



**CITY OF ROYAL OAK RETIREMENT SYSTEM**

**56TH ANNUAL ACTUARIAL VALUATION**

**JUNE 30, 2004**



**GABRIEL, ROEDER, SMITH & COMPANY**



**GABRIEL, ROEDER, SMITH & COMPANY**

**Consultants & Actuaries**

One Towne Square • Suite 800 • Southfield, Michigan 48076 • 248-799-9000 • 800-521-0498 • fax 248-799-9020

February 4, 2005

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

Dear Board Members:

The results of the **56th 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, 2004**.

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, FSA

Mark Buis, ASA

NLJ:lr

## CONTENTS

---

<u>Section</u>	<u>Page</u>
----------------	-------------

### **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
	7-9	Comments, Recommendations and Conclusions
	10-13	Comparative Statements

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

B	1-4	Summary of Benefit Provisions
	5-7	Retired Life Data
	8	Inactive Member Data
	9-12	Active Member Data
	13-14	Asset Information

### **SUMMARY OF VALUATION METHODS AND PROCEDURES**

C	1-2	Financial Objective
	3-4	Financing Diagrams
	5	Methodology
	6-11	Actuarial Assumptions
	12	Miscellaneous and Technical Assumptions
	13-15	Glossary
	16	Pensions in an Inflationary Environment

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

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

## **SECTION A**



### **Valuation Results**

## ***FUNDING OBJECTIVE***

---

**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***

---

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, 2005 are shown on page A-2.

The City's established weighted contribution rate of 19.55% is sufficient to finance the employer normal cost and to amortize the actuarial accrued liability in excess of the assets (\$8,534,751 as of June 30, 2004) as a level percent-of-payroll over a period of 30 years.

**CONTRIBUTIONS TO PROVIDE BENEFITS**  
**FISCAL YEAR BEGINNING JULY 1, 2005**

Total Contribution for	Computed Contributions Expressed as Percents of Active Member Payroll		
	General & Water	Police Officers & Fire Fighters	Weighted Average
<b>Normal Cost</b>			
Age and service benefits	13.80 %	16.65 %	15.22 %
Disability	1.85 %	3.25 %	2.55 %
Death	0.87 %	0.96 %	0.91 %
Deferred service pensions	1.04 %	0.77 %	0.91 %
Future refunds of member contributions	0.18 %	0.12 %	0.15 %
<b>Totals</b>	<b>17.74 %</b>	<b>21.75 %</b>	<b>19.74 %</b>
<b>Member Contributions</b>	<b>2.35 %</b>	<b>2.00 %</b>	<b>2.18 %</b>
<b>Employer Normal Cost</b>	<b>15.39 %</b>	<b>19.75 %</b>	<b>17.56 %</b>
<b>Unfunded Actuarial Accrued Liability</b>	<b>0.88 %</b>	<b>3.12 %</b>	<b>1.99 %</b>
<b>COMPUTED EMPLOYER RATE</b>	<b>16.27%</b>	<b>22.87%</b>	<b>19.55%</b>
<b>Dollar Amount Based on June 30, 2004 Payroll (adjusted for lag between valuation date and fiscal year)</b>	<b>\$1,775,541</b>	<b>\$2,443,608</b>	<b>\$4,219,149</b>

\* As of June 30, 2004, the assets available to finance retirement allowances exceeded the actuarial accrued liability. Amortization of the excess over a 30-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.

Active member payroll reported to us for this valuation was \$10,393,310 for General and Water members and \$10,175,976 for Police and Fire members. Applying the employer contribution rate of 16.27% to the General and Water member payroll (adjusted for lag between valuation date and fiscal year) produces annual employer contributions of \$1,775,541 for the General and Water rate group. Applying the employer contribution rate of 22.87% to the Police and Fire member payroll (adjusted for lag between valuation date and fiscal year) produces annual employer contributions of \$2,443,608 for the Police and Fire rate group.

*Actual employer contributions* for the last fiscal year were reported to be \$0.

*In financing the actuarial accrued liabilities*, the present smoothed funding value of assets of \$137,851,411 was distributed as follows:

		Present Assets Applied to			
Active & Inactive		Retirants & Beneficiaries	Health Insurance Reserve	Totals	
Actuarial Accrued Liability	Member				
Employees' Contributions					
General Members	\$ 3,381,464	\$ 0	\$ 0	\$ 3,381,464	
Police & Fire Members	5,005,371	0	0	5,005,371	
Totals	8,386,835	0	0	8,386,835	
Employer Contributions					
General Members	22,800,772	5,723,406			
Police & Fire Members	23,329,211	6,001,083			
Totals	46,129,983	11,724,489	212,534	58,067,006	
Retired Benefit Payments					
General Members		26,877,521		26,877,521	
Police & Fire Members		44,732,583		44,732,583	
Totals		71,610,104		71,610,104	
<b>Totals</b>	<b>\$54,516,818</b>	<b>\$83,334,593</b>	<b>\$212,534</b>	<b>\$138,063,945</b>	

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	\$83,334,593	\$63,051,569	\$146,386,162
Applied Assets	83,334,593	54,516,818	137,851,411
Unfunded Actuarial Accrued Liabilities/ (Full Funding Credit)	\$ 0	\$ 8,534,751	\$ 8,534,751

***DERIVATION OF EXPERIENCE GAIN (LOSS)***  
***YEAR ENDED JUNE 30, 2004***

---

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often 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	\$(10,210)
(2) Normal cost from last valuation	4,084
(3) Actual member and employer contributions	855
(4) Interest Accrual	(666)
(5) Expected UAAL before changes	(7,647)
(6) Change in benefit provisions	2,263
(7) Change from assumption revision	0
(8) Expected UAAL after changes	(5,384)
(9) Actual UAAL	8,535
(10) Gain (loss): (8) - (9)	(13,919)
(11) % of beginning of year AAL	(10.2)%

\* *Unfunded actuarial accrued liability.*

Recognized investment income that was less than assumed was the primary source of unfavorable experience during the past year. The 2003-2004 recognized return based on the funding value of assets was 0.1% compared to an assumed rate of 7.75% (please see further discussion on page A-7).

Valuation Date	Experience Gain (Loss)	
	As % of Beginning of Year	Accrued Liability
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 %
6/30/2000		6.4 %
6/30/2001		(3.8)%
6/30/2002		(11.1)%
6/30/2003		(12.0)%
6/30/2004		(10.2)%

**SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS**  
**JUNE 30, 2004**

---

**Present Resources and Expected Future Resources**

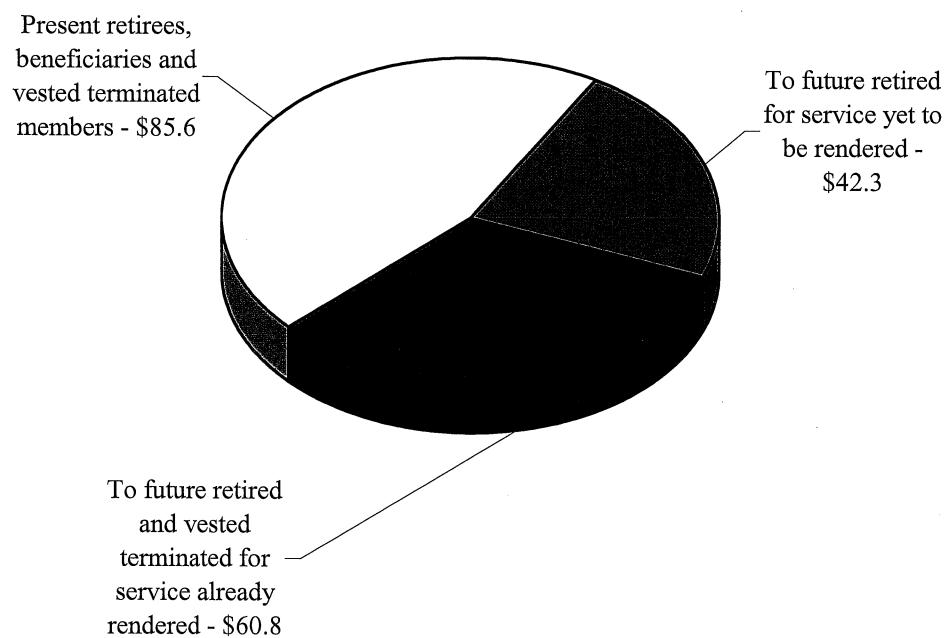
A. Present valuation assets	
1. Net assets from system financial statement	\$129,900,990
2. Market value adjustment	7,950,421
3. Actual valuation assets	<hr/> 137,851,411
B. Actuarial present value of expected future employer contributions	
1. For normal costs	37,469,249
2. For unfunded actuarial accrued liabilities	8,534,751
3. Totals	<hr/> 46,004,000
C. Actuarial present value of expected future member contributions	4,802,693
<b>D. Total Present and Expected Future Resources</b>	<b>\$188,658,104</b>

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

A. To retirees and beneficiaries	\$ 83,334,593
B. To vested terminated members	2,229,866
C. To present active members	
1. Allocated to service rendered prior to valuation date	60,821,703
2. Allocated to service likely to be rendered after valuation date	<hr/> 42,271,942
3. Totals	103,093,645
<b>D. Total Actuarial Present Value of Expected Future Benefit Payments</b>	<b>\$188,658,104</b>

**ALLOCATION OF \$188.7 MILLION OF BENEFIT PROMISES**  
**JUNE 30, 2004**

---



## ***COMMENTS, RECOMMENDATIONS AND CONCLUSIONS***

---

**COMMENT A: CONTRIBUTION REQUIREMENTS** increased substantially from the prior year, from 6.90% of payroll to 19.95% of payroll. This was primarily due to a combination of the continued recognition of investment losses from the prior 3 years and the related depletion of the full funding credit which had served to reduce contribution rates from expected long-term levels over the last 10 years.

**COMMENT B:** In total, for the year ended June 30, 2004, investment return of 11.0% was above the assumed level of 7.75% on a market value basis. However, under the asset valuation method, investment gains and losses are spread over a 4-year period. Partial recognition of this year's gain was combined with the phase-in of investment losses for the prior three years, there was a net recognized asset loss for the year of \$10.9 million.

**COMMENT C:** As a result of continued phase-in of asset losses, the funded status of the plan declined from 107.5% last year to 94.2%. The market value is less than the funding value by \$7,950,421. Unless the market value rebounds substantially, the contribution rate is expected to increase again next year by approximately 2% of payroll.

**COMMENT D:** Benefit changes since the last valuation. The following changes have been recognized:

### ***Addition of Unit***

Teamsters hired before 4/28/2004

- The benefit multiplier was increased to 2.8% for all years of service with a maximum benefit of 75% of Final Average Compensation.
- Member contribution rates were decreased to 2%.

Teamsters hired after 4/28/2004

- The benefit multiplier was increased to 2.5% for the first 20 years of service plus 2.2% for years thereafter, to a maximum of 80% of Final Average Compensation.
- Employee contribution rates were decreased to 1.5% under the Social Security wage base and 3.5% over the wage base.

As a result of this benefit change, liabilities were increased by approximately \$27,000.

### ***Covered Compensation***

- For Police Officers, Police Service Aids and Detectives, covered compensation now includes up to 200 hours from vacation bank. As a result of this benefit change, liabilities were increased by approximately \$380,000.

### ***Retirement Window***

- It is our understanding that an early retirement window was made available to members with 25 years of service (regardless of age) as of September 30, 2003. Members were allowed to purchase up to 3 years of service credit at a cost of 4.0% of salary per year of service purchased.
- Since the normal cost is well beyond 4.0%, the retirement system must absorb the shortfall of the service cost in addition to the cost of accelerated retirements.
- As a result of this window, liabilities increased by approximately \$1.8 million.

**RESERVE TRANSFERS:** Actuarial present value of benefits payable to General retirees and beneficiaries on the rolls as of June 30, 2004 exceeded the Reserve for Retired Benefit Payments for General members by \$5,723,406. The actuarial present value of benefits payable to Police/Fire retirees and beneficiaries on the rolls as of June 30, 2004, exceeded the reserves allocated to the Police/Fire division by \$6,001,083. In accordance with the Retirement System Ordinance, we recommend the transfer of \$5,723,406 from the Reserve for Employer Contributions to the General Reserve for Retired Benefit Payments and \$6,001,083 from the Reserve for Employer Contributions to the Police/Fire Reserve for Retired Benefit Payments. In accordance with the current administrative procedures, since the reserve for Undistributed Investment Income is greater than 10% of the Market Value of the fund, a transfer of \$2,760,278 should be made from the reserve for Undistributed Investment Income to the reserve for Employer Contributions.

**PUBLIC ACT 728:** In Michigan, Public Act 728 became effective on December 30, 2002 which amends the 1965 PA 314 and sets new requirements for all Michigan state and local government retirement systems as follows:

- A system must have an annual actuarial valuation with assets valued on a market-related basis.
- A system must prepare and issue a summary annual report to be available to its plan participants and beneficiaries and citizens of the political subdivision sponsoring the system.
- A system must provide a supplemental actuarial analysis before adopting any pension benefit changes provided by the system's actuary to the Board and decision-making body to approve the proposed pension benefit changes at least 7 days prior to adoption.
- For fiscal years that begin after December 31, 2005, the required employer contribution must not be determined using an amortization period greater than 30 years (prior period maximum was 40 years).

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

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

<b>Valuation Date</b>	<b>Actuarial Accrued Liability</b>	<b>Valuation</b>	<b>Unfunded Actuarial Accrued Liability (UAAL)</b>	<b>Ratio of Valuation Assets to AAL</b>	<b>Ratio of UAL to Valuation Payroll</b>
	(AAL) (\$1,000s)	Assets (\$1,000s)	Liability (UAAL) (\$1,000s)		
5-31-84*	\$49,397	\$35,642	\$13,755	72.2 %	139.2 %
5-31-85	52,062	38,438	13,624	73.8 %	132.5 %
5-31-86	52,625	41,593	11,032	79.0 %	105.6 %
5-31-87*	57,698	45,963	11,735	79.7 %	102.1 %
5-31-88	61,331	51,036	10,295	83.2 %	86.0 %
5-31-89*	65,212	54,259	10,953	83.2 %	93.8 %
5-31-90*	68,924	58,438	10,486	84.8 %	84.2 %
5-31-91*	73,106	62,262	10,844	85.2 %	82.7 %
5-31-92*	77,429	69,859	7,570	90.2 %	58.9 %
6-30-93*	84,193	77,427	6,766	92.0 %	49.5 %
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 %	-
6-30-00	111,515	159,268	(47,753)	142.8 %	-
6-30-00*	113,215	159,268	(46,053)	140.7 %	-
6-30-01*	121,589	162,586	(40,997)	133.7 %	-
6-30-02	128,303	156,403	(28,100)	121.9 %	-
6-30-03*	136,529	146,740	(10,211)	107.5 %	-
6-30-04	144,123	137,851	6,272	95.6 %	-
6-30-04*	146,386	137,851	8,535	94.2 %	-

\* 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.

