



**CITY OF OMAHA
POLICE AND FIREFIGHTERS
RETIREMENT SYSTEM**

**Actuarial Valuation Report
as of January 1, 2003**



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November 7, 2003

Board of Trustees
City of Omaha
Police & Firefighters Retirement System
Omaha/Douglas Civic Center
1819 Farnam Street
Omaha, NE 68183

Re: January 1, 2003 Actuarial Report

Dear Members of the Board:

At your request, we have conducted our actuarial valuation of the City of Omaha Police & Firefighters Retirement System as of January 1, 2003. The major findings of the valuation are contained in this report. Changes in plan provisions, actuarial assumptions, or methods from the prior valuation are noted in the report.

In preparing our report, we relied, without audit, on information (some oral and some written) supplied by the Retirement System. This information includes, but is not limited to, plan provisions, member data and financial information. It should be noted that if any data or other information is inaccurate or incomplete, our calculations may need to be revised.

On the basis of the foregoing, we hereby certify that, to the best of our knowledge and belief, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted principles and practices which are consistent with the principles prescribed by the Actuarial Standards Board (ASB) and the Code of Professional Conduct and Qualification Standards for Public Statements of Actuarial Opinion of the American Academy of Actuaries.

We hereby further certify that all costs, liabilities, rates of interest and other factors for the System have been determined on the basis of actuarial assumptions and methods which are internally consistent, individually reasonable (taking into account the experience of the Plan and reasonable expectations of future experience); and which, in combination, offer our best estimate of anticipated experience under the Plan. Nevertheless, the emerging costs will vary from those presented in this report to the extent actual experience differs from that projected by the actuarial assumptions. The Retirement System has the final decision regarding the appropriateness of the assumptions and has adopted them as disclosed in this report.



Actuarial computations presented in this report are for purposes of determining the actuarial contribution rate for funding the Plan. Determinations for purposes other than this may be significantly different from the results contained in this report. Accordingly, additional determinations may be needed for other purposes. Any distribution of this report must be in its entirety including this cover letter, unless prior written consent from Milliman USA is obtained.

I, Gregg Rueschhoff A.S.A., am a member of the American Academy of Actuaries and an Associate of the Society of Actuaries, and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

We respectfully submit the following report and look forward to discussing it with you.

Sincerely,
MILLIMAN USA, Inc.

Gregg Rueschhoff, A.S.A.
Consulting Actuary
Member of the American Academy of Actuaries
Enrolled Actuary No. 02-4349

**CITY OF OMAHA POLICE & FIREFIGHTERS RETIREMENT SYSTEM
ACTUARIAL VALUATION REPORT**

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Board Summary

This report presents the results of the January 1, 2003 actuarial valuation of the City of Omaha Police & Firefighters Retirement System (the "System"). The primary purposes of performing the valuation are to:

- Determine the actuarial contribution rates required to fund the System on an actuarially sound basis,
- Disclose asset and liability measures as of January 1, 2003,
- Determine the experience of the System since the last valuation date, and
- Analyze and report on trends in System contributions, assets, and liabilities over the past two years.

Several significant changes occurred since the last actuarial valuation report was prepared, which impact the comparability of the results of the last valuation (2001) to the current valuation. The changes were:

- Change in the actuarial cost method
- Benefit improvements
- Change in the actuarial assumption for retirement

The actuarial valuation process calculates the liabilities of the system, which are the projected benefit payments expected to be paid to current members in the future. The projected benefit payments are then discounted at the investment return assumption to determine the "present value" of those benefit payments. The resulting amount is what would have to be invested today in order to have enough money to pay all benefits in the future, assuming all assumptions are met.

The actuarial cost method selected by the System effectively develops the methodology to fund this present value amount. The purpose of a funding method is to allocate the present value of future benefits into annual costs. In order to do this allocation, it is necessary for the funding method to "break down" the present value of future benefits into three components:

- (1) that which is attributable to the past (called the actuarial liability),
- (2) that which is attributable to the current year (called the normal cost) and
- (3) that which is attributable to the future (called the present value of future normal costs).

The various actuarial cost methods split the present value of future benefits differently, resulting in different normal cost rates and different actuarial liability amounts.

There is no single "correct" cost method. The various actuarial cost methods do, however, have different characteristics, advantages and disadvantages. The Entry Age Normal method is the only actuarial cost method whose costs are specifically developed as a level percentage of payroll for each individual member. As a result, the normal cost rate tends to be stable and is not dependent on the attained age of the members. It also directly calculates the actuarial liability each year, which permits analysis of actual versus expected experience for each plan year. This provides valuable information

Board Summary

from an actuarial perspective. Because of these characteristics, the Entry Age Normal method is the most commonly used actuarial cost method by public retirement systems.

