

CITY OF GRAND RAPIDS POLICE AND FIRE RETIREMENT SYSTEM
45TH ANNUAL ACTUARIAL VALUATION
DECEMBER 31, 2011

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May 15, 2012

The Board of Trustees
City of Grand Rapids Police
and Fire Retirement System
Grand Rapids, Michigan

Dear Board Members:

The results of the *December 31, 2011 Actuarial Valuation* of the City of Grand Rapids Police and Fire Retirement System are presented in this report. The purpose of the annual valuation is to measure the system's funding progress and to determine the City's contribution rate for the ensuing fiscal year in accordance with established funding policies. The results of the valuation may not be applicable for other purposes.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the economic and demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of the actuary's assignment, the actuary did not perform an analysis of the potential range of such future measurements.

The actuarial methods and assumptions used in the actuarial valuation are summarized in Section C of this report. The assumptions are established by the Board after consulting with the actuary.

The valuation was based upon statistical data, furnished by your Executive Director concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirants and beneficiaries. Data was checked for internal and year-to-year consistency, but was not otherwise audited.

This report has been prepared by actuaries who have substantial experience valuing public employee retirement systems. To the best of our knowledge, this report is complete and accurate and was made in accordance with generally recognized actuarial methods in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the constitution of the State of Michigan. The actuarial assumptions used for the valuation produce results which we believe are reasonable.

At least one of the undersigned is a Member of the American Academy of Actuaries (MAAA), and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



David L. Hoffman



Randall J. Dziubek, ASA, EA, MAAA

DLH:bd

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SECTION A
VALUATION RESULTS

**CONTRIBUTIONS TO PROVIDE BENEFITS
FOR THE FISCAL YEAR BEGINNING JULY 1, 2012
BASED UPON A DECEMBER 31, 2011 VALUATION DATE**

| Contributions for | % of Valuation Payroll | % of Gross-Up Payroll |
|---|---------------------------|--------------------------|
| Normal cost of benefits: | | |
| Age & service pensions | 18.59 % | 16.76 % |
| Disability pensions | 4.05 % | 3.65 % |
| Death-in-service pensions | 0.61 % | 0.55 % |
| Refunds of member contributions | 0.25 % | 0.23 % |
| Totals | 23.50 % | 21.19 % |
| Member Contributions (weighted average) | 5.80 % | 5.24 % |
| Employer Normal Cost | 17.70 % | 15.95 % |
| Unfunded Actuarial Accrued Liabilities* | 7.00 % | 6.31 % |
| Section 1.263(2) Full Funding Credit* | 0.00 % | 0.00 % |
| INITIAL COMPUTED EMPLOYER RATE | 24.70 % | 22.26 % |
| Ordinance Section 1.263(3) Reduction+ | N/A | N/A |
| ADJUSTED COMPUTED EMPLOYER RATE@ | 24.70 % | 22.26 % |

* Amortized as a level percent-of-payroll over a period of 30 years.

@ In addition to this percent-of-payroll contribution, the City contributes for (i) certain Supplemental Benefits for a small, closed group of retirants and beneficiaries in accordance with the provisions of Ordinance Section 1.292, and (ii) 0.5% of payroll to provide a Medicare Supplement for members retiring after June 30, 1990.

+ See page A-3 for derivation of Ordinance Section 1.263(3) reduction.

DETERMINING EMPLOYER DOLLAR CONTRIBUTIONS

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollars – and then contributed to the Retirement System in a timely manner.

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

Valuation payroll is \$34,566,692.
“Gross-Up” payroll is \$38,329,617.

**ALLOCATION OF VALUATION ASSETS
YEAR ENDED DECEMBER 31, 2011**

In financing the actuarial accrued liabilities, Valuation Assets of \$321,207,218 were distributed as follows:

| Reserves for | Present Valuation Assets Applied to | | | Totals |
|-----------------------------------|---|---|--------------------------------|----------------------|
| | Member Actuarial Accrued Liabilities | Retired Life Actuarial Accrued Liabilities | Contingency Reserve | |
| Member Contributions (MDF) | \$ 31,843,231 | | | \$ 31,843,231 |
| Employer Contributions (EAF) | 46,260,718 | | | 46,260,718 |
| Retired Benefit Payments (BRF) | (1,438,817) | \$ 195,045,000 | | 193,606,183 |
| Undistributed Income (IEF) | 1,724,104 | | | 1,724,104 |
| Valuation Asset Adjustment | 47,772,982 | | | 47,772,982 |
| Totals | \$126,162,218 | \$ 195,045,000 | \$0 | \$321,207,218 |

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

| | Retired Lives | Active Members | Total |
|--|--------------------------|---------------------------|---------------|
| Computed Actuarial Accrued Liabilities and Reserves | \$195,045,000 | \$ 170,255,394 | \$365,300,394 |
| Applied Assets | 195,045,000 | 126,162,218 | 321,207,218 |
| Unfunded Actuarial Accrued Liabilities/ (Full Funding Credit) | \$ 0 | \$ 44,093,176 | \$ 44,093,176 |

DERIVATION OF ORDINANCE SECTION 1.263(3) REDUCTION FOR THE FISCAL YEAR BEGINNING JULY 1, 2012

Section 1.263(3) reads as follows:

“Notwithstanding the offset to current service contributions under Section 1.263(2), the City shall make a contribution in the amount determined in this paragraph. **In the event the System has greater Valuation Assets than actuarial accrued liabilities, the City will pay its current service contribution during its next ensuing fiscal year reduced by 10% for each 1%, or portion thereof, that Valuation Assets exceed the actuarial accrued liabilities, as determined on the prior December 31 valuation date,** except as provided below. The unreduced current service contribution will be paid during the City’s next ensuing fiscal year if the Market Value of Assets on the March 31 prior to the next ensuing fiscal year for the City is less than 95% of the actuarial accrued liability determined on the prior December 31. No contribution will be made during the City’s next ensuing fiscal year if the Market Value at the March 31 prior to the City’s next ensuing fiscal year exceeds the actuarial present value of expected future benefit payments determined on the prior December 31. This subsection (3) shall be effective beginning with the contribution rate for July 1, 1994 (FY 1995).”

The 110% test specified in the second sentence is applied as follows:

| | December 31, 2011 |
|--|--------------------------|
| (1) Actuarial Accrued Liabilities | \$365,300,394 |
| (2) Valuation Assets | 321,207,218 |
| (3) Funding Ratio: (2)/(1) | 87.93% |
| (4) City Current Service Contribution (Employer Normal Cost from page A-1) | 15.95% |
| (5) Percentage reduction: [(3)-100%] x 10 (if greater than 100%, use 100%) | None |
| (6) Ordinance Section 1.263(3) rate: (4) - [(4) x (5)] | N/A |
| (7) Contribution rate after 1.263(3) reduction: Lessor of (i) initial computed employer rate, or (ii) Section 1.263(3) rate, but not less than zero. | 22.26% |

DERIVATION OF EXPERIENCE GAIN (LOSS)

Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizeable year-to-year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below, along with a year-by-year comparative schedule.

| | December 31, 2011 | December 31, 2010 |
|--|-------------------|-------------------|
| (1) UAAL* at start of year | \$31,963,404 | \$14,003,017 |
| (2) Normal cost from last valuation | 6,499,831 | 7,418,474 |
| (3) Actual employer contributions | 7,851,051 | 3,709,786 |
| (4) Interest accrual: [(1) + 1/2[(2) - (3)] x 0.075 | 2,346,585 | 1,189,302 |
| (5) Expected UAAL before changes: [(1) + (2) - (3) + (4)] | 32,958,769 | 18,901,007 |
| (6) Effect of benefit changes | 0 | 0 |
| (7) Effect of revised actuarial assumptions or valuation methods | 0 | 2,172,635 |
| (8) Change in the SPDR (13th Check Reserve) Distribution Pension Reserve Account | 0 | 0 |
| (9) Expected UAAL after changes: (5) + (6) + (7) + (8) | 32,958,769 | 21,073,642 |
| (10) Actual UAAL at end of year | 44,093,176 | 31,963,404 |
| (11) Gain (loss): (9) - (10) | (11,134,407) | (10,889,762) |
| (12) Gain (loss) as percent of the beginning liabilities at start of period (\$360,573,351) | (3.1)% | (3.0)% |

* *Unfunded Actuarial Accrued Liabilities.*

| Valuation Date | Experience Gain (Loss) as % of Beginning Accrued Liability |
|-------------------|--|
| 12/31/2004 | 3.0 % |
| 12/31/2005 | 1.7 % |
| 12/31/2006 | 6.9 % |
| 12/31/2007 | 3.1 % |
| 12/31/2008 | (31.1)% |
| 12/31/2009 | (9.0)% |
| 12/31/2010 | (3.0)% |
| 12/31/2011 | (3.1)% |

@ *One-half year ended December 31.*

SUMMARY STATEMENT OF SYSTEM RESOURCES AND OBLIGATIONS
YEAR ENDED DECEMBER 31, 2011

PRESENT RESOURCES AND EXPECTED FUTURE RESOURCES

| | | |
|---|---------------|---------------|
| A. Present valuation assets: | | |
| 1. Net assets from system financial statements | \$303,570,582 | |
| 2. Market (Funding) value adjustment | 17,636,636 | |
| 3. Valuation assets | | 321,207,218 |
| | | |
| B. Actuarial present value of expected future Employer contributions: | | |
| 1. For normal costs | 56,212,823 | |
| 2. For unfunded actuarial accrued liability | 44,093,176 | |
| 3. Total | | 100,305,999 |
| | | |
| C. Actuarial present value of expected future member contributions | | 12,122,462 |
| | | |
| D. Total present and expected future resources | | \$433,635,679 |

ACTUARIAL PRESENT VALUE OF EXPECTED FUTURE BENEFIT PAYMENTS

| | | |
|--|---------------|---------------|
| A. To retired lives: | | |
| 1. Annual allowances | \$195,045,000 | |
| 2. Reserve | none | |
| 3. Total | | 195,045,000 |
| | | |
| B. To vested terminated members | | 5,927,668 |
| | | |
| C. To present active members: | | |
| 1. Allocated to service rendered prior to valuation date (actuarial accrued liability) | 164,327,726 | |
| 2. Allocated to service likely to be rendered after valuation date | 68,335,285 | |
| 3. Total | | 232,663,011 |
| | | |
| D. Total present value of expected future benefit payments | | \$433,635,679 |

COMMENTS, RECOMMENDATION AND CONCLUSION

COMMENT A: Overall experience fell short of expectations during the period ending December 31, 2011 (see page A-4). Recognized return on a funding value basis was the primary source of loss. The market rate of return for 2011 was 0.13%, the funding value return was 0.54% due to continued recognition of assets losses from the prior years. The recognized investment losses were partially offset by gains in other experience areas, primarily wages.

COMMENT B: The employer contribution rate increased from 21.18%% to 22.26% due to plan experience. This increase is after considering increases in employee contributions for police officers, sergeants, and command officers, and reductions in the firefighter gross-up factor. The funded ratio decreased from 91.1% to 87.9% as a result of the experience discussed in Comment A above.