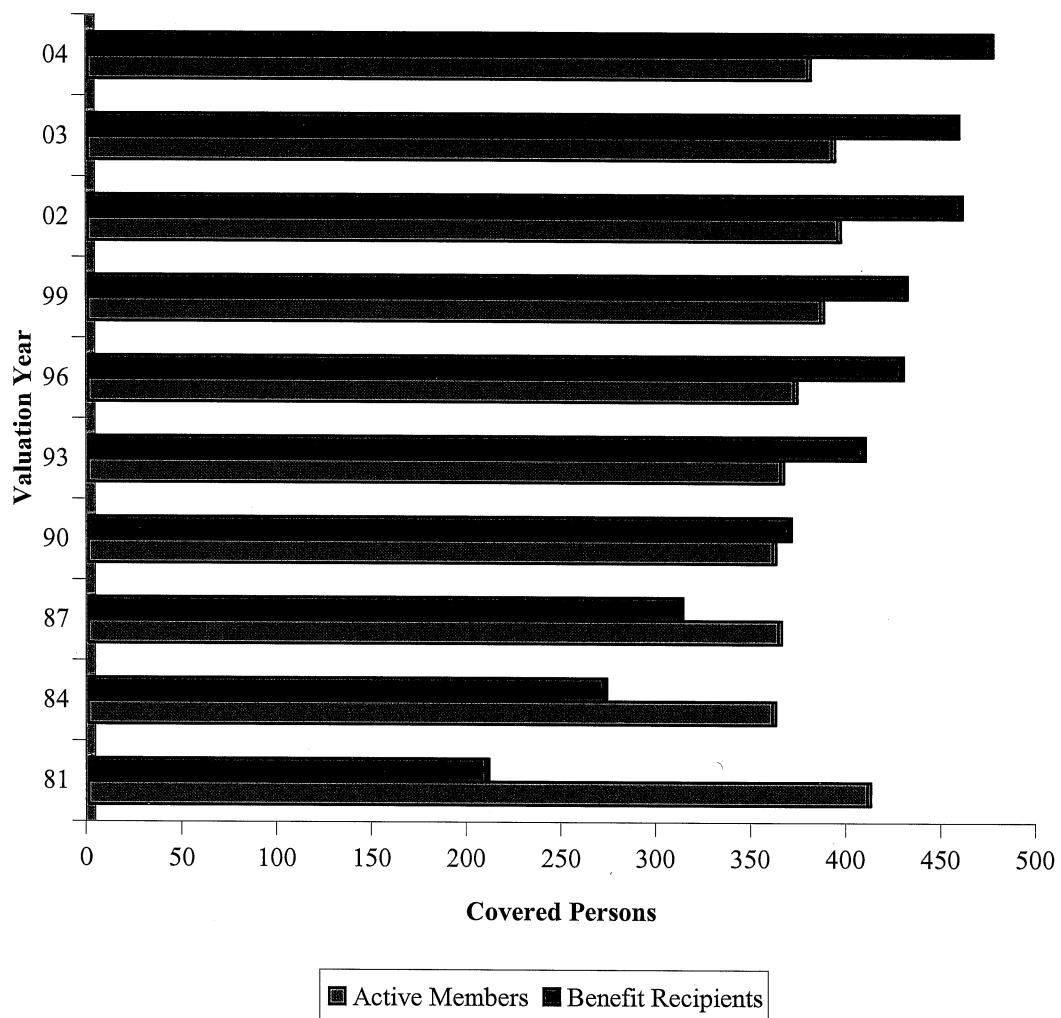
**COMPUTED EMPLOYER CONTRIBUTIONS**  
**COMPARATIVE STATEMENT**

Valuation Date	Active Members				Retirees & Beneficiaries				Employer Contributions			
	No.	Valuation Payroll			No.	Annual Allowances			% of Payroll	As Payroll Percents		
		Total	Average	% Incr.		Active Per Retired	\$	% of Payroll		General Police & Water & Fire	Wt. Avg.	
5-31-81*	410	\$9,762,463	\$23,811		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 %	0.13 %
6-30-95*	370	14,595,387	39,447	3.4 %	427	0.87	5,375,306	36.8 %		9.45 %	9.75 %	9.59 %
6-30-96	371	14,991,326	40,408	2.7 %	427	0.87	5,529,852	36.9 %		5.07 %	6.20 %	5.62 %
6-30-97	384	15,949,326	41,535	6.4 %	430	0.89	5,647,518	35.4 %		0.60 %	0.42 %	0.53 %
6-30-98	392	17,181,869	43,831	7.7 %	426	0.92	5,865,307	34.1 %		0.00 %	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 %	0.00 %
6-30-00*	396	18,129,821	45,782	3.6 %	437	0.91	6,346,060	35.0 %		0.00 %	0.00 %	0.00 %
6-30-01*	397	18,962,345	47,764	4.6 %	447	0.89	6,865,032	36.2 %		0.00 %	0.00 %	0.00 %
6-30-02	394	19,368,385	49,158	2.1 %	458	0.86	7,429,422	38.4 %		0.00 %	0.00 %	0.00 %
6-30-03*	391	20,138,113	51,504	4.0 %	456	0.86	7,710,821	38.3 %		3.79 %	10.20 %	6.90 %
6-30-04	378	20,569,285	54,416	2.1 %	474	0.80	8,575,578	41.7 %		15.81 %	22.24 %	19.00 %
6-30-04*	378	20,569,285	54,416	2.1 %	474	0.80	8,575,578	41.7 %		16.27 %	22.87 %	19.55 %

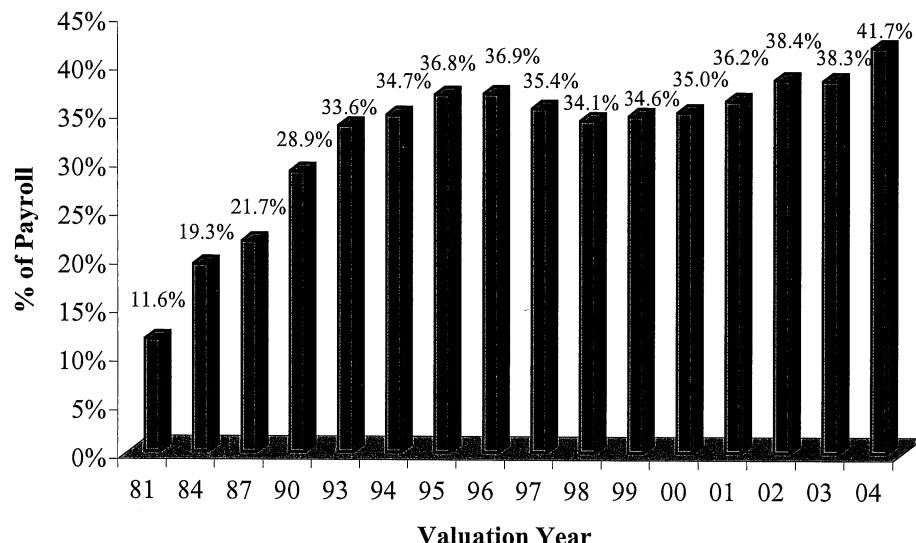
\* After changes in benefit provisions.  
# Actuarial assumptions revised.