The actuarial funding method was changed to the Entry Age Normal Cost Method effective with this valuation. This change was made to provide for a more stable contribution rate from year to year as compared to the prior cost method. More details on the Entry Age Normal Cost method can be found in Appendix C of this report.

There were two benefit improvements to the System since the last valuation. The Service Retirement Pension and Survivor's Pension for members who retire with 25 years of service increased from 55% in the last valuation to 69% in this valuation. In addition, this valuation reflects commencement of the COLA 13 months after the first pension payment as opposed to 36 months in the prior valuation. As a part of the benefit improvement package, the City and member contributions also increased from 16.50% and 10.885% to 18.75% and 13.14% respectively. In addition, the City continues to contribute a "past service" payment of \$1,327,600 annually through the year 2028. This valuation reflects these changes. More detail on the plan provisions is available in Appendix B of this report.

A change was made in the actuarial assumption used to predict member retirements. In prior actuarial valuations, the assumed rate of retirement was dependent on the member's age. It was assumed that members would retire at a fairly consistent rate from ages 50 through 62, without consideration for the members' years of service. However, the latest benefit change was to increase the benefit factor to 69% of pay at 25 years of service, with no additional benefits accruing after 25 years of service. Although it is too soon to determine how this change will affect retirement patterns, it is our belief that this plan design change will impact members' behavior and retirements will be concentrated at or near attainment of 25 years of service. The revised retirement rates reflect a concentration of retirements between 25 and 29 years of service. This change increased the actuarial contribution rate.

The valuation results provide a "snapshot" view of the System's financial condition on January 1, 2003. The valuation results reflect a significant increase in the Unfunded Actuarial Liability and, consequently, the Actuarial Contribution rate. As of January 1, 2003, the Actuarial Contribution rate is 40.55% of Covered Payroll as compared to 27.18% in the last valuation. In addition, the Unfunded Actuarial Liability is \$206.9 million, which was impacted by experience losses on investments and demographics, benefit improvements and the change in the assumed rate of retirements. Each component of change in the Actuarial Contribution Rate is identified in the table on page 4 of the Board Summary.

Numerous factors contributed to the change in the System's assets, liabilities and actuarial contribution rate between January 1, 2001 and December 31, 2002. Further discussion on each of these areas follows.

Board Summary

Assets

The market value of assets is not used directly in the actuarial calculation of the Plan's funded status and the recommended contribution. An asset valuation method is used to smooth the effects of market fluctuations. The actuarial value of assets is equal to 2/3 of the expected asset value (based on last year's actuarial value of assets, net cash flows and a rate of return equal to the actuarial assumed rate of 8.0%) plus 1/3 of the market value of assets.

As of January 1, 2003, the System had total funds, when measured on an actuarial value basis, of \$374.3 million. This was an increase of \$16.8 million from the January 1, 2001 figure of \$357.5 million. However, we expected an increase of \$59.6 million over that time period.

The components of the change in the actuarial value of assets (in millions) are set forth below:

	<i>Actuarial Value</i>	<i>Market Value</i>
Assets, January 1, 2001	\$ 357.5	\$ 361.5
• employer and member contributions	+ 47.0	+ 47.0
• benefit payments	- 46.9	- 46.9
• net investment income (expected)	+ 59.5	+ 60.1
• net investment actuarial gain/(loss)	<u>+ (42.8)</u>	<u>+ (107.6)</u>
Assets, December 31, 2002	\$ 374.3	\$ 314.1

See page 8 for the detailed development of the actuarial value of assets as of January 1, 2003.

Liabilities

The actuarial liability (also referred to as past service liability) is the portion of the present value of projected benefits that will not be paid by future employer normal costs. The difference between this liability and asset values at the same date is referred to as the unfunded actuarial liability (UAL).

As a result of a settlement of a lawsuit, the City has agreed to make extra contributions to the fund equal to \$1,327,600 per year through the year 2028. We refer to these payments as the "prior service payments" within this report. To determine the Unfunded Actuarial Liability for funding purposes, we have subtracted the present value of the prior service payments.

