



THE REPORT OF THE  
ANNUAL ACTUARIAL VALUATION  
OF THE  
CITY OF LINCOLN POLICE AND FIRE PENSION FUND  
AUGUST 31, 2004

SUBMITTED TO  
THE CITY COUNCIL  
CITY OF LINCOLN POLICE AND FIRE PENSION FUND  
LINCOLN, NEBRASKA

GABRIEL, ROEDER, SMITH & COMPANY



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December 23, 2004

The City Council  
City of Lincoln Police and Fire Pension Fund  
Lincoln, Nebraska

Ladies and Gentlemen:

Submitted in this report are the results of the Annual Actuarial Valuation of the benefits provided by the City of Lincoln Police and Fire Pension Fund.

The date of the valuation was August 31, 2004.

Valuation results are contained in Section A.

Governmental Accounting Standard information is contained in Section B.

Gain Loss, Historical data and comments are contained in Section C.

The valuation was based upon information, furnished by the City, concerning Pension Fund benefits, financial transactions, individual active members, terminated members, DROP members, retirants and beneficiaries. Data was checked for year to year consistency but was not otherwise audited by us. This information is summarized in Section D.

Descriptions of the actuarial cost methods and actuarial assumptions are contained in Section E, along with a glossary of technical terms.

To the best of our knowledge this report is complete and accurate and was made in accordance with generally recognized actuarial methods in compliance with the Pension Fund Ordinance. The actuarial assumptions used for the valuation produce results which we believe are reasonable.

Respectfully submitted,

Louise M. Gates, ASA

W. James Koss, ASA, EA

LMG:dm

## Section A



Valuation Results

# ACTUARIAL BALANCE SHEET - AUGUST 31, 2004

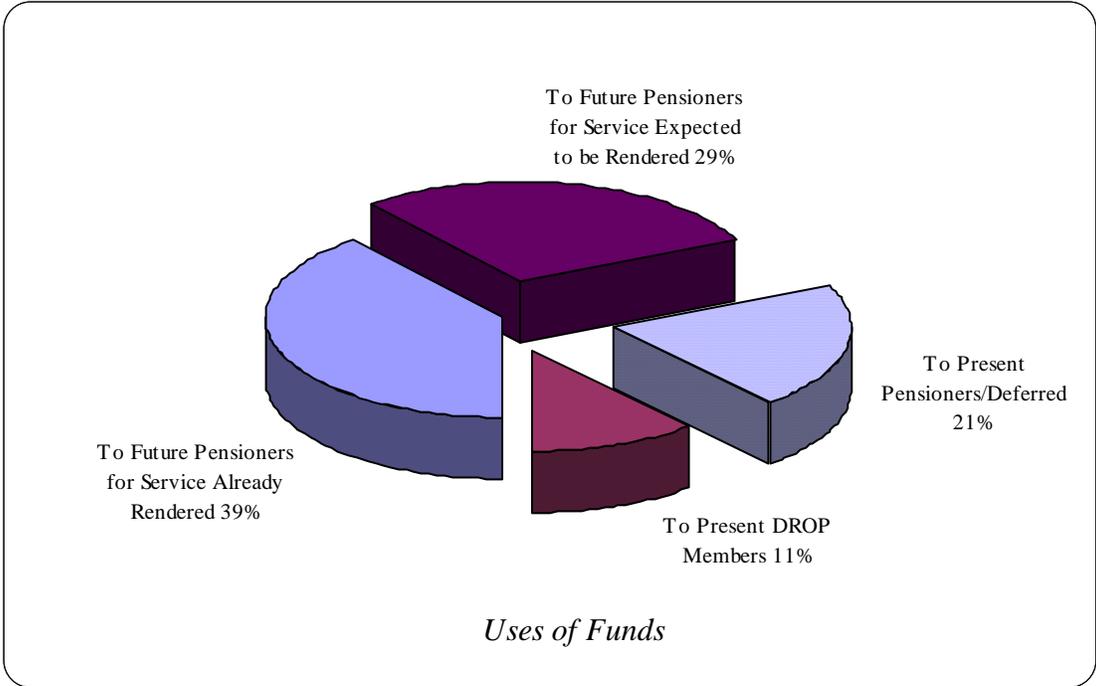
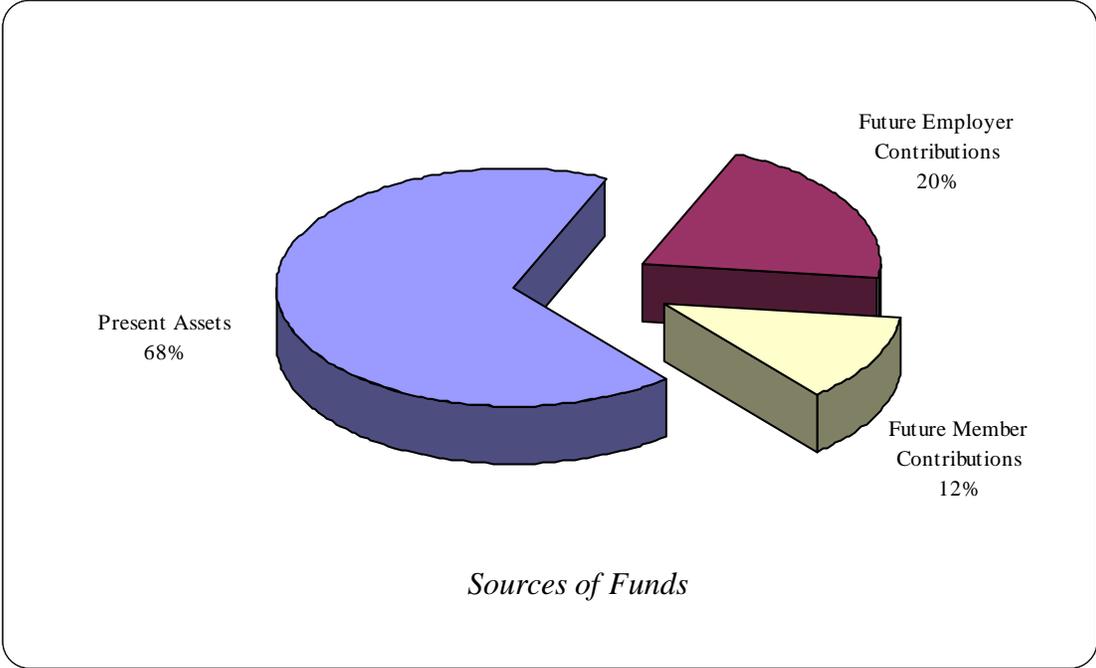
## *Present Resources and Expected Future Resources*

|  |                            |                      |
|--|----------------------------|----------------------|
| <b>A. Valuation Assets</b><br>Net assets from system financial statements (market value)<br>Valuation adjustment<br>Valuation assets | \$137,781,079<br>(807,400) | \$136,973,679        |
| <b>B. Actuarial present value of expected future employer contributions</b><br>For normal costs<br>For UAAL<br>Total                 | 33,894,103<br>7,205,079    | 41,099,182           |
| <b>C. Actuarial present value of expected future member contributions</b>  |                            | 24,440,309           |
| <b>D. Total Actuarial Present Value of Present and Expected Future Resources</b>   |                            | <b>\$202,513,170</b> |

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

|  |                            |                      |
|--|----------------------------|----------------------|
| <b>A. To retirants and beneficiaries</b>   |                            | \$ 40,674,227        |
| <b>B. To DROP members</b>  |                            | 22,892,801           |
| <b>C. To vested terminated members</b>   |                            | 1,032,102            |
| <b>D. To present active members</b><br>Allocated to service rendered prior to valuation date<br>Allocated to service likely to be rendered after valuation date<br>Total | \$79,579,628<br>58,334,412 | 137,914,040          |
| <b>E. Total Actuarial Present Value of Expected Future Benefit Payments</b>  |                            | <b>\$202,513,170</b> |

# SOURCES AND USES OF FUNDS



**COMPUTED CONTRIBUTIONS  
FOR THE FISCAL YEAR BEGINNING SEPTEMBER 1**

| Contributions for Fiscal Year                  | Contributions Expressed<br>as Percents of Payroll* |                |
|--|--|----------------|
|  | 2005   | 2004           |
| <i>Normal Cost</i>                             |  |                |
| Age & Service Benefits                         | 15.55 %  | 15.54 %        |
| Disability Benefits                            | 0.47 %   | 0.47 %         |
| Death Before Retirement                        | 0.52 %   | 0.53 %         |
| Deferred Age & Service Benefits                | 1.41 %   | 1.39 %         |
| Refund of Member Contributions                 | 0.60 %   | 0.59 %         |
| Total  | 18.55 %  | 18.52 %        |
| <i>Member Contributions (weighted average)</i> | 7.79 %   | 7.77 %         |
| <i>Employer Normal Cost</i>                    | 10.76 %  | 10.75 %        |
| <i>Amortization Payment</i>                    |  |                |
| Unfunded Actuarial Accrued Liability           | 2.81 %   | 2.11 %         |
| <b>EMPLOYER CONTRIBUTION RATE</b>              | <b>13.57 %</b>                                     | <b>12.86 %</b> |

\* Payroll for active members not included in the DROP.

Unfunded actuarial accrued liabilities as of August 31, 2004 were amortized as a level percent of active member payroll over a period of 10 years.

A procedure for determining dollar contribution amounts is described on the following page.

## **FINANCIAL OBJECTIVE**

The financial objective of the Pension Fund is 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 citizens. This objective meets the requirements of the laws governing the operation of the Pension Fund.

## **CONTRIBUTION RATES**

The Pension Fund is supported by member contributions, City contributions and investment income from Pension Fund assets.