## ACTIVE MEMBERS & BENEFIT RECIPIENTS

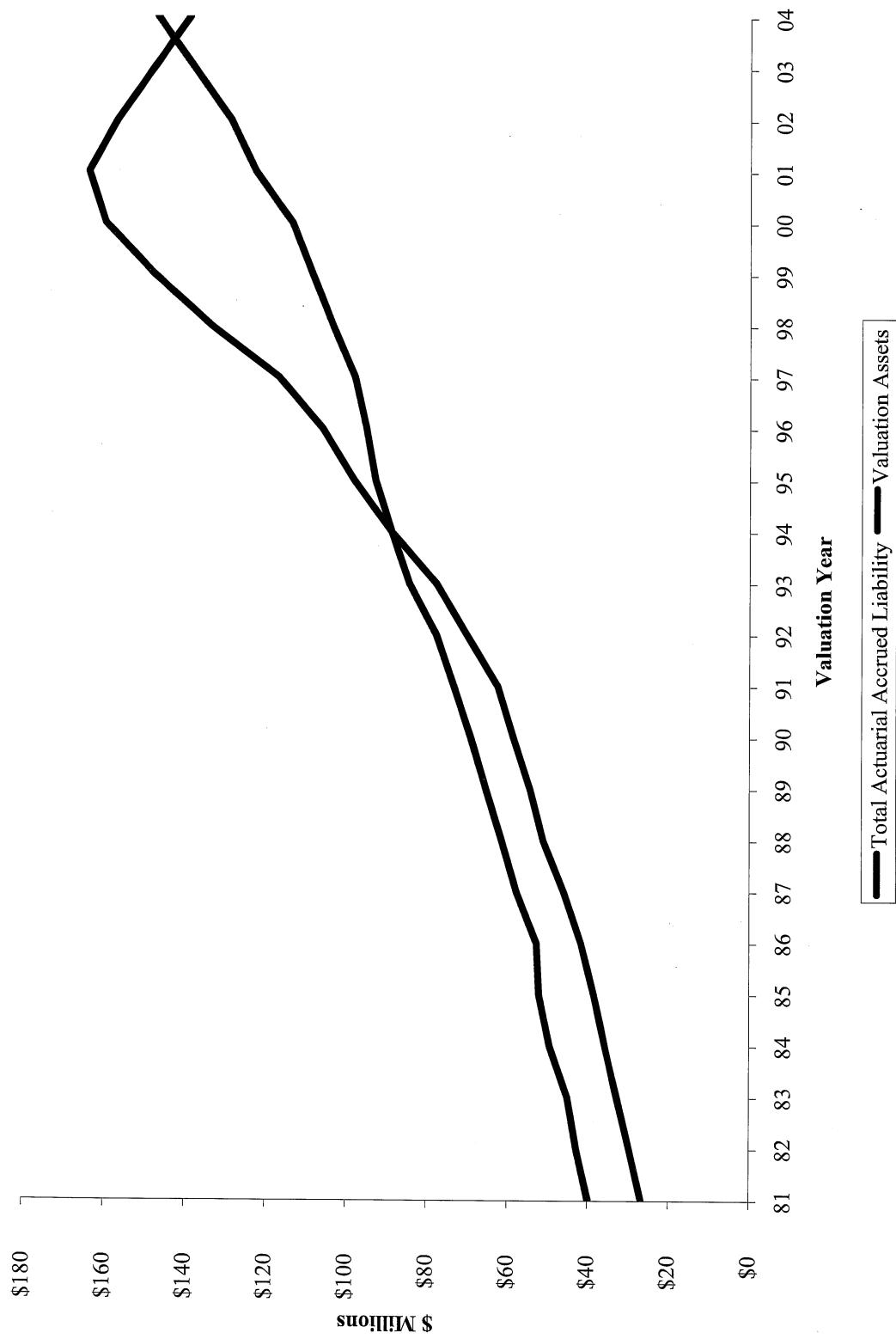
### Active Members & Benefit Recipients



### Benefits as a Percent of Payroll



## ASSETS & ACCRUED LIABILITIES



## **SECTION B**

---



### **Summary of Benefit Provisions and Valuation Data**

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2004**

---

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

***Eligibility – Permanent:***

AFSCME, Executive Department Heads, Department Heads and Deputies, Professional and Technical, Police Service Aides, Teamsters: 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, Fire Fighters: Any age with 25 years of service or age 55 with 10 years of service.

***Temporary Eligibility - Until June 30, 2005:***

Executive Department Heads, Department Heads and Deputies, AFSCME, Professional and Technical, Supervisors, Teamsters: Age 50 with 25 years of service, age 55 with 20 years of service, or age 60 with 5 years of service.

Local 270M: Any age with 30 years of service, 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, Teamsters: Highest 2 consecutive years out of last 10 years.

***Annual Amount:***

General: Total service years multiplied by 2.5% for the first 20 years of service and 2.2% thereafter of FAC with a maximum allowance of 75% of FAC.

Teamsters: For employees hired before 4/29/2004, 2.8% for the first 20 years of service and 1.5% thereafter. For employees hired after 4/29/2004, 2.5% for the first 20 years of service and 2.2% thereafter of FAC. All employees have a maximum allowance of 75% of FAC.

Police Officers, Detectives, Police Command, Fire Fighters: Total service years multiplied by 2.8% of FAC with a maximum allowance of 75% of FAC.

Police Service Aides: Total service years multiplied by 2.5% for the first 20 years of service and 2.2% thereafter of FAC with a maximum allowance of 80% of FAC.

**SUMMARY OF BENEFIT PROVISIONS EVALUATED**  
**JUNE 30, 2004**  
**(CONTINUED)**

---

**DEFERRED RETIREMENT (vested benefit):**

*Eligibility:*

General, Police Service Aides: 5 years of service.

Police Officers, Police Command, Detectives, 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, Teamsters: Payable at age 55 with 25 years of service or age 60 with 5 years of service.

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, Fire Fighters: Payable at 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 until 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, Teamsters: 66-2/3% of base monthly salary at time of disability. Benefit is payable until voluntary retirement age for Professional & Technical and Teamsters 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.

## **SUMMARY OF BENEFIT PROVISIONS EVALUATED**

**JUNE 30, 2004**

**(CONTINUED)**

---

### **Duty Disability Maximum Monthly Benefit:**

Executive Department Heads, Department Heads & Deputies:	\$5,000
Professional & Technical:	\$3,500
AFSCME, Local 270M, Supervisors, Teamsters, 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:*

AFSCME: 66-2/3% of base monthly salary at time of disability. Benefit is payable until attaining minimum retirement requirements.

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.

### **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 before 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.