COMMENT C: Below is the 5-year contribution rate projection based on all future experience matching exactly with our assumptions of future experience and a 30 year amortization period for the Police-Fire Retirement System.

| 7.5% Market Return in 2012-2015 | | | | | | | | |
|---------------------------------|-----------------------------|---------------|---------------|------------|--------------|-----------|---------------------|------------------|
| Valuation Year | Funding Value (\$ millions) | Employer Rate | Employee Rate | Total Rate | Funded Ratio | MV Return | MV-FV (\$ millions) | MV (\$ millions) |
| 2011 | \$321 | 22.26% | 5.24% | 27.50% | 88% | 0.1% | \$(18) | \$304 |
| 2012 | 316 | 21.76% | 8.40% | 30.16% | 85% | 7.5% | 1 | 317 |
| 2013 | 337 | 20.63% | 8.40% | 29.03% | 87% | 7.5% | (6) | 331 |
| 2014 | 352 | 20.60% | 8.40% | 29.00% | 87% | 7.5% | (6) | 346 |
| 2015 | 364 | 21.11% | 8.40% | 29.51% | 85% | 7.5% | (1) | 363 |

Note: Contribution rates are for the fiscal year beginning six months after the valuation date. Gains and losses in other risk areas may also have a material effect on contribution rates in future years.

RECOMMENDATION FOR RESERVE TRANSFER. Inter-fund transfers are made either when (i) there is a residual December 31 balance in the Income-Expense Fund (IEF) after regular interest credits have been made or (ii) the year-end balance in the Benefit Reserve Fund (BRF) falls below the present value of benefits currently being paid. On December 31, 2011 there was a balance in the IEF (see page B-9). Therefore, the following adjusting transfers are recommended:

| Transfer From | Transfer To | Amount |
|--------------------------|------------------------|---------------|
| IEF | BRF | \$ 1,438,817 |
| IEF | EAF | 285,287 |

For valuation purposes, it was assumed that recommended transfers would be made. Ending balances, on a cost basis in each reserve fund as of December 31, 2011, were assumed to be as follows:

| MDF | EAF | BRF | IEF |
|--------------|--------------|---------------|------------|
| \$31,843,231 | \$46,546,005 | \$195,045,000 | \$0 |

CONCLUSION. The City's contribution rate for the fiscal year beginning July 1, 2012 has been computed to be 22.26% of active member gross-up payroll based on the funding policy specified in the retirement ordinance.

**BENEFIT RESERVE FUND
COMPARATIVE STATEMENT**

| Valuation Date | Allowances Being Paid @ | | BRF Assets | Actuarial Accrued Liabilities | Assets/ Liabilities & |
|-------------------|----------------------------|------------|---------------|-------------------------------------|--------------------------|
| | No. * | \$/Month | | | |
| 6/30/1990 | 384 | \$ 353,352 | \$ 41,231,628 | \$ 41,712,360 | 98.8% |
| 6/30/1991 | 400 | 398,031 | 45,524,717 | 47,293,644 | 96.3% |
| 6/30/1992 | 402 | 413,907 | 45,385,380 | 51,274,296 | 88.5% |
| 6/30/1993 | 407 | 467,559 | 56,180,491 | 58,557,960 | 95.9% |
| 6/30/1994 | 435 | 541,725 | 66,051,111 | 68,845,704 | 95.9% |
| 6/30/1995 | 459 | 627,560 | 77,220,497 | 80,150,076 | 96.3% |
| 6/30/1996 | 461 | 677,015 | 83,301,082 | 87,177,204 | 95.6% |
| 6/30/1997 | 487 | 794,296 | 102,380,668 | 103,260,072 | 99.1% |
| 6/30/1998 | 493 | 851,973 | 107,928,659 | 110,669,460 | 97.5% |
| 6/30/1999 | 499 | 898,586 | 111,412,944 | 115,585,584 | 96.4% |
| 6/30/2000 | 507 | 944,958 | 117,164,662 | 120,407,496 | 97.3% |
| 6/30/2001 | 513 | 990,722 | 120,396,308 | 127,594,608 | 94.4% |
| 6/30/2002 | 520 | 1,039,831 | 129,873,949 | 133,501,368 | 97.3% |
| 12/31/2003 | 531 | 1,112,249 | 136,051,587 | 140,824,416 | 96.6% |
| 12/31/2004 | 542 | 1,176,973 | 153,594,184 | 148,382,784 | 103.5% |
| 12/31/2005 | 541 | 1,183,651 | 147,281,966 | 143,974,800 | 102.3% |
| 12/31/2006 | 604 | 1,359,707 | 167,979,383 | 167,852,376 | 100.1% |
| 12/31/2007 | 614 | 1,408,709 | 172,944,949 | 172,445,604 | 100.3% |
| 12/31/2008 | 606 | 1,424,517 | 173,901,558 | 173,015,040 | 100.5% |
| 12/31/2009 | 614 | 1,498,088 | 180,866,587 | 184,218,288 | 98.2% |
| 12/31/2010 # | 612 | 1,509,644 | 184,087,532 | 187,767,588 | 98.0% |
| 12/31/2011 | 616 | 1,572,805 | 193,606,183 | 195,045,000 | 99.3% |

* *Alternate payees under EDRO's counted as separate allowances beginning in 1997.*

@ *Includes disability benefits beginning with the 12/31/2006 valuation.*

Revised actuarial assumptions.

& *Before reserve transfers.*

**CASUALTY RESERVE FUND
COMPARATIVE STATEMENT**

| Valuation Date | Disabilities Being Paid | | CRF Assets | Liabilities for Present Disabilities | Contingency Reserve |
|-------------------|----------------------------|-----------|---------------|--|------------------------|
| | No. | \$/Month | | | |
| 6/30/1990 | 22 | \$ 19,696 | \$ 3,262,392 | \$ 2,731,440 | \$ 530,952 |
| 6/30/1991 | 29 | 33,597 | 3,705,051 | 4,826,340 | (1,121,289) |
| 6/30/1992 | 37 | 48,523 | 3,627,146 | 7,334,784 | (3,707,638) |
| 6/30/1993 | 38 | 54,086 | 7,112,030 | 8,247,408 | (1,135,378) |
| 6/30/1994 | 39 | 57,632 | 8,077,450 | 8,735,628 | (658,178) |
| 6/30/1995 | 43 | 66,805 | 8,620,106 | 10,137,444 | (1,517,338) |
| 6/30/1996 | 42 | 66,494 | 9,796,618 | 10,032,192 | (235,574) |
| 6/30/1997 | 44 | 73,553 | 9,828,796 | 11,151,720 | (1,322,924) |
| 6/30/1998 | 46 | 78,977 | 11,053,214 | 11,871,948 | (818,734) |
| 6/30/1999 | 48 | 86,784 | 11,814,236 | 13,093,908 | (1,279,672) |
| 6/30/2000 | 50 | 92,101 | 12,505,464 | 13,881,516 | (1,376,052) |
| 6/30/2001 | 53 | 100,380 | 13,260,228 | 16,246,464 | (2,986,236) |
| 6/30/2002 | 67 | 137,692 | 14,383,251 | 20,999,064 | (6,615,813) |
| 12/31/2003 | 73 | 156,598 | 22,473,127 | 23,799,576 | (1,326,449) |
| 12/31/2004 | 76 | 165,328 | 24,431,076 | 24,998,496 | (567,420) |
| 12/31/2005 | 76 | 169,242 | 24,829,682 | 24,615,576 | 214,106 |
| 12/31/2006 | 0 | 0 | 0 | 0 | 0 |
| 12/31/2007 | 0 | 0 | 0 | 0 | 0 |
| 12/31/2008 | 0 | 0 | 0 | 0 | 0 |
| 12/31/2009 | 0 | 0 | 0 | 0 | 0 |
| 12/31/2010 | 0 | 0 | 0 | 0 | 0 |
| 12/31/2011 | 0 | 0 | 0 | 0 | 0 |

Disability benefits are included in the Benefit Reserve Fund Comparative Statement beginning with the 12/31/2006 valuation.

ACTUARIAL ACCRUED LIABILITIES & ASSETS
HISTORICAL COMPARATIVE SCHEDULE
(\$ AMOUNTS IN MILLIONS)

| Valuation Date | Valuation Assets | Actuarial Accrued | | Unfunded Actuarial Accrued | | |
|-------------------|---------------------|-------------------------------|---|----------------------------|----------------------------------|---------------------|
| | | Liability Dollar Amount | Liability Funded Ratio ¹ | Dollar Amount | Ratio to Payroll ² | Financing Period |
| 9/30/1975 | \$ 18.7 | \$ 37.8 | 49.4% | \$ 19.1 | 197 % | 17 yrs. |
| 9/30/1980 # | 40.5 | 62.8 | 64.6% | 22.3 | 184 % | 17 |
| 9/30/1985 | 75.6 | 84.6 | 89.3% | 9.0 | 58 % | 23 |
| 6/30/1990 | 139.8 | 120.6 | 115.9% | (19.2) | - | 18 |
| 6/30/1995 # | 202.0 | 180.6 | 111.9% | (21.4) | - | 15 |
| 6/30/1996 | 229.7 | 194.3 | 118.2% | (35.4) | - | 15 |
| 6/30/1997 | 255.4 | 208.6 | 122.4% | (46.8) | - | 15 |
| 6/30/1998 | 283.6 | 219.2 | 129.4% | (64.4) | - | 15 |
| 6/30/1999 | 302.3 | 226.9 | 133.3% | (75.5) | - | 15 |
| 6/30/2000 | 310.5 | 238.4 | 130.2% | (72.1) | - | 15 |
| 6/30/2001 # * | 305.3 | 249.2 | 122.5% | (56.1) | - | 15 |
| 6/30/2002 # | 287.1 | 265.8 | 108.0% | (21.4) | - | 15 |
| 12/31/2003 #@ | 301.8 | 276.1 | 109.3% | (25.8) | - | 15 |
| 12/31/2004 | 315.0 | 285.0 | 110.5% | (30.0) | - | 15 |
| 12/31/2005 * | 325.0 | 284.3 | 114.3% | (40.8) | - | 15 |
| 12/31/2006 | 350.2 | 292.9 | 119.5% | (57.2) | - | 15 |
| 12/31/2007 | 365.1 | 301.0 | 121.3% | (64.1) | - | 15 |
| 12/31/2008 # | 346.5 | 310.2 | 111.7% | (36.2) | - | 30 |
| 12/31/2009 # | 334.2 | 348.3 | 96.0% | 14.0 | 42 % | 30 |
| 12/31/2010 * | 328.6 | 360.6 | 91.1% + | 32.0 | 92 % | 30 |
| 12/31/2011 | 321.2 | 365.3 | 87.9% | 44.1 | 128 % | 30 |

- * Revised actuarial assumptions.
- # Retirement System amended.
- @ One-half year ended December 31.
- + 87% on a market value basis.

- Valuation Assets as a Percent of AAL** is a traditional measure of a system's funding progress. Except in years when the system is amended or actuarial assumptions are revised, this percent can be expected to move gradually toward 100%.
- UAAL as a Percent of Valuation Payroll** is another relative index of condition. Unfunded actuarial accrued liabilities represent debt, while active member payroll represents the system's capacity to collect contributions to pay toward debt. The lower the percent, the greater the financial strength and vice-versa.

