May 17, 2022

Mr. William Atwood, Executive Director
Firefighters' Pension Investment Fund

Re: Investment Return Assumption for Funds Only Invested in Cash

Dear Mr. Atwood:

As follow up to the experience study completed by Foster & Foster in December 2021, we have had conversations with staff about the appropriateness of using the Firefighters' Pension Investment Fund's ("FPIF") long-term investment return assumption of 7.125% when an Article 4 Fund does not transfer any of its money to FPIF and holds all of it in cash or cash equivalent investments. Staff believes that 10 or fewer local funds that will fall into this category.

The investment return assumption is critical in the actuarial valuation since it determines the portion of assets that are expected to come from investment income rather than contributions from the plan sponsor and its members. The investment return assumption should be determined based on the long-term rate of return (net of investment-related fees) a fund expects to earn over the life of the plan. Based on 20-year capital market assumptions and FPIF's long-term asset allocation, the Board adopted its assumption of 7.125%. This assumption is reasonable for local funds that have a majority of their money with FPIF since they will participate in all of the various asset classes that are part of FPIF's investment policy.

For local funds that are not transferring their money to FPIF, they will be required to maintain their money in cash or cash equivalent investments. As a result, their investment return assumption should be based on the long-term expectations of those types of investments. FPIF's investment advisor, Marquette Associates, currently has a long-term assumption of 1.9% for cash equivalent investments. The "Survey of Capital Market Assumptions: 2021 Edition" released by Horizon Actuarial Services, which includes data from 39 different investment advisors across the country, also has a long-term assumption of 1.9% for cash equivalent investments. As a result, we recommend an alternate investment return assumption of 1.9% for these funds. This assumption will be reviewed as part of future experience studies like all of the other assumptions.

This 1.9% assumption will be used starting in the fiscal 2022 actuarial valuations for all the local funds that do not transfer their money to FPIF and hold their money in cash equivalent investments. If a local fund later transfers its money to FPIF, subsequent actuarial valuations will use FPIF's long-term assumption rather than this lower rate.

If there are any questions about this recommendation, please contact us at 630-620-0200.

Respectfully submitted,

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