Board Summary

The calculation of the Unfunded Actuarial Liability as of January 1, 2003 is shown below:

Actuarial Liability	\$ 581,187,364
Actuarial Value of Assets	\$(374,252,476)
Unfunded Actuarial Liability (UAL)	\$ 206,934,888
Present Value of Prior Service Payments	\$ (14,593,006)
UAL for Funding Purposes	\$ 192,341,882

The unfunded actuarial liability will be reduced if the contributions exceed the normal cost for the year, after allowing for interest earned on the previous balance of the unfunded actuarial liability. Benefit improvements, actuarial gains and losses, and changes in actuarial assumptions and procedures will also impact the total actuarial liability and the unfunded portion thereof.

Contributions

Under the Entry Age Normal Method, contributions to the System consist of:

- a “normal cost” for the portion of projected liabilities attributable to service of members during the year following the valuation date, and
- an “unfunded actuarial liability” contribution for the excess of the portion of projected liabilities allocated to service to date over assets on hand.
- a “prior service” payment

The System’s total actuarially determined contribution rate (payable as a percentage of member payroll) increased by **13.37%** of pay, to **40.55%** on January 1, 2003, from 27.18% on January 1, 2001. The primary components of this change are as follows:

	Rate
Total Actuarial Contribution Rate, January 1, 2001	27.18%
• Benefit Improvements	4.50
• Actuarial (Gain)/Loss – Investment Experience	6.73
• Actuarial (Gain)/Loss – Demographic Experience	2.43
• Actuarial Method Change	(4.36)
• Change in Actuarial Assumptions	4.07
Total Actuarial Contribution Rate, January 1, 2003	40.55%

See page 10 for a detailed calculation of the Actuarial Contribution Rate as of January 1, 2003.

Board Summary

Observations

The City contributes 18.75% of payroll plus a past service payment of approximately 1.55% of payroll. This contribution rate is set in statute. Member contributions are 13.14% of payroll. The combined statutory contribution rate of 33.44% is 7.11% of payroll less than the Actuarial Contribution Rate of 40.55%. When the actual or statutory contribution rate is below the actuarially recommended contribution rate without a mechanism in the law to raise the statutory contribution rate in the future, the system is out of "actuarial balance". Said another way, the current assets plus the present value of future contributions are less than the present value of future benefits. If all assumptions are met in the future and contributions are not increased, the Unfunded Actuarial Liability (UAL) will grow steadily and the actuarial contribution rate will increase significantly.

The valuation shows that the current Actuarial Contribution Rate is less than the current statutory contribution rate and thus the System is not in "actuarial balance." This situation creates a long term funding concern. As the System's actuary we strongly recommend action be taken to increase future contributions to a level which will restore the System to actuarial balance. Due to recent negative investment experience and the delayed reflection of market experience in the actuarial value of assets, it is expected that additional actuarial losses will be reflected in the unfunded actuarial liability over the next few years, which will in turn exacerbate the long term funding concerns. It is in the System's best financial interest for additional contributions to begin as soon as possible.

Board Summary

Summary of Principal Results

	<u>2001</u> <u>Valuation</u>	<u>2003</u> <u>Valuation</u>	<u>%</u> <u>Change</u>
1. Participant Data			
Number of:			
Active Members	1,347	1,395	3.6%
Service Retirements	547	566	3.5%
Surviving Spouses and Children	232	253	9.1%
Disabled	261	270	3.4%
Deferred Vested	8	5	
Annual Salaries of Active Members	\$71,033,212	\$79,725,536	12.2%
Average Salary	52,734	57,151	8.4%
Average Age of Active Members	38.7	38.9	0.5%
2. Assets and Liabilities			
Total Actuarial Liability	N/A	\$581,187,364*	
Assets for Valuation Purposes	N/A	374,252,476	
Unfunded Actuarial Liability	N/A	206,934,888	
3. Contribution Rates			
Actuarial Contribution Rate	27.18%	40.55%*	
Member Contribution Rate	10.89%	13.14%	
Employer Contribution Rate	16.50%	18.75%	
Employer "Past Service" payment	1.76%	1.55%	
4. Shortfall/(Excess) Contributions			
Actuarial Contribution Rate	27.18%	40.55%*	
Statutory Contribution Rate	29.15%	33.44%	
Shortfall/(Excess)	(1.97%)	7.11%	
Expected Payroll for year	\$72,778,326	\$85,820,469	
Dollar Amount of Shortfall/(Overage)	\$ (1,433,733)	\$ 6,101,835	