CITY AND MEMBER CONTRIBUTIONS HISTORIC COMPARATIVE SCHEDULE

| Valuation Date | Fiscal Year | Computed Contributions as %s of Active Member Payroll | | |
|-------------------|----------------|--|----------|---------|
| | | Member | Employer | Total |
| 9/30/1980 # | 81/82 | 5.90% | 27.60% | 33.50% |
| 9/30/1981 * | 82/83 | 5.90% | 27.60% | 33.50% |
| 9/30/1982 | 83/84 | 5.90% | 27.60% | 33.50% |
| 9/30/1983 | 84/85 | 5.90% | 26.60% | 32.50%* |
| 9/30/1984 # | 85/86 | 5.90% | 18.45% | 24.35% |
| 9/30/1985 | 86/87 | 4.90% | 17.79% | 22.69% |
| 9/30/1986 # | 87/88 | 6.44% | 17.47% | 23.91% |
| 6/30/1987 | 88/89 | 6.41% | 16.93% | 23.34% |
| 6/30/1988 * | 89/90 | 6.41% | 15.93% | 22.34% |
| 6/30/1989 # | 90/91 | 5.48% | 16.91% | 22.39% |
| 6/30/1990 | 91/92 | 5.49% | 9.03% | 14.52% |
| 6/30/1991 | 92/93 | 5.45% | 9.95% | 15.40% |
| 6/30/1992 # | 93/94 | 6.07% | 16.22% | 22.29% |
| 6/30/1993 * | 94/95 | 5.60%+ | 0.00% | 5.60% |
| 6/30/1994 | 95/96 | 5.60%+ | 0.00% | 5.60% |
| 6/30/1995 # | 96/97 | 5.98%+ | 0.00% | 5.98% |
| 6/30/1996 | 97/98 | 5.90%+ | 0.00% | 5.90% |
| 6/30/1997 | 98/99 | 5.90%+ | 0.00% | 5.90% |
| 6/30/1998 | 99/00 | 5.90%+ | 0.00% | 5.90% |
| 6/30/1999 | 00/01 | 5.90%+ | 0.00% | 5.90% |
| 6/30/2000 | 01/02 | 5.90%+ | 0.00% | 5.90% |
| 6/30/2001 # * | 02/03 | 6.09%+ | 0.00% | 6.09% |
| 6/30/2002 # | 03/04 | 8.13%+ | 2.96% | 11.09% |
| 12/31/2003 #@ | 04/05 | 7.12%+ | 1.08% | 8.20% |
| 12/31/2004 | 05/06 | 5.10%+ | 0.00% | 5.10% |
| 12/31/2005 * | 06/07 | 5.10%+ | 0.00% | 5.10% |
| 12/31/2006 | 07/08 | 4.12%+ | 0.00% | 4.12% |
| 12/31/2007 | 08/09 | 4.12%+ | 0.00% | 4.12% |
| 12/31/2008 # | 09/10 | 3.73%+ | 0.00% | 3.73% |
| 12/31/2009 # | 10/11 | 4.19%+ | 20.96% | 25.15% |
| 12/31/2010 * | 11/12 | 4.18%+ | 21.18% | 25.36% |
| 12/31/2011 | 12/13 | 5.24%+ | 22.26% | 27.50% |

* Revised actuarial assumptions.

Retirement System amended.

+ Adjusted for contributions on items of pay not included in valuation payroll and/or temporary reduction in contribution rate.

@ One-half year ended December 31.

ACTIVE MEMBERS AND RETIRED LIVES HISTORIC COMPARATIVE SCHEDULE

| Valuation Date | Active Members | | | | Retired Lives | | | |
|-------------------|-------------------|-------------|----------|--------|--------------------------|-----------------|-------------|------------------|
| | Valuation Payroll | | | No. & | Active per Retired | Annual Benefits | | |
| | No. | \$ Millions | Average | | | % Incr. | \$ Millions | As a % of Pay |
| 9/30/1980 # | 569 | 12.1 | \$21,243 | 4.1 % | 331 | 1.7 | \$ 1.6 | 13.3 % |
| 9/30/1985 | 533 | 15.5 | 29,056 | 6.3 % | 380 | 1.4 | 2.9 | 18.6 % |
| 6/30/1988 * | 531 | 16.8 | 31,719 | 4.4 % | 387 | 1.4 | 3.6 | 21.4 % |
| 6/30/1989 # | 518 | 17.3 | 33,409 | 5.3 % | 392 | 1.3 | 3.9 | 22.5 % |
| 6/30/1990 | 492 | 17.2 | 34,908 | 4.5 % | 406 | 1.2 | 4.5 | 26.1 % |
| 6/30/1991 | 514 | 18.3 | 35,553 | 1.8 % | 429 | 1.2 | 5.2 | 28.3 % |
| 6/30/1992 # | 523 | 19.7 | 37,627 | 5.8 % | 439 | 1.2 | 5.5 | 28.2 % |
| 6/30/1993 * | 529 | 20.7 | 39,071 | 3.8 % | 445 | 1.2 | 6.3 | 30.4 % |
| 6/30/1994 | 554 | 22.2 | 40,139 | 2.7 % | 474 | 1.2 | 7.2 | 32.3 % |
| 6/30/1995 # | 546 | 22.5 | 41,205 | 2.7 % | 502 | 1.1 | 7.6 | 33.8 % |
| 6/30/1996 | 600 | 25.0 | 41,609 | 1.0 % | 503 | 1.1 | 8.9 | 35.6 % |
| 6/30/1997 | 605 | 25.8 | 42,587 | 2.4 % | 531 | 1.1 | 10.4 | 40.4 % |
| 6/30/1998 | 614 | 26.6 | 43,394 | 1.9 % | 539 | 1.1 | 11.2 | 42.1 % |
| 6/30/1999 | 619 | 28.0 | 45,277 | 4.3 % | 547 | 1.1 | 11.8 | 42.1 % |
| 6/30/2000 | 620 | 29.9 | 48,187 | 6.4 % | 557 | 1.1 | 12.4 | 41.5 % |
| 6/30/2001 #* | 629 | 31.8 | 50,513 | 4.8 % | 566 | 1.1 | 13.1 | 41.2 % |
| 6/30/2002 # | 622 | 32.5 | 52,265 | 3.5 % | 587 | 1.1 | 14.1 | 43.5 % |
| 6/30/2003 | 619 | 33.5 | 54,190 | 3.7 % | 598 | 1.0 | 14.9 | 44.4 % |
| 12/31/2003 #@ | 608 | 33.1 | 54,443 | 0.5 % | 604 | 1.0 | 15.2 | 46.0 % |
| 12/31/2004 | 583 | 32.5 | 55,821 | 2.5 % | 618 | 0.9 | 16.1 | 49.5 % |
| 12/31/2005 * | 576 | 33.4 | 57,999 | 3.9 % | 617 | 0.9 | 16.2 | 48.5 % |
| 12/31/2006 | 567 | 33.9 | 59,767 | 3.0 % | 604 | 0.9 | 16.3 | 48.1 % |
| 12/31/2007 | 545 | 32.9 | 60,289 | 0.9 % | 614 | 0.9 | 16.9 | 51.4 % |
| 12/31/2008 | 535 | 33.0 | 61,690 | 2.3 % | 606 | 0.9 | 17.1 | 51.8 % |
| 12/31/2009 | 506 | 33.5 | 66,187 | 7.3 % | 614 | 0.8 | 18.0 | 53.7 % |
| 12/31/2010 | 534 | 34.7 | 64,917 | (1.9)% | 612 | 0.9 | 18.1 | 52.2 % |
| 12/31/2011 | 536 | 34.6 | 64,490 | (0.7)% | 616 | 0.9 | 18.9 | 54.6 % |

20 Year Average 2.7 %

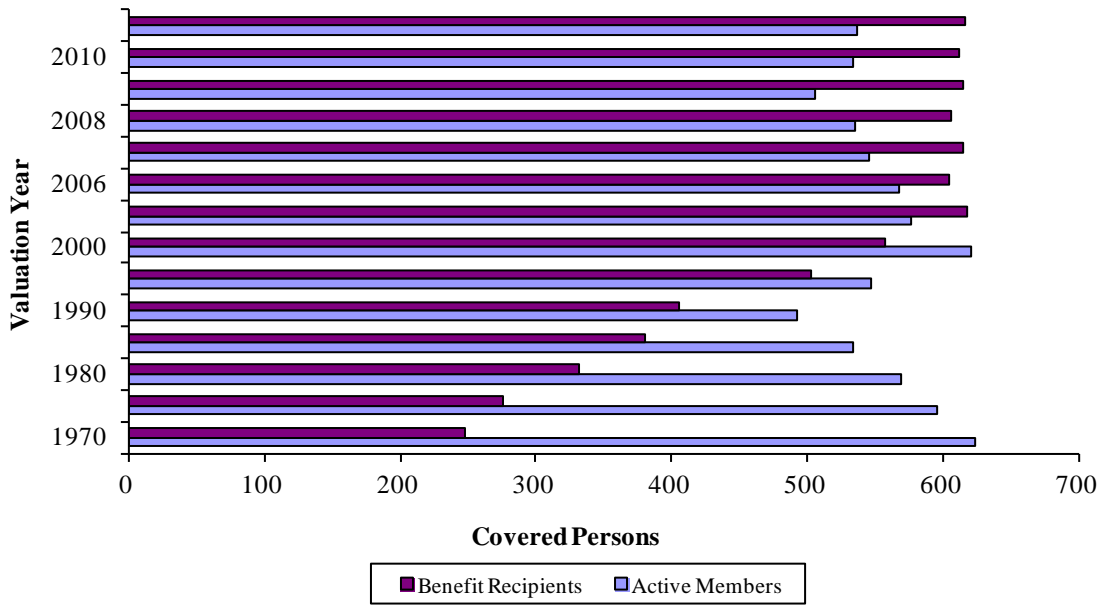
* Revised actuarial assumptions.

Retirement System amended.

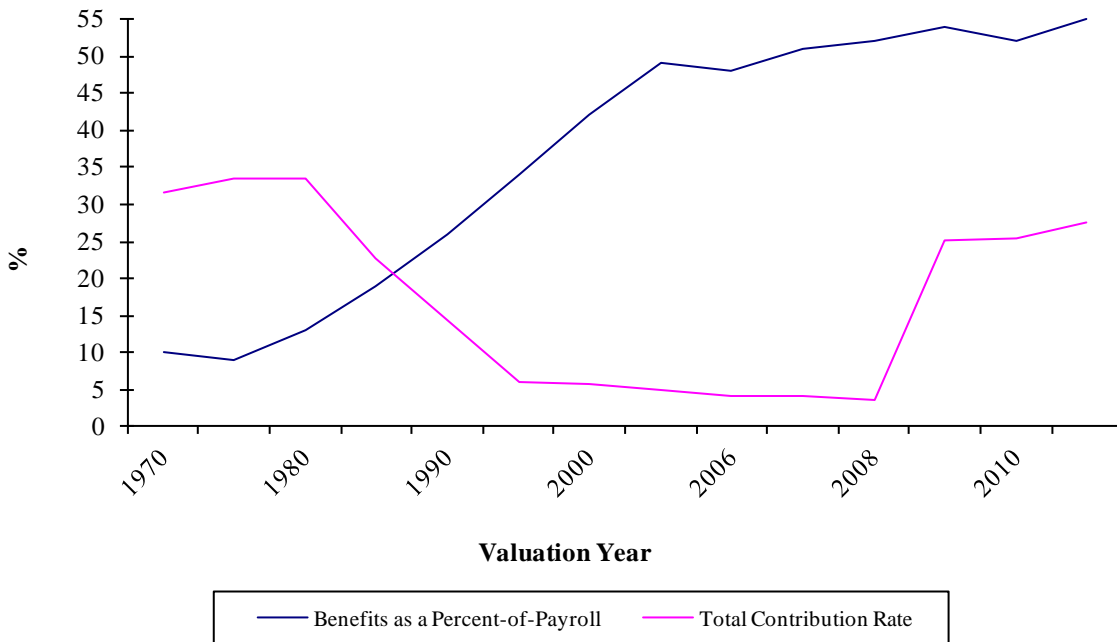
& Alternate payees under EDROs are counted as separate retired lives beginning in 1997.

@ One-half year ended December 31.

