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**CITY OF ROYAL OAK RETIREMENT SYSTEM**

**51ST ANNUAL ACTUARIAL VALUATION**  
**JUNE 30, 1999**

*Gabriel, Roeder, Smith & Company*

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**GABRIEL, ROEDER, SMITH & COMPANY**

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February 25, 2000

The Board of Trustees  
City of Royal Oak Retirement System  
Royal Oak, Michigan

Dear Board Members:

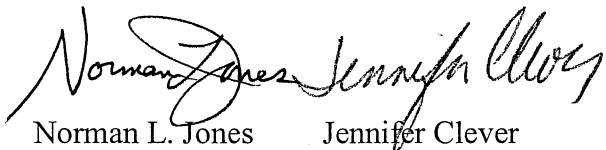
The results of the **51st Annual Actuarial Valuation** of the City of Royal Oak Retirement System are presented in this report. The purpose of the valuation was to measure the system's funding progress and to determine the employer contribution rate for the ensuing fiscal year.

The valuation was based upon information, furnished by the City, concerning Retirement System benefits, financial transactions, and individual active, terminated and retired members and beneficiaries. Data was checked for internal and year-to-year consistency but was not otherwise audited by the actuary.

The date of the valuation was **June 30, 1999**.

To the best of our knowledge, this report is complete and accurate and was made in accordance with standards of practice prescribed by the Actuarial Standards Board. We believe that in the aggregate, actuarial assumptions used for the valuation produce results which are reasonable.

Respectfully submitted,

  
Norman L. Jones      Jennifer Clever

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## CONTENTS

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<b>Section</b>	<b>Page</b>
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### **VALUATION RESULTS**

A	1-2	COMPUTED CONTRIBUTIONS
	3	Valuation Assets and Unfunded Actuarial Accrued Liability
	4	Derivation of Experience Gain (Loss)
	5-6	Summary Statement of Resources and Obligations
	7-8	Comments and Conclusion
	9-11	Comparative Statements

### **VALUATION DATA**

B	1-3	Summary of Benefit Provisions
	4-6	Retired Life Data
	7	Inactive Member Data
	8-11	Active Member Data
	12-13	Asset Information

### **METHODS AND ASSUMPTIONS**

C	1	Actuarial Cost Methods
	2-6	Actuarial Assumptions

### **GASB STATEMENT NO. 25**

D	1-2	Governmental Accounting Standards Board
		Statement No. 25

### **OPERATION OF THE RETIREMENT SYSTEM**

E	1-2	Financial Objective
	3	Financing Diagram
	4	Flow of Money Through the Retirement System
	5-7	Glossary

## *SECTION A*

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### *VALUATION RESULTS*

## ***FUNDING OBJECTIVE***

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**The funding objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will accumulate assets during members' periods of employment that will be sufficient to finance benefits throughout their retirement years.**

## ***CONTRIBUTION RATES***

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The Retirement System is supported by member contributions, City contributions and investment income from Retirement System assets.

Contributions which satisfy the funding objective are determined by the annual actuarial valuation and are sufficient to:

- Cover the actuarial present value of benefits allocated to the current year by the actuarial cost method described in Section C (the normal cost); and
- Finance over a reasonable period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (the unfunded actuarial accrued liability).

***Computed contribution rates*** for the fiscal year beginning July 1, 2000 are shown on page A-2.

The City's established contribution rate of 0.00% is sufficient to finance the employer normal cost and to amortize the assets in excess of the actuarial accrued liability (\$39,498,722 as of June 30, 1999) as a level percent of payroll over a period of 23 years.

**CONTRIBUTIONS TO PROVIDE BENEFITS**  
**FISCAL YEAR BEGINNING JULY 1, 2000**

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Total Contribution for	Computed Contributions Expressed as Percents of Active Member Payroll		
	General & Water	Police Officers & Firefighters	Weighted Average
<b>Normal Cost</b>			
Age and service benefits	12.18 %	14.86 %	13.43 %
Disability	1.74 %	3.11 %	2.38 %
Death	0.69 %	0.69 %	0.69 %
Deferred service pensions	0.99 %	0.64 %	0.83 %
Future refunds of member contributions	0.30 %	0.29 %	0.30 %
Totals	15.90 %	19.59 %	17.63 %
<b>Member Contributions</b>	4.30 %	5.00 %	4.63 %
<b>Employer Normal Cost</b>	11.60 %	14.59 %	13.00 %
<b>Unfunded Actuarial Accrued Liability</b>	0.00 %	0.00 %	0.00 %
<b>Full Funding Credit*</b>			(13.00)%
<b>COMPUTED EMPLOYER RATE</b>			<b>0.00 %</b>

\* As of June 30, 1999, the assets available to finance retirement allowances exceeded the actuarial accrued liability. Amortization of the excess over a 23 year period results in the full funding credit shown.

## Determining Employer Dollar Contributions

For any period of time, the percent-of-payroll contribution rate should be converted to dollars -- and then contributed to the Retirement System.

**Recommended Procedure:** (1) at the end of each payroll period, multiply the active member payroll for the period by the employer contribution percent; and (2) promptly contribute the dollar amount so determined.

The total active member payroll reported to us for this valuation was \$17,501,352. Applying the weighted average employer contribution rate of 0.00% to this payroll produces annual employer contributions of \$0 for both the General and Water and the Police and Fire rate groups.

*Actual employer contributions* for the last fiscal year were reported to be \$84,531.

*In financing the actuarial accrued liabilities*, the present smoothed funding value of assets of \$154,787,086 was distributed as follows:

	Present Assets Applied to			
	Active & Inactive			
	Member	Retirants &	Health	
	Actuarial Accrued	Beneficiaries	Insurance	
	Liability	Liability	Reserve	Totals
Employees' Contributions				
General Members	\$3,198,272	\$0	\$0	\$3,198,272
Police & Fire Members	5,072,336	0	0	5,072,336
Totals	8,270,608	0	0	8,270,608
Employer Contributions				
General Members	28,207,400	1,800,088		
Police & Fire Members	52,742,752	1,520,888		
Totals	80,950,152	3,320,976	7,354,363	91,625,491
Retired Benefit Payments		54,890,987		54,890,987
Totals	\$89,220,760	\$58,211,963	\$7,354,363	\$154,787,086

Assets were applied against actuarial accrued liabilities in determining unfunded actuarial accrued liabilities as follows:

	Retired Lives	Active & Inactive Members	Totals
Computed Actuarial Accrued Liabilities	\$58,211,963	\$49,722,038	\$107,934,001
Applied Assets	58,211,963	89,220,760	147,432,723
Unfunded Actuarial Accrued Liabilities/ (Full Funding Credit)	\$0	\$(39,498,722)	\$(39,498,722)

**DERIVATION OF EXPERIENCE GAIN (LOSS)**  
**YEAR ENDED JUNE 30, 1999**

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Actual experience will never (except by coincidence) coincide exactly with assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of this year's experience gain (loss) is shown below.

		<b>All Groups</b> <b>(\$1,000)</b>
(1)	UAAL* at start of year	\$(29,104)
(2)	Normal cost from last valuation	2,376
(3)	Actual member and employer contributions	665
(4)	Interest Accrual	(2,189)
(5)	Expected UAAL before changes	(29,582)
(6)	Change from benefit modification	0
(7)	Change from assumption revision	0
(8)	Expected UAAL after changes	(29,582)
(9)	Actual UAAL	(39,499)
(10)	Gain (loss): (8) - (9)	9,917
(11)	% of beginning of year AAL	9.6 %

\* *Unfunded actuarial accrued liability.*

Greater than assumed investment income was the primary source of favorable experience during the past year. The 1998-1999 recognized return based on the funding value of assets was 16.31% compared to an assumed rate of 7.75%.

<b>Valuation</b>	<b>Experience Gain (Loss)</b>	
	<b>Date</b>	<b>As % of Beginning of Year</b>
5/31/1991	Accrued Liability	0.8 %
5/31/1992		0.6 %
6/30/1993		4.7 %
6/30/1994		1.9 %
6/30/1995		7.1 %
6/30/1996		6.4 %
6/30/1997		8.6 %
6/30/1998		11.6 %
6/30/1999		9.6 %

**SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS**  
**JUNE 30, 1999**

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**Present Resources and Expected Future Resources**