# **SUMMARY OF BENEFIT PROVISIONS EVALUATED**

**JUNE 30, 2004**

**(CONTINUED)**

---

## **MEMBER CONTRIBUTIONS:**

	<b>Percent of Annual Compensation</b>	
	<b>To Social Security Wage Base</b>	<b>Over Social Security Wage Base</b>
Judges	1.20%	1.20%
AFSCME, Police Service Aides	1.50	3.50
Executive Department Heads, Department Heads and Deputies, Teamster, Professional and Technical	2.00	4.00
Local 270M	3.00	5.00
Supervisors	3.00	3.00
Police Officers, Detectives, Police Command, Fire Fighters	2.00	2.00

## **ANNUITY WITHDRAWAL:**

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

## **COVERED COMPENSATION:**

General: Covered compensation includes base salary, longevity and up to 96 hours of sick leave incentive pay.

Teamsters: Covered compensation includes base salary and up to 96 hours of sick leave incentive pay.

Police Command: Covered compensation includes base salary, longevity, payment in lieu of holidays, uniform allowance, up to 96 hours of sick leave incentive pay and required administrative time.

Fire Fighters: Covered compensation includes base salary, longevity, payment in lieu of holidays, uniform allowance, cleaning allowance, food allowance, sick leave incentive pay and paramedic premium.

Police Officers, Police Service Aides: Covered compensation includes base salary, longevity, payment in lieu of holidays, up to 120 hours of sick and personal business days, and up to 200 hours from the vacation bank.

Detectives: Covered compensation includes base salary, longevity and payment in lieu of holidays, 24 personal business hours, up to 96 hours sick leave incentive pay and up to 200 hours from the vacation bank.

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

**COMPARATIVE STATEMENT**

Valuation Date	Added to Rolls*		Removed from Rolls <sup>#</sup>			Net Increase			Rolls End of Year		
	No.	Annual Allowances	No.	A.	E	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	
5/31/80	15	\$ 87,659	13			\$ 26,304	2	\$ 61,355	189	\$ 944,037	
5/31/81	24	544,336	4			355,330	20	189,006	209	1,133,043	
5/31/82	33	336,714	11			89,135	22	247,579	231	1,380,622	
5/31/83	42	453,290	10			41,420	32	411,870	263	1,792,492	
5/31/84	17	175,727	9			57,814	8	117,913	271	1,910,405	
5/31/85	29	283,601	12	8.8		68,665	17	214,936	288	2,125,341	
5/31/86	17	147,292	8	9.3		36,133	9	111,159	297	2,236,500	
5/31/87	22	288,998	8	9.9		29,853	14	259,145	311	2,495,645	
5/31/88	26	403,952	7	10.1		56,940	19	347,012	330	2,842,657	
5/31/89	41	748,391	8	10.7		55,370	33	693,021	363	3,535,678	
5/31/90	15	184,697	10	11.8		126,317	5	58,380	368	3,594,058	
5/31/91	18	292,334	12	12.8		123,317	6	169,017	374	3,763,075	
5/31/92	37	668,965	16	13.6		114,929	21	554,036	395	4,317,111	
6/30/93	27	408,146	15	13.9		127,994	12	280,152	407	4,597,263	
6/30/94	26	456,550	18	14.3		159,668	8	296,882	415	4,894,145	
6/30/95	21	513,916	9	13.5		32,755	12	481,161	427	5,375,306	
6/30/96	12	272,020	12	13.5		117,474	0	154,546	427	5,529,852	
6/30/97	19	349,731	16	9.8		232,065	3	117,666	430	5,647,518	
6/30/98	12	300,261	16	6.8		82,472	(4)	217,789	426	5,865,307	
6/30/99	24	369,781	21	15.2		183,802	3	185,979	429	6,051,286	
6/30/00	25	532,563	17	15.6		237,789	8	294,774	437	6,346,060	
6/30/01	18	585,533	8	16.2		66,561	10	518,972	447	6,865,032	
6/30/02	27	648,282	16	17.3		83,892	11	564,390	458	7,429,422	
6/30/03	24	512,343	26	18.1		230,945	(2)	281,399	456	7,710,821	
6/30/04	31	1,003,875	13	18.4		139,118	18	864,757	474	8,575,578	

*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, 2004**  
**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	72	\$ 781,261	16	\$ 374,391	88	\$1,155,652
75% of benefit continuing to spouse	127	2,274,741	133	3,978,584	260	6,253,325
100% Joint & Survivor benefit	2	10,628	2	7,493	4	18,121
50% Joint & Survivor benefit	4	14,256	1	6,635	5	20,892
Survivor beneficiary of deceased retireant	42	263,648	42	511,425	84	775,073
Domestic Relations Order Recipient	5	32,866	1	15,665	6	48,531
Total Age and Service Allowances	252	\$3,377,400	195	\$4,894,192	447	\$8,271,593
<b>Casualty Allowances</b>						
Duty Disability Allowances						
Terminating at death of retireant						
Joint & Survivor benefit	1	\$ 4,445	1	\$ 22,779	2	\$ 27,225
Survivor beneficiary of deceased retireant			1	3,228	1	3,228
Totals	1	\$ 4,445	2	\$ 26,008	3	\$ 30,453
Non-Duty Disability Allowances						
Terminating at death of retireant						
Joint & Survivor benefit						
Survivor beneficiary of deceased retireant						
Totals						
Duty Death Allowances						
Survivor beneficiary			1	4,860	1	4,860
Child(ren) beneficiary						
Totals			1	4,860	1	4,860
Non-Duty Death Allowances						
Spouse beneficiary	10	\$ 79,465	10	\$ 176,080	20	\$ 255,545
Child(ren) beneficiary			3	13,127	3	13,127
Totals	10	\$ 79,465	13	\$ 189,208	23	\$ 268,673
Total Casualty Allowances	11	\$ 83,910	16	\$ 220,075	27	\$ 303,985
<b>Total Allowances Being Paid</b>	<b>263</b>	<b>\$3,461,310</b>	<b>211</b>	<b>\$5,114,267</b>	<b>474</b>	<b>\$8,575,578</b>

***RETIREES AND BENEFICIARIES JUNE 30, 2004***  
***TABULATED BY ATTAINED AGES***

---

Attained Ages	Age and Service		Casualty		Totals	
	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances
Under 40			4	\$ 15,824	4	\$ 15,824
40-44	2	\$ 41,769	1	37,878	3	79,647
45-49	4	138,976			4	138,976
50-54	18	651,306	4	94,641	22	745,947
55-59	52	1,850,130	1	4,860	53	1,854,990
60-64	60	1,527,570			60	1,527,570
65-69	67	1,416,796	5	68,279	72	1,485,075
70-74	61	929,270	2	9,949	63	939,219
75-79	77	970,894	6	64,581	83	1,035,475
80-84	68	541,858	1	1,797	69	543,655
85-89	26	154,263	2	3,888	28	158,151
90 & Over	12	48,761	1	2,288	13	51,049
<b>Totals</b>	<b>447</b>	<b>\$8,271,593</b>	<b>27</b>	<b>\$303,985</b>	<b>474</b>	<b>\$8,575,578</b>

***INACTIVE MEMBERS JUNE 30, 2004***  
***TABULATED BY ATTAINED AGES***

---

Also included in the valuation were 32 General members and 4 Police/Fire members who are eligible for estimated deferred allowances of \$439,180 upon attainment of voluntary retirement age. Some of these 36 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>
37	1	\$ 5,460
38	1	4,100
41	2	23,766
44	2	41,150
45	3	34,725
48	1	5,637
49	4	43,900
50	2	16,560
51	2	28,004
52	3	54,775
53	6	31,738
54	2	49,516
55	2	60,465
57	1	7,318
58	1	3,764
59	2	26,386
61	1	1,916
<b>Totals</b>	<b>36</b>	<b>\$439,180</b>