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

- cover the actuarial present value of benefits assigned to the current year by the actuarial cost methods described in Section E (the normal cost); and
- amortize over a period of future years the actuarial present value of benefits not covered by valuation assets or anticipated future normal costs (unfunded actuarial accrued liability).

## **DETERMINING DOLLAR CONTRIBUTIONS**

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollar amounts. We recommend the following procedure.

Contribute dollar amounts at the end of each payroll period which are equal to the City's percent-of-payroll contribution requirement multiplied by the covered active member Non-DROP payroll for the period. Adjustments should be made as necessary to exclude items of pay that are not covered compensation for Pension Fund benefits and to include special payments that are covered compensation.

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## DEVELOPMENT OF FUNDING VALUE OF RETIREMENT SYSTEM ASSETS

| Year Ended August 31:               | 2002           | 2003           | 2004           |
|-------------------------------------|----------------|----------------|----------------|
| <b>Beginning of Year Values</b>     |                |                |                |
| (1) Cost Value                      | \$ 121,016,291 | \$ 117,805,743 | \$ 127,547,831 |
| (2) Market Value                    | 123,092,555    | 122,239,045    | 128,083,863    |
| (3) Funding Value                   | 128,069,831    | 128,319,145    | 132,577,506    |
| (4) Non investment Net Cashflow     | (4,913,838)    | (3,104,227)    | (3,360,602)    |
| (5) Expected Income (7.5%)          | 9,424,300      | 9,509,632      | 9,819,569      |
| (6) Actual Income                   | 4,060,328      | 8,949,045      | 13,057,818     |
| (7) Gain/(loss)                     | (5,363,972)    | (560,587)      | 3,238,249      |
| <b>(8) Recognized Income</b>        |                |                |                |
| (a) Expected                        | 9,424,300      | 9,509,632      | 9,819,569      |
| (b) Current Year's base             | (1,340,993)    | (140,146)      | 809,562        |
| (c) 1 year ago                      | (1,391,217)    | (1,340,993)    | (140,146)      |
| (d) 2 years ago                     | 725,312        | (1,391,217)    | (1,340,993)    |
| (e) 3 years ago                     | (2,254,250)    | 725,312        | (1,391,217)    |
| (f) Total Income Recognized         | 5,163,152      | 7,362,588      | 7,756,775      |
| <b>End of Year Values</b>           |                |                |                |
| (9) Cost Value                      | 117,805,743    | 127,547,831    | 130,423,543    |
| (10) Market Value                   | 122,239,045    | 128,083,863    | 137,781,079    |
| (11) Funding Value (3) + (4) + (8f) | 128,319,145    | 132,577,506    | 136,973,679    |
| (12) Funding Value / MV             | 105.0 %        | 103.5 %        | 99.4 %         |
| (13) Net Return on Funding Value    | 4.11%          | 5.81%          | 5.93%          |
| (14) Net Return on Market Value     | 3.37%          | 7.42%          | 10.33%         |

## Section B



Disclosures and Supplementary Information  
Required by Statements No. 25 and No. 27  
of the Governmental Accounting Standards Board

**REQUIRED SUPPLEMENTARY INFORMATION  
ANALYSIS OF FUNDING PROGRESS**

| <b>Actuarial Valuation Date</b> | <b>(1)<br/>Actuarial Value of Assets</b> | <b>(2)<br/>Actuarial Accrued Liability (AAL)</b> | <b>(3)<br/>Percent Funded (1)/(2)</b> | <b>(4)<br/>Unfunded AAL (2) - (1)</b> | <b>(5)<br/>Payroll**</b> | <b>(6)<br/>Unfunded AAL as a Percentage of Covered Payroll (4)/(5)</b> |
|---------------------------------|--|--|---------------------------------------|---------------------------------------|--------------------------|--|
| 8/31/94                         | \$ 83,307,827                            | \$ 70,517,314                                    | 118.1 %                               | \$(12,790,513)                        | \$17,698,377             | (72.3)%  |
| 8/31/95                         | 92,235,349                               | 79,202,449                                       | 116.5 %                               | (13,032,900)                          | 18,561,302               | (70.2)%  |
| 8/31/96                         | 94,347,990                               | 81,583,068                                       | 115.6 %                               | (12,764,922)                          | 19,224,719               | (66.4)%  |
| 8/31/97                         | 101,475,648                              | 91,022,617                                       | 111.5 %                               | (10,453,031)                          | 20,908,549               | (50.0)%  |
| 8/31/98                         | 109,213,474                              | 94,847,667                                       | 115.1 %                               | (14,365,807)                          | 21,860,493               | (65.7)%  |
| 8/31/99                         | 113,902,477                              | 104,691,766                                      | 108.8 %                               | (9,210,711)                           | 23,611,284               | (39.0)%  |
| 8/31/00                         | 121,404,314                              | 115,671,249                                      | 105.0 %                               | (5,733,065)                           | 25,808,088               | (22.2)%  |
| 8/31/01                         | 128,069,831                              | 122,660,542                                      | 104.4 %                               | (5,409,289)                           | 28,215,685               | (19.2)%  |
| 8/31/02                         | 128,319,145                              | 130,875,473                                      | 98.0 %                                | 2,556,328                             | 26,606,881               | 9.6 %  |
| 8/31/03                         | 132,577,506                              | 137,507,824                                      | 96.4 %                                | 4,930,318                             | 27,415,330               | 18.0 %   |
| <b>8/31/04</b>                  | <b>136,973,679</b>                       | <b>144,178,758</b>                               | <b>95.0 %</b>                         | <b>7,205,079</b>                      | <b>28,124,862</b>        | <b>25.6 %</b>  |

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| <b>Fiscal Year Beginning Sept. 1</b> | <b>Actuarial Valuation Date</b> | <b>Annual Required Contribution*</b> |
|--------------------------------------|---------------------------------|--------------------------------------|
| 1995                                 | 8/31/94                         | \$ 695,015                           |
| 1996                                 | 8/31/95                         | 545,702                              |
| 1997                                 | 8/31/96                         | 530,891                              |
| 1998                                 | 8/31/97                         | 961,584                              |
| 1999                                 | 8/31/98                         | 91,814                               |
| 2000                                 | 8/31/99                         | 820,610                              |
| 2001                                 | 8/31/00                         | 1,877,926                            |
| 2002                                 | 8/31/01                         | 2,233,836                            |
| 2003                                 | 8/31/02                         | 3,297,577                            |
| 2004                                 | 8/31/03                         | 3,684,264                            |
| <b>2005</b>                          | <b>8/31/04</b>                  | <b>4,077,037</b>                     |

\* Computed dollar contribution is equal to the contribution percent times the valuation payroll (item (5)) projected to the appropriate fiscal year. The current projection factor is based on pay increases of 4.5% per year. The employer contribution rate as of 8/31/02 & beyond is based on a 10 year amortization of the UAAL.

\*\* Non-DROP payroll in 2002 and later.

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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

|                             |                               |
|-----------------------------|-------------------------------|
| Valuation date:             | August 31, 2004               |
| Actuarial Cost Method:      | Entry Age                     |
| Amortization method:        | 10 years, level percent, open |
| Asset valuation method:     | 4 year smoothed market        |
| Actuarial assumptions:      |                               |
| Investment rate of return   | 7.50%                         |
| Projected salary increases* | 4.5% - 8.5%                   |
| *Includes wage inflation at | 4.50%                         |
| Cost-of-living adjustments  | none                          |

Membership data as of August 31, 2004 is provided in Section D of this report.

## MEMBERSHIP DATA - AUGUST 31, 2004

### *Active Members – Not Participating in DROP*

Tabulated by Valuation Divisions

| Valuation Division | No.        | Employee Percent | Annual Payroll      | Average Age | Average Service | Average Pay     |
|--------------------|------------|------------------|---------------------|-------------|-----------------|-----------------|
| Police             |            |                  |                     |             |                 |                 |
| - Old Plan         | 3          | 7.6              | \$ 163,606          | 37.8        | 11.1            | \$54,535        |
| - Plan A           | 207        | 8.0              | 10,237,925          | 34.6        | 9.2             | 49,459          |
| - Plan B           | 48         | 7.6              | 2,716,047           | 41.0        | 15.4            | 56,584          |
| - Plan C           | 29         | 7.0              | 1,779,151           | 51.7        | 29.4            | 61,350          |
| Fire               |            |                  |                     |             |                 |                 |
| - Plan A           | 132        | 8.0              | 6,472,557           | 36.0        | 7.4             | 49,035          |
| - Plan B           | 114        | 7.6              | 6,755,576           | 45.5        | 18.9            | 59,259          |
| <b>Total</b>       | <b>533</b> |                  | <b>\$28,124,862</b> | <b>38.8</b> | <b>12.5</b>     | <b>\$52,767</b> |

### DROP Members

| Number | Annual Benefit |
|--------|----------------|
| 70     | \$2,090,519    |

Annual additions to DROP account shown above do not include annuity withdrawal payments

### *Retirants and Beneficiaries*

Tabulated by Type of Benefit

| Age & Service |                | Disability |                | Survivor Beneficiaries |                | Total |                |
|---------------|----------------|------------|----------------|------------------------|----------------|-------|----------------|
| No.           | Annual Benefit | No.        | Annual Benefit | No.                    | Annual Benefit | No.   | Annual Benefit |
| 233           | \$3,392,483    | 34         | \$452,575      | 49                     | \$429,873      | 316   | \$4,274,931    |

### *Deferred Vested Members*

| No. | Estimated Annual Benefit |
|-----|--------------------------|
| 25  | \$143,921                |