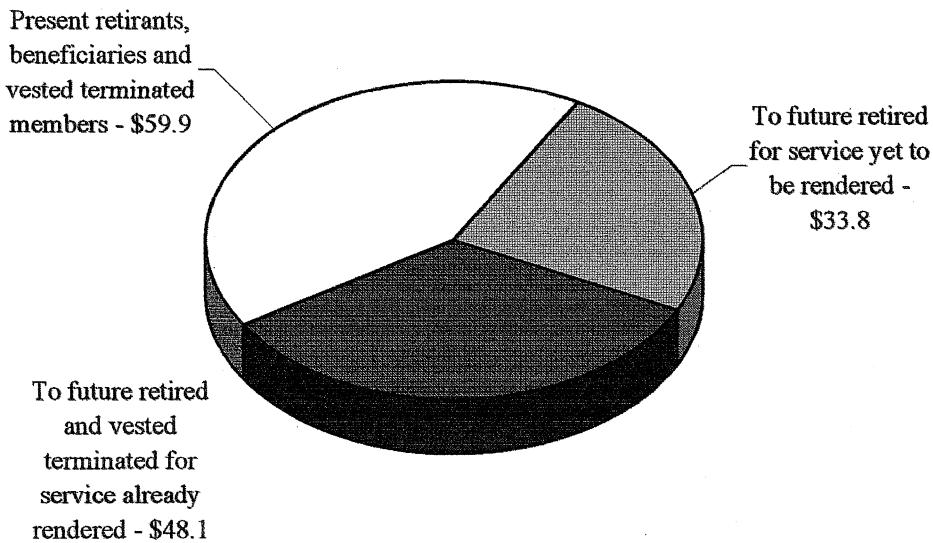
A.	Present valuation assets		
1.	Net assets from system financial statement	\$169,871,065	
2.	Market value adjustment	(22,438,342)	
3.	Actual valuation assets	<hr/> <td>147,432,723</td>	147,432,723
B.	Actuarial present value of expected future employer contributions		
1.	For normal costs	24,828,537	
2.	For unfunded actuarial accrued liabilities	(39,498,722)	
3.	Totals	<hr/> <td>(14,670,185)</td>	(14,670,185)
C.	Actuarial present value of expected future member contributions	8,995,924	
D.	Health Insurance Reserve	7,354,363	
E.	<b>Total Present and Expected Future Resources</b>	<b>\$149,112,825</b>	

**Present Value of Expected Future Benefit Payments and Reserves**

A.	To retirants and beneficiaries	\$58,211,963	
B.	To vested terminated members	1,592,681	
C.	To present active members		
1.	Allocated to service rendered prior to valuation date	48,129,357	
2.	Allocated to service likely to be rendered after valuation date	<hr/> <td>33,824,461</td>	33,824,461
3.	Totals	<hr/> <td>81,953,818</td>	81,953,818
D.	Health Insurance Reserve	7,354,363	
E.	<b>Total Actuarial Present Value of Expected Future Benefit Payments</b>	<b>\$149,112,825</b>	

***ALLOCATION OF \$141.8 MILLION OF BENEFIT PROMISES  
JUNE 30, 1999***

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## **COMMENTS AND CONCLUSION**

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**COMPUTED CONTRIBUTIONS:** The computed contribution rate this year is the same as it was last year, 0.00% of payroll.

**OVERALL EXPERIENCE** was more favorable than assumed during the year ending June 30, 1999 - primarily as a result of recognized investment return that was greater than assumed.

**HEALTH INSURANCE:** Following is the development of the balance of the Health Insurance (HI) Reserve as of June 30, 1999 assuming a maximum contribution is made to the reserve:

Balance as of June 30, 1998	\$8,031,627
Contribution to HI Reserve for the year ended June 30, 1999	221,606 *
HI premiums paid during the year ended June 30, 1999	(2,063,569)
Interest (16.3% assuming mid-year transactions)	1,164,699
Balance as of June 30, 1999	\$7,354,363

\* In accordance with section 401(h) of the Internal Revenue Code, the maximum contribution allocable to the Health Insurance Reserve in any given year is 25% of the smaller of (i) total member and employer contributions to the Retirement System, and (ii) the total normal cost contribution. For the year ended June 30, 1999, the maximum contribution to the Health Insurance Reserve was computed to be \$221,606.

**RESERVE TRANSFERS:** The actuarial present value of benefits payable to General and Police/Fire retirants and beneficiaries on the rolls as of June 30, 1999, exceeded the reserves allocated to the General and Police-Fire divisions in the Reserve for Retired Benefit Payments by \$1,800,088 and \$1,520,888, respectively. In accordance with the Retirement System Ordinance, we recommend the transfer of \$1,800,088 and \$1,520,888 from the Reserves for Employer Contributions to the Reserves for Retired Benefit Payments, General and Police/Fire, respectively.

**CONCLUSION:** The City of Royal Oak Retirement System is in excellent financial condition in accordance with actuarial principles of level percent of payroll funding.

**ACTUARIAL ACCRUED LIABILITIES & ASSETS**  
**COMPARATIVE STATEMENT**

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Valuation Date	Actuarial	Unfunded	Ratio of Valuation Assets to AAL	Ratio of UAL to Valuation Payroll
	Accrued Liability (AAL) (\$1,000s)	Actuarial Valuation Assets (\$1,000s)		
5-31-81*	\$39,882	\$26,639	\$13,243	66.8 %
5-31-82	42,732	29,588	13,144	69.2 %
5-31-83	44,987	32,648	12,339	72.6 %
5-31-84*	49,397	35,642	13,755	72.2 %
5-31-85	52,062	38,438	13,624	73.8 %
5-31-86	52,625	41,593	11,032	79.0 %
5-31-87*	57,698	45,963	11,735	79.7 %
5-31-88	61,331	51,036	10,295	83.2 %
5-31-89*	65,212	54,259	10,953	83.2 %
5-31-90*	68,924	58,438	10,486	84.8 %
5-31-91*	73,106	62,262	10,844	85.2 %
5-31-92*	77,429	69,859	7,570	90.2 %
6-30-93*	84,193	77,427	6,766	92.0 %
6-30-94*	88,519	88,519	0	100.0 %
6-30-95*	92,495	97,795	(5,300)	105.7 %
6-30-96	94,730	105,572	(10,842)	111.4 %
6-30-97	97,622	116,317	(18,695)	119.2 %
6-30-98	102,995	132,289	(29,294)	128.4 %
6-30-99	107,934	147,433	(39,499)	136.6 %

\* After changes in benefit provisions and/or actuarial assumptions and actuarial cost methods.

**The Ratio of Present Assets to AAL** is a traditional measure of a system's funding progress. Except in years when the system is amended or actuarial assumptions are revised this ratio can be expected to increase (or decrease) gradually toward 100%.

**The Ratio of UAAL to Valuation Payroll** is another relative index of condition. Unfunded actuarial accrued liabilities represent debt, while active member payroll represents the system's capacity to collect contributions to pay toward debt. The lower the ratio, the greater the financial strength - and vice-versa.