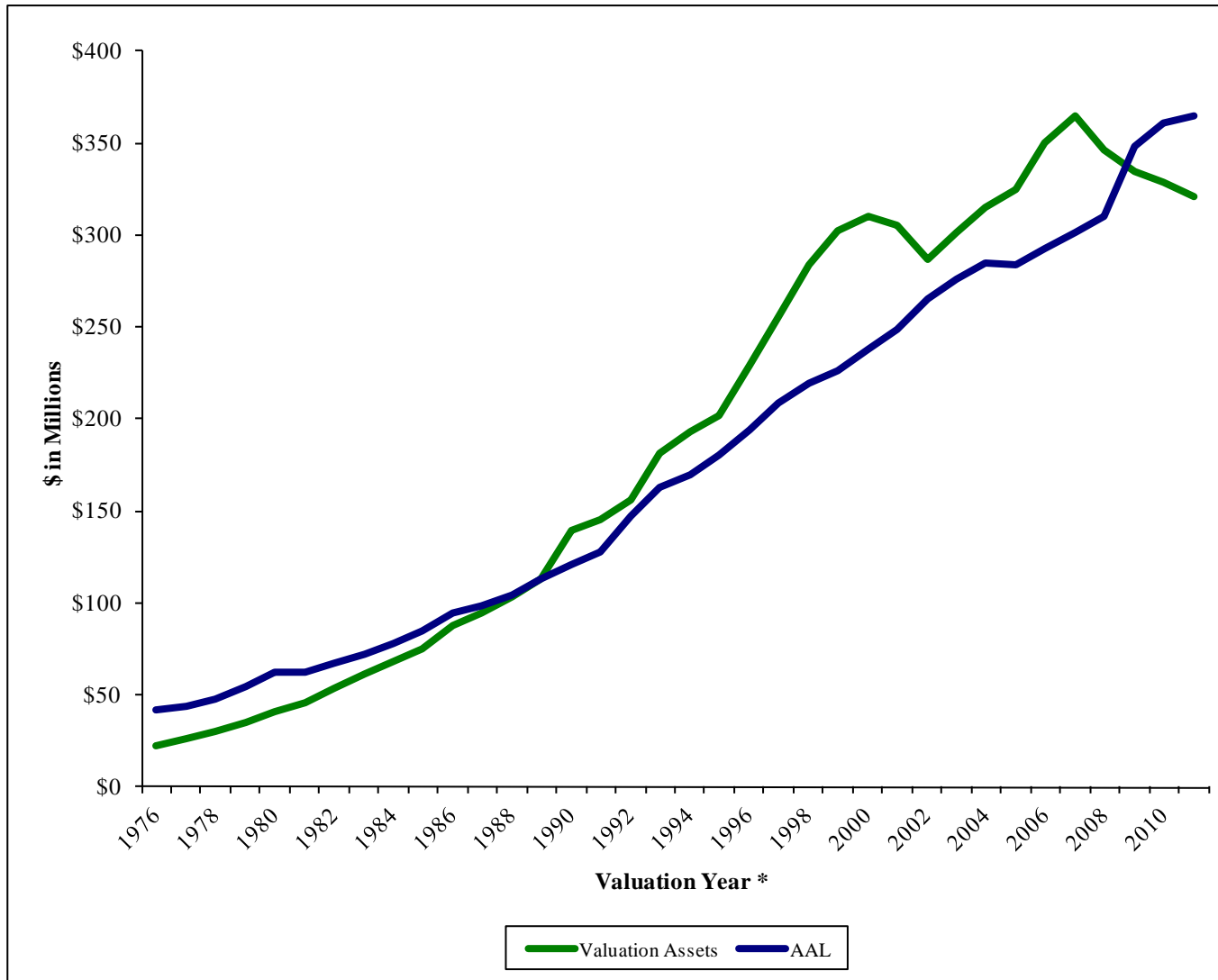
Active Members and Benefit Recipients



Benefits as a % of Pay and Total Contribution Rate



ACTUARIAL ACCRUED LIABILITIES & ASSETS



* Note: Valuation year is June 30 to June 30, 2003 and December 31 from December 31, 2003.

SECTION B

VALUATION DATA

SUMMARY OF BENEFIT PROVISIONS EVALUATED DECEMBER 31, 2011

Voluntary Retirement. Police members may retire after attaining age 50 and completing 10 years of service. Firefighter members are eligible for retirement after attaining age 55 with 10 or more years of service. Firefighter members may also retire at the age their service reaches the service credit limit.

Compulsory Retirement. None.

Final Average Salary (FAS). The average of member's highest annual salary rates during the 3 consecutive calendar years of credited service when such compensation rates are the highest increased by the applicable FAS Adjustment Factor (12.2% for Police members, 12.7% Firefighter members for the period July 1, 2011 to December 31, 2011, and 9.0% for Firefighter members for the period January 1, 2012 to June 30, 2012). Highest salary rates that occur in calendar years after the calendar year in which the member reaches their service credit limit will not be included in the FAS.

Benefit Multiplier Description. See page B-2.

Benefit Multiplier. The member's benefit multiplier, used to compute full age and service allowance, is defined in the following table:

Benefit Multipliers and Allowance Caps for Member Groups

| Covered Group | Date of Hire | Benefit Multiplier | Allowance Cap |
|-------------------------------------|---|---------------------------|----------------------|
| Firefighters | Prior to July 1, 1992 | 2.5% | 100% |
| | -or- | | |
| | Prior to July 1, 1992 with up to 35 years of credited service | 2.7% | 94.5% |
| | July 1, 1992 or after | 2.7% | 90% |
| Fire Chief | At any time | 2.8% | 94.5% |
| Police Command | Prior to July 1, 2001 | 2.8% | 100% |
| | July 1, 2001 or after | 2.8% | 80% |
| Police Chief or Deputy Police Chief | At any time | 2.8% | 100% |
| Police Officers and Sergeants | Before March 9, 1995 | 2.8% | 100% |
| | After March 8, 1995 | 2.8% | 87.5% |
| | July 1, 2001 and after | 2.8% | 80% |

The benefit multiplier is 2.8% for Firefighters retiring on or after July 1, 2012.

Full Age and Service Allowance. Allowance, payable monthly for life to the retired member, equals the member's benefit multiplier times the member's FAS times years of credited service. In lieu of this single life-level amount form of payment, a retiring member may elect from a variety of optional forms of payment, each of which is the actuarial equivalent (same lump sum value at time of retirement) of the single life-level payment form.

Deferred Allowance. A member with 10 or more years of service who leaves covered employment before retirement is eligible to receive an allowance computed in the same manner as an age and service allowance but based upon the member's employment record to the time of leaving. Such deferred allowance commences the first day of the calendar month next following the later of the date of the member's attainment of age 50 or the date when written application therefore is received by the Board. Benefits may be actuarially reduced in accordance with the Early Retirement provision if applicable.

Early Allowance. A Firefighter member who leaves covered employment after both attaining age 50 and completing 10 years of service is eligible to receive an immediate early allowance (in lieu of a deferred allowance), computed in the same manner as a deferred allowance based upon the member's employment record to the time of early retirement, but actuarially reduced (per schedule in ordinance) to reflect the fact that the age when payments begin is younger than age 55.

Duty Disability Allowance. A member who becomes totally and permanently disabled from duty-connected causes is eligible to receive, subject to offsets, a duty disability allowance computed in the same manner as a full age and service allowance based upon the member's employment record to the time of disability with a minimum allowance before offset of 72% of FAS. The maximum allowance after offsets is 90% of final salary less amounts received from (i) Worker's Compensation, (ii) gainful employment as a law enforcement officer or firefighter, and (iii) Social Security disability income.

Non-Duty Disability Allowance. A member with 1 or more years of credited service who becomes totally and permanently disabled from other than duty-connected causes is eligible to receive a non-duty disability allowance computed in the same manner as a full age and service allowance, based upon the member's employment record to the time of disability. Minimum benefit for Police Officers is 48% of FAS if credited service is less than 20 years or 60% of FAS if credited service is 20 or more years. Minimum benefit for Police Command Officers is based on the earlier of (i) the date the member would have completed 20 (if credited service is less than 20 years) or 25 years of service (if credited service is 20 or more years) or (ii) the date the member would have reached 50 years of age. Minimum benefit for Firefighters is based on the earlier of (i) the date the member would have completed 20 (if credited service is less than 20 years) or 25 years of service (if credited service is 20 or more years) or (ii) the date the member would have reached 55 years of age.

Death-in-Service Benefits. Upon the death of a member, surviving dependents are eligible to receive the following benefits, subject to offsets for Worker's Compensation and Social Security.

- (a) The widow receives an allowance equal to the Option B-100 allowance (joint and 100% survivor actuarial equivalent benefit) which would have been payable to her had the deceased member retired the day preceding the date of his death and elected Option B-100. The minimum allowance payable to the widow is 20% of the member's FAS. If the death was determined to be duty-related, the minimum allowance payable to the widow is 72% of the member's final average salary (60% if the member was hired after June 30, 1992).
- (b) Dependent children under age 18 (up to age 23 if they are continuous full-time students) each are eligible to receive an allowance of 15% of the member's FAS. If there are 4 or more dependent children, each child receives an equal share of 50% of the member's FAS.
- (c) If there are neither a widow nor children, each dependent parent is eligible to receive an allowance equal to 15% of FAS.

Compensation. Compensation upon which members contribute includes base pay, longevity pay, educational increment and vacation pay, plus the following additional compensation items:

Firefighters: Overtime pay (assumed to be 4.2% for calendars years before 2010 and actual overtime in 2010 and later), holiday pay, clothing allowance, acting assignment pay, shop pay and shift pay.

Police Officers and Police Command Officers: Overtime pay, comp. payoff, holiday pay, clothing allowance, acting assignment, witness fees and shift pay.

The average of the additional compensation items is used to annually adjust the FAS Adjustment Factor. In addition, compensation will not include any amount that would cause the System to be in violation of IRC Sections 401(a) (17) or 415(d).

Member Contributions. Member contribution rates for Firefighters, Police Officers and Sergeants, and Police Command Officers shall be payable in accordance with the following table.

| System Funding Represented As a Percentage of Valuation Assets to Actuarial Accrued Liabilities | Firefighters 01/01/09-06/30/12 | Fire Chief After 09/05/10 | Police Chief and Deputy Police Chief 09/05/10-06/30/13 |
|--|---|--------------------------------------|---|
| Below 100% | 7.20% | 12.96% | 14.90% |
| 100% - 104.999% | 6.20% | 11.96% | 13.90% |
| 105% - 109.999% | 5.20% | 10.96% | 12.90% |
| 110% - 114.999% | 4.20% | 9.96% | 11.90% |
| 115+% | 3.20% | 8.86% | 10.90% |

Through June 30, 2013, the contribution rate for Police and Sergeants will be 5.86% and the contribution rate for Police Command will be 6.89%

Effective July 1, 2013, member contribution rates shall be payable in accordance with the following table.

| System Funding Represented As a Percentage of Valuation Assets to Actuarial Accrued Liabilities | | | | | | Police Chief and Deputy Police Chief |
|--|---------------------|-------------------|--|---------------------------|--------|---|
| | Firefighters | Fire Chief | Police Officers & Sergeants | Police Command | | |
| Below 100% | 7.75% | 12.96% | 9.86% | 9.69% | 14.90% | |
| 100% - 104.999% | 6.75% | 11.96% | 8.86% | 8.69% | 13.90% | |
| 105% - 109.999% | 5.75% | 10.96% | 7.86% | 7.69% | 12.90% | |
| 110% - 114.999% | 4.75% | 9.96% | 6.86% | 6.69% | 11.90% | |
| 115% - 119.999% | 3.75% | 8.86% | 5.86% | 5.69% | 10.90% | |
| 120% - 124.999% | 3.75% | 8.86% | 5.20% | 4.86% | 10.07% | |
| 125% - 129.999% | 3.75% | 8.86% | 5.54% | 4.03% | 9.24% | |
| 130% - 134.999% | 3.75% | 8.86% | 3.88% | 3.20% | 8.41% | |
| 135+% | 3.75% | 8.86% | 3.22% | 2.37% | 7.58% | |

The member contribution rates used for the December 31, 2011 valuation were 4.20%, 5.86%, 6.89%, 14.90%, and 12.96% for Firefighters, Police Officers and Sergeants, Police Command Officers, Police Chief and Deputy Police Chiefs, and Fire Chief respectively.