## DEVELOPMENT OF ANNUAL PENSION COST AND NET PENSION OBLIGATION

| (A)         | (B)       | (C)                               | (D)         | (E)         | (F)        | (H)                      | (I)        | (J)            |
|-------------|-----------|-----------------------------------|-------------|-------------|------------|--------------------------|------------|----------------|
| Fiscal year |           | ARC                               | Interest on | ARC         | Pension    | Actual reported          | Change in  | NPO            |
| Beginning   | Ending    | (Annual Required<br>Contribution) | NPO         | Adjustment  | Cost       | Employer<br>contribution | NPO        | Balance        |
|             |           |                                   |             | (C)+(D)-(E) |            | (F)-(H)                  |            | Sum of col (I) |
| 9/1/1993    | 8/31/1994 | \$ 580,796                        | -           | -           | \$ 580,796 | \$ 388,813               | \$ 191,983 | \$ 191,983     |
| 9/1/1994    | 8/31/1995 | -                                 | \$ 13,439   | \$ 19,801   | (6,362)    | 400,022                  | (406,384)  | (214,401)      |
| 9/1/1995    | 8/31/1996 | 695,015                           | (15,008)    | (24,103)    | 704,110    | 419,583                  | 284,527    | 70,126         |
| 9/1/1996    | 8/31/1997 | 545,702                           | 4,909       | 8,680       | 541,931    | 430,884                  | 111,047    | 181,173        |
| 9/1/1997    | 8/31/1998 | 530,891                           | 12,682      | 24,997      | 518,576    | 491,945                  | 26,631     | 207,804        |
| 9/1/1998    | 8/31/1999 | 961,584                           | 14,546      | 32,467      | 943,663    | 908,234                  | 35,429     | 243,233        |
| 9/1/1999    | 8/31/2000 | 91,814                            | 17,026      | 43,928      | 64,912     | 941,282                  | (876,370)  | (633,137)      |
| 9/1/2000    | 8/31/2001 | 820,610                           | (44,320)    | (137,510)   | 913,800    | 1,111,434                | (197,634)  | (830,771)      |
| 9/1/2001    | 8/31/2002 | 1,877,926                         | (62,308)    | (180,434)   | 1,996,052  | 1,541,649                | 454,403    | (376,368)      |
| 9/1/2002    | 8/31/2003 | 2,233,836                         | (28,228)    | (81,743)    | 2,287,351  | 1,780,604                | 506,747    | 130,379        |
| 9/1/2003    | 8/31/2004 | 3,297,577                         | 9,778       | 15,300      | 3,292,055  | 1,991,672                | 1,300,383  | 1,430,762      |

NPO: Net Pension Obligation (Asset)

## Section C



### Valuation Analysis, Comments and DROP Provisions

## DERIVATION OF ACTUARIAL GAIN (LOSS) YEAR ENDED AUGUST 31, 2004

The actuarial gains or losses realized in the operation of the Pension Fund provide an experience test. Gains and losses are expected to cancel each other over a period of years (in the absence of double-digit inflation) and sizable year to year fluctuations are common. Detail on the derivation of the actuarial gain (loss) is shown below, along with a year by year comparative schedule.

|   |             |
|---|-------------|
| (1) UAAL* last valuation  | \$4,930,318 |
| (2) Total normal cost   | 5,208,724   |
| (3) Actual employer and employee contributions  | 3,811,327   |
| (4) Interest accrual at 7.5%  | 422,176     |
| (5) Expected UAAL before changes<br>(1) + (2) - (3) + (4)   | 6,749,891   |
| (6) Increase from benefit changes   | 0           |
| (7) Increase from revised actuarial assumptions<br>and methods                                    | 0           |
| (8) Expected UAAL after changes   | 6,749,891   |
| (9) Actual UAAL this valuation  | 7,205,079   |
| (10) Gain (loss) (8) - (9)  | (455,188)   |
| (11) Gain (loss) as percent of actuarial accrued<br>liabilities at start of year (\$137,507,824). | (0.3%)      |

| Valuation<br>Date | Actuarial Gain (Loss)<br>As % of Beginning<br>Accrued Liabilities |
|-------------------|---|
| Aug. 31, 1994     | (8.4)%  |
| Aug. 31, 1995     | 5.2 %   |
| Aug. 31, 1996     | 1.0 %   |
| Aug. 31, 1997     | (0.5)%  |
| Aug. 31, 1998     | 5.9 %   |
| Aug. 31, 1999     | (10.9)%   |
| Aug. 31, 2000     | (1.9)%  |
| Aug. 31, 2001     | 1.3 %   |
| Aug. 31, 2002     | (5.3)%  |
| Aug. 31, 2003     | (0.5)%  |
| Aug. 31, 2004     | (0.3)%  |

**ACTUARIAL ACCRUED LIABILITIES & VALUATION ASSETS  
COMPARATIVE STATEMENT - \$ AMOUNTS IN THOUSANDS)**

| <b>Valuation Date</b> | <b>Accrued Liability (AAL)</b> | <b>Valuation Assets</b> | <b>Unfunded Actuarial Accrued Liability(UAAL)</b> | <b>Actuarial Valuation Assets To AAL</b> | <b>Ratio of UAAL to Valuation Payroll</b> |
|-----------------------|--------------------------------|-------------------------|---|--|---|
| Dec. 31, 1982         | \$ 28,528                      | \$ 25,307               | \$ 3,221  | 89 %                                     | 31 %                                      |
| Dec. 31, 1983#        | 31,113                         | 29,718                  | 1,395   | 96 %                                     | 13 %                                      |
| Dec. 31, 1984         | 33,651                         | 34,318                  | (667)   | 102 %                                    | -   |
| Dec. 31, 1985         | 37,083                         | 39,895                  | (2,812)   | 108 %                                    | -   |
| Dec. 31, 1986         | 41,016                         | 44,671                  | (3,655)   | 109 %                                    | -   |
| Dec. 31, 1987         | 46,239                         | 50,417                  | (4,178)   | 109 %                                    | -   |
| Dec. 31, 1988         | 50,820                         | 55,693                  | (4,873)   | 110 %                                    | -   |
| Dec. 31, 1989         | 54,676                         | 61,144                  | (6,468)   | 112 %                                    | -   |
| Dec. 31, 1990#@       | 55,127                         | 66,511                  | (11,384)  | 121 %                                    | -   |
| Aug. 31, 1991#        | 59,149                         | 68,390                  | (9,241)   | 116 %                                    | -   |
| Aug. 31, 1992@        | 63,407                         | 77,980                  | (14,573)  | 123 %                                    | -   |
| Aug. 31, 1993         | 67,910                         | 86,583                  | (18,673)  | 127 %                                    | -   |
| Aug. 31, 1994         | 70,517                         | 83,308                  | (12,791)  | 118 %                                    | -   |
| Aug. 31, 1995#        | 79,202                         | 92,235                  | (13,033)  | 116 %                                    | -   |
| Aug. 31, 1996         | 81,583                         | 94,348                  | (12,765)  | 116 %                                    | -   |
| Aug. 31, 1997*        | 94,848                         | 109,213                 | (14,365)  | 115 %                                    | -   |
| Aug. 31, 1998         | 105,505                        | 108,379                 | (2,874)   | 103 %                                    | -   |
| Aug. 31, 1999#@       | 104,692                        | 113,902                 | (9,210)   | 109 %                                    | -   |
| Aug. 31, 2000         | 115,671                        | 121,404                 | (5,733)   | 105 %                                    | -   |
| Aug. 31, 2001         | 122,661                        | 128,070                 | (5,409)   | 104 %                                    | -   |
| Aug. 31, 2002#@       | 130,875                        | 128,319                 | 2,556   | 98 %                                     | 10 %                                      |
| Aug. 31, 2003         | 137,508                        | 132,578                 | 4,930   | 96 %                                     | 18 %                                      |
| <b>Aug. 31, 2004</b>  | <b>144,179</b>                 | <b>136,974</b>          | <b>7,205</b>                                      | <b>95 %</b>                              | <b>26 %</b>                               |

# After changes in benefit provisions.

@ After changes in actuarial assumptions or methods.

\* After inclusion of "old" plan.

**Two tests** of funding progress based on the relationship between valuation assets and actuarial accrued liabilities are shown above. These tests are, however, dependent upon the actuarial cost method.

**The Ratio of Valuation Assets to Actuarial Accrued Liabilities** is a traditional measure of a system's funding progress. Except in years when the benefit provisions are amended or actuarial assumptions are revised, the ratio can be expected to gradually tend toward 100%, assuming computed contribution amounts are received by the plan.

**The Ratio of Unfunded Actuarial Accrued Liabilities to Valuation Payroll** is another relative index of condition. In an inflationary economy, the value of dollars is decreasing. This environment results in employee pays increasing in dollar amounts, retirement benefits increasing in dollar amounts, and then, unfunded actuarial accrued liabilities increasing in dollar amounts - all at a time when the actual substance of these items may be decreasing. When looking at dollar amounts, the effects of inflation can hide the actual funding progress from year to year. Unfunded actuarial accrued liabilities dollars divided by active employee payroll dollars provides an index which attempts to eliminate the misleading effects of inflation. The smaller the ratio of unfunded liabilities to active member payroll, the stronger the system. Observation of this relative index over a period of years will give an indication of whether the system is becoming financially stronger or weaker.

## COMMENTS

### **COST-OF-LIVING ADJUSTMENTS**

Effective October 1992 the Pension Fund Ordinance provides for cost-of-living (COLA) benefits to pensioners. The source of funding for the COLA benefits is not guaranteed. It is not clear if the payment of COLA is guaranteed, only that the funding of COLA is not. The City has chosen not to pre-fund this benefit. Therefore, COLA benefits and the corresponding pool of assets were not included in this valuation of the Retirement System or in the determination of the employer contribution.