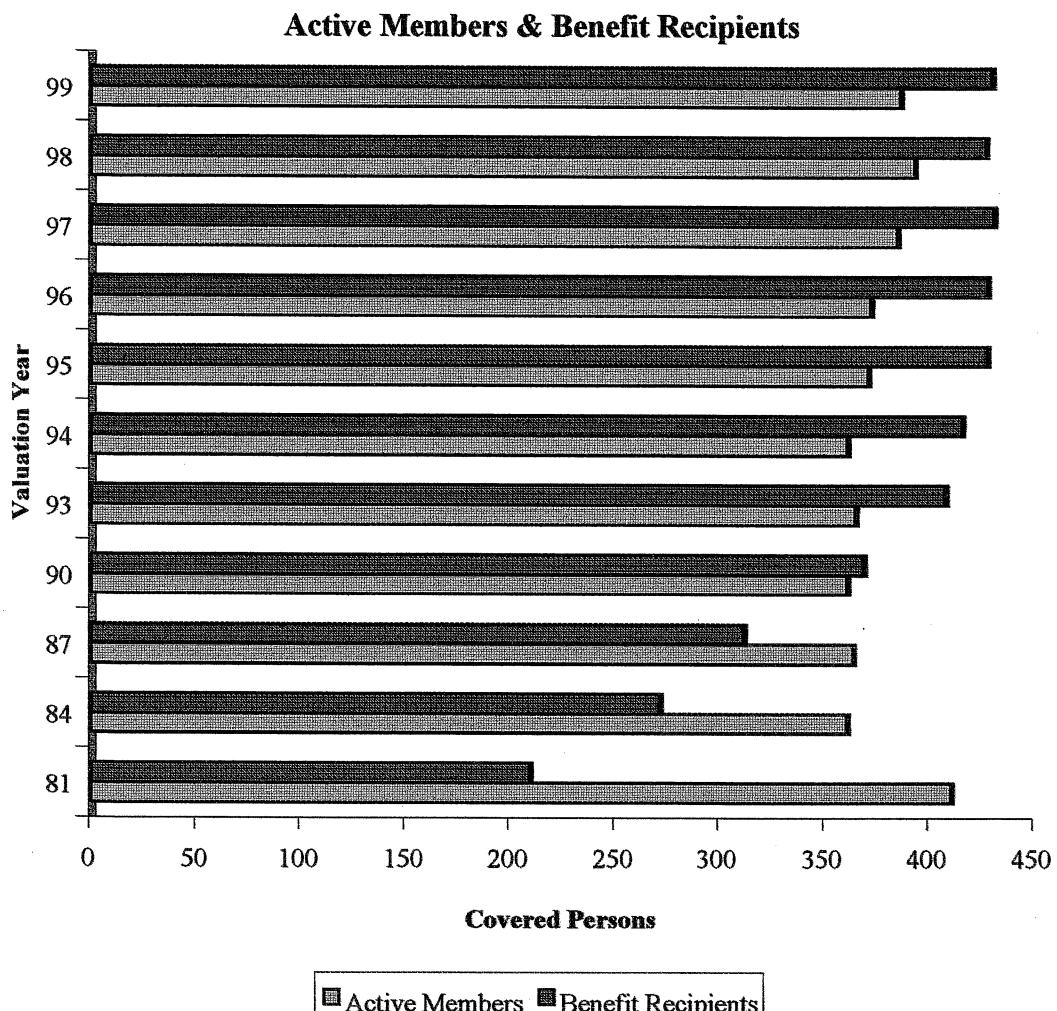
**COMPUTED EMPLOYER CONTRIBUTIONS**  
**COMPARATIVE STATEMENT**

Valuation Date	No.	Active Members			Retirants & Beneficiaries			Employer Contributions As Payroll Percents		
		Valuation Payroll		% Incr.	Active Per Retired		% of Payroll	General	Police	& Water
		Total	Average		No.	\$				& Fire
5-31-80*	424	\$9,333,285	\$22,012		189	2.20	\$944,037	10.1 %	19.23 %	28.38 %
5-31-81*	410	9,762,463	23,811	4.6 %	209	2.00	1,133,043	11.6 %	18.08 %	25.80 %
5-31-82	376	9,523,807	25,329	(2.4)%	231	1.60	1,380,622	14.5 %	17.86 %	25.72 %
5-31-83	348	8,847,234	25,423	(7.1)%	263	1.30	1,792,492	20.3 %	17.77 %	25.53 %
5-31-84*	360	9,878,860	27,441	11.7 %	271	1.30	1,910,405	19.3 %	16.64 %	23.28 %
5-31-85	358	10,280,426	28,716	4.1 %	288	1.20	2,125,341	20.7 %	16.49 %	22.68 %
5-31-86	359	10,450,609	29,110	1.7 %	297	1.20	2,236,500	21.4 %	16.05 %	21.24 %
5-31-87*	363	11,491,099	31,656	10.0 %	311	1.20	2,495,645	21.7 %	16.34 %	22.60 %
5-31-88	364	11,974,522	32,897	4.2 %	330	1.10	2,842,657	23.7 %	15.75 %	22.26 %
5-31-89*	357	11,681,433	32,721	(2.4)%	363	0.98	3,535,678	30.3 %	17.39 %	22.32 %
5-31-90*	360	12,453,638	34,593	6.6 %	368	0.98	3,594,058	28.9 %	16.95 %	23.12 %
5-31-91*	357	13,112,701	36,730	5.3 %	374	0.95	3,763,075	28.7 %	16.50 %	24.52 %
5-31-92#	352	12,844,067	36,489	(2.0)%	395	0.89	4,317,111	33.6 %	15.53 %	23.58 %
6-30-93*	364	13,664,416	37,540	6.4 %	407	0.89	4,597,263	33.6 %	17.02 %	22.50 %
6-30-94*	360	14,109,602	39,193	3.3 %	415	0.87	4,894,145	34.7 %	11.85 %	15.16 %
6-30-95*	370	14,595,387	39,447	3.4 %	427	0.87	5,375,306	36.8 %	9.45 %	9.75 %
6-30-96	371	14,991,326	40,408	2.7 %	427	0.87	5,529,852	36.9 %	5.07 %	6.20 %
6-30-97	384	15,949,326	41,535	6.4 %	430	0.89	5,647,518	35.4 %	0.60 %	0.42 %
6-30-98	392	17,181,869	43,831	7.7 %	426	0.92	5,865,307	34.1 %	0.00 %	0.00 %
6-30-99	385	17,501,352	45,458	1.9 %	429	0.90	6,051,286	34.6 %	0.00 %	0.00 %

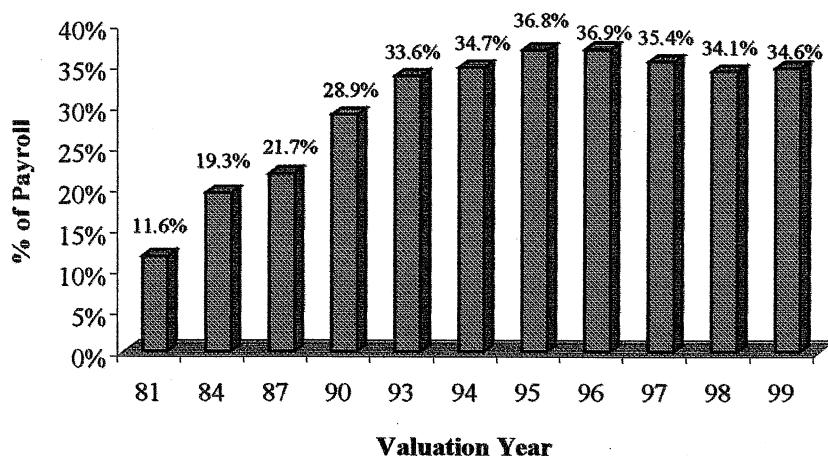
\* After changes in benefit provisions, actuarial assumptions and/or actuarial cost methods.

# A smoothed funding value of assets was first used for the May 31, 1992 valuation, instead of the previously used book value.

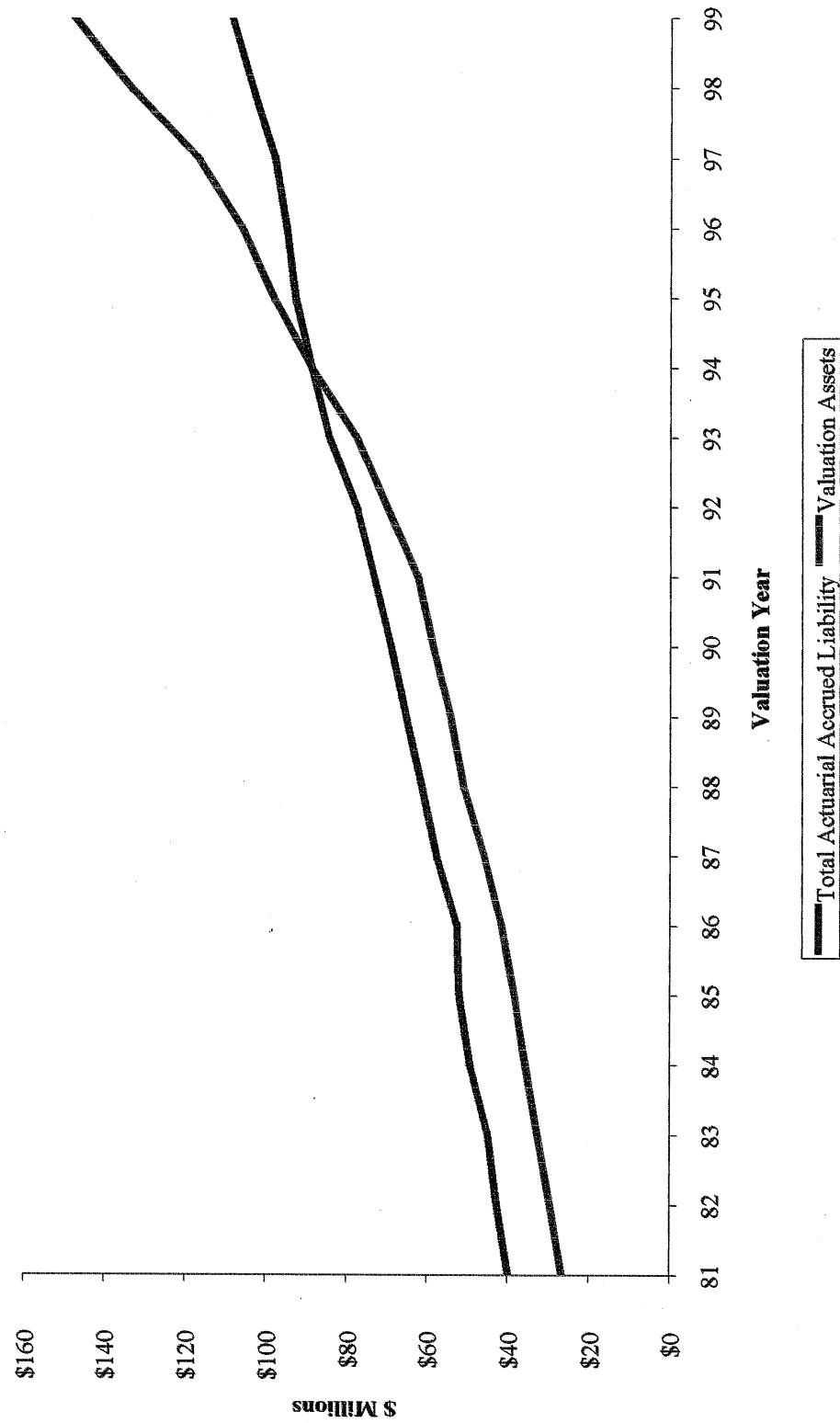
## ACTIVE EMPLOYEES & RETIRED MEMBERS



### Benefits as a Percent of Payroll



## ASSETS & ACCRUED LIABILITIES



## ***SECTION B***

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### ***SUMMARY OF BENEFIT PROVISIONS AND VALUATION DATA***

## ***SUMMARY OF BENEFIT PROVISIONS EVALUATED***

### ***JUNE 30, 1999***

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#### **REGULAR RETIREMENT (no reduction factor for age):**

***Eligibility - Permanent*** - AFSCME, Executive Department Heads, Department Heads and Deputies, Technical and Professional, Police Service Aides: Age 55 with 25 years of service or age 60 with 5 years of service.