* Calculated using Entry Age Normal cost method

**Plan Assets at Market Value
Increases since January 1, 2001**

Assets at January 1, 2001	\$361,495,219
Receipts:	
City Contributions – Current	26,644,313
City Contributions – Past Service	2,655,200
Employee Contributions	17,703,216
Investment Income	(42,851,376)
Total Receipts	\$4,151,353
Disbursements:	
Pensions Paid to Retirees	\$46,533,683
Death Benefits	219,326
Termination Withdrawals	162,322
Investment Fees	3,663,644
Other Fees	948,874
Total Disbursements	\$51,527,849
Assets at December 31, 2002 (Market Value)	\$314,118,723
Annualized Yield for the Two Year Period	
- Gross	-5.8%
- Net of Expenses	-6.4%

Actuarial Value of Assets

Neither the market value of assets, representing a “cash-out” value of Plan assets, nor the book values of assets, representing the cost of investments, may be the best measure of the System’s ongoing ability to meet its obligations.

To arrive at a suitable value for the actuarial valuation, a technique for determining the actuarial value of assets is used which dampens swings in the market value while still indirectly recognizing market values. The specific technique follows:

- Step 1:** Determine the expected value of plan assets at the current valuation date using the actuarial assumption for investment return and the actual receipts and disbursements of the fund since the previous actuarial valuation.
- Step 2:** Subtract the expected value determined in Step 1 from the total market value of the Fund at the current valuation date.
- Step 3:** Multiply the difference between market and expected values determined in Step 2 by 33%.
- Step 4:** Add the expected value of Step 1 and the product of Step 3 to determine the actuarial value of assets.

	<u>2001</u>	<u>2002</u>
1. Actuarial Value of Assets as of January 1	\$ 357,501,331	\$ 374,035,021
2. Actual Receipts/Disbursements		
a. Total Contributions	22,326,021	24,676,708
b. Benefit Payments	(22,586,246)	(24,329,085)
c. Net Change	(260,225)	347,623
3. Expected Investment Earnings	28,589,697	29,936,707
4. Expected Actuarial Value of Assets as of December 31	385,830,803	404,319,351
5. Market Value as of December 31	350,443,459	314,118,723
6. Difference Between Market and Expected Values	(35,387,344)	(90,200,628)
7. Actuarial Value of Assets as of December 31 (4 + 1/3 of 6)	\$ 374,035,021	\$ 374,252,476

Liabilities

UNFUNDED ACTUARIAL LIABILITY

The actuarial liability is the portion of the present value of future benefits which will not be paid by future normal costs. The actuarial value of assets is subtracted from the actuarial liability to determine the unfunded actuarial liability.

1. Entry Age Normal Actuarial Liability	\$581,187,364
2. Present Value of Prior Service Payments	14,593,006
3. Actuarial Value of Assets	374,252,476
4. Unfunded Actuarial Liability (3) - (4) - (5)	\$192,341,882

DEVELOPMENT OF ACTUARIAL CONTRIBUTION RATE

The actuarial cost method used to determine the required level of annual contributions to support the expected benefits is the Entry Age Normal Cost Method. Under this method, the total cost is comprised of the normal cost rate and the unfunded actuarial liability payment. The Plan is financed by contributions from members and the City.

1. (a) Normal Cost (Adjusted to Mid-Year)	\$ 23,157,484
(b) Covered Payroll for Members Under Assumed Retirement Age	\$ 85,820,469
(c) Normal Cost Rate (a) / (b)	26.98%
2. Unfunded Actuarial Liability/(Surplus) at Valuation Date	\$ 192,341,882
3. Amortization Factor to Pay UAL as a Level Percent of Payroll over 30 Years	19.37212
4. Unfunded Actuarial Liability/(Surplus) Payment (Adjusted to Mid-Year) [(2) / (3)] x 1.08 ^{1/2}	\$ 10,318,310
5. Prior Service Payment	\$ 1,327,600
6. Total Actuarial Contribution 1(a) + 4 + 5	\$ 34,803,394
7. Total Projected Payroll for the Year	\$ 85,820,469
8. Total Contribution as a Percent of Pay (6) / (7)	40.55%