### **EXPERIENCE DURING YEAR**

The aggregate experience of the retirement system was less favorable than assumed during the year ended August 31, 2003 resulting in a net experience loss of \$455,188. Although the rate of return on fund assets (10.33%) exceeded the assumed rate (7.5%), the funding value return did not. This is due to the recognition of unfavorable investment experience during the 2002-2003, 2001-2002, 2000-2001 plan years. The unfavorable investment experience was offset in part by lower than expected pay increases.

### **EMPLOYER CONTRIBUTIONS**

The employer contributions to the System during the 2003-2004 plan year were lower than recommended. In general, reduced contributions during a given year automatically increase the need for future employer contributions.

### **LEVEL FUNDING AND THE DROP**

It is important to note, that the City contribution rates (expressed as percents of payroll) shown in this report are not expected to remain level during the early years of the DROP. While this will not impact the normal cost percent component of the contribution rate, it is expected to affect the UAL component. This is due to the expected decline in non-DROP payroll over the next few years, followed by a period of stability then increasing pay. Spreading System liabilities over a declining active member payroll results in higher percent of pay City contribution rates for UAL temporarily, until there is a balance between DROP members and active members. However, the dollar contribution required to pay off the unfunded accrued liability (UAL) is expected to increase with wage inflation.

## COMMENTS (CONTINUED)

### PLAN CHANGES

There were no plan changes reported to the actuary in connection with the August 31, 2004 valuation of the plan.

### OTHER

The City has directed the actuary to use a ten year amortization (open) of past service liabilities in developing the employer contribution requirements for the current and future actuarial valuations of the System. For consistency with prior reports, employer contribution rates were developed using both 5 and 25 year amortization periods. These rates are shown below:

| <b>Employer Contribution Rates Expressed as % 's of Payroll Under Alternate Amortization Periods</b> |                |
|--|----------------|
| <b>For Fiscal Year Beginning September 1,</b>  |                |
| <b>2005</b>  |                |
| <b>5 YEAR AMORTIZATION OF UAAL</b>   | <b>16.01 %</b> |
| <b>25 YEAR AMORTIZATION OF UAAL</b>  | <b>12.13 %</b> |

Note: Contribution rates are expressed as percentages of active member payroll. This payroll does not include pay for active members participating in the DROP.

## Section D



Summary of Benefit Provisions  
and Valuation Data Submitted  
by the Pension Fund

# **SUMMARY OF BENEFIT PROVISIONS EVALUATED AND/OR CONSIDERED (AUGUST 31, 2004)**

## **Normal Retirement**

### ***Eligibility.***

Plan A: Attained age 50.

Others: Attained age 53.

### ***Amount.***

Plan A members: Member receives a pension equal to 2.56% of regular pay times years of service up to 25 years. (Maximum pension is 64% of regular pay).

Others: 1) A member with 21 or more years of service shall receive a pension equal to 58% (Plan B) or 54% (Plan C) of regular pay, plus 2% of regular pay for each year of service rendered after becoming eligible for retirement, to a maximum increase of 10% of regular pay.

2) A member with less than 21 years service shall receive a pension equal to 58% (Plan B) or 54% (Plan C) of regular pay times the ratio of a) his number of years of service, to b) 21 years.

Minimum annual benefit is \$3,600 (not applicable to children recipients).

## **Regular Pay**

The average base pay of a member during the 26 consecutive pay periods preceding retirement or death.

## **Early Retirement**

***Eligibility.*** Attained age 50 and 21 years of service.

Plan A members: Member receives a pension equal to 2.56% of regular pay times the ratio of years of service up to 25 years.

Others: 1) A member with 21 or more years of service shall receive a pension equal to 52% (Plan B) or 48% (Plan C) of regular pay, plus 2% of regular pay for each year of service rendered after becoming eligible for early retirement, to a maximum of 6%.

2) A member with less than 21 years of service shall receive a pension equal to 58% (Plan B) or 54% (Plan C) of regular pay times that ratio of (a) his number of years of service, to (b) 21 years.

## **SUMMARY OF BENEFIT PROVISIONS EVALUATED AND/OR CONSIDERED**

### **Vested (Deferred) Retirement**

**Eligibility.** Termination of employment after 10 or more years of service. Benefit commences at age 53 (age 50 for Plan A members), actuarially reduced benefit available at age 50.

**Amount.**

Plan A members: A pension equal to 2.56% of regular pay times years of service up to 25 years.

Others: A pension equal to 54% or 58% of regular pay at termination times the ratio of the number of years of service divided by 21 years (ratio shall not exceed one).

A member terminating employment prior to age 50 and after 10 or more years of service has the option to withdraw his accumulated contributions and receive a reduced pension at age 53 (reduced to reflect withdrawal of contributions).

### **Duty Death or Duty Disability Resulting In Death**

**Eligibility.** Active member dies in the line of duty or as a result of injuries received while in the line of duty.

**Amount.** (1) If a member dies prior to becoming eligible for a normal retirement, the member's surviving spouse receives a pension equal to 54% or 58% of his regular pay. Upon the spouse's remarriage or death, the pension is payable to any dependent children until 19 years of age.

(2) If a member dies after becoming eligible for a normal retirement, his designated beneficiary receives a pension equal to Option A (joint and 100% survivor actuarial equivalent benefit) which would have been payable had the deceased member retired and elected Option A.

The above amounts are subject to deduction of the amount received from worker's compensation.

### **Non-Duty Death**

**Eligibility.** Attained age 50 and 21 years of service.

**Amount.** A designated beneficiary shall receive a pension equal to the pension which would have been payable had the member retired the day prior to his death and elected Option A, except that the early retirement actuarial reduction shall not be applied.

## **DROP PROGRAM SUMMARY OF PROVISIONS**

### **DROP: Deferred Retirement Option Plan**

#### **Eligibility for the DROP**

- Members of Plans B and C may join the DROP within 1 year of becoming eligible for Normal retirement benefits as described in the Summary of benefit provisions in this report
- Grandfather provision allows members of Plans B and C who were eligible to retire on the date of DROP implementation, a one time opportunity to join the DROP.
- Members of Plan A may join the DROP at any time after meeting the eligibility conditions for Normal retirement as described in the Summary of benefit provisions in this report

#### **DROP benefits**

- 100% of the member's accrued benefit at the time of DROP will be contributed to the member's DROP account.
- If the member elects annuity withdrawal (available to members of Plans B and C) the lump sum payment and corresponding reduced annuity will be credited to the member's DROP account.

#### **DROP funding Period**

- Both the City and the employee will contribute (in accordance with the provisions of each Plan) to the System until the employee enters the DROP.

#### **DROP Period**

- Maximum of 5 years.

The rates of retirement /DROP are shown in Section E of this report.

# SUMMARY OF BENEFIT PROVISIONS EVALUATED AND/OR CONSIDERED

## Duty Disability

**Eligibility.** An active member becomes totally and permanently disabled from performing their duty resulting from a cause occurring while in the line of duty.

**Amount.** Plan A: 58% of regular pay.

Plans B & C: A pension equal to 54% or 58% of regular pay respectively, plus 2% of regular pay for each year of service rendered after becoming eligible for retirement, to a maximum increase of 10% of regular pay. Such pension shall continue after the member's death to the member's surviving spouse, minor children or designated Option A beneficiary (a reduced amount in this case).

The above amounts are subject to deduction of the amount received from worker's compensation.

## Non-Duty Disability

**Eligibility.** An active member becomes totally and permanently disabled while not in the line of duty.

**Amount.** A pension equal to the following percent of regular pay:

- (i) 21% or 23%; if 5 or more, but less than 10 years of service
- (ii) 36% or 39%; if 10 or more, but less than 15 years of service
- (iii) 49% or 53%; if 15 or more years of service.

(Plans A & B are eligible for higher amounts. Plan C is eligible for lower amount.)

If death results from such disability, the pension shall be paid to the member's surviving spouse until the spouse's death or remarriage, or a reduced pension will be paid to a designated beneficiary.

## Death After Retirement

Plan A members receive a death benefit after retirement equal to the member's accumulated contributions multiplied by the ratio of the number of expected payments **not** received to the number of expected payments (the ratio cannot be less than zero)\*.

## Employee Contributions

Plan A members: 8% of pay

Plan B members: 7.6% of pay

Plan C members: 7.0% of pay

Upon attaining 21 years of service member contributions are discontinued for Plan B and Plan C members. Plan C members are eligible for the lower benefit formula.

**RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS  
COMPARATIVE STATEMENT**

| Year Ended           | Added to Rolls |                 |                     | Removed from Rolls |                 | Rolls End of Year |                  | % Incr. Annual Benefits | Average Annual Benefit | Present Value of Benefits |
|----------------------|----------------|-----------------|---------------------|--------------------|-----------------|-------------------|------------------|-------------------------|------------------------|---------------------------|
|                      | No.            | Annual Benefits | Post-Ret. Increases | No.                | Annual Benefits | No.               | Annual Benefits  |                         |                        |                           |
| Dec. 31, 1979        | 7              | \$ 51,675       |                     | 1                  | \$ 2,400        | 71                | \$ 324,825       | 17.9%                   | \$ 4,575               | \$ 4,001,743              |
| Dec. 31, 1980        | 3              | 19,286          |                     | 2                  | 7,805           | 72                | 336,306          | 3.5%                    | 4,671                  | 3,811,286                 |
| Dec. 31, 1981        | 7              | 42,675          | 31,587              | 3                  | 7,427           | 76                | 403,141          | 19.9%                   | 5,304                  | 4,523,474                 |
| Dec. 31, 1982        | 8              | 84,321          |                     | 2                  | 9,043           | 82                | 478,419          | 18.7%                   | 5,834                  | 5,388,863                 |
| Dec. 31, 1983        | 3              | 21,512          |                     | 4                  | 17,233          | 81                | 482,698          | 0.9%                    | 5,959                  | 5,441,308                 |
| Dec. 31, 1984        | 6              | 75,732          |                     | 1                  | 3,600           | 86                | 554,830          | 14.9%                   | 6,452                  | 6,207,571                 |
| Dec. 31, 1985        | 12             | 102,224         |                     | 6                  | 26,240          | 92                | 630,814          | 13.7%                   | 6,857                  | 7,149,782                 |
| Dec. 31, 1986        | 8              | 89,719          |                     | 2                  | 4,810           | 98                | 715,723          | 13.5%                   | 7,303                  | 8,178,384                 |
| Dec. 31, 1987        | 12             | 123,986         |                     | 4                  | 21,530          | 106               | 818,178          | 14.3%                   | 7,719                  | 9,356,423                 |
| Dec. 31, 1988        | 6              | 109,203         |                     | 2                  | 11,578          | 110               | 915,803          | 11.9%                   | 8,325                  | 10,559,713                |
| Dec. 31, 1989        | 7              | 114,257         |                     | 3                  | 10,800          | 114               | 1,019,260        | 11.3%                   | 8,941                  | 11,561,345                |
| Dec. 31, 1990        | 11             | 116,420         |                     | 3                  | 19,220          | 122               | 1,116,460        | 9.5%                    | 9,151                  | 11,481,585                |
| Aug. 31, 1991        | 22 #           | 308,940         | 42,470              | 2                  | 7,200           | 142               | 1,460,670        | 30.8%                   | 10,286                 | 15,153,964                |
| Aug. 31, 1992        | 16             | 221,944         |                     | 1                  | 3,816           | 157               | 1,678,798        | 14.9%                   | 10,693                 | 17,476,101                |
| Aug. 31, 1993        | 17             | 219,974         |                     | 1                  | 10,698          | 173               | 1,888,074        | 12.5%                   | 10,914                 | 19,587,219                |
| Aug. 31, 1994        | 16             | 218,777         |                     | 4                  | 17,829          | 185               | 2,089,022        | 10.6%                   | 11,292                 | 21,626,088                |
| Aug. 31, 1995        | 16             | 211,219         |                     | 4                  | 37,158          | 197               | 2,263,083        | 8.3%                    | 11,488                 | 23,460,016                |
| Aug. 31, 1996        | 8              | 149,099         |                     | 2                  | 16,566          | 203               | 2,395,616        | 5.9%                    | 11,801                 | 24,485,902                |
| Aug. 31, 1997        | 73 ##          | 590,041         |                     | 4                  | 56,890          | 272               | 3,042,547        | 27.0%                   | 11,186                 | 30,106,928                |
| Aug. 31, 1998        | 10             | 155,262         |                     | 11                 | 71,670          | 271               | 3,126,139        | 2.7%                    | 11,536                 | 30,772,934                |
| Aug. 31, 1999        | 23             | 414,130         |                     | 1                  | 22,889          | 293               | 3,517,380        | 12.5%                   | 12,005                 | 34,485,300                |
| Aug. 31, 2000        | 17             | 335,244         |                     | 7                  | 62,014          | 303               | 3,790,610        | 7.8%                    | 12,510                 | 36,997,867                |
| Aug. 31, 2001        | 14             | 225,737         |                     | 16                 | 105,022         | 301               | 3,911,325        | 3.2%                    | 12,994                 | 38,221,508                |
| Aug. 31, 2002        | 18             | 278,160         |                     | 14                 | 115,340         | 305               | 4,074,145        | 4.2%                    | 13,358                 | 39,561,174                |
| Aug. 31, 2003        | 15             | 219,569         |                     | 11                 | 119,499         | 309               | 4,174,215        | 2.5%                    | 13,509                 | 40,114,979                |
| <b>Aug. 31, 2004</b> | <b>12</b>      | <b>175,551</b>  |                     | <b>5</b>           | <b>74,835</b>   | <b>316</b>        | <b>4,274,931</b> | <b>2.4%</b>             | <b>13,528</b>          | <b>40,674,227</b>         |

\* Not available.

# Includes one member not previously reported.

## Includes the addition of "old plan" members.

**DROP MEMBERS - BY ATTAINED AGES  
AUGUST 31, 2004**

| Attained<br>Ages | No.       | DROP<br>Annual Benefits |
|------------------|-----------|-------------------------|
| 50               | 5         | \$ 176,724              |
| 51               | 3         | 93,224                  |
| 52               | 7         | 241,863                 |
| 53               | 8         | 213,597                 |
| 54               | 5         | 127,542                 |
| 55               | 6         | 181,923                 |
| 56               | 5         | 156,537                 |
| 57               | 6         | 171,987                 |
| 58               | 5         | 157,216                 |
| 59               | 6         | 169,807                 |
| 60               | 4         | 132,952                 |
| 61               | 3         | 76,849                  |
| 62               | 1         | 22,593                  |
| 63               | 1         | 30,610                  |
| 64               | 3         | 81,651                  |
| 65               | 2         | 55,444                  |
| <b>Total</b>     | <b>70</b> | <b>\$2,090,519</b>      |

**RETIRANTS AND BENEFICIARIES - BY ATTAINED AGES**  
**AUGUST 31, 2004**

| Attained<br>Ages | Age and Service<br>Retirants |                    | Disability<br>Retirants |                    | Survivor<br>Beneficiaries |                    |
|------------------|------------------------------|--------------------|-------------------------|--------------------|---------------------------|--------------------|
|                  | No.                          | Annual<br>Benefits | No.                     | Annual<br>Benefits | No.                       | Annual<br>Benefits |
| 32               |                              |                    | 1                       | \$ 17,513          |                           |                    |
| 35               |                              |                    | 1                       | 23,448             |                           |                    |
| 39               |                              |                    | 1                       | 9,812              |                           |                    |
| 43               |                              |                    | 1                       | 18,177             |                           |                    |
| 45               |                              |                    | 1                       | 28,524             |                           |                    |
| 47               |                              |                    | 2                       | 42,793             |                           |                    |
| 49               |                              |                    | 1                       | 14,074             |                           |                    |
| 50               | 5                            | \$ 72,973          |                         |                    | 1                         | \$ 14,665          |
| 51               | 3                            | 42,379             | 3                       | 38,979             |                           |                    |
| 52               | 3                            | 79,762             | 1                       | 14,205             | 1                         | 8,486              |
| 53               | 4                            | 24,950             |                         |                    | 1                         | 15,127             |
| 54               | 10                           | 188,753            | 1                       | 14,065             | 1                         | 32,575             |
| 55               | 12                           | 175,116            |                         |                    | 1                         | 20,833             |
| 56               | 7                            | 91,332             | 1                       | 13,280             | 2                         | 56,817             |
| 57               | 13                           | 141,575            | 1                       | 13,063             |                           |                    |
| 58               | 4                            | 52,760             |                         |                    |                           |                    |
| 59               | 13                           | 200,642            | 1                       | 4,014              |                           |                    |
| 60               | 8                            | 132,589            | 2                       | 24,383             | 1                         | 12,029             |
| 61               | 12                           | 204,009            | 3                       | 30,520             | 1                         | 4,014              |
| 62               | 12                           | 199,223            |                         |                    |                           |                    |
| 63               | 9                            | 130,507            | 2                       | 25,380             |                           |                    |
| 64               | 13                           | 198,916            | 2                       | 29,871             |                           |                    |

(Concluded on next page)

**RETIRANTS AND BENEFICIARIES - BY ATTAINED AGES**  
**AUGUST 31, 2004**  
**(CONCLUDED)**

| Attained<br>Ages | Age and Service<br>Retirants |                    | Disability<br>Retirants |                    | Survivor<br>Beneficiaries |                    |
|------------------|------------------------------|--------------------|-------------------------|--------------------|---------------------------|--------------------|
|                  | No.                          | Annual<br>Benefits | No.                     | Annual<br>Benefits | No.                       | Annual<br>Benefits |
| 65               | 12                           | \$ 178,346         |                         |                    |                           |                    |
| 66               | 9                            | 155,894            |                         |                    | 4                         | \$ 54,431          |
| 67               | 11                           | 134,825            | 2                       | \$ 20,325          | 1                         | 13,265             |
| 68               | 16                           | 253,509            |                         |                    | 2                         | 25,678             |
| 69               | 4                            | 59,434             | 3                       | 23,108             |                           |                    |
| 70               | 6                            | 93,098             |                         |                    |                           |                    |
| 71               | 3                            | 46,374             |                         |                    |                           |                    |
| 72               | 4                            | 60,235             |                         |                    |                           |                    |
| 73               | 4                            | 55,532             | 3                       | 39,058             |                           |                    |
| 74               | 6                            | 78,283             |                         |                    | 2                         | 17,564             |
| 75               | 3                            | 57,981             |                         |                    |                           |                    |
| 76               | 3                            | 45,595             | 1                       | 7,983              |                           |                    |
| 77               | 7                            | 74,422             |                         |                    | 1                         | 4,868              |
| 78               | 1                            | 16,078             |                         |                    | 2                         | 17,880             |
| 79               | 6                            | 56,912             |                         |                    | 4                         | 16,791             |
| 80               | 2                            | 35,250             |                         |                    |                           |                    |
| 81               |                              |                    |                         |                    | 1                         | 4,032              |
| 82               |                              |                    |                         |                    | 1                         | 3,870              |
| 83               | 3                            | 27,826             |                         |                    | 1                         | 11,830             |
| 84               |                              |                    |                         |                    | 2                         | 12,580             |
| 85 and over      | 5                            | 27,403             |                         |                    | 19                        | 82,538             |
| <b>Total</b>     | <b>233</b>                   | <b>\$3,392,483</b> | <b>34</b>               | <b>\$452,575</b>   | <b>49</b>                 | <b>\$429,873</b>   |