Supervisors, Local 270M: Age 50 with 30 years of service or age 60 with 5 years of service.

Police Command, Police Officers, Detectives: 25 years of service regardless of age, or age 55 with 10 years of service.

Fire Fighters: Age 50 with 25 years of service or age 55 with 10 years of service.

***Temporary Eligibility Until June 30, 2000*** - Executive Department Heads, Department Heads and Deputies, AFSCME, Technical and Professional, and Supervisor members are eligible for regular retirement at age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

Local 270M members are eligible for regular retirement at 30 years of service regardless of age, age 50 with 25 years of service, age 55 with 20 years of service or age 60 with 5 years of service.

***Type of Final Average Compensation (FAC)***: AFSCME, Executive Department Heads, Professional & Technical, Supervisors, Police Command, Detectives, Fire Fighters: Highest 2 years out of last 10 years. Department Heads & Deputies, Local 270M, Police Officers, Police Service Aides: Highest 2 consecutive years out of last 10 years.

***Annual Amount*** - General: Total service times 2.2% of FAC with a maximum allowance of 75% of FAC.

Police Officers, Command Officers, Detectives, Fire Fighters: FAC multiplied by the sum of 2.8% of each of the first 20 years of service, 2.0% of each of the next 6 years of service, and 1% for each year of service thereafter to maximum of 75% of FAC.

Police Service Aides: Total service years multiplied by 2.0% of FAC with a maximum allowance of 80% of FAC minus the member's initial primary insurance amount under Social Security.

#### **DEFERRED RETIREMENT (vested benefit):**

***Eligibility*** - General: 5 years of service.

- Police Officers, Police Command, Detectives, Police Service Aides, Fire Fighters: 10 years of service.

***Annual Amount*** - Same as regular retirement but based upon service and final average compensation at time of termination.

AFSCME, Executive Department Heads, Department Heads and Deputies, Professional & Technical, Police Service Aides: Payable at age 55 with 25 years of service or age 60 with 5 years of service.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 1999**  
**(CONTINUED)**

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Supervisors, Local 270M: Payable at age 50 with 30 years of service or age 60 with 5 years of service.

Police Officers, Police Command, Detectives: Payable at age 55 with 10 years of service.

Fire Fighters: Payable at age 50 with 25 years of service or age 55 with 10 years of service.

**DUTY DISABILITY RETIREMENT:**

*Eligibility* - No age or service requirements.

*Annual Amount* - AFSCME: 66-2/3% of base monthly salary at time of disability, with recomputation to 70% after 5 years of disability and 75% after 10 years. Benefit is payable upon attaining minimum retirement requirements.

Executive Department Heads, Department Heads & Deputies: 66% of base monthly salary at time of disability. Benefit is payable until voluntary retirement age.

Professional & Technical, Supervisors, Local 270M: 66-2/3% of base monthly salary at time of disability. Benefit is payable until voluntary retirement age for Professional & Technical and until age 60 for Supervisors and Local 270M.

Police Officers, Police Command, Detectives, Police Service Aides: 66-2/3% of base monthly salary, where salary is adjusted for negotiated pay increases for physical disabilities and remains the salary at the time of disability for psychological disabilities. Workers' compensation is offset. Benefit is payable until age 55 for Police Officers, Police Command, and Detectives and until age 60 for Police Service Aides.

Fire Fighters: 66-2/3% of base monthly salary at time of disability. Worker's compensation is offset. Benefit is payable until voluntary retirement age.

Maximum Monthly Benefit:

Supervisors:	\$2,000
Executive Department Heads, Department Heads & Deputies:	\$5,000
Professional & Technical:	\$3,500
AFSCME, Local 270M, Police Officers, Police Command, Detectives, Police Service Aides, Fire Fighters:	No maximum

**NON-DUTY DISABILITY RETIREMENT:**

*Eligibility* - Local 270-M: 10 years of service.

- Others: 5 years of service.

*Annual Amount* - Fire Fighters: 50% of base monthly salary at time of disability. Benefits are payable the same as duty disability.

Others: Benefits are the same as duty disability.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 1999**  
**(CONTINUED)**

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**DUTY DEATH BEFORE RETIREMENT:**

*Eligibility* - No age or service requirements.

*Annual Amount* - Computed as regular retirement but with additional service credit from date of death until date age 60 would have been attained. Spouse is paid 75% of regular retirement benefit; 1 or 2 unmarried children under age 19 are paid 10% of regular retirement benefit per child; 3 or more unmarried children under age 19 are paid an equal share of 25% of regular retirement benefit. Worker's Compensation payments are offset.

**NON-DUTY DEATH BEFORE RETIREMENT:**

*Eligibility* - 3 years of service.

*Annual Amount* - Same as duty death retirement.

**AUTOMATIC DEATH BENEFIT AFTER RETIREMENT:**

75% of a retiree's straight life pension will be continued to an eligible surviving spouse upon retiree's death with no corresponding reduction in straight life pension.

**LUMP SUM DEATH BENEFIT AFTER RETIREMENT:**

\$4,000 for all divisions.

**MEMBER CONTRIBUTIONS:**

	<b>Percent of Annual Compensation</b>	
	<b>To Social Security Wage Base</b>	<b>Over Social Security Wage Base</b>
AFSCME	3.00%	5.00%
Executive Department Heads,		
Department Heads and Deputies	3.50	5.50
Technical and Professional	4.00	6.00
Other General	5.00	7.00
Police Service Aides	2.50	4.50
Police Command, Police Officers,		
Detectives & Fire Fighters	5.00	5.00

**ANNUITY WITHDRAWAL:**

Members may withdraw their accumulated member contributions upon retirement with a corresponding reduction in pension amount.

**COVERED COMPENSATION:**

Covered compensation includes base salary, longevity pay, pay in lieu of vacation time, pay in lieu of holiday time (police & fire bargaining units), paramedic premium (fire bargaining unit), and, for general bargaining units, up to 48 hours of sick leave incentive pay.

**RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS**

**COMPARATIVE STATEMENT**

Valuation Date	Added to Rolls*		Removed from Rolls <sup>#</sup>		Net Increase		Rollover End of Year	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
5/31/76	5	\$ 33,384		\$ 80,268	5	\$ 33,384	143	\$ 495,435
5/31/77	18	178,635	2	18,195	16	98,367	159	593,802
5/31/78	23	191,026	6	315,957	17	172,831	176	766,633
5/31/79	15	432,006	4	355,330	11	116,049	187	882,682
5/31/80	15	87,659	13	26,304	2	61,355	189	944,037
5/31/81	24	544,336	4	89,135	20	189,006	209	1,133,043
5/31/82	33	336,714	11	41,420	22	247,579	231	1,380,622
5/31/83	42	453,290	10	57,814	32	411,870	263	1,792,492
5/31/84	17	175,727	9	8	117,913	271	1,910,405	
5/31/85	29	283,601	12	8.8	68,665	17	214,936	288
5/31/86	17	147,292	8	9.3	36,133	9	111,159	297
5/31/87	22	288,998	8	9.9	29,853	14	259,145	311
5/31/88	26	403,952	7	10.1	56,940	19	347,012	330
5/31/89	41	748,391	8	10.7	55,370	33	693,021	363
5/31/90	15	184,697	10	11.8	126,317	5	58,380	368
5/31/91	18	292,334	12	12.8	123,317	6	169,017	374
5/31/92	37	668,965	16	13.6	114,929	21	554,036	395
6/30/93	27	408,146	15	13.9	127,994	12	280,152	407
6/30/94	26	456,550	18	14.3	159,668	8	296,882	415
6/30/95	21	513,916	9	13.5	32,755	12	481,161	427
6/30/96	12	272,020	12	13.5	117,474	0	154,546	427
6/30/97	19	349,731	16	9.8	232,065	3	117,666	430
6/30/98	12	300,261	16	6.8	82,472	(4)	217,789	426
6/30/99	24	369,781	21	15.2	183,802	3	185,979	429