If a member terminates employment before any allowance is payable, accumulated contributions (contributions plus regular interest) are refunded.

Employer Contributions. The City contributes the remainder amounts necessary to maintain the Retirement System in sound financial condition in accordance with its funding objectives.

Automatic Post-Retirement Benefit Increases. Post-retirement benefit increases are paid to eligible groups as described in the following table.

| | Firefighters | Police Officer and Sergeants | Police Command |
|-------------------------|----------------------------------|---|---------------------------------------|
| Effective date | Retired on or after July 1, 2007 | Retired on or after December 17, 2008 | Retired on or after February 19, 2010 |
| Amount of increase | 1.5% of original benefit | 1.0% of original benefit | 1.0% of original benefit |
| First increase to occur | 2 years after retirement | 5 years after retirement | 5 years after retirement |

Benefit recipients who are eligible for the automatic post-retirement increase do not participate in the 13th check program.

13th Check. For members not eligible for automatic post-retirement increases, one-half of net investment income over 8% which is attributable to retired life assets is distributed annually (in January) to retired members and beneficiaries who have been on the retirement rolls for 5 years in the form of a 13th check. Net investment income is based on a book value rate of return averaged over the preceding 5 plan years. The distribution is in proportion to points. An individual's points are determined by multiplying (i) the number of full years of retirement, to a maximum of 15, by (ii) the number of years, and fractions thereof, of service at retirement. Subsequent to the calculations above, the benefit so calculated for Chief of Police, Deputy Chief, Police Command, Police Officers and Sergeants, Firefighter Service, and beneficiaries having had at least 10 years of service under either bargaining unit shall be increased by twenty percent.

DERIVATION OF SECTION 1.233(28) VALUATION ASSETS*

| Valuation Date December 31: | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| A. Funding Value Beginning of Year | \$346,472,441 | \$334,247,051 | \$328,609,947 | | | | |
| B. Market Value End of Year | 279,071,974 | 312,312,713 | 303,570,582 | | | | |
| C. Market Value Beginning of Year | 229,066,978 | 279,071,974 | 312,312,713 | | | | |
| D. Non-Investment Net Cash Flow | (15,622,950) | (12,455,498) | (9,141,984) | | | | |
| E. Investment Return: | | | | | | | |
| E1. Market Total: B-C-D | 65,627,946 | 45,696,237 | 399,853 | | | | |
| E2. Assumed Rate | 7.50% | 7.50% | 7.50% | | | | |
| E3. Amount for Immediate Recognition | 25,399,572 | 24,601,448 | 24,302,922 | | | | |
| E4. Amount for Phased-In Recognition | 40,228,374 | 21,094,789 | (23,903,069) | | | | |
| F. Phased-In Recognition of Investment Return: | | | | | | | |
| F1. Current Year: 0.2xE4 | 8,045,675 | 4,218,958 | (4,780,614) | | | | |
| F2. First Prior Year | (27,262,401) | 8,045,675 | 4,218,958 | \$(4,780,614) | | | |
| F3. Second Prior Year | (2,785,286) | (27,262,401) | 8,045,675 | 4,218,958 | \$(4,780,614) | | |
| F4. Third Prior Year | 0 | (2,785,286) | (27,262,401) | 8,045,675 | 4,218,958 | \$(4,780,614) | |
| F5. Fourth Prior Year | 0 | 0 | (2,785,285) | (27,262,403) | 8,045,674 | 4,218,957 | \$(4,780,613) |
| F6. Total Recognized Investment Gain (Loss) | (22,002,012) | (17,783,054) | (22,563,667) | (19,778,384) | 7,484,018 | (561,657) | (4,780,613) |
| G. Funding Value End of Year: A+D+E3+F6 | 334,247,051 | 328,609,947 | 321,207,218 | | | | |
| H. Difference Between Market & Funding Values | (55,175,077) | (16,297,234) | (17,636,636) | | | | |
| I. Recognized Rate of Return | 1.00% | 2.08% | 0.54% | | | | |
| J. Market Value Rate of Return | 29.66% | 16.75% | 0.13% | | | | |
| K. Ratio of Funding Value to Market Value | 119.8% | 105.2% | 105.8% | | | | |

* The Funding Value of Assets recognizes assumed investment return (line E3) fully each year. Differences between actual and assumed investment return (line E4) are phased in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. If assumed rates are exactly realized for 4 consecutive years, funding value will become equal to market value.

**SUMMARY OF CURRENT ASSET INFORMATION FROM AUDIT REPORT
FURNISHED FOR VALUATION DECEMBER 31, 2011**

BALANCE SHEET

| Valuation Assets | | | Reserves for |
|--|---------------|--------------------------------|---------------------|
| Cash, receivables, accruals and other short-term assets | \$ 4,986,149 | Member contributions (MDF) | \$ 31,843,231 |
| Stocks | 181,825,254 | Employer contributions (EAF) | 46,260,718 |
| Bonds | 53,941,204 | Retired benefit payments (BRF) | 193,606,183 |
| Mortgages | 22,459,995 | Undistributed income (IEF) | 1,724,104 |
| Other | 11,228,348 | Funding Value Adjustment | 47,772,982 |
| Accounts payable | (1,006,714) | | |
| Funding Value adjustment | 47,772,982 | | |
| Total Current Assets | \$321,207,218 | Total Reserves | \$321,207,218 |

REVENUES AND EXPENDITURES

| | December 31, 2011 |
|--------------------------------------|--------------------------|
| 1. Balance - Beginning of Year | \$328,609,947 |
| 2. Revenues: | |
| a. Employees' contributions | \$1,906,402 |
| b. Employer contributions | 7,851,051 |
| c. Investment income | 3,135,284 |
| d. Other | 0 |
| e. Total revenues | 12,892,737 |
| 3. Expenditures: | |
| a. Benefit payments | 18,627,899 |
| b. Supplemental pension distribution | 220,572 |
| c. Refund of member contributions | 50,966 |
| d. Expenses | 1,396,029 |
| e. Total expenditures | 20,295,466 |
| 4. Balance - End of Period: | \$321,207,218 |
| (1) + (2e) - (3e) | |

The derivation of Valuation Assets can be found on page B-8.

**RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
HISTORIC COMPARATIVE SCHEDULE**

| Year Ended | Added | | Removed | | End of Year | | Average Allowance | Expected Removals | |
|---------------|-------|----------------------|---------|----------------------|-------------|----------------------|----------------------|-------------------|----------------------|
| | No. | Annual Allowances | No. | Annual Allowances | No. | Annual Allowances | | No. | Annual Allowances |
| 09/30/86 | 17 | \$ 326,392 | 7 | \$ 31,347 | 390 | \$ 3,171,988 | \$ 8,133 | 17 | \$ 79,644 |
| 06/30/87 | 19 | 167,998 | 29 | 148,163 | 380 | 3,191,823 | 8,400 | 17 | 79,536 |
| 06/30/88 | 28 | 492,068 | 21 | 112,835 | 387 | 3,571,056 | 9,228 | 16 | 81,012 |
| 06/30/89 | 29 | 420,563 | 24 | 90,563 | 392 | 3,901,056 | 9,952 | 16 | 99,624 |
| 06/30/90 | 28 | 634,645 | 14 | 53,539 | 406 | 4,482,162 | 11,040 | 16 | 100,044 |
| 06/30/91 | 37 | 780,461 | 14 | 83,086 | 429 | 5,179,537 | 12,074 | 17 | 114,120 |
| 06/30/92 | 29 | 503,587 | 19 | 133,964 | 439 | 5,549,160 | 12,640 | 18 | 128,316 |
| 06/30/93 | 34 | 897,643 | 28 | 187,063 | 445 | 6,259,740 | 14,067 | 16 | 119,208 |
| 06/30/94 | 44 | 1,068,018 | 15 | 135,474 | 474 | 7,192,284 | 15,174 | 17 | 132,780 |
| 06/30/95 | 37 | 1,193,030 | 9 | 52,928 | 502 | 8,332,386 | 16,598 | 17 | 151,236 |
| 06/30/96 | 28 | 816,264 | 26 | 219,594 | 504 | 8,929,056 | 17,716 | 17 | 176,052 |
| 06/30/97 | 47 | 1,612,723 | 20 | 127,584 | 531 | 10,414,195 | 19,612 | 17 | 188,928 |
| 06/30/98 | 30 | 962,274 | 22 | 205,069 | 539 | 11,171,400 | 20,726 | 17 | 217,296 |
| 06/30/99 | 29 | 869,949 | 21 | 216,909 | 547 | 11,824,440 | 21,617 | 17 | 238,128 |
| 06/30/00 | 23 | 800,357 | 13 | 180,089 | 557 | 12,444,708 | 22,342 | 17 | 259,872 |
| 06/30/01 | 26 | 823,258 | 17 | 174,742 | 566 | 13,093,224 | 23,133 | 18 | 287,004 |
| 06/30/02 | 28 | 1,120,664 | 7 | 83,612 | 587 | 14,130,276 | 24,072 | 15 | 211,896 |
| 06/30/03 | 27 | 989,088 | 16 | 215,676 | 598 | 14,903,688 | 24,923 | 16 | 290,736 |
| 12/31/03 @ | 18 | 462,019 | 12 | 139,543 | 604 | 15,226,164 | 25,209 | 8 | 159,228 |
| 12/31/04 | 31 | 1,115,388 | 17 | 233,940 | 618 | 16,107,612 | 26,064 | 17 | 329,892 |
| 12/31/05 | 19 | 470,331 | 20 | 343,227 | 617 | 16,234,716 | 26,312 | 17 | 360,588 |
| 12/31/06 | 15 | 505,745 | 28 | 423,977 | 604 | 16,316,473 | 27,014 | 16 | 350,304 |
| 12/31/07 | 25 | 895,832 | 15 | 307,797 | 614 | 16,904,508 | 27,532 | 16 | 375,192 |
| 12/31/08 | 20 | 701,771 | 28 | 512,075 | 606 | 17,094,204 | 28,208 | 17 | 404,400 |
| 12/31/09 | 24 | 1,101,882 | 16 | 219,030 | 614 | 17,977,056 | 29,279 | 17 | 426,036 |
| 12/31/10 | 15 | 431,400 | 17 | 292,728 | 612 | 18,115,728 | 29,601 | 18 | 426,516 |
| 12/31/11 | 18 | 936,557 | 14 | 178,625 | 616 | 18,873,660 | 30,639 | 18 | 491,400 |
| 12/31/12 | | | | | | | | 19 | 536,460 |

@ One-half year ended December 31.

