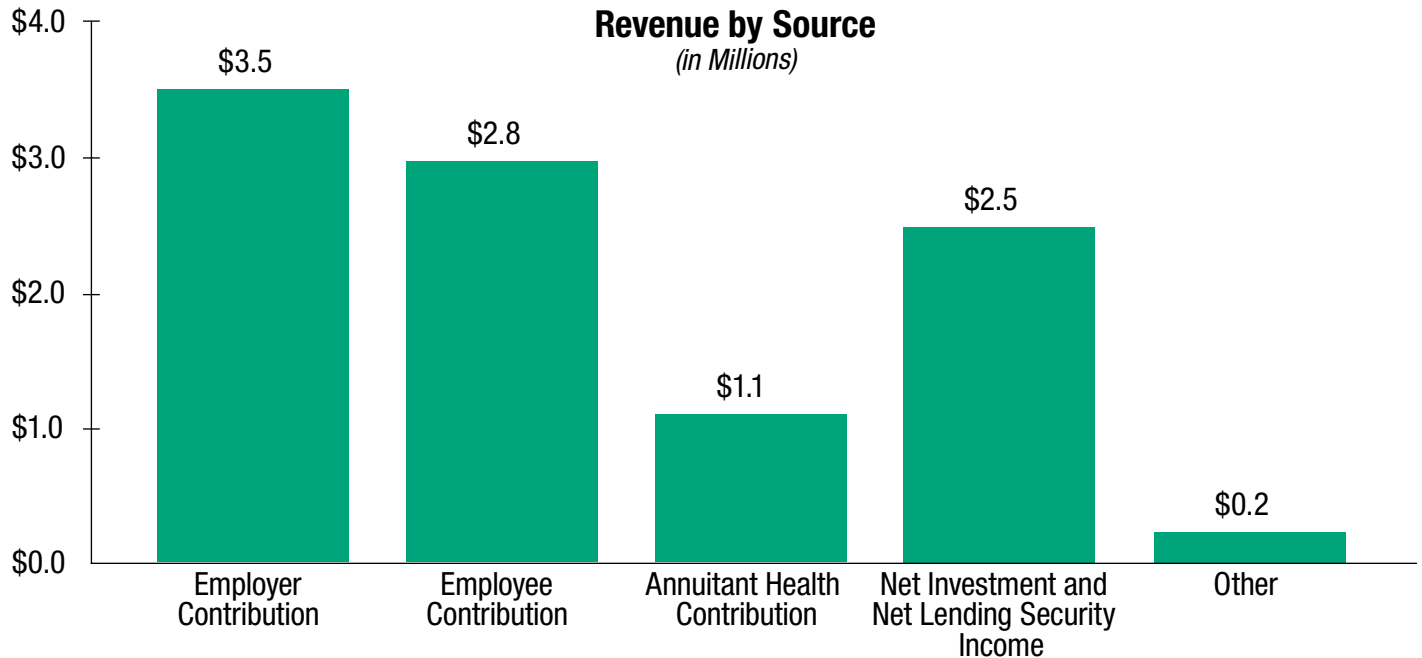
## ► Revenue and Expenses

### Revenue

The fund receives income from employee and employer contributions as well as investment earnings. Revenue during 2015 totaled \$10.2 million.

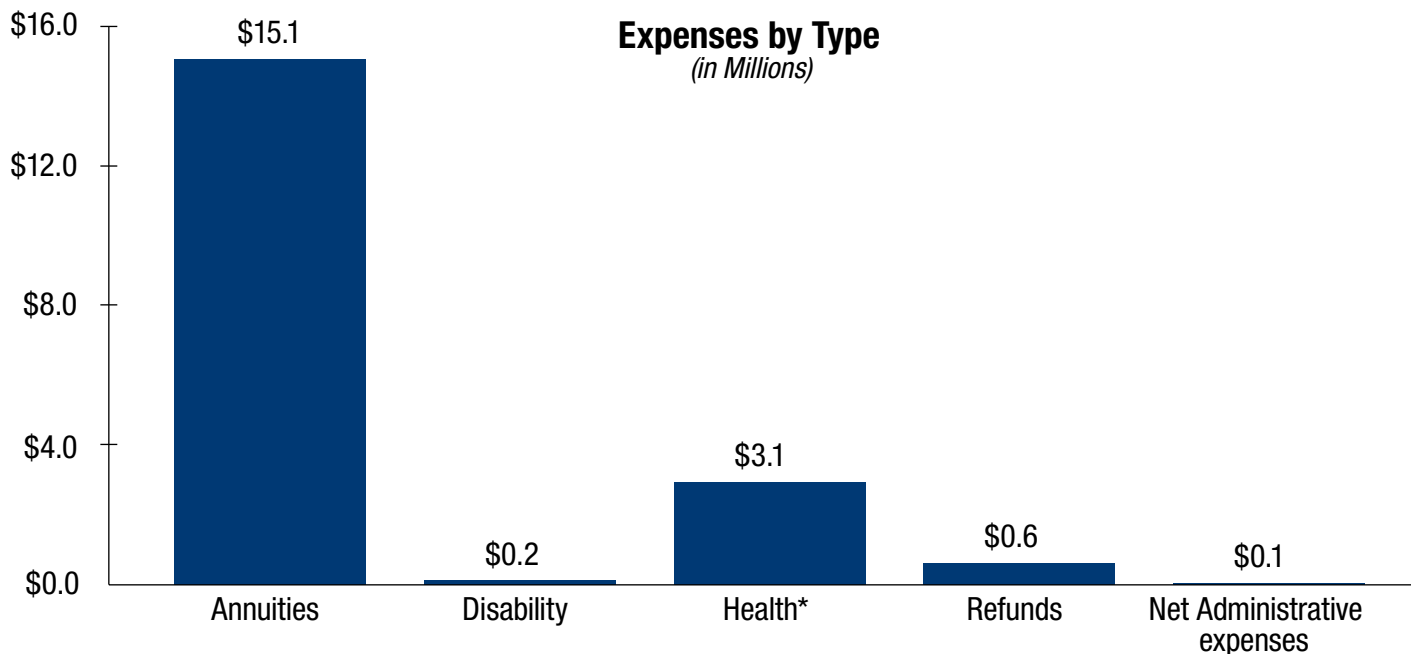
The employer makes payments to support the fund's benefit system. Employer contributions increased to \$3.5 million in 2015 from \$3.1 million in 2014. Employer contributions are statutorily set at 1.3 times employee contributions collected two years prior.