*A - Represents actual number.*

*E - Represents expected number based on actuarial assumptions.*

*\* Includes beneficiaries of deceased retirees.*

*# Includes deceased retirees with beneficiaries.*

**RETIREES AND BENEFICIARIES JUNE 30, 1999**  
**TABULATED BY TYPE OF ALLOWANCE BEING PAID**

Type of Allowances Being Paid	Annual Retirement Allowances					
	General & Water		Police Officers & Firefighters		Totals	
	No.	Amount	No.	Amount	No.	Amount
<b>Age and Service Allowances</b>						
Regular allowance						
Terminating at death of retireant	78	\$ 679,925	17	\$ 322,007	95	\$ 1,001,932
75% of benefit continuing to spouse	106	1,361,875	115	2,814,711	221	4,176,586
100% Joint & Survivor benefit	3	12,418	2	7,493	5	19,911
50% Joint & Survivor benefit	5	19,878	1	6,635	6	26,513
Survivor beneficiary of deceased retireant	31	147,147	31	357,678	62	504,825
<b>Total Age and Service Allowances</b>	<b>223</b>	<b>2,221,243</b>	<b>166</b>	<b>3,508,524</b>	<b>389</b>	<b>5,729,767</b>
<b>Casualty Allowances</b>						
Duty Disability Allowances						
Terminating at death of retireant	1	1,066			1	1,066
Joint & Survivor benefit	2	7,265			2	7,265
Survivor beneficiary of deceased retireant			1	3,228		
<b>Totals</b>	<b>3</b>	<b>8,331</b>	<b>1</b>	<b>3,228</b>	<b>4</b>	<b>11,559</b>
Non-Duty Disability Allowances						
Terminating at death of retireant			1	9,418	1	9,418
Joint & Survivor benefit	1	6,552	2	19,474	3	26,026
Survivor beneficiary of deceased retireant	2	6,211	3	27,417	5	33,628
<b>Totals</b>	<b>3</b>	<b>12,763</b>	<b>6</b>	<b>56,309</b>	<b>9</b>	<b>69,072</b>
Duty Death Allowances						
Survivor beneficiary of deceased retireant	1	2,102			1	2,102
Non-Duty Death Allowances						
Spouse beneficiary	15	134,571	8	96,311	23	230,882
Child(ren) beneficiary	1	2,512	2	5,392	3	7,904
<b>Totals</b>	<b>16</b>	<b>137,083</b>	<b>10</b>	<b>101,703</b>	<b>26</b>	<b>238,786</b>
<b>Total Casualty Allowances</b>	<b>23</b>	<b>160,279</b>	<b>17</b>	<b>161,240</b>	<b>40</b>	<b>321,519</b>
<b>Total Allowances Being Paid</b>	<b>246</b>	<b>\$2,381,522</b>	<b>183</b>	<b>\$3,669,764</b>	<b>429</b>	<b>\$6,051,286</b>

***RETIREES AND BENEFICIARIES JUNE 30, 1999***  
***TABULATED BY ATTAINED AGES***

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Attained Ages	Age and Service		Casualty		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
Under 40			3	\$7,904	3	\$7,904
40-44						
45-49	4	43,290	3	52,584	7	95,874
50-54	18	504,377	1	37,264	19	541,641
55-59	36	1,003,988	2	19,453	38	1,023,441
60-64	62	1,365,335	5	60,716	67	1,426,051
65-69	70	1,069,604	3	14,836	73	1,084,440
70-74	81	954,530	8	84,056	89	1,038,586
75-79	60	471,145	7	27,351	67	498,496
80-84	41	250,652	6	10,918	47	261,570
85-89	11	48,205			11	48,205
90 & Over	6	18,641	2	6,437	8	25,078
<b>Totals</b>	<b>389</b>	<b>\$5,729,767</b>	<b>40</b>	<b>\$321,519</b>	<b>429</b>	<b>\$6,051,286</b>

***INACTIVE MEMBERS JUNE 30, 1999***  
***TABULATED BY ATTAINED AGES***

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Also included in the valuation were 30 General members and 4 Police/Firefighter members who are eligible for estimated deferred allowances of \$289,553 upon attainment of voluntary retirement age. Some of these 34 inactive members are presently covered under either a long-term disability insurance policy or worker's compensation.

<b>Attained Ages</b>	<b>Estimated Deferred</b>	
	<b>No.</b>	<b>Annual Allowances</b>
31	1	\$5,261
33	2	10,945
39	2	16,146
40	1	10,266
42	1	5,871
43	2	14,883
44	1	7,548
45	1	3,094
46	2	39,541
47	4	20,649
48	2	36,892
50	2	29,841
52	1	3,222
53	2	28,000
54	1	17,372
55	1	12,985
56	2	5,487
58	2	8,475
59	1	4,000
62	2	6,240
69	1	2,835
<hr/> <b>Totals</b>		<b>\$289,553</b>

## **ACTIVE MEMBERS -- COMPARATIVE SCHEDULE**

Valuation Date	Active Members	Valuation Payroll	Average			% Incr.
			Age	Service	Pay	
5-31-80	424	\$9,333,285	45.2 yrs.	14.2 yrs.	\$22,012	
5-31-81	410	9,762,463	44.9	14.2	23,811	8.2 %
5-31-82	376	9,523,807	45.0	14.3	25,329	6.4 %
5-31-83	348	8,847,234	44.2	13.8	25,423	0.4 %
5-31-84	360	9,878,860	44.3	13.6	27,441	7.9 %
5-31-85	358	10,280,426	44.1	13.3	28,716	4.6 %
5-31-86	359	10,450,609	43.8	13.2	29,110	1.4 %
5-31-87	363	11,491,099	43.7	12.9	31,656	8.7 %
5-31-88	364	11,974,522	43.3	12.6	32,897	3.9 %
5-31-89	357	11,681,433	42.0	11.2	32,721	(0.5)%
5-31-90	360	12,453,638	42.0	11.4	34,593	5.7 %
5-31-91	357	13,112,701	42.2	11.8	36,730	6.2 %
5-31-92	352	12,844,067	41.9	11.6	36,489	(0.7)%
6-30-93	364	13,664,416	41.7	11.5	37,540	2.9 %
6-30-94	360	14,109,602	41.6	11.3	39,193	4.4 %
6-30-95	370	14,595,387	41.3	10.8	39,447	0.6 %
6-30-96	371	14,991,326	41.5	10.9	40,408	2.4 %
6-30-97	384	15,949,325	41.8	10.8	41,535	2.8 %
6-30-98	392	17,181,869	41.8	10.8	43,831	5.5 %
6-30-99	385	17,501,352	42.4	11.5	45,458	3.7 %

## **ACTIVE MEMBERS - JUNE 30, 1999**

Group	Active Members	Valuation Payroll
Local 270	68	\$2,524,429
Department Heads and Deputies	29	2,007,391
Technical and Professional	42	1,708,648
AFSCME	68	2,313,555
General - Foremen and Supervisors	6	305,979
Police Service Aides	11	384,817
Police	67	3,207,641
Fire	69	3,609,948
Police Command	13	789,741
Police Detectives	10	552,933
Judges	2	96,270
<b>Total</b>	<b>385</b>	<b>\$17,501,352</b>

## ***ACTIVE MEMBERS ADDED TO AND REMOVED FROM ROLLS***

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Year Ended	Number Added During Year		Terminations During Year								Active Members End of Year	
			Normal Retirement		Disabled		Death Service		Other Terminations			
	A	E	A	E	A	E	A	E	A	E		
5-31-80	7		9						47		424	
5-31-81	26	40	13	9.4	1	2.3	1	1.8	25	11.7	410	
5-31-82	18	52	24	12.1	6	2.1	1	1.7	21	11.3	376	
5-31-83	21	49	34	10.1	4	2.0			1.4	11	9.8	
5-31-84	31	19	8	7.6	0	1.9	0	1.2	11	8.7	360	
5-31-85	28	30	17	10.8	3	2.9	0	1.2	10	10.1	358	
5-31-86	25	24	11	10.0	0	3.0	0	1.3	13	11.3	359	
5-31-87	27	23	13	10.1	1	2.8	1	1.3	8	12.3	363	
5-31-88	27	26	14	13.4	0	2.7	3	1.2	9	12.9	364	
5-31-89	36	43	33	12.9	1	2.8	0	1.2	9	12.3	357	
5-31-90	24	21	6	11.0	0	2.6	1	1.1	14	13.6	360	
5-31-91	16	19	8	11.7	1	2.7	1	1.0	9	13.2	357	
5-31-92	24	29	21	12.9	0	2.4	1	1.0	7	11.6	352	
6-30-93	30	18	12	10.5	0	2.3	2	1.1	4	11.3	364	
6-30-94	25	29	16	10.5	2	2.3	1	1.0	10	11.9	360	
6-30-95	37	27	14	10.2	2	1.4	2	0.9	9	11.8	370	
6-30-96	27	26	8	9.3	0	1.3	0	0.8	18	14.0	371	
6-30-97	30	17	8	11.2	0	1.4	0	0.8	9	14.5	384	
6-30-98	23	15	9	10.5	0	1.4	0	0.7	6	14.5	392	
6-30-99	21	28	11	10.1	0	1.3	0	0.9	17	13.5	385	
1981-1999	503	535	289	204.3	21	41.6	14	21.6	267	230.3		

A - represents actual number.

E - represents expected number based on actuarial assumptions.