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

Valuation Date	Active Members	Valuation Payroll	Average			
			Age	Service	Pay	% Pay Increase
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 %
6-30-00	396	18,129,821	42.2	11.0	45,782	0.7 %
6-30-01	397	18,962,345	42.7	11.1	47,764	4.3 %
6-30-02	394	19,368,385	43.1	10.9	49,158	2.9 %
6-30-03	391	20,138,113	43.2	11.1	51,504	4.8 %
6-30-04	378	20,569,285	43.5	10.9	54,416	5.7 %

## **ACTIVE MEMBERS - JUNE 30, 2004**

Group	Active Members	Valuation Payroll
Local 270M	60	\$2,546,703
Department Heads and Deputies	24	1,862,663
Professional & Technical	45	2,183,888
AFSCME	67	2,656,622
Foremen and Supervisors	6	363,279
Judges	2	96,520
Teamsters	3	203,591
Police Service Aides	11	480,043
Police	67	3,999,014
Fire	65	4,101,760
Police Command	16	1,168,330
Police Detectives	8	550,863
Police/Fire Department Heads	4	356,009
<b>Total</b>	<b>378</b>	<b>\$20,569,285</b>

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

---

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		
5-31-86	25	24	11	10.8	0	2.9	0	1.2	13	10.1	359	
5-31-87	27	23	13	10.0	1	3.0	1	1.3	8	11.3	363	
5-31-88	27	26	14	10.1	0	2.8	3	1.3	9	12.3	364	
5-31-89	36	43	33	13.4	1	2.7	0	1.2	9	12.9	357	
5-31-90	24	21	6	12.9	0	2.8	1	1.2	14	12.3	360	
5-31-91	16	19	8	11.0	1	2.6	1	1.1	9	13.6	357	
5-31-92	24	29	21	11.7	0	2.7	1	1.0	7	13.2	352	
6-30-93	30	18	12	12.9	0	2.4	2	1.0	4	11.6	364	
6-30-94	25	29	16	10.5	2	2.3	1	1.1	10	11.3	360	
6-30-95	37	27	14	10.5	2	2.3	2	1.0	9	11.9	370	
6-30-96	27	26	8	10.2	0	1.4	0	0.9	18	11.8	371	
6-30-97	30	17	8	9.3	0	1.3	0	0.8	9	14.0	384	
6-30-98	23	15	9	11.2	0	1.4	0	0.8	6	14.5	392	
6-30-99	21	28	11	10.5	0	1.4	0	0.7	17	14.5	385	
6-30-00	38	27	12	10.1	0	1.3	0	0.9	15	13.5	396	
6-30-01	27	26	13	9.5	1	1.3	0	0.9	12	14.9	397	
6-30-02	25	28	15	7.4	1	1.3	2	0.9	10	14.6	394	
6-30-03	16	19	12	9.8	2	1.3	0	0.8	5	14.1	391	
6-30-04	19	32	21	10.8	0	1.3	1	0.9	10	12.5	378	
<b>Last 5 Years</b>			73	47.6	4	6.5	3	4.4	52	69.6		

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**

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	1							1	\$ 34,618
25-29	8	1						9	328,766
30-34	7	9	1					17	660,970
35-39	13	5	6	2				26	1,179,496
40-44	8	14	6	9				37	1,748,998
45-49	11	14	7	9	5			46	2,261,998
50-54	13	6	7	10	2	4	1	43	2,132,036
55-59	3	4	4	4	1	2	1	19	1,023,346
60	1	1		1				3	126,732
61	2		1	1	2		1	7	383,060
62	1	2			1			4	190,916
63		1						1	42,499
65	1							1	31,802
66			1					1	50,296
67		1		1				2	158,052
73						1		1	39,724
<b>Totals</b>	<b>69</b>	<b>58</b>	<b>33</b>	<b>37</b>	<b>11</b>	<b>7</b>	<b>3</b>	<b>218</b>	<b>\$10,393,309</b>

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

**Group Averages**

Age: 46.2 years  
 Service: 10.0 years  
 Annual Pay: \$47,676

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

---

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	2							2	\$ 84,194
25-29	9							9	443,755
30-34	17	12	4					33	1,926,051
35-39	5	11	21	2				39	2,454,539
	1	4	11	18	1			35	2256194
40-44		5	12	7				24	1,664,922
45-49	1		3	5	4			13	972,508
50-54			1		2		1	4	301,848
55-59									
62							1	1	71,965
<b>Totals</b>	<b>35</b>	<b>27</b>	<b>41</b>	<b>36</b>	<b>13</b>	<b>6</b>	<b>1</b>	<b>160</b>	<b>\$10,175,976</b>

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

**Group Averages**

Age: 39.7 years  
 Service: 12.2 years  
 Annual Pay: \$63,600

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

---

**Balance Sheet**

<b>Reported Assets</b>		<b>Reserves for</b>	
Cash & equivalents	\$ 3,000	Member contributions	\$ 8,386,835
Other short-term	2,696,210	Employer contributions	34,153,674
Receivables & accruals	422,618	Retired benefit payments	71,610,104
Equities	84,420,159	Undistributed investment income	15,750,377
Fixed Income	43,460,973		
Real Estate Investments	0		
Accounts Payable	(1,101,970)		
<b>Total Current Assets</b>	<b>\$129,900,990</b>	<b>Total Reserves</b>	<b>\$129,900,990</b>

**Revenues and Expenditures**

	<b>2003-04</b>	<b>2002-03</b>
Balance - Beginning of year	\$125,615,389	\$131,486,173
<i>Revenues</i>		
Member contributions	855,285	626,630
Employer contributions	0	0
Investment income (net)	<u>14,061,202</u>	<u>3,687,068</u>
Total	<u>14,916,487</u>	<u>4,313,698</u>
<i>Expenditures</i>		
Benefit payments	8,450,563	7,974,280
Health insurance premiums for retired member	0	1,180,664
Refund of member contributions	1,411,033	324,581
Administrative & investment expenses	<u>769,290</u>	<u>704,957</u>
Total	<u>10,630,886</u>	<u>10,184,482</u>
Balance - End of year	\$129,900,990	\$125,615,389

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

	<b>Year Ended June 30:</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
A. Funding Value Beginning of Year		\$157,353,017	\$146,739,571			
B. Market Value End of Year		125,615,389	129,900,990			
C. Market Value Beginning of Year		131,486,173	125,615,389			
D. Non-Investment Net Cash Flow		(8,852,895)	(9,006,311)			
E. Investment Income						
E1. Market Total: B-C-D		2,982,111	13,291,912			
E2. Amount for Immediate Recognition: (7.75%)		11,851,809	11,023,322			
E3. Amt. for Phased In Recognition: E1-E2		(8,869,698)	2,268,590			
F. Phased-In Recognition of Investment Income						
F1. Current Year: 0.25 x E3		(2,217,425)	567,148			
F2. First Prior Year		(5,217,013)	(2,217,425)	\$ 567,148		
F3. Second Prior Year		(4,037,884)	(5,217,013)	(2,217,425)	\$ 567,148	
F4. Third Prior Year		(2,140,038)	(4,037,881)	(5,217,015)	(2,217,423)	\$ 567,146
F5. Total Recognized Investment Gain		(13,612,360)	(10,905,171)	(6,867,292)	(1,650,275)	567,146
G. Funding Value End of Year: A+D+E2+F5		146,739,571	137,851,411			
H. Difference Between Market & Funding Value		(21,124,182)	(7,950,421)	(1,083,129)	567,146	0
I. Recognized Rate of Return		<b>(1.2)%</b>	<b>0.1%</b>			
J. Market Value Rate of Return		2.4%	11.0%			
K. Ratio of Funding Value to Market Value		116.8%	106.1%			