RETIRANTS AND BENEFICIARIES AS OF DECEMBER 31, 2011
TABULATED BY TYPE OF ALLOWANCE BEING PAID

| Type of Pensions Being Paid | No.* | Annual Pension | Annual Liability |
|---|------------|---------------------|----------------------|
| AGE AND SERVICE PENSIONS | | | |
| Regular pension - benefit terminating at death of retiree | 157 | \$ 5,285,592 | \$ 46,189,644 |
| Option B-100 - 100% joint & survivor (including pop-ups) | 81 | 3,033,396 | 35,957,856 |
| Option B- 75 - 75% joint & survivor (including pop-ups) | 95 | 3,534,576 | 38,185,368 |
| Option B- 50 - 50% joint & survivor (including pop-ups) | 60 | 2,369,508 | 24,807,984 |
| Survivor beneficiary of deceased retiree | 91 | 1,402,356 | 11,514,720 |
| Total age and service pensions | 484 | \$15,625,428 | \$156,655,572 |
| DISABILITY PENSIONS | | | |
| Regular pension - benefit terminating at death of retiree | 34 | \$ 1,117,932 | \$ 13,133,040 |
| Option B-100 - 100% joint & survivor (including pop-ups) | 25 | 755,088 | 9,729,756 |
| Option B- 75 - 75% joint & survivor (including pop-ups) | 11 | 389,784 | 5,233,968 |
| Option B- 50 - 50% joint & survivor (including pop-ups) | 15 | 477,312 | 5,665,800 |
| Survivor beneficiary of deceased retiree | 7 | 101,880 | 1,060,236 |
| Total disability pensions | 92 | \$ 2,841,996 | \$ 34,822,800 |
| DEATH-IN-SERVICE PENSIONS | 40 | 406,236 | 3,566,628 |
| Total Pensions Being Paid | 616 | \$18,873,660 | \$195,045,000 |

* Includes alternate payees under EDROs.

ALLOWANCES BEING PAID –DECEMBER 31, 2011
TABULATED BY ATTAINED AGES

| Attained Ages | Age & Service * | | Disability | | Death-in-Service | | Totals | |
|---------------|-----------------|--------------------|------------|--------------------|------------------|--------------------|------------|--------------------|
| | No. | Monthly Allowances | No. | Monthly Allowances | No. | Monthly Allowances | No. | Monthly Allowances |
| Under 40 | 2 | \$ 5,245 | 1 | \$ 2,140 | 8 | \$ 5,735 | 11 | \$ 13,120 |
| 40-44 | | | 5 | 13,371 | 2 | 3,008 | 7 | 16,379 |
| 45-49 | 1 | 460 | 10 | 28,733 | 1 | 1,266 | 12 | 30,459 |
| 50-54 | 26 | 88,858 | 17 | 55,482 | 2 | 3,166 | 45 | 147,506 |
| 55-59 | 33 | 143,108 | 21 | 67,302 | - | - | 54 | 210,410 |
| 60-64 | 55 | 197,301 | 11 | 23,241 | 2 | 1,381 | 68 | 221,923 |
| 65-69 | 104 | 314,595 | 13 | 28,026 | 5 | 5,498 | 122 | 348,119 |
| 70-74 | 82 | 239,379 | 9 | 14,100 | 5 | 2,377 | 96 | 255,856 |
| 75-79 | 59 | 137,404 | 3 | 3,175 | 4 | 4,340 | 66 | 144,919 |
| 80-84 | 62 | 109,600 | - | - | 5 | 4,956 | 67 | 114,556 |
| 85-89 | 43 | 53,508 | 2 | 1,263 | 3 | 882 | 48 | 55,653 |
| 90-94 | 14 | 11,111 | | | 2 | 1,117 | 16 | 12,228 |
| 95-99 | 2 | 1,182 | | | 1 | 127 | 3 | 1,309 |
| 100-104 | 1 | 368 | | | | | 1 | 368 |
| Total | 484 | \$1,302,119 | 92 | \$236,833 | 40 | \$33,853 | 616 | \$1,572,805 |

* Includes survivor beneficiaries.

| | <u>Service</u> | <u>Disability</u> | <u>Total</u> |
|-------------------|----------------|-------------------|--------------|
| Averages * | | | |
| Police | | | |
| Retirement Age | 54.1 years | 42.8 years | 52.0 years |
| Current Age | 69.1 years | 58.1 years | 67.0 years |
| Fire | | | |
| Retirement Age | 57.0 years | 48.8 years | 55.7 years |
| Current Age | 72.4 years | 59.4 years | 70.2 years |

* Averages do not include beneficiaries of death-in-service benefits.

INACTIVE VESTED MEMBERS – DECEMBER 31, 2011
ELIGIBLE FOR DEFERRED PENSIONS
TABULATED BY ATTAINED AGES

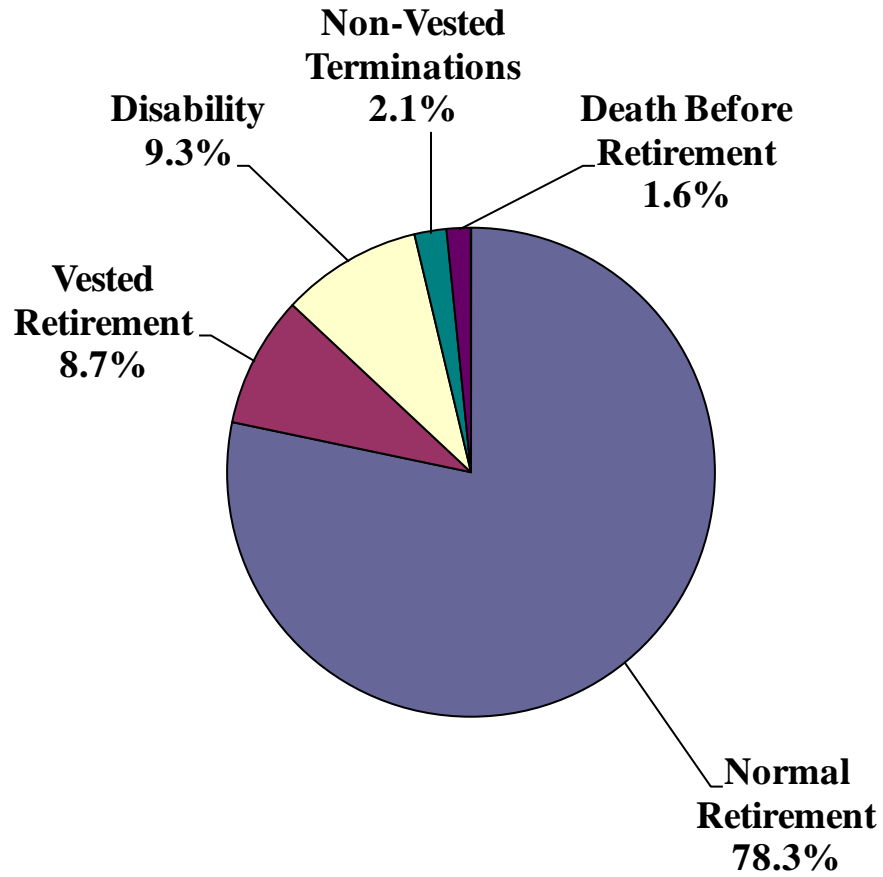
| Attained Ages | No. | Estimated Monthly Benefits |
|---------------|-----------|-------------------------------|
| Under 30 | | |
| 30-34 | | |
| 35-39 | 5 | \$ 9,129 |
| 40-44 | 7 | 15,865 |
| 45-49 | 12 | 28,804 |
| 50-54 | 1 | 3,248 |
| 55-59 | | |
| 60 + | | |
| Totals | 25 | \$57,046 |

**ACTIVE MEMBERS INCLUDED IN VALUATIONS
HISTORIC COMPARATIVE SCHEDULE**

| Year Ended | Active Members | Annual Payroll \$ Millions | Group Averages | | | |
|-----------------|-------------------|----------------------------------|----------------|----------|--------------|------------------|
| | | | Annual Pay | | Age Years | Service Years |
| | | | \$ | % Change | | |
| 09/30/80 | 569 | \$ 12.1 | \$21,243 | 4.1 % | 41.2 | 16.2 |
| 09/30/85 | 533 | 15.5 | 29,056 | 6.3 % | 41.3 | 16.3 |
| 06/30/88 | 531 | 16.8 | 31,719 | 4.4 % | 41.7 | 16.7 |
| 06/30/89 | 518 | 17.3 | 33,409 | 5.3 % | 42.2 | 17.2 |
| 06/30/90 | 492 | 17.2 | 34,908 | 4.5 % | 42.6 | 17.7 |
| 06/30/91 | 514 | 18.3 | 35,553 | 1.8 % | 41.6 | 16.4 |
| 06/30/92 | 523 | 19.7 | 37,627 | 5.8 % | 41.3 | 16.1 |
| 06/30/93 | 529 | 20.7 | 39,071 | 3.8 % | 40.8 | 15.4 |
| 06/30/94 | 554 | 22.2 | 40,139 | 2.7 % | 39.7 | 14.0 |
| 06/30/95 | 546 | 22.5 | 41,205 | 2.7 % | 38.7 | 13.2 |
| 06/30/96 | 600 | 25.0 | 41,609 | 1.0 % | 37.7 | 12.0 |
| 06/30/97 | 605 | 25.8 | 42,587 | 2.4 % | 36.8 | 10.9 |
| 06/30/98 | 614 | 26.6 | 43,394 | 1.9 % | 36.5 | 10.5 |
| 06/30/99 | 619 | 28.0 | 45,277 | 4.3 % | 36.7 | 10.5 |
| 06/30/00 | 620 | 29.9 | 48,187 | 6.4 % | 36.8 | 10.7 |
| 06/30/01 | 629 | 31.8 | 50,513 | 4.8 % | 37.0 | 10.8 |
| 06/30/02 | 622 | 32.5 | 52,265 | 3.5 % | 37.2 | 10.9 |
| 06/30/03 | 619 | 33.5 | 54,190 | 3.7 % | 37.5 | 11.1 |
| 12/31/03 @ | 608 | 33.1 | 54,443 | 0.5 % | 37.8 | 11.5 |
| 12/31/04 | 583 | 32.5 | 55,821 | 2.5 % | 38.3 | 11.8 |
| 12/31/05 | 576 | 33.4 | 57,999 | 3.9 % | 39.0 | 12.5 |
| 12/31/06 | 567 | 33.9 | 59,767 | 3.0 % | 39.7 | 13.2 |
| 12/31/07 | 545 | 32.9 | 60,289 | 0.9 % | 40.4 | 13.9 |
| 12/31/08 | 535 | 33.0 | 61,690 | 2.3 % | 41.0 | 14.5 |
| 12/31/09 | 506 | 33.5 | 66,187 | 7.3 % | 41.8 | 15.3 |
| 12/31/10 | 534 | 34.7 | 64,917 | (1.9)% | 41.9 | 15.4 |
| 12/31/11 | 536 | 34.6 | 64,490 | (0.7)% | 42.1 | 15.2 |
| 20-Year Average | | | | 2.7 % | | |

@ One-half year ended December 31.