**VESTED TERMINATED MEMBERS - BY ATTAINED AGES  
AUGUST 31, 2004**

| Attained<br>Ages | No.       | Estimated<br>Annual Benefits |
|------------------|-----------|------------------------------|
| 35               | 1         | \$ 4,481                     |
| 37               | 1         | 3,195                        |
| 38               | 2         | 4,631                        |
| 40               | 2         | 15,525                       |
| 41               | 2         | 3,564                        |
| 42               | 1         | 2,073                        |
| 43               | 1         | 4,775                        |
| 44               | 3         | 29,129                       |
| 45               | 2         | 33,805                       |
| 46               | 1         | 1,508                        |
| 47               | 1         | 11,236                       |
| 49               | 2         | 11,022                       |
| 50               | 1         | 7,796                        |
| 51               | 2         | 7,510                        |
| 52               | 1         | 2,531                        |
| 54               | 1         | 612                          |
| 55               | 1         | 528                          |
| <b>Total</b>     | <b>25</b> | <b>\$143,921</b>             |

## ACTIVE MEMBERS INCLUDED IN VALUATION

| Valuation Date | Active Members | Vested Term. Members | Valuation Payroll** | Average |         |          | % Increase |
|----------------|----------------|----------------------|---------------------|---------|---------|----------|------------|
|                |                |                      |                     | Age     | Service | Pay      |            |
| Dec. 31, 1985  | 470            | 13                   | \$11,265,219        | 38.3    | 13.6    | \$23,969 | 5.7 %      |
| Dec. 31, 1986  | 474            | 13                   | 11,737,859          | 38.7    | 14.0    | 24,763   | 3.3 %      |
| Dec. 31, 1987  | 484            | 16                   | 12,948,660          | 39.0    | 14.3    | 26,757   | 8.1 %      |
| Dec. 31, 1988  | 483            | 19                   | 12,937,333          | 39.5    | 14.7    | 26,785   | 0.1 %      |
| Dec. 31, 1989  | 496            | 24                   | 13,742,308          | 39.5    | 14.7    | 27,706   | 3.4 %      |
| Dec. 31, 1990  | 510            | 30                   | 15,014,896          | 39.6    | 14.7    | 29,441   | 6.3 %      |
| Aug. 31, 1991  | 490            | 36                   | 15,157,150          | 39.3    | 14.4    | 30,933   | 5.1 %      |
| Aug. 31, 1992  | 471            | 37                   | 15,364,976          | 40.0    | 15.0    | 32,622   | 5.5 %      |
| Aug. 31, 1993  | 516            | 38                   | 16,721,658          | 39.3    | 14.5    | 32,406   | (0.7)%     |
| Aug. 31, 1994  | 521            | 42                   | 17,698,377          | 39.0    | 13.4    | 33,970   | 4.8 %      |
| Aug. 31, 1995  | 526            | 41                   | 18,561,302          | 39.1    | 14.5    | 35,288   | 3.9 %      |
| Aug. 31, 1996  | 545            | 42                   | 19,224,719          | 39.1    | 14.3    | 35,275   | 0.0 %      |
| Aug. 31, 1997  | 549            | 43                   | 20,908,549          | 38.9    | 13.3    | 38,085   | 8.0 %      |
| Aug. 31, 1998  | 561            | 47                   | 21,860,493          | 38.8    | 13.2    | 38,967   | 2.3 %      |
| Aug. 31, 1999  | 545            | 48                   | 23,611,284          | 39.1    | 13.5    | 43,323   | 11.2 %     |
| Aug. 31, 2000  | 543            | 45                   | 25,808,088          | 39.5    | 13.8    | 47,529   | 9.7 %      |
| Aug. 31, 2001  | 584            | 41                   | 28,215,685          | 39.3    | 13.3    | 48,315   | 1.7 %      |
| Aug. 31, 2002  | 536            | 36                   | 26,606,881          | 38.4    | 12.3    | 49,640   | 2.7 %      |
| Aug. 31, 2003  | 535            | 31                   | 27,415,330          | 38.7    | 12.5    | 51,244   | 3.2 %      |
| Aug. 31, 2004  | 533            | 25                   | 28,124,862          | 38.8    | 12.5    | 52,767   | 3.0 %      |

## ADDITIONS TO AND REMOVALS FROM ACTIVE MEMBERSHIP ACTUAL AND EXPECTED NUMBERS

| Year Ended    | Number Added During Year |     | Normal Retirement* |      | Disability Retirement |     | Died In Service |     | Terminations |      | Active Members End of Year |
|---------------|--------------------------|-----|--------------------|------|-----------------------|-----|-----------------|-----|--------------|------|----------------------------|
|               | A                        | E   | A                  | E    | A                     | E   | A               | E   | A            | E    |                            |
| Dec. 31, 1990 | 36                       | 22  | 6                  | 3.2  | 1                     | 1.4 | 0               | 1.2 | 15           | 16.7 | 510                        |
| Aug. 31, 1991 | 13                       | 33  | 21                 | 10.5 | 0                     | 1.2 | 0               | 1.2 | 12           | 17.7 | 490                        |
| Aug. 31, 1992 | 0                        | 19  | 10                 | 8.3  | 2                     | 1.2 | 1               | 1.2 | 6            | 15.7 | 471                        |
| Aug. 31, 1993 | 63                       | 18  | 12                 | 8.2  | 2                     | 1.2 | 0               | 1.2 | 4            | 13.0 | 516                        |
| Aug. 31, 1994 | 38                       | 33  | 12                 | 8.6  | 2                     | 1.2 | 0               | 1.3 | 19           | 15.8 | 521                        |
| Aug. 31, 1995 | 26                       | 21  | 12                 | 7.9  | 0                     | 1.3 | 0               | 1.3 | 9            | 17.8 | 526                        |
| Aug. 31, 1996 | 34                       | 15  | 8                  | 9.2  | 0                     | 1.2 | 0               | 1.4 | 7            | 15.8 | 545                        |
| Aug. 31, 1997 | 31                       | 27  | 20                 | 8.3  | 0                     | 1.4 | 0               | 1.4 | 7            | 16.6 | 549                        |
| Aug. 31, 1998 | 42                       | 30  | 8                  | 8.1  | 0                     | 1.3 | 0               | 1.3 | 22           | 18.6 | 561                        |
| Aug. 31, 1999 | 23                       | 39  | 19                 | 9.4  | 1                     | 1.3 | 0               | 1.3 | 19           | 16.8 | 545                        |
| Aug. 31, 2000 | 29                       | 31  | 8                  | 12.5 | 0                     | 0.5 | 0               | 0.6 | 23           | 13.9 | 543                        |
| Aug. 31, 2001 | 61                       | 20  | 6                  | 14.3 | 3                     | 0.6 | 0               | 0.6 | 11           | 14.0 | 584                        |
| Aug. 31, 2002 | 21                       | 69  | 54                 | 15.7 | 0                     | 0.6 | 0               | 0.6 | 15           | 16.5 | 536                        |
| Aug. 31, 2003 | 21                       | 22  | 13                 | 11.1 | 0                     | 0.5 | 0               | 0.5 | 9            | 15.3 | 535                        |
| Aug. 31, 2004 | 28                       | 30  | 19                 | 12.4 | 0                     | 0.5 | 0               | 0.4 | 11           | 14.3 | 533                        |
| 5 Year Total  | 160                      | 172 | 100                | 66.0 | 3                     | 2.7 | 0               | 2.7 | 69           | 74.0 |                            |

*A* represents actual number. *E* represents expected number based on assumptions outlined in Section C.

\* Normal Retirements include DROP members beginning with August 31, 2002 valuation.

\*\* Reflects Non-DROP payroll in 2002 and later.

**ACTIVE POLICEMEN NOT PARTICIPATING IN DROP - AUGUST 31, 2004  
BY ATTAINED AGE AND YEARS OF SERVICE**

| Attained Age  | Years of Service to Valuation Date |           |           |           |           |           |           | Totals     |                     |
|---------------|------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|------------|---------------------|
|               | 0-4                                | 5-9       | 10-14     | 15-19     | 20-24     | 25-29     | 30 Plus   | No.        | Valuation Payroll   |
| 20-24         | 9                                  |           |           |           |           |           |           | 9          | \$ 351,037          |
| 25-29         | 42                                 | 10        |           |           |           |           |           | 52         | 2,166,904           |
| 30-34         | 22                                 | 36        | 4         |           |           |           |           | 62         | 2,868,952           |
| 35-39         | 2                                  | 14        | 43        | 4         |           |           |           | 63         | 3,394,173           |
| 40-44         | 3                                  | 1         | 10        | 13        | 4         |           |           | 31         | 1,713,522           |
| 45-49         | 1                                  |           | 2         | 5         | 19        | 7         | 3         | 37         | 2,233,903           |
| 50-54         |                                    |           |           | 1         | 2         | 15        | 9         | 27         | 1,752,012           |
| 55-59         |                                    |           |           |           |           | 1         | 4         | 5          | 351,501             |
| 61            |                                    |           |           |           |           |           | 1         | 1          | 64,725              |
| <b>Totals</b> | <b>79</b>                          | <b>61</b> | <b>59</b> | <b>23</b> | <b>25</b> | <b>23</b> | <b>17</b> | <b>287</b> | <b>\$14,896,729</b> |

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

Age:                   37.4 years  
Service:               12.3 years  
Annual Pay:           \$51,905