**GENERAL AND WATER MEMBERS  
(INCLUDES POLICE SERVICE AIDES)  
BY ATTAINED AGE AND YEARS OF SERVICE**

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Age Group	Years of Accrued Service							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Up	No.	Salary
20-24	3							3	\$78,732
25-29	12	1						13	395,916
30-34	7	6	2					15	528,897
35-39	17	8	12					37	1,376,599
40-44	15	7	12	7	2			43	1,802,450
45-49	7	8	12	3	7	2		39	1,713,946
50-54	5	5	5	4	8	10	3	40	1,908,064
55-59	4	4	4	7	1	2	3	25	1,069,249
60			2					2	85,278
61		1						1	50,296
62	1	1	1					3	159,295
63		1						1	28,395
64				1				1	33,020
68					1			1	33,643
70						1		1	43,043
76							1	1	34,266
<b>Totals</b>	<b>71</b>	<b>42</b>	<b>50</b>	<b>22</b>	<b>19</b>	<b>15</b>	<b>7</b>	<b>226</b>	<b>\$9,341,089</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Group Averages**

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Age: 44.8 years  
 Service: 11.2 years  
 Annual Pay: \$41,332

**POLICE AND FIRE MEMBERS**  
**BY ATTAINED AGE AND YEARS OF SERVICE**

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Age Group	Years of Accrued Service							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Up	No.	Salary
25-29	14	4						18	\$761,739
30-34	12	21	2					35	1,710,016
35-39	6	11	21	1				39	1,923,500
40-44		5	13	6				24	1,279,346
45-49			3	6	9	3		21	1,207,039
50-54			1	3	6	4	5	19	1,116,429
55-59			1			2		3	162,194
<b>Totals</b>	<b>32</b>	<b>41</b>	<b>41</b>	<b>16</b>	<b>15</b>	<b>9</b>	<b>5</b>	<b>159</b>	<b>\$8,160,263</b>

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

**Group Averages**

Age: 38.9 years  
 Service: 11.9 years  
 Annual Pay: \$51,322

**SUMMARY OF CURRENT ASSET INFORMATION  
FURNISHED FOR VALUATION  
(MARKET VALUE)**

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**Balance Sheet**

<b>Reported Assets</b>		<b>Reserves for</b>	
Cash & equivalents	\$2,336,058	Employees' contributions	\$8,270,608
Other short-term	1,005,940	Employer contributions	20,556,601
Receivables & accruals	79,095	Retired benefit payments	54,890,987
Stocks	102,235,841	Undistributed investment income	86,152,869
Bonds	65,025,672		
Accounts Payable	(811,541)		
<b>Total Current Assets</b>	<b>\$169,871,065</b>	<b>Total Reserves</b>	<b>\$169,871,065</b>

**Revenues and Expenditures**

	<b>1998-99</b>	<b>1997-98</b>
Balance - Beginning of year	\$163,719,812	\$145,072,454
<i>Revenues</i>		
Employees' contributions	801,893	826,608
Employer contributions	84,531	542,513
Investment income (net)	<u>14,514,787</u>	<u>26,173,635</u>
Total	15,401,211	27,542,756
<i>Expenditures</i>		
Benefit payments	6,540,495	6,425,456
Health insurance premiums for retired member	2,063,569	1,882,582
Refund of member contributions	67,464	18,168
Administrative expenses	<u>578,430</u>	<u>569,192</u>
Total	9,249,958	8,895,398
Balance - End of year	\$169,871,065	\$163,719,812

**DEVELOPMENT OF FUNDING VALUE OF RETIREMENT SYSTEM ASSETS**

	Year Ended June 30:	1997	1998	1999	2000	2001	2002
A. Funding Value Beginning of Year		\$114,051,561	\$124,491,092	\$140,320,986			
B. Market Value End of Year		145,072,454	163,719,812	169,871,065			
C. Market Value Beginning of Year		124,417,112	145,072,454	163,719,812			
D. Non-Investment Net Cash Flow		(5,755,163)	(6,957,085)	(7,785,104)			
E. Investment Income							
E1. Market Total: B-C-D		26,410,505	25,604,443	13,936,357			
E2. Amt. for Immediate Recog.(7.75%)		8,615,983	9,378,473	10,573,204			
E3. Amt. for Phased In Recog. E1-E2		17,794,522	16,225,970	3,363,153			
F. Phased-In Recog. of Invest. Income							
F1. Current Year: 0.25 x E3		4,448,631	4,056,493	840,788			
F2. First Prior Year		2,332,088	4,448,631	4,056,493	\$840,788		
F3. Second Prior Year		2,571,294	2,332,088	4,448,631	4,056,493	\$840,788	
F4. Third Prior Year		(1,773,300)	2,571,294	2,332,088	4,448,629	4,056,491	\$840,790
F5. Total Recog. Invest. Gain		7,578,711	13,408,506	11,678,000	9,345,910	4,897,279	840,790
G. Funding Value End of Yr. A+D+E2+F5		124,491,092	140,320,986	154,787,086	5,738,069	840,790	0
H. Difference Between Mkt. & Funding Value		20,581,362	23,398,826	15,083,979			
I. Recognized Rate of Return		14.57%	18.83%	16.31%			

The Funding Value of Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased in over a closed 4 year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is **unbiased** with respect to Market Value. At any time it may be either greater or less than Market Value. If actual and assumed rates of investment income are exactly equal for 4 consecutive years, the Funding Value will become equal to Market Value.

## ***SECTION C***

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### ***SUMMARY OF VALUATION METHODS AND ASSUMPTIONS***

## ***VALUATION METHODS***

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Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using an individual **entry-age normal cost** valuation method having the following characteristics:

- the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;
- each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

***Financing of Unfunded Actuarial Accrued Liabilities.*** Assets in excess of actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over a period of **23** years.

## ***ACTUARIAL ASSUMPTIONS USED IN THE VALUATION***

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The actuary calculates the contribution requirements and benefit values of the plan by applying actuarial assumptions to the benefit provisions and census data furnished, using the valuation method described on page C-1.

The principal areas of financial risk which require assumptions about future experience are:

- long-term rates of investment income
- patterns of salary increases
- rates of mortality before and after retirement
- rates of withdrawal from active membership
- rates of disability among members and their subsequent rates of recovery
- probabilities of retirement at various ages after benefit eligibility.

In a valuation the monetary effect of each assumption, for each distinct experience group, is projected for the next year and for each year over the next half-century or longer.

Actual experience will not coincide exactly with assumed experience, regardless of the skill of the actuary, the completeness of the data and the precision of the many calculations that are made. Each valuation provides a complete recalculation of system obligations based upon assumptions regarding future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of small adjustments of the computed contribution rate.

From time-to-time it is appropriate to modify one or more of the assumptions to reflect basic experience trends (but not random year-to-year fluctuations).

***The rates of salary increase*** used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Sample Ages	Annual Rate of Salary Increase for Sample Age		
	Base (Economic)	Merit & Longevity	
		General & Water	Police-Fire
20	5.0%	3.8%	3.0%
25	5.0%	3.1%	3.0%
30	5.0%	2.7%	2.6%
35	5.0%	2.4%	1.1%
40	5.0%	2.1%	0.2%
45	5.0%	1.7%	0.2%
50	5.0%	1.1%	0.2%
55	5.0%	0.7%	0.1%
60	5.0%	0.2%	-
65	5.0%	-	-
Ref		5	34

***The rate of investment return*** was 7.75% per year, compounded annually, net after administrative and investment expenses. This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time.

The assumed real return for funding purposes is the net rate of return in excess of average salary increases. Considering other assumptions used in the valuation, the 7.75% translates to a real return of approximately 2.75%. Experience over the last 5 years has been more favorable than assumed, as illustrated below.

	Year Ending June 30					5 Year Average
	1999	1998	1997	1996	1995	
(1) Nominal rate*	16.3 %	18.8 %	14.6 %	11.8 %	14.3 %	15.1 %
(2) Increase in CPI	2.0 %	1.7 %	2.3 %	2.8 %	3.0 %	2.4 %
(3) Average salary increase	3.7 %	5.5 %	2.8 %	2.4 %	0.6 %	3.0 %
(4) Real return						
- investment purposes						12.8 %
- funding purposes						12.1 %

\* The nominal rate of return was computed using the approximate formula:  $i = I \text{ divided by } 1/2 (A+B-I)$ , where  $I$  is recognized investment income,  $A$  is the beginning of year funding value and  $B$  is the end of year funding value.

**The mortality table** was the 1984 Group Annuity Mortality Table set back 0 years for men, and 6 years for women. This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

Sample Attained Ages	Single Life Retirement Values				
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)		
	Men	Women	Men	Women	
50	\$131.79	\$140.17	27.53	32.93	
55	123.22	133.32	23.28	28.40	
60	112.80	125.06	19.27	24.11	
65	100.50	115.05	15.55	20.05	
70	87.07	103.10	12.25	16.27	
75	73.71	89.78	9.49	12.87	
80	60.28	76.43	7.17	10.02	
Ref.	68	x 1.00	70	x 1.00	

**The rates of retirement** used to measure the probability of eligible members retiring during the next year were as follows:

Retirement Ages	Percent of Eligible Active Members Retiring			
	Police Service		Police Command, Officers & Detectives Firefighters	
	General	Aides	Police Officers & Detectives	Firefighters
45-49			40%	
50	15%		40%	20%
51	10%		35%	15%
52	10%		20%	15%
53	10%		15%	15%
54	10%		15%	15%
55	10%	15%	15%	15%
56	10%	10%	15%	15%
57	10%	10%	15%	15%
58	10%	10%	15%	25%
59	10%	10%	25%	30%
60	10%	10%	100%	100%
61	10%	10%		
62	30%	30%		
63	15%	15%		
64	15%	15%		
65	100%	100%		
Ref.	623	134	46	624

A member was assumed to be eligible for retirement after satisfying the following requirements:

<b>Group</b>	<b>Eligibility Requirements for Retirement</b>
Local 270M	30 years of service regardless of age; or 50 years of age with 25 years of service; or 55 years of age with 20 years of service; or 60 years of age with 5 years of service
Other General & Water	50 years of age with 25 years of service; or 55 years of age with 20 years of service; or 60 years of age with 5 years of service
Firefighters	50 years of age with 25 years of service; or 55 years of age with 10 or more years of service.
Police Command, Police Officers & Detectives	25 years of service regardless of age; or 55 years of age with 10 or more years of service.
Police Service Aides	55 years of age with 25 years of service; or 60 years of age with 5 or more years of service.