**EXPECTED ULTIMATE DISPOSITION OF
CURRENT ACTIVE MEMBERS AS
AS OF DECEMBER 31, 2011**



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

| Year Ended | Added During Year # | Terminations During Year | | | | | | | | | | End of Year |
|-----------------------|---------------------|--------------------------|-------------|-----------------------|-------------|------------------|------------|------------|-----------|-----------|-------------|-------------|
| | | Normal Retirement | | Disability Retirement | | Death-in-Service | | Withdrawal | | | | |
| | | A | E | A | E | A | E | Vested | Other | Total | | |
| 06/30/95 | 34 | 35 | 25.6 | 4 | 1.8 | 1 | 1.1 | 0 | 2 | 2 | 6.2 | 546 |
| 06/30/96 | 78 | 17 | 22.1 | 5 | 1.7 | 0 | 0.9 | 0 | 2 | 2 | 6.3 | 600 |
| 06/30/97 | 56 | 39 | 22.4 | 3 | 1.6 | 0 | 0.9 | 0 | 9 | 9 | 7.4 | 605 |
| 06/30/98 | 43 | 21 | 16.4 | 2 | 1.6 | 0 | 0.9 | 2 | 9 | 11 | 7.8 | 614 |
| 06/30/99 | 34 | 13 | 13.5 | 3 | 1.7 | 1 | 0.9 | 0 | 12 | 12 | 8.0 | 619 |
| 06/30/00 | 30 | 13 | 13.5 | 2 | 1.7 | 0 | 0.9 | 2 | 12 | 14 | 7.8 | 620 |
| 06/30/01 | 36 | 12 | 11.8 | 4 | 1.8 | 1 | 0.5 | 2 | 8 | 10 | 7.7 | 629 |
| 06/30/02 | 19 | 17 | 11.0 | 4 | 2.5 | 0 | 0.5 | 0 | 5 | 5 | 6.5 | 622 |
| 06/30/03 | 21 | 13 | 9.0 | 4 | 3.1 | 0 | 0.4 | 2 | 5 | 7 | 7.2 | 619 |
| 12/31/03 @ | 0 | 5 | 4.5 | 1 | 1.6 | 2 | 0.2 | 1 | 2 | 3 | 3.6 | 608 |
| 12/31/04 | 9 | 17 | 8.9 | 3 * | 3.2 | 0 | 0.4 | 2 | 12 | 14 | 6.9 | 583 |
| 12/31/05 | 11 | 5 | 6.3 | 2 | 3.3 | 0 | 0.4 | 6 | 5 | 11 | 6.3 | 576 |
| 12/31/06 | 6 | 6 | 6.3 | 2 | 3.9 | 0 | 0.4 | 3 | 4 | 7 | 6.6 | 567 |
| 12/31/07 | 5 | 6 | 7.3 | 9 | 4.1 | 1 | 0.4 | 2 | 9 | 11 | 6.2 | 545 |
| 12/31/08 | 11 | 4 | 7.4 | 5 | 4.1 | 0 | 0.4 | 7 | 5 | 12 | 5.7 | 535 |
| 12/31/09 | 5 | 16 | 8.5 | 2 | 4.2 | 0 | 0.5 | 2 | 14 | 16 | 5.4 | 506 |
| 12/31/10 | 35 | 1 | 9.3 | 3 | 4.2 | 0 | 0.5 | 2 | 1 | 3 | 4.7 | 534 |
| 12/31/11 | 18 | 12 | 13.1 | 1 | 4.1 | 0 | 0.5 | 3 | 0 | 3 | 7.8 | 536 |
| 5 Year Totals | 74 | 39 | 45.6 | 20 | 20.7 | 1 | 2.3 | 16 | 29 | 45 | 29.8 | |
| 10 Year Totals | 121 | 85 | 80.6 | 32 | 35.8 | 3 | 4.1 | 30 | 57 | 87 | 60.4 | |

A = Actual

E = Expected

Includes data corrections.

@ One-half year ended December 31.

** Originally death-in-service, later changed to disability.*

ACTIVE POLICE MEMBERS – DECEMBER 31, 2011
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 | | | | | | | | | |
| 25-29 | 10 | 2 | | | | | | 12 | \$ 678,058 |
| 30-34 | 7 | 9 | 15 | | | | | 31 | 1,926,951 |
| 35-39 | 3 | 4 | 38 | 28 | | | | 73 | 4,767,128 |
| 40-44 | | 3 | 18 | 59 | 10 | | | 90 | 6,013,852 |
| 45-49 | | | 12 | 26 | 22 | 7 | | 67 | 4,566,435 |
| 50-54 | | | | 9 | 9 | 8 | 1 | 27 | 1,914,394 |
| 55-59 | | | | 1 | 1 | 1 | 4 | 7 | 505,765 |
| Totals | 20 | 18 | 83 | 123 | 42 | 16 | 5 | 307 | \$ 20,372,583 |

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

| | <u>Average Age</u> | <u>Average Service</u> | <u>Average Pay</u> | <u>Number</u> |
|------------|--------------------|------------------------|--------------------|---------------|
| Non-vested | 31.9 years | 4.6 years | \$59,740 | 38 |
| Vested | 42.8 years | 16.7 years | 67,295 | 269 |
| Totals | 41.4 years | 15.2 years | 66,360 | 307 |

ACTIVE FIRE MEMBERS - DECEMBER 31, 2011
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 | 7 | | | | | | | 7 | \$ 276,312 |
| 25-29 | 15 | 3 | | | | | | 18 | 805,502 |
| 30-34 | 14 | 6 | 3 | | | | | 23 | 1,191,293 |
| 35-39 | 2 | 9 | 13 | 1 | | | | 25 | 1,499,818 |
| 40-44 | 1 | 4 | 13 | 18 | 4 | | | 40 | 2,526,458 |
| 45-49 | | 1 | 8 | 18 | 14 | 12 | | 53 | 3,498,635 |
| 50-54 | | | 1 | 8 | 11 | 24 | 5 | 49 | 3,449,176 |
| 55-59 | | 1 | 1 | 2 | 2 | 5 | 1 | 12 | 825,575 |
| 60 | | | 1 | | | | | 1 | 60,670 |
| 63 | | | 1 | | | | | 1 | 60,670 |
| Totals | 39 | 24 | 41 | 47 | 31 | 41 | 6 | 229 | \$ 14,194,109 |

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

| | <u>Average Age</u> | <u>Average Service</u> | <u>Average Pay</u> | <u>Number</u> |
|------------|--------------------|------------------------|--------------------|---------------|
| Non-vested | 32.1 years | 3.6 years | \$49,835 | 63 |
| Vested | 47.2 years | 19.5 years | 66,594 | 166 |
| Totals | 43.1 years | 15.1 years | 61,983 | 229 |

SECTION C

SUMMARY OF VALUATION METHODS AND ASSUMPTIONS

VALUATION METHODS

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

- (i) The annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the portion 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.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over a period of 30 years.

Valuation Asset Method. Valuation Assets were determined using a method which phases-in each year's differences between actual and assumed investment return over a closed five year period.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION ADOPTED BY THE BOARD OF TRUSTEES

The actuary calculates contribution requirements and actuarial present values of the System by applying assumptions to the benefit provisions and census data information furnished, using the valuation methods described on the previous page.

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

- (i) Long-term rates of investment return to be generated by the assets of the System,
- (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 members, and
- (vi) the age patterns of actual retirement.

In 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.

Actual experience will not coincide exactly with assumed experience, regardless of the wisdom of the assumptions, or the skill of the actuary and the precision of the many calculations made. 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 it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year-to-year fluctuations).

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

| Service at Beginning of Year | Salary Increase Assumptions For an Individual Member | | |
|------------------------------------|---|--------------------|-----------------------|
| | Merit & Seniority | Base (Economic) | Increase Next Year |
| 1 | 17.0% | 3.5% | 20.5% |
| 2 | 7.0 | 3.5% | 10.5 |
| 3 | 6.0 | 3.5% | 9.5 |
| 4 | 5.0 | 3.5% | 8.5 |
| 5 | 4.0 | 3.5% | 7.5 |
| 6 and over | 1.0 | 3.5% | 4.5 |

These rates were first used for the December 31, 2010 valuation.

If the number of active members remains constant, then the total active member payroll will increase 3.5% annually, the base portion of the individual salary increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

The rate of investment return was 7.50% a year compounded yearly (net after expenses and before adjustment for the 13th check program). This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time. This assumption was first used for the December 31, 2010 valuation.

The assumed real return for funding purposes is the rate of return in excess of average salary increases.

The mortality table was the 1983 Group Annuity Mortality Table set back three years for males and two years for females. Related values are shown below.

| Sample Ages | Value at Retirement of \$1 Monthly for Life | | Future Life Expectancy (Years) | |
|----------------|--|----------|-----------------------------------|-------|
| | Men | Women | Men | Women |
| 50 | \$142.39 | \$149.52 | 31.90 | 36.81 |
| 55 | 135.01 | 143.78 | 27.42 | 32.10 |
| 60 | 125.92 | 136.25 | 23.13 | 27.48 |
| 65 | 114.57 | 126.63 | 19.02 | 23.02 |
| 70 | 101.23 | 114.62 | 15.23 | 18.76 |
| 75 | 87.08 | 100.30 | 11.92 | 14.81 |
| 80 | 72.40 | 85.10 | 9.08 | 11.40 |

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement. This assumption was first used for the December 31, 2005 valuation.

Based on observation from the most recent experience study, it appears that the current table provides a margin of 11% for future mortality improvements for males. There were insufficient numbers of female retired members to lend credibility to any comments regarding a margin for future mortality improvements.

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

| Retirement | | Retirement | |
|------------|---------|------------|---------|
| Ages | Percent | Ages | Percent |
| 50 | 25% | 60 | 50% |
| 51 | 25% | 61 | 60% |
| 52 | 25% | 62 | 70% |
| 53 | 25% | 63 | 80% |
| 54 | 25% | 64 | 90% |
| 55 | 25% | 65 | 100% |
| 56 | 25% | 66 | 100% |
| 57 | 25% | 67 | 100% |
| 58 | 25% | 68 | 100% |
| 59 | 25% | 69 | 100% |
| | | 70 | 100% |

A Police member is eligible for retirement after both attaining age 50 and completing 10 or more years of service. Fire members are eligible after attaining age 55 with 10 or more years of service or at the age their service reaches the service credit limit.

Rates of separation from active membership were as follows:

(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. These rates were first used for the December 31, 2010 valuation.

| Sample Ages | % of Active Members Separating Within Next Year | |
|------------------------|--|-------------|
| | Police | Fire |
| 25 | 4.60% | 2.76% |
| 30 | 3.80 | 2.28 |
| 35 | 2.60 | 1.56 |
| 40 | 1.80 | 1.08 |
| 45 | 1.40 | 0.84 |
| 50 | 1.20 | 0.72 |
| 55 | 1.20 | 0.72 |
| 60 | 1.20 | 0.72 |

The rates of disability were as follows:

| Sample Ages | % of Active Members Becoming Disabled Within Next Year | |
|------------------------|---|-------------|
| | Police | Fire |
| 20 | 0.08% | 0.16% |
| 25 | 0.08 | 0.16 |
| 30 | 0.08 | 0.16 |
| 35 | 0.18 | 0.36 |
| 40 | 0.39 | 0.78 |
| 45 | 0.70 | 1.40 |
| 50 | 1.12 | 2.24 |
| 55 | 1.67 | 3.34 |

| | | Duty Related | Non-Duty Related |
|----------------------|--------|---------------------|-------------------------|
| Cause of Disability: | Male | 90% | 10% |
| | Female | 90% | 10% |

SUMMARY OF ASSUMPTIONS USED
DECEMBER 31, 2011
MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption. 90% of males and 90% of females are assumed to be married for purposes of death-in-service benefits.

Pay Increase Timing. Beginning of (Fiscal) year. Reported pays represent amounts paid to members during the year ended on the valuation date.

Decrement Timing. Decrements of all types are assumed to occur mid-year.

Eligibility Testing. Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.

Benefit Service. Exact fractional service is used to determine the amount of benefit payable.