Employee contributions remained about the same for 2015 and 2014. Employees contribute 8.5% of salary.



### Expenses

The fund's expenses include annuity, disability and health benefits, refunds to members and the cost to administer the plan's benefit system. Total expenses during 2015 totaled \$19.1 million; of that, approximately \$15.1 million was paid in annuity benefits to 529 annuitants and beneficiaries, \$0.2 million in disability benefits and \$3.1 million in health benefits.



\*Net Health Expense is \$1.7M. The \$3.1M does not include revenue sources from the Annuitant Health Contribution of \$1.1M and approximately \$0.2M in rebates (reflected in "Other").



## ► Investments

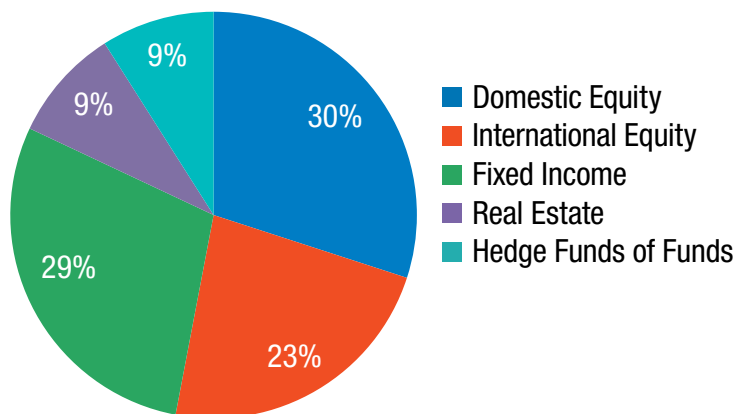
One of the most important functions of the Board is to determine how to prudently invest contributions. The Board does this by setting a target asset allocation for the fund's investment portfolio. Over long periods, research shows that asset allocation is the strongest driver of overall investment performance.

It is the mission of the fund and the investment staff to optimize the total return of the fund's investment portfolio, acting at all times in the exclusive interest of its members. The fund's investment department works with independent professional investment managers and investment consultants to achieve investment performance goals through a well-diversified pool of investments.

In 2015, the investment portfolio was valued at \$189.4 million, a decrease of approximately \$4.3 million over the last 12 months. For the seventh consecutive year, the Forest Preserve Pension Fund generated positive absolute returns by returning 1.5%. The Forest Preserve District's real estate and hedge fund strategies contributed positively to performance while relative performance was driven by strong active management across all asset classes.

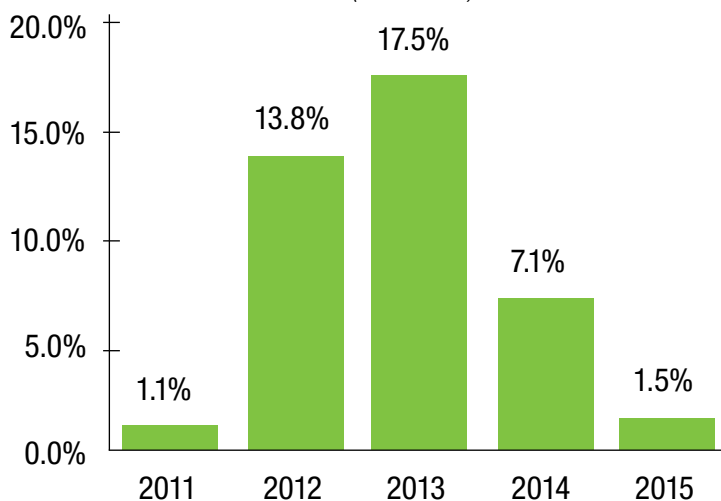
Investment returns account for approximately 62% of the fund's income over the last 15 years, which has been the largest contributor to the plan. While investments help support benefit payments, investment returns are not a sustainable solution to address the funding challenges.

### Target Asset Allocation



### Investment Rate of Return

(Net of Fees)



### Investment Portfolio as of December 31, 2015

Asset Class	Fair Value	Allocation
Domestic Equity	\$62,033,795	33%
International Equity	\$45,796,347	24%
Fixed Income	\$37,520,752	20%
Real Estate	\$18,118,774	10%
Hedge Funds of Funds	\$19,670,830	10%
Short-Term Investments	\$6,245,539	3%
<b>Total Investments</b>	<b>\$189,386,037</b>	<b>100%</b>



### Pension Fund Retirement Board

Alexis Herrera - President • Patrick J. McFadden - Vice-President • Diahann Goode - Secretary  
John E. Fitzgerald • Andrew Jatco • Bill Kouruklis • Joseph Nevius • Dennis White • Lawrence L. Wilson, CPA



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