

## FY05/06 Village of Glen Ellyn Annual Budget Village Employee Retirement Benefits Summary and Costs

Village employees are required to participate in one or more of the following retirement plans as listed below:

### **Federal Insurance Contributions Act (FICA)**

All Village employees, with a few exceptions noted below, must contribute into the FICA system through employee payroll deductions for Federal Social Security (6.2% of wages paid) and Medicare systems (1.45% of wages paid). Our 39 sworn police officer positions do not participate in the Social Security system but are required to participate in the Medicare system (for police officers hired after March 31, 1986).

The Village is required to make a matching contribution for both Social Security and Medicare taxes withheld from employee wages. This is budgeted as an expense in the Fund in which the employee is assigned. Although the contribution rates into the FICA system have remained constant for a long period of time, the Village's expense increases as salaries increase.

### **Illinois Municipal Retirement Fund (IMRF)**

All Village employee positions (excepts for participants in the Police Pension Fund) who have work schedules which equal or exceed 1,000 hours per year are required to participate in the IMRF. The IMRF is a state-wide retirement system where participants who retire at or after age 60 with at least eight years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to  $1^{2/3}$  % of their final rate of earnings, for each year of service up to 15 years, and 2% for each year thereafter. These benefit provisions and all other requirements are established by State statute.

Participating employees are required to contribute 4.5% of their salary to IMRF. The Village is required to contribute the remaining amounts necessary to fund the IMRF as specified by statute. The Village has enjoyed much lower contribution rates (1% to 3% of salary) than other municipalities (8% to 12%) over the past seven years due to its "over-funded" status. This situation is expected to end within the next few years when the Village will likely begin contributing the "normal pension cost" of 8% of payroll or higher as its funded status dips back below 100%. A decrease in funding status is typically most influenced by IMRF investment returns which are below actuarial projections. IMRF costs are budgeted as an expense in the Fund in which the particular employee is assigned.

Village employees may transfer their service credit, at no cost to the employee, to other IMRF employers during their careers. Pensions are paid directly by IMRF.

## **Glen Ellyn Police Pension Fund**

The Glen Ellyn Police Pension Fund is organized under state statute (40 ILCS 5/3-101) to provide “for the benefit of its police officers and of their surviving spouses, children, and certain other dependents”. Our Police Pension Fund is administered by a five-member Pension Board as defined by statute, and includes two citizens appointed by the Village Board, two active police officers, and one current beneficiary of a Glen Ellyn Police pension.

The Police Pension Fund provides retirement benefits at age 50, with a minimum of 20 years of service, at a rate of one half the annual salary attached to the rank held on the last day of service. The annual pension increases by 2.5% of the annual salary for each additional year of service over 20 years up to 30 years to a maximum of 75% of such annual salary. As of April, 2005, there are 28 beneficiaries receiving a monthly police pension from the Glen Ellyn Police Pension Fund at an annual cost of approximately \$997,000.

Employees participating in the Police Pension Fund contribute 9.91% of their base salary to the Fund. The Village is required to contribute the remaining amounts needed to fund the plan as determined by an enrolled actuary who is jointly hired by the Village and the Pension Board. Various state-approved benefit changes over the years have contributed to increases in the amounts the Village must pay into the Pension Fund each year. The Village-share of Police Pension Fund retirement costs is budgeted as an expense in the Police Department section of the General Fund Budget.

The Glen Ellyn Police Pension Fund pays the monthly benefits of retired police officers. Provisions in State statute do allow for the transfer of credited service from one employer to another, however, this quickly becomes cost-prohibitive to the employee as the number of years of service being transferred to the new fund increases. It is the employee’s responsibility to finance the actuarial impact to the new pension fund for the service credit transferred.

The following page displays an eight year history of the Village’s contributions toward employee retirement plans. Most of the cost increases are outside of the direct control of the Village.