Decrement Relativity. Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.

Liability Adjustments. Retirement present values were increased by 12.2% and 9.0% for police and fire, respectively, to account for the FAS Adjustment Factor.

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 year based upon the computed percent of payroll shown in this report, and the actual payroll payable at the time contributions are made. New entrant normal cost contributions are applied to the funding of new entrant benefits.

SECTION D

BASIC FINANCIAL OBJECTIVE AND OPERATION OF THE RETIREMENT SYSTEM

BASIC FINANCIAL OBJECTIVE AND OPERATION OF THE RETIREMENT SYSTEM

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

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

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

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

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

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

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

. . . plus . . .

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

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

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

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

Contributions received on behalf of the group from members and the City

. . . plus . . .

Investment earnings on plan assets

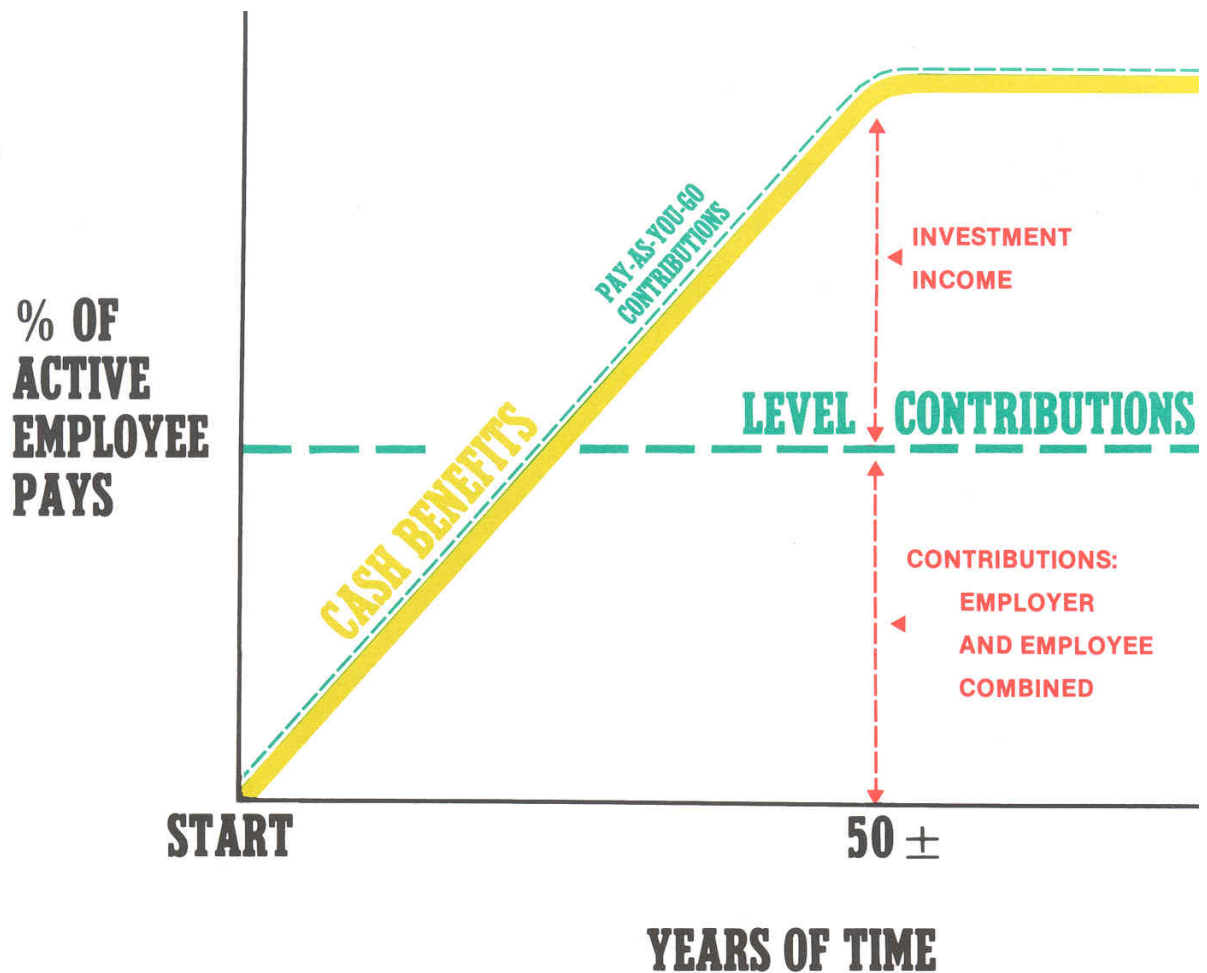
. . . minus . . .

Expenses incurred in operating the program.

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

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

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



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

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

Economic Risk Areas

- Rates of investment return
- Rates of pay increase
- Changes in active member group size

Non-Economic Risk Areas

- Ages at actual retirement
- Rates of mortality
- Rates of withdrawal of active members (turnover)
- Rates of disability

GLOSSARY

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

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

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

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

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

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

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

GLOSSARY

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

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

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

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

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

Valuation Assets. The value of current plan assets recognized for valuation purposes. Generally based on a phase-in of differences between actual and assumed market rates of return.

SECTION E

ACTUARIAL AND SUPPLEMENTAL INFORMATION REQUIRED BY STATEMENTS NO. 25 AND NO. 27 OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

This information is presented in draft form for review by the System's auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the System's financial statements.

**GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF FUNDING PROGRESS**

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Entry Age Actuarial Accrued Liability (b) | Unfunded Accrued Liability (UAL) (b)-(a) | Funded Ratio (a)/(b) | Annual Covered Payroll (c) | UAL as a Percentage of Covered Payroll [(b)-(a)]/(c) |
|--------------------------------|--|---|--|----------------------------|-------------------------------------|--|
| 6/30/1993 * | \$183,352,803 | \$163,269,094 | \$(20,083,709) | 112% | \$20,668,316 | 0% |
| 6/30/1994 | 193,060,013 | 169,840,090 | (23,219,923) | 114% | 22,236,842 | 0% |
| 6/30/1995 # | 201,964,374 | 180,559,832 | (21,404,542) | 112% | 22,497,795 | 0% |
| 6/30/1996 | 229,739,010 | 194,326,855 | (35,412,155) | 118% | 24,965,697 | 0% |
| 6/30/1997 | 255,391,009 | 208,649,541 | (46,741,468) | 122% | 25,764,970 | 0% |
| 6/30/1998 | 283,573,424 | 219,216,206 | (64,357,218) | 129% | 26,644,030 | 0% |
| 6/30/1999 | 302,315,206 | 226,814,077 | (75,501,129) | 133% | 28,026,397 | 0% |
| 6/30/2000 | 310,502,184 | 238,351,701 | (72,150,483) | 130% | 29,875,819 | 0% |
| 6/30/2001 #* | 305,328,814 | 249,233,407 | (56,095,407) | 123% | 31,772,454 | 0% |
| 6/30/2002 # | 287,125,896 | 265,750,488 | (21,375,408) | 108% | 32,508,791 | 0% |
| 12/31/2003 #@ | 301,845,219 | 276,065,502 | (25,779,717) | 109% | 33,101,130 | 0% |
| 12/31/2004 | 315,021,806 | 285,041,937 | (29,979,869) | 111% | 32,543,780 | 0% |
| 12/31/2005 * | 325,044,112 | 284,262,073 | (40,782,039) | 114% | 33,407,682 | 0% |
| 12/31/2006 | 350,154,501 | 292,906,422 | (57,248,079) | 120% | 33,887,922 | 0% |
| 12/31/2007 | 365,116,538 | 300,989,725 | (64,126,813) | 121% | 32,857,305 | 0% |
| 12/31/2008 # | 346,472,441 | 310,236,119 | (36,236,322) | 112% | 33,004,358 | 0% |
| 12/31/2009 # | 334,247,051 | 348,250,068 | 14,003,017 | 96% | 33,490,487 | 42% |
| 12/31/2010 * | 328,609,947 | 360,573,351 | 31,963,404 | 91% | 34,665,767 | 92% |
| 12/31/2011 | 321,207,218 | 365,300,394 | 44,093,176 | 88% | 34,566,692 | 128% |

* Revised actuarial assumptions.

Retirement System amended.

@ One-half year ended December 31.

**GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED ACTUARIAL INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

| Year Ended | Annual Required Contribution * |
|-------------------|---|
| 6/30/1992 | \$1,981,125 |
| 6/30/1993 | 544,188 |
| 6/30/1994 | 0 |
| 6/30/1995 | 0 |
| 6/30/1996 | 0 |
| 6/30/1997 | 0 |
| 6/30/1998 | 0 |
| 6/30/1999 | 0 |
| 6/30/2000 | 0 |
| 6/30/2001 | 0 |
| 6/30/2002 | 0 |
| 12/31/2003 @ | 525,966 |
| 12/31/2004 | 727,754 |
| 12/31/2005 | 192,259 |
| 12/31/2006 | 0 |
| 12/31/2007 | 0 |
| 12/31/2008 | 0 |
| 12/31/2009 | 0 |
| 12/31/2010 | 3,709,786 |
| 12/31/2011 | 7,851,051 |

@ One-half year ended December 31.

* Since it was reported to the actuary that the City's practice is to contribute the percent-of-payroll employer contribution rate shown in the actuarial valuation report, the annual required contributions shown in the Schedule of Employer Contributions are the actual contributions made by the City in the fiscal year.

GASB STATEMENTS NO. 25 AND NO. 27
REQUIRED SUPPLEMENTARY INFORMATION

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

| | |
|---|---|
| Valuation date: | December 31, 2011 |
| Actuarial cost method: | Individual entry age |
| Amortization method: | Level percent open |
| Remaining amortization period: | 30 years per City Commission |
| Asset valuation method: | 5 year smoothed market |
| Actuarial assumptions: | |
| Investment rate of return | 7.36% (7.50% for groups receiving annual postretirement increases, 7.25% for groups participating in the 13th check program) |
| Projected salary increases including inflation at | 20.5% - 3.5% 3.50% |
| Cost-of-living adjustments: | Ad hoc "13th check" tied to plan investments for benefit recipients who do not have an automatic benefit increase. 1.5% simple escalator for firefighter's retired on or after July 1, 2007 with commencement delayed 2 years after retirement. 1.0% simple escalator for police command officer retired on or after February 19, 2010 with commencement delayed 5 years after retirement. 1.0% simple escalator for police officers and sergeants retired on or after December 17, 2008 with commencement delayed 5 years after retirement. |

Membership of the plan consisted of the following at December 31, 2011, the date of the latest actuarial valuation:

| | |
|--|------------|
| Retirees and beneficiaries receiving benefits | 616* |
| Terminated plan members entitled to but not yet receiving benefits | 25 |
| Active plan members | <u>536</u> |
| Total | 1,177 |

* Includes alternate payees under Michigan Eligible Domestic Relations Order.

May 15, 2012


Ms. Peggy Korzen, Executive Director
City of Grand Rapids Police and Fire
Retirement System
233 East Fulton, Suite 216
Grand Rapids, Michigan 49503

Dear Peggy:

Enclosed are 25 copies of the December 31, 2011 Actuarial Valuation for the City of Grand Rapids Police and Fire Retirement System.

As always, your questions and comments are welcome.

Sincerely,



David L. Hoffman

DLH:rmn
Enclosures

cc: Plante & Moran, PLLC (+1 report copy)
Attention: Ms. Kelly Springer

Plante & Moran, PLLC
Attention: Ms. Kelly Springer
634 Front Avenue NW, Suite 400
Grand Rapids, MI 49504