**Rates of separation from active membership** were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members terminating employment before eligibility for an immediate benefit.

Sample Ages	Years of Service	% of Active Members		
		General	Police	Fire
ALL	0	20.00%	10.00%	10.00%
	1	15.00%	7.00%	7.00%
	2	10.00%	5.00%	5.00%
	3	8.00%	4.00%	4.00%
	4	7.00%	3.50%	3.50%
25	5 & Over	6.00%	3.50%	2.00%
30		5.50%	2.90%	1.80%
35		4.40%	1.50%	1.30%
40		1.85%	0.60%	1.00%
45		1.25%	0.50%	0.70%
50		1.25%	0.50%	0.50%
55		1.25%	0.50%	0.40%
60		1.25%	0.50%	0.40%
65		1.25%	0.50%	0.40%
Ref.		12	30	30
		59	54	166

**Rates of disability** were as follows. This assumption measures the probability of members retiring with a disability benefit.

Sample Ages	% of Active Members Becoming Disabled Within Next Year		
	General & Water		
	Male	Female	Police & Fire
20	0.07%	0.03%	0.10%
25	0.09%	0.05%	0.15%
30	0.10%	0.07%	0.25%
35	0.14%	0.13%	0.30%
40	0.21%	0.19%	0.70%
45	0.32%	0.28%	0.80%
50	0.52%	0.45%	0.95%
55	0.92%	0.76%	1.10%
60	1.53%	1.10%	1.20%
Ref.	33	34	45

## ***SECTION D***

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***REQUIRED BY STATEMENT NO. 25 OF  
THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD***

## **GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION**

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The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 1999
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent
Remaining amortization period	23 years
Asset valuation method	4 year smoothed market
Actuarial assumption:	
Investment rate of return	7.75%
Projected salary increases	5.0% - 8.8%
Includes inflation at	5%
Cost-of-living adjustments	None

Membership of the plan consisted of the following at June 30, 1999, the date of the latest actuarial valuation.

Retirees and Beneficiaries receiving benefits	429
Terminated plan members entitled to but not yet receiving benefits	34
Active plan members	<hr/> 385
Total	848

## ***GASB STATEMENT No. 25 REQUIRED SUPPLEMENTARY INFORMATION***

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### ***Schedule of Funding Progress***

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry-Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
5-31-92	\$69,858,912	\$77,428,710	\$7,569,798	90.2 %	\$12,844,067	58.9 %
6-30-93	77,426,606	84,192,619	6,766,013	92.0 %	13,664,416	49.5 %
6-30-94	88,518,562	88,518,562	0	100.0 %	14,109,602	-
6-30-95	97,794,571	92,495,060	(5,299,511)	105.7 %	14,595,387	-
6-30-96	105,571,789	94,729,657	(10,842,132)	111.4 %	14,991,326	-
6-30-97	116,317,283	97,622,379	(18,694,904)	119.2 %	15,949,326	-
6-30-98	132,289,359	102,995,320	(29,294,039)	128.4 %	17,181,869	-
6-30-99	147,432,723	107,934,001	(39,498,722)	136.6 %	17,501,352	-

### ***Schedule of Employer Contributions***

Fiscal Year Beginning	Contribution Rates as Percents of Valuation Payroll	Computed Dollar Contribution Based On Projected Payroll	Actual Annual Contributions	Percent Contribution
6-1-93	20.51 %	\$2,634,280	\$2,634,280	100%
7-1-94	16.67 %	2,826,398 *	2,278,026	100%
7-1-95	13.48 %	1,901,974	1,901,974	100%
7-1-96	9.59 %	1,399,698	1,399,698	100%
7-1-97	5.62 %	542,513	542,513	100%
7-1-98	0.53 %	84,531	84,531	100%
7-1-99	0.00 %	0		
7-1-00	0.00 %	0		

\* Subsequent to the 6/30/93 annual valuation, the Board adopted new assumptions which decreased the computed contribution for the fiscal year beginning 7/1/94 to \$2,278,026.

# Changed subsequent to the 6/30/96 annual valuation.

## ***SECTION E***

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### ***OPERATION OF THE RETIREMENT SYSTEM***

## ***BASIC FINANCIAL OBJECTIVE AND OPERATION OF THE RETIREMENT SYSTEM***

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***Benefit Promises Made Which Must Be Paid For.*** A retirement program is an orderly means of handing out, keeping track of, and financing contingent pension promises to a group of employees. As each member of the retirement program acquires a unit of service credit they are, in effect, handed an "IOU" which reads: "The Retirement System promises to pay you one unit of retirement benefits, payments in cash commencing when you retire."

The principal related financial question is: When shall the money required to cover the "IOU" be contributed? This year, when the benefit of the member's service is received? Or, some future year when the "IOU" becomes a cash demand?

The Constitution of the State of Michigan is directed to the question:

"Financial benefits arising on account of service rendered in each fiscal year shall be funded during that year and such funding shall not be used for financing unfunded accrued liabilities."

This Retirement System meets this constitutional requirement by having the following ***Financial Objective: To establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year to year*** and will not have to be increased for future generations of taxpayers.

Translated into actuarial terminology, a level percent-of-payroll contribution objective means that the contribution rate must be at least:

*Normal Cost* (the current value of benefits likely to be paid on account of member's service being rendered in the current year).

... plus ...

*Interest on the Unfunded Actuarial Accrued Liability* (the difference between the actuarial accrued liability and current system assets).

If contributions to the retirement program are less than the preceding amount, the difference, plus investment earnings not realized thereon, will have to be contributed at some later time, or, benefits will have to be reduced, to satisfy the fundamental fiscal equation under which all retirement programs must operate; that is:

$$B = C + I - E$$

**Benefit** payments to any group of members and their beneficiaries cannot exceed the sum of:

**Contributions** received on behalf of the group.

... plus ...

**Investment** earnings on contributions received

... minus ...

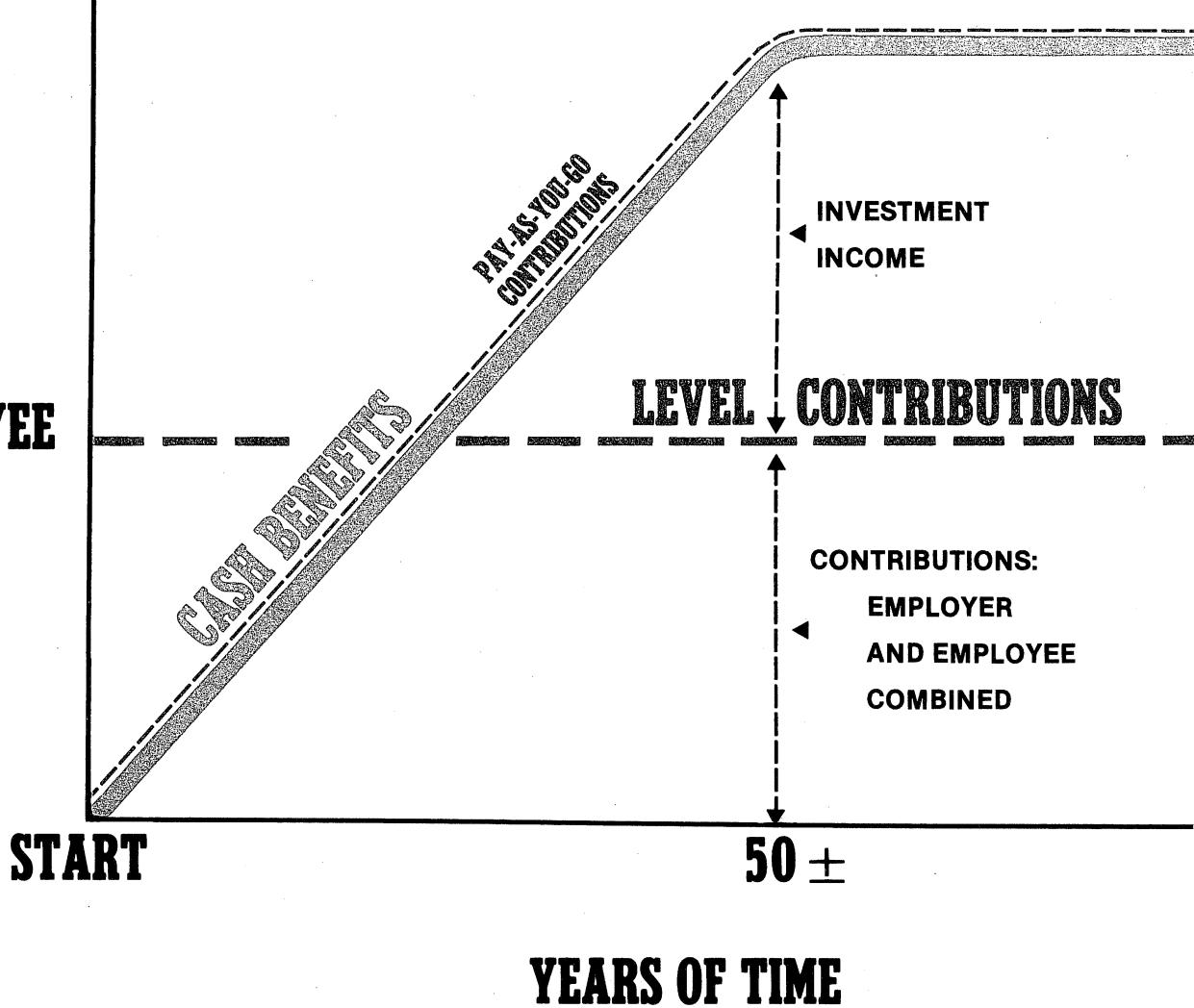
**Expenses** incurred in operating the program.