**ACTIVE FIREMEN NOT PARTICIPATING IN DROP - AUGUST 31, 2004  
BY ATTAINED AGE AND YEARS OF SERVICE**

| Attained Age  | Years of Service to Valuation Date |           |           |           |           |           |          | Totals     |                     |
|---------------|------------------------------------|-----------|-----------|-----------|-----------|-----------|----------|------------|---------------------|
|               | 0-4                                | 5-9       | 10-14     | 15-19     | 20-24     | 25-29     | 30 Plus  | No.        | Valuation Payroll   |
| 20-24         | 2                                  |           |           |           |           |           |          | 2          | \$ 78,590           |
| 25-29         | 20                                 | 1         |           |           |           |           |          | 21         | 853,503             |
| 30-34         | 20                                 | 21        | 3         |           |           |           |          | 44         | 2,145,560           |
| 35-39         | 8                                  | 15        | 17        | 4         |           |           |          | 44         | 2,312,267           |
| 40-44         | 7                                  | 6         | 23        | 12        | 1         |           |          | 49         | 2,648,922           |
| 45-49         | 2                                  | 3         | 8         | 11        | 16        | 9         |          | 49         | 2,888,688           |
| 50-54         |                                    | 1         | 5         | 4         | 8         | 12        | 5        | 35         | 2,160,557           |
| 55-59         |                                    |           |           |           |           |           | 2        | 2          | 140,046             |
| <b>Totals</b> | <b>59</b>                          | <b>47</b> | <b>56</b> | <b>31</b> | <b>25</b> | <b>21</b> | <b>7</b> | <b>246</b> | <b>\$13,228,133</b> |

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

Age:                   40.4 years  
Service:               12.7 years  
Annual Pay:         \$53,773

**ALL ACTIVE MEMBERS NOT PARTICIPATING IN DROP - AUGUST 31, 2004  
BY ATTAINED AGE AND YEARS OF SERVICE**

| Attained Age  | Years of Service to Valuation Date |            |            |           |           |           |           | Totals     |                     |
|---------------|------------------------------------|------------|------------|-----------|-----------|-----------|-----------|------------|---------------------|
|               | 0-4                                | 5-9        | 10-14      | 15-19     | 20-24     | 25-29     | 30 Plus   | No.        | Valuation Payroll   |
| 20-24         | 11                                 |            |            |           |           |           |           | 11         | \$ 429,627          |
| 25-29         | 62                                 | 11         |            |           |           |           |           | 73         | 3,020,407           |
| 30-34         | 42                                 | 57         | 7          |           |           |           |           | 106        | 5,014,512           |
| 35-39         | 10                                 | 29         | 60         | 8         |           |           |           | 107        | 5,706,440           |
| 40-44         | 10                                 | 7          | 33         | 25        | 5         |           |           | 80         | 4,362,444           |
| 45-49         | 3                                  | 3          | 10         | 16        | 35        | 16        | 3         | 86         | 5,122,591           |
| 50-54         |                                    | 1          | 5          | 5         | 10        | 27        | 14        | 62         | 3,912,569           |
| 55-59         |                                    |            |            |           |           | 1         | 6         | 7          | 491,547             |
| 60            |                                    |            |            |           |           |           | 1         | 1          | 64,725              |
| <b>Totals</b> | <b>138</b>                         | <b>108</b> | <b>115</b> | <b>54</b> | <b>50</b> | <b>44</b> | <b>24</b> | <b>533</b> | <b>\$28,124,862</b> |

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

Age: 38.8 years  
Service: 12.5 years  
Annual Pay: \$52,767

# FINANCIAL INFORMATION FURNISHED FOR THE ACTUARIAL VALUATION

## REPORTED MARKET VALUE OF ASSETS\* FOR THE YEAR ENDED AUGUST 31, 2004

Market Value of Assets, beginning of year \$138,332,637

### REVENUES

|                     |             |           |
|---------------------|-------------|-----------|
| Contributions from  |             |           |
| Members             | \$1,819,655 |           |
| Employer            | 1,796,401   |           |
| EMS                 | 195,271     |           |
| Total Contributions |             | 3,811,327 |

|  |           |               |
|--|-----------|---------------|
| Investment Income                            |           |               |
| Net Interest                                 | 1,416,582 |               |
| Net Dividends                                | 2,000,389 |               |
| Amortization of premiums and discounts       | (8,223)   |               |
| Realized Gain (loss) on sales of investments | 3,832,512 |               |
| Unrealized Gain (loss) on investments        | 6,782,985 |               |
| Other  | 105,130   |               |
| Total Investment Income                      |           | \$ 14,129,375 |

Total Revenues \$ 17,940,702

### EXPENDITURES

|                          |  |              |
|--------------------------|--|--------------|
| Retirement benefits paid |  |              |
| Base Pension             |  | \$ 4,503,403 |
| DROP Payments            |  | 2,711,431    |

|                                 |            |            |
|---------------------------------|------------|------------|
| Refunds of member contributions |            |            |
| Trustee-to-trustee transfer     | \$ 185,740 |            |
| Direct refund to employee       | 72,725     |            |
| Total Refunds                   |            | \$ 258,465 |

Administrative expenses 242,065

Investment expense 81,332

Change in Payables 2,549

Total Expenditures \$ 7,799,245

Market Value of Assets, end of year \$148,474,094

\* Includes COLA pool assets of \$10,693,015

## Section E



Financial Principles,  
Actuarial Valuation Process,  
Actuarial Cost Methods,  
Actuarial Assumptions, and  
Definitions of Technical Terms

## **BASIC FINANCIAL PRINCIPLES AND OPERATION OF THE PENSION FUND**

***Benefit Promises Made Which Must Be Paid For.*** A retirement program is an orderly means of handing out, keeping track of, and financing pension promises to a group of employees. As each member of the retirement program acquires a unit of service credit the member is, in effect, handed an "IOU" which reads: "The Pension Fund 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?

This Pension Fund addresses this question by having as its ***financial objective the establishment and receipt of 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 present value of future benefits assigned to members' 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).



## THE ACTUARIAL VALUATION PROCESS

*The financing diagram* on the previous page shows the relationship between the two fundamentally different philosophies of paying for retirement benefits: the method where contributions match cash benefit payments (or barely exceed cash benefit payments, as in the Federal Social Security program) which is an *increasing contribution method*; and the *level contribution method* which equalizes contributions between the generations.

---

*The actuarial valuation* is the mathematical process by which the level contribution rate is determined, and the flow of activity constituting the valuation may be summarized as follows:

A. *Covered Person Data*, furnished by plan administrator.

Retired lives now receiving benefits

Former employees with vested benefits not yet payable

Active employees

B. + *Asset data* (cash & investments), furnished by plan administrator

C. + *Assumptions concerning future financial experience in various risk areas*, which assumptions are established by the City Council after consulting with the actuary

D. + *The funding method* for employer contributions (the long-term, planned pattern for employer contributions)

E. + *Mathematically combining the assumptions, the funding method, and the data*

F. = **Determination of:**

Plan financial position

and/or New Employer Contribution Rate

## ACTUARIAL COST METHODS USED FOR THE VALUATION

Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

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

*Amortization of Unfunded Actuarial Accrued Liabilities.* Unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 10 years. Active member payroll was assumed to increase 4.5% a year for the purpose of determining the level percent contributions (please refer to the comments in Section C for important additional information).

## ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The actuary calculates contribution requirements and actuarial present values for a retirement plan by applying actuarial assumptions to the benefit provisions and people information of the plan, using the actuarial cost methods described on page E-4.

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

- (i) long-term rates of investment return to be generated by the assets of the plan
- (ii) patterns of pay increases to members
- (iii) rates of mortality among members, retirants and beneficiaries
- (iv) rates of withdrawal of active members
- (v) rates of disability among active members
- (vi) the age patterns of actual retirements.

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives - - - a period of time which can be as long as a century.

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The employer contribution rate has been computed to remain level from year to year so long as benefits and the basic experience and make-up of members do not change. Examples of favorable experience which would tend to reduce the employer contribution rate are:

- (1) Investment returns in excess of 7.5 percent per year.
- (2) Member non-vested terminations at a higher rate than outlined on page E-9.
- (3) Mortality among retirants and beneficiaries at a higher rate than indicated by the 1971 Group Annuity Mortality Table projected to the year 2000, setback 0 years for men and 5 years for women.
- (4) Increases in the number of active members.

## ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

Examples of unfavorable experience which would tend to increase the employer contribution rate are:

- (1) Pay increases in excess of the rates outlined on page E-7.
- (2) An increase in the rates of retirement (DROP) over the rates outlined on page E-10.
- (3) A pattern of hiring employees at older ages than in the past.

---

Actual experience of the plan will not coincide exactly with assumed experience, regardless of the choice of the assumptions, the skill of the actuary or the precision of the calculations. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time to time one or more of the assumptions is modified to reflect experience trends (but not random or temporary year to year fluctuations).

## ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

**Investment Return** (net of administrative expenses).

7.5% a year, compounded annually. This rate consists of a real rate of return of 3.0% a year plus a long-term rate of wage inflation of 4.5% a year.

This assumption is used to equate the value of payments due at different points in time. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below. Actual increases in average active member pay are also shown for comparative purposes.

|                           | Year Ended August 31, |       |       |       |       |        |
|---------------------------|-----------------------|-------|-------|-------|-------|--------|
|                           | 2004                  | 2003  | 2002  | 2001  | 2000  | 1999   |
| Rate of Investment Return | 5.9 %                 | 5.8 % | 4.1 % | 8.0 % | 9.2 % | 8.1 %  |
| Increase in Average Pay   | 3.0 %                 | 3.2 % | 2.7 % | 1.7 % | 9.7 % | 11.2 % |

The nominal rate of return was computed using the approximate formula  $i = I$  divided by  $1/2(A + B - I)$ , where  $I$  is actual investment income net of expenses and COLA Pool appropriation,  $A$  is the beginning of year asset value, and  $B$  is the end of year asset value.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems -- *to do so will mislead*.