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**

---



### **Summary of Valuation Methods and Assumptions**

---

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

---

***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:

$$\mathbf{B} = \mathbf{C} + \mathbf{I} - \mathbf{E}$$

**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 ...

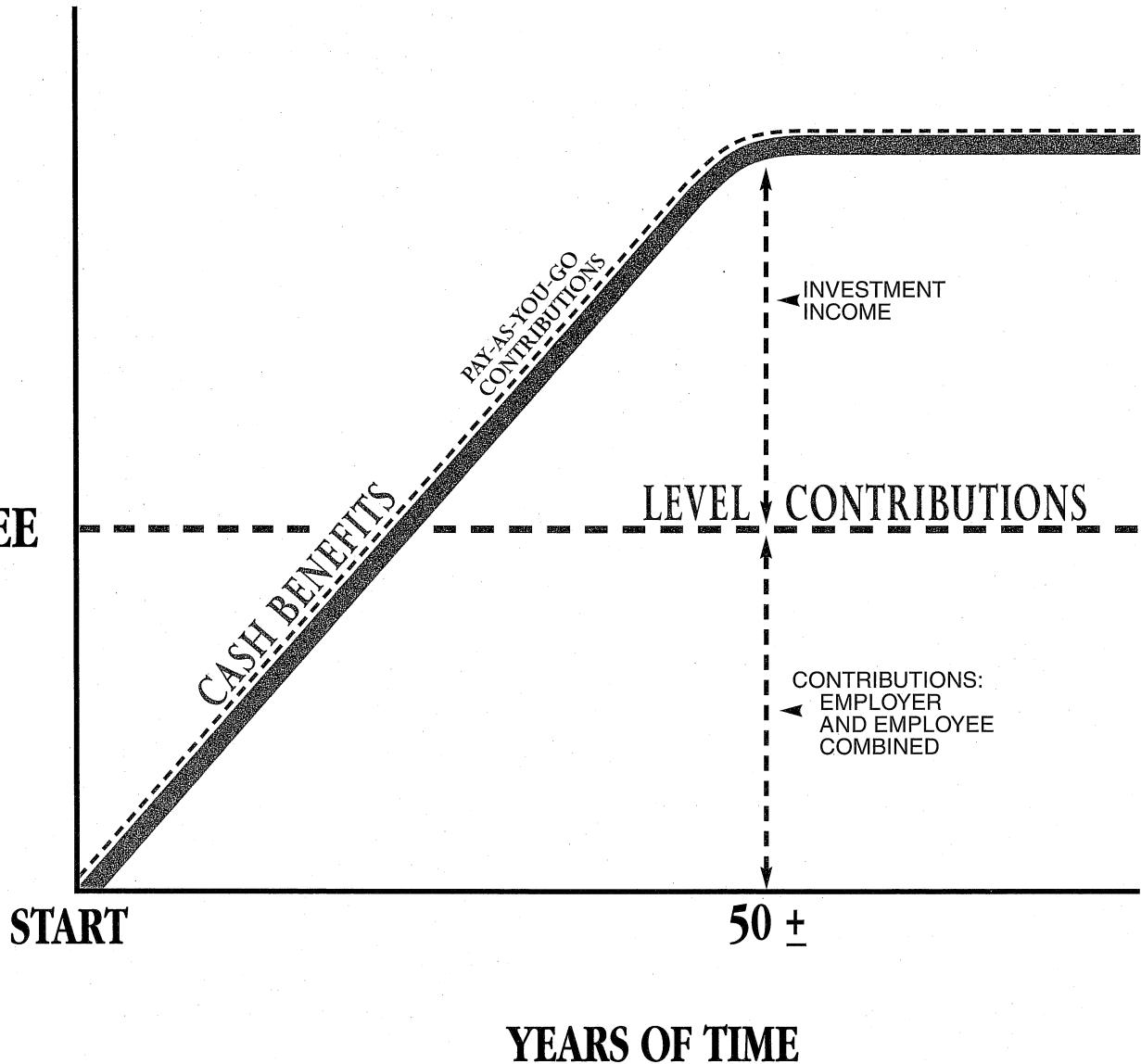
**Expenses** incurred in operating the program.

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:

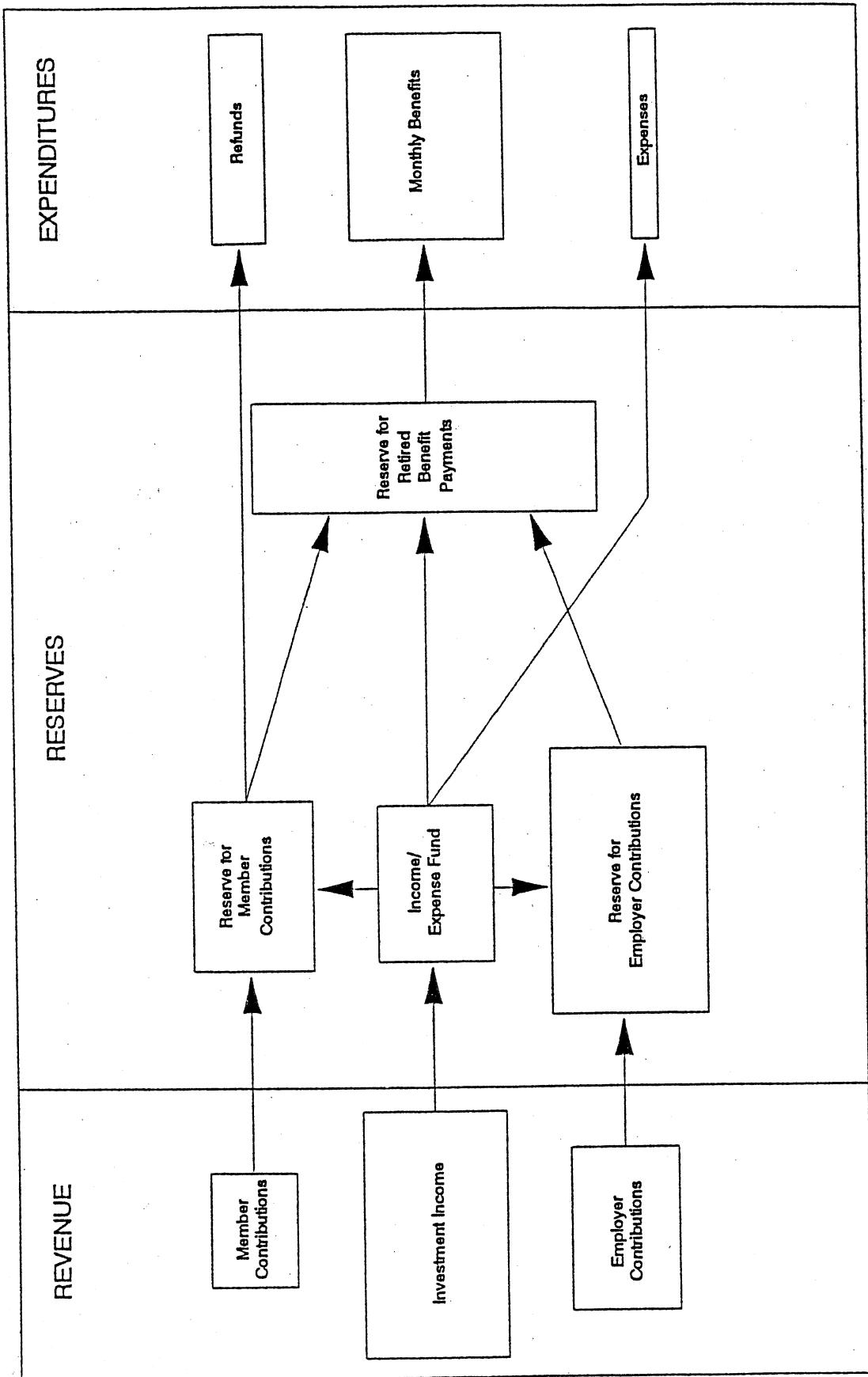
Economic Risk Areas

- 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



## ***VALUATION METHODS***

---

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 30 years.

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

---

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
	2004	2003	2002	2001	2000	
(1) Nominal rate*	0.1 %	(1.2)%	1.2 %	7.0 %	12.5 %	3.8 %
(2) Increase in CPI	3.3 %	2.1 %	1.1 %	3.2 %	3.7 %	2.7 %
(3) Average salary increase	5.7 %	4.8 %	2.9 %	4.3 %	0.7 %	3.7 %
(4) Real return						
- investment purposes						1.1 %
- funding purposes						0.1 %

\* 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		
	General	Police Service Aides	Police Officers & Detectives
45-49			40%
50	15%		40%
51	10%		35%
52	10%		20%
53	10%		15%
54	10%		15%
55	10%	15%	15%
56	10%	10%	15%
57	10%	10%	15%
58	10%	10%	15%
59	10%	10%	25%
60	10%	10%	100%
61	10%	10%	
62	30%	30%	
63	15%	15%	
64	15%	15%	
65	100%	100%	
Ref.	623	134	46

**Percent of Eligible Active Members Retiring**

<b>Years of Service</b>	<b>Police Command &amp; Fire Fighters</b>
25	35%
26	35%
27	35%
28	20%
29	20%
30	20%
31	20%
32	20%
33	20%
34	20%
35	20%
36	20%
37	20%
38	20%
39	20%
40	100%

Ref. 999

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
Police Command, Police Officers, Detectives & Fire Fighters	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 Separating Within Next Year		
		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 59	30 54	30 166

**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		Police & Fire
	Male	Female	
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

**Loading Factor:** In the valuation process a person's salary is assumed to increase by a certain percentage each year (see page C-7). However, compensation for benefit purposes includes things such as sick leave incentive pay which are not reported for the valuation. In order to more accurately calculate contribution requirements, the General active normal retirement liabilities were increased by 3.0% to account for the items not reported for valuation purposes, and Police/Fire active normal retirement liabilities were increased by 4.0%. Since the definition of items included in compensation changed for Police/Fire during 2002, we have included only years 2003 and 2004 in our computations. Once additional data is compiled, the ratios will be adjusted to better estimate the effect of inclusion of additional items in final average compensation.

***Final Average Compensation With and Without Extra Compensation Items***

***New General Retirees***

<b>Year Ending June 30</b>	<b>Final Average Compensation</b>		<b>Ratio</b>
	<b>With Extras</b>	<b>Without Extras</b>	
2001	\$ 409,951	\$ 396,912	1.033
2002	650,589	630,933	1.031
2003	374,516	366,782	1.021
2004	796,585	772,138	1.032
<b>Totals</b>	<b>\$2,231,641</b>	<b>\$2,166,766</b>	<b>1.030</b>

***Final Average Compensation With and Without Extra Compensation Items***

***New Police/Fire Retirees***

<b>Year Ending June 30</b>	<b>Final Average Compensation</b>		<b>Ratio</b>
	<b>With Extras</b>	<b>Without Extras</b>	
2001	\$440,010	\$430,922	1.021
2002	215,032	210,335	1.022
2003	381,594	365,739	1.043
2004	645,123	621,923	1.037
<b>Totals</b>	<b>\$1,026,717</b>	<b>\$987,662</b>	<b>1.04*</b>

\* Ratio includes only years 2003 and 2004.

**MISCELLANEOUS AND TECHNICAL ASSUMPTIONS**  
**JUNE 30, 2004**

---

Marriage Assumption:	90% of males and 90% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Pay Annualization:	Reported pay for members with less than twelve contributing months was annualized by the ratio of 12 to the number of contribution months in the year.
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	All decrements the first 5 years of service. Only mortality operates during retirement eligibility.
Service Credit Accruals:	It is assumed that members accrue one year of service credit per year.
Loads	Age and Service Retirement Present Values for General and Police/Fire members were loaded by 3.0% and 4.0% respectively to account for the additional amount included in the FAC due to unused sick time and unused vacation time.
Incidence of Contributions:	Contributions are assumed to be received continuously throughout the year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made.
Normal Form of Benefit:	A 75% automatic joint and survivor payment is the assumed normal form of benefit.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.

## ***GLOSSARY***

---

**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.

## ***GLOSSARY***

---

**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”***

---

“*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.

---

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.

## **PENSIONS IN AN INFLATIONARY ENVIRONMENT**

---

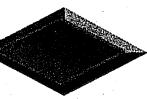
### **Value of \$1,000/month Retirement Benefit to an Individual Who Retires at Age 55 in an Environment of 5.0% Inflation**

<b>Age</b>	<b>COLA Rate</b>	
	<b>2.5%</b>	<b>0%</b>
55	\$1,000	\$1,000
56	976	952
57	953	907
58	930	864
59	908	823
60	886	784
65	786	614
70	697	481
75	618	377
80	547	295
85	\$ 485	\$ 231

The life expectancy of a 55-year-old male retiree is to age 78. The life expectancy for a 55-year-old female retiree is to age 83. Half of the people will outlive their life expectancy. The effects of even moderate amounts of inflation can be significant for those who live to an advanced age.

## **SECTION D**

---



**Required by Statement No. 25 of  
the Governmental Accounting Standards  
Board**

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

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, 2004
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent
Remaining amortization period	30 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, 2004, the date of the latest actuarial valuation.

Retirees and Beneficiaries receiving benefits	474
Terminated plan members entitled to but not yet receiving benefits	36
Active plan members	<u>378</u>
Total	888

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

***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
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	-
6-30-00	159,267,910	113,215,274	(46,052,636)	140.7 %	18,129,821	-
6-30-01	162,586,122	121,588,930	(40,997,192)	133.7 %	18,962,345	-
6-30-02	156,402,936	128,303,318	(28,099,618)	121.9 %	19,368,385	-
6-30-03	146,739,571	136,529,458	(10,210,113)	107.5 %	20,138,113	-
6-30-04	137,851,411	146,386,162	8,534,751	94.2 %	20,569,285	41.5 %

***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
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	0	100%
7-1-00	0.00 %	0	0	100%
7-1-01	0.00 %	0	0	100%
7-1-02	0.00 %	0	0	100%
7-1-03	0.00 %	0	0	100%
7-1-04	6.90 %	1,427,055		
7-1-05	19.55 %	4,136,904		

\* 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.