A by-product of the level percent-of-payroll contribution objective is the accumulation of invested assets for varying periods of time. Invested assets are a by-product of level percent-of-payroll contributions, not the objective. Investment income becomes a major contributor to the retirement program, and the amount is directly related to the amount of contributions and investment performance.

There are retirement programs designed to defer the bulk of contributions far into the future. Lured by artificially low present contributions, such programs ignore the inevitable consequence of a relentlessly increasing contribution rate -- to a level greatly in excess of the level percent-of-payroll rate. ***This method of financing is prohibited in Michigan by the state constitution.***

**Computed Contribution Rate Needed to Finance Benefits.** From a given schedule of benefits and from the data furnished, the actuary calculates the contribution rate by means of an actuarial valuation - the technique of assigning monetary values to the risks assumed in operating a retirement program.

**% OF  
ACTIVE  
EMPLOYEE  
PAYS**



**CASH BENEFITS LINE.** This relentlessly increasing line is the fundamental reality of retirement plan financing. It happens each time a new benefit is added for future retirements (and happens regardless of the design for contributing for benefits).

**LEVEL CONTRIBUTION LINE.** Determining the level contribution line requires detailed assumptions concerning a variety of experiences in future decades, including:

**Economic Risk Areas**

**Rates of investment return**

**Rates of pay increase**

**Changes in active member group size**

**Non-Economic Risk Areas**

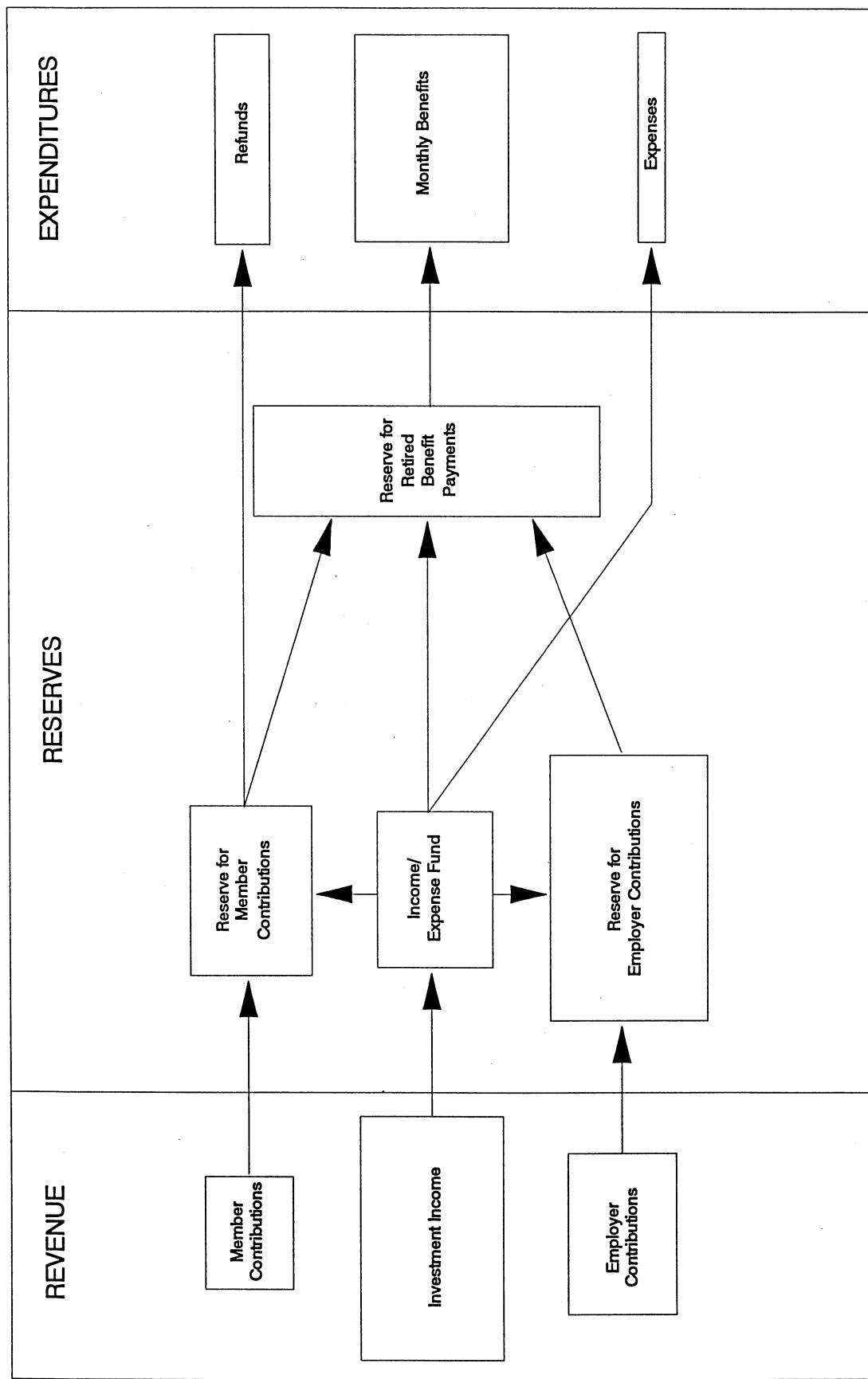
**Ages at actual retirement**

**Rates of mortality**

**Rates of withdrawal of active members (turnover)**

**Rates of disability**

# Flow of Money Through the Retirement System



## ***GLOSSARY***

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**Actuarial Accrued Liability.** The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”

**Accrued Service.** The service credited under the plan which was rendered before the date of the actuarial valuation.

**Actuarial Assumptions.** Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**Actuarial Cost Method.** A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

**Actuarial Equivalent.** A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

**Actuarial Present Value.** The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

**Amortization.** Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

**Experience Gain (Loss).** A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, in accordance with the actuarial cost method being used.

**Normal Cost.** The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

**Plan Termination Liability.** The actuarial present value of future plan benefits based on the assumption that there will be no further accruals for future service and salary. The termination liability will generally be less than the liabilities computed on a “going concern” basis and is not normally determined in a routine actuarial valuation.

**Reserve Account.** An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

**Unfunded Actuarial Accrued Liability.** The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

**Valuation Assets.** The value of current plan assets recognized for valuation purposes. Generally based on book value plus a portion of unrealized appreciation or depreciation.

## ***MEANING OF “UNFUNDED ACTUARIAL ACCRUED LIABILITIES”***

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“*Actuarial accrued liabilities*” are *the portion of the present value of plan promises to pay benefits in the future not covered by future normal cost contributions*. A liability has been established (“accrued”) because service has been rendered, but the resulting monthly cash benefit may not be payable until years in the future. Actuarial accrued liabilities are the results of complex mathematical calculations, which are made annually by the plan’s actuary.

If “actuarial accrued liabilities” at any time exceed the plan’s accrued assets, the difference is **“unfunded actuarial accrued liabilities.”** This is the common condition. If the plan’s assets equaled the plan’s “actuarial accrued liabilities,” the plan would be termed “fully funded.” This is an unusual condition.

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Each time a plan adds a new benefit which applies to service already rendered, an “actuarial accrued liability” is created, which is also an “unfunded actuarial accrued liability” because assets do not immediately increase to cover the value of the new benefit promises. Payment for such unfunded actuarial accrued liabilities is spread over a period of years, commonly in the 20-40 year range.

Unfunded actuarial accrued liabilities can occur in another way: if actual experience is less favorable than assumed experience, the difference is added to unfunded actuarial accrued liabilities. For example, in plans where benefits are directly related to pay near time of retirement, unfunded actuarial accrued liabilities increase when unexpected rates of pay increase create additional actuarial accrued liabilities which are not offset by higher than assumed investment income. Most unexpected pay increases are the direct result of inflation, which is a very destructive force affecting financial stability.

The existence of unfunded actuarial accrued liabilities is not a cause for concern, but the changes from year to year in amount of unfunded actuarial accrued liabilities are important.

Nor are unfunded actuarial accrued liabilities a bill payable immediately. However, it is important that policy-makers prevent the amount from becoming unreasonably high and ***it is vital for a plan to have a sound method for making payments toward them*** so that they are controlled.

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