**Pay Projections.** These assumptions are used to project current pays to those upon which benefits will be based. The assumptions were first used for the August 31, 2002 valuation.

| Sample<br>Ages | Annual Rate of Pay Increase for Sample |                     |       |
|----------------|--|---------------------|-------|
|                | Base<br>(Economic)                     | Merit and Longevity | Total |
| 20             | 4.5%                                   | 4.0%                | 8.5%  |
| 25             | 4.5%                                   | 3.3%                | 7.8%  |
| 30             | 4.5%                                   | 2.8%                | 7.3%  |
| 35             | 4.5%                                   | 2.5%                | 7.0%  |
| 40             | 4.5%                                   | 2.2%                | 6.7%  |
| 45             | 4.5%                                   | 1.8%                | 6.3%  |
| 50             | 4.5%                                   | 1.2%                | 5.7%  |
| 55             | 4.5%                                   | 0.7%                | 5.2%  |

**Pay Projections continued**

If the number of active members remains constant, the total active member payroll is eventually expected to increase by 4.5% annually, the base portion of the individual pay increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities. Please refer to page C-4 for important additional information.

Changes in average pay and total payroll actually experienced is shown below. After 2002, payroll is non-DROP payroll.

| Increase in   | Year Ended August 31, |       |        |       |       |
|---------------|-----------------------|-------|--------|-------|-------|
|               | 2004                  | 2003  | 2002   | 2001  | 2000  |
| Average pay   | 3.0 %                 | 3.2 % | 2.7 %  | 1.7 % | 9.7 % |
| Total payroll | 2.6 %                 | 3.0 % | (5.7)% | 9.3 % | 9.3 % |

**Mortality Table.** The 1971 Group Annuity Mortality Table projected to the year 2000, set back 0 years for men and 5 years for women. This table was first used for the December 31, 1999 valuation. Sample values follow:

| Sample Ages | Actuarial Present Value of \$1 Monthly for Life |          | Future Life Expectancy (Years) |       |
|-------------|---|----------|--------------------------------|-------|
|             | Men   | Women    | Men                            | Women |
| 55          | \$127.55  | \$137.82 | 23.98                          | 29.17 |
| 60          | 116.92  | 129.43   | 19.90                          | 24.82 |
| 65          | 104.30  | 119.21   | 16.09                          | 20.70 |
| 70          | 90.39   | 106.97   | 12.69                          | 16.82 |
| 75          | 76.40   | 93.20    | 9.82                           | 13.32 |
| 80          | 62.33   | 79.24    | 7.39                           | 10.36 |

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement. Effective with the 8/31/97 valuation 50% of the assumed deaths before retirement were assumed to be duty related and 50% were assumed to be non-duty related.

**Rates of separation from active membership.** The 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 remaining in employment.

| Sample<br>Ages | Years of<br>Service | Percent Separating within Next Year |       |
|----------------|---------------------|-------------------------------------|-------|
|                |                     | Police                              | Fire  |
| ALL            | 0                   | 15.00%                              | 8.00% |
|                | 1                   | 10.00%                              | 6.00% |
|                | 2                   | 8.00%                               | 4.50% |
|                | 3                   | 7.00%                               | 3.00% |
|                | 4                   | 6.00%                               | 2.00% |
| 25             | 5 & Over            | 5.00%                               | 2.00% |
| 30             |                     | 5.00%                               | 1.40% |
| 35             |                     | 3.80%                               | 1.00% |
| 40             |                     | 2.40%                               | 0.80% |
| 45             |                     | 1.30%                               | 0.60% |
| 50             |                     | 0.50%                               | 0.10% |
| 55             |                     | 0.50%                               | 0.10% |

The rates were first used for the August 31, 1999 valuation.

**Rates of Disability.** These assumptions represent the probabilities of active members becoming disabled.

| Sample<br>Ages | Percent Becoming Disabled within Next Year |       |
|----------------|--|-------|
|                | Men  | Women |
| 20             | 0.04%                                      | 0.04% |
| 25             | 0.05%                                      | 0.05% |
| 30             | 0.05%                                      | 0.05% |
| 35             | 0.08%                                      | 0.08% |
| 40             | 0.12%                                      | 0.12% |
| 45             | 0.19%                                      | 0.19% |
| 50             | 0.34%                                      | 0.34% |
| 55             | 0.50%                                      | 0.50% |
| 60             | 0.67%                                      | 0.67% |

The mortality table was set forward ten years for projecting disability costs.

These rates were first used for the August 31, 1999 valuation.

Effective with the August 31, 1997 valuation, 50% of the assumed liabilities were assumed to be duty related and 50% were assumed to be non-duty related.

**Rates of Retirement and DROP Entry.** These rates are used to measure the probabilities of an eligible member retiring and/or “dropping” within 1 year of the indicated age.

| Ages | Rates of Retirement and/or DROP Entry |        |      |             |      |
|------|---------------------------------------|--------|------|-------------|------|
|      | Old Plan                              | Plan A |      | Plans B & C |      |
|      |                                       | Police | Fire | Police      | Fire |
| 50   | 35%                                   | 45%    | 15%  | 35%         | 5%   |
| 51   | 15                                    | 25     | 15   | 15          | 5    |
| 52   | 15                                    | 25     | 15   | 15          | 5    |
| 53   | 15                                    | 20     | 10   | 30          | 20   |
| 54   | 15                                    | 20     | 20   | 30          | 20   |
| 55   | 40                                    | 30     | 20   | 45          | 15   |
| 56   | 15                                    | 10     | 20   | 20          | 15   |
| 57   | 15                                    | 10     | 20   | 15          | 25   |
| 58   | 15                                    | 10     | 20   | 15          | 35   |
| 59   | 15                                    | 10     | 20   | 15          | 15   |
| 60   | 100                                   | 100    | 15   | 100         | 15   |
| 61   | 100                                   | 100    | 15   | 100         | 35   |
| 62   | 100                                   | 100    | 15   | 100         | 35   |
| 63   | 100                                   | 100    | 15   | 100         | 10   |
| 64   | 100                                   | 100    | 15   | 100         | 10   |
| 65   | 100                                   | 100    | 100  | 100         | 100  |

A member was assumed to be eligible for retirement upon meeting the conditions shown in Section D.

These rates were first used for the August 31, 2002 valuation.

**Active Member Group Size.** The number of active members was assumed to remain constant. This assumption is unchanged from previous valuations. During the first few years after the implementation of the DROP, this assumption will be violated, resulting in fluctuations in the contribution for UAAL%.

**SUMMARY OF ASSUMPTIONS USED**  
**AUGUST 31, 2004**  
**MISCELLANEOUS AND TECHNICAL ASSUMPTIONS**

|                             |   |
|-----------------------------|---|
| Marriage Assumption:        | 100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits.  |
| Decrement Timing:           | Retirements are assumed to occur at the beginning of the year. Decrements of all other types are assumed to occur at the end of the 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.  |
| Benefit Service:            | Exact fractional service is used to determine the amount of benefit payable.  |
| Decrement Operation:        | Disability and turnover decrements do not operate during the first 5 years of service. They also do not operate during retirement eligibility.  |
| Normal Form of Benefit:     | The assumed normal form of benefit is the straight life form.   |
| Incidence of Contributions: | Contributions are assumed to be received continuously throughout the applicable fiscal year based upon the contribution rate shown in this report, and the actual payroll at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits. |
| DROP Funding Period:        | Both the City and employee contribute (in accordance with the provisions of each plan) to the System until the employee enters the DROP.  |

## DEFINITIONS OF TECHNICAL TERMS

***Accrued Service.*** Service credited under the system which was rendered before the date of the actuarial valuation.

***Actuarial Accrued Liability.*** The difference between the actuarial present value of system benefits and the actuarial present value of future normal costs. Also referred to as "past service liability."

***Actuarial Assumptions.*** Estimates of future 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 benefits" between future normal costs and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

***Actuarial Equivalent.*** One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.

***Actuarial Gain (Loss).*** The difference between actual unfunded actuarial accrued liabilities and anticipated unfunded actuarial accrued liabilities -- during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.

***Actuarial Present Value.*** The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payments.

## DEFINITIONS OF TECHNICAL TERMS

***Amortization.*** Paying off an interest-discounted amount with periodic payments of interest and (generally) principal -- as opposed to paying off with a lump sum payment.

***Credited Projected Benefit.*** The portion of a member's projected benefit attributable to service before the valuation date - allocated based on the ratio of accrued service to projected total service and based on anticipated future compensation.

***Normal Cost.*** The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as "current service cost."

***Unfunded Actuarial Accrued Liabilities.*** The difference between actuarial accrued liabilities and valuation assets. Sometimes referred to as "unfunded past service liability" or "unfunded supplemental present value."

Most retirement systems have unfunded actuarial accrued liabilities. They arise each time new benefits are added and each time an actuarial loss occurs.

The existence of unfunded actuarial accrued liabilities is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liabilities do not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liabilities and the trend in their amount (after due allowance for devaluation of the dollar).

December 23, 2004

Mr. Paul Lutomski  
City-County Building  
555 South 10th Street  
Lincoln, Nebraska 68508

Dear Paul:

Enclosed is a copy of the actuarial valuation as of August 31, 2004 of the City of Lincoln Police and Fire Pension Fund. Please review and indicate any necessary changes.

Please do not hesitate to call if you have any questions.

Sincerely,

Louise M. Gates

LMG:dm  
Enclosure

CC: Mr. John Cripe (with enclosure)