GASB

Governmental Accounting Standards Board Disclosure SCHEDULE OF FUNDING PROGRESS

In accordance with Statement No. 25 of the Governmental Accounting Standards Board
(All Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets ² (a)	Actuarial Accrued Liability (AAL) ¹ (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (P/R) (c)	UAAL as a Percentage of Covered P/R [(b-a)/c]
6/30/91	\$142.4	\$203.6	\$61.2	69.9%	N/A	N/A
6/30/92	163.9	209.7	45.8	78.2%	49.0	93.5%
6/30/93	N/A	227.4	N/A	N/A	N/A	N/A
6/30/94	191.3	244.1	52.8	78.4%	55.2	95.7%
6/30/95	N/A	N/A	N/A	N/A	N/A	N/A
6/30/96	251.1	313.3	62.2	80.1%	64.5	96.4%
6/30/97	300.0	336.9	36.9	89.0%	N/A	N/A
6/30/98	349.2	378.5	29.4	92.2%	67.4	43.5%
12/31/98	355.3	386.2	30.98	92.0%	70.3	44.0%
12/31/99	356.9	411.1	54.2	86.8%	70.8	76.6%
12/31/00	361.5	425.1	63.6	85.0%	74.5	85.4%
12/31/01	350.4	452.3	101.9	77.5%	76.7	133%
12/31/02	374.2	581.2	207.0	64.4%	79.7	260%

¹ For periods prior to 12/31/02, this amount is based on the Projected Unit Credit method. The Aggregate method is used to determine the required contribution.

On and after 12/31/02, this amount is based on the Entry Age Normal funding method.

² Effective 12/31/02, the Actuarial Value of Assets is used. All prior years were based on the Market Value of Assets.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(All Dollar Amounts in Millions)

Fiscal Year Ending	Covered Employee Payroll ⁽¹⁾	Actual Employer Contributions	Actual Employer Contribution % ⁽²⁾	Annual Required Contribution (ARC) % ⁽³⁾	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/91	45.9	6.02	13.11	18.31	8.40	72%
6/30/92	49.0	6.42	13.11	18.31	8.97	72
6/30/93	52.1	6.83	13.11	18.31	9.54	72
6/30/94	55.2	7.07	12.81	16.47	9.09	78
6/30/95	59.8	7.66	12.81	16.47	9.85	78
6/30/96	64.5	10.98	17.02	20.22	13.04	84
6/30/97	69.2	11.78	17.02	20.22	13.99	84
6/30/98	67.4	11.50	17.06	15.77	10.63	108
12/31/98 ⁽⁴⁾	70.3	12.70	18.07	13.58	10.52	121
12/31/99	70.8	13.01	18.38	15.46	10.66	122
12/31/00	74.5	13.61	18.27	15.35	11.24	121
12/31/01	76.7	13.98	18.23	15.35	11.63	120
12/31/02	79.7	15.32	19.22	15.39	15.37	99

(1) Computed as the dollar amount of the actual employer contribution made as a percentage of payroll divided by the contribution rate, expressed as a percentage of payroll. Payroll is estimated for years where no valuation was done.

(2) The actual and required employer contributions are expressed as a percentage of payroll.

(3) The ARC (as a percentage of payroll) is assumed to remain the same as the prior year when no valuation was performed.

(4) Where applicable, these are annual amounts for the period 1/1/98 through 12/31/98.

**City of Omaha Police & Firefighters' Retirement System
Development of the Net Pension Obligation in Accordance with Statement No. 27
of the Governmental Accounting Standards Board**

	Fiscal Year Ended									
	06/30/94	06/30/95	06/30/96	06/30/97	06/30/98	12/31/98	12/31/99	12/31/00	12/31/01	12/31/02
Assumptions and Methods										
Interest Rate	8.50%	8.50%	8.50%	8.50%	8.50%	8.00%	8.00%	8.00%	8.00%	8.00%
Amortization Period (years)	15	15	15	15	15	15	15	15	15	15
Cost Method	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate	Aggregate
Annual Pension Cost:										
Annual Required Contribution (ARC)	9,522,289	9,256,542	11,645,537	13,372,313	12,130,894	9,545,452	10,943,105	11,439,320	11,738,696	15,392,189
Interest on NPO	0	232,183	399,399	582,664	744,035	741,784	622,503	434,172	244,243	56,158
Adjustment to ARC	0	(328,936)	(565,834)	(825,466)	(1,054,082)	(1,083,279)	(909,084)	(634,052)	(356,684)	(82,012)
Annual Pension Cost	9,522,289	9,159,789	11,479,102	13,129,511	11,820,847	9,203,957	10,656,524	11,239,440	11,626,255	15,366,335
Employer Contribution for the Year	6,790,726	7,192,536	9,323,049	11,231,031	11,301,890	6,099,534	13,010,651	13,613,563	13,977,312	15,322,201
Net Pension Obligation (NPO):										
NPO at beginning of year	0	2,731,563	4,698,816	6,854,869	8,753,349	9,272,306	7,781,283	5,427,156	3,013,032	701,976
Annual Pension Cost for year	9,522,289	9,159,789	11,479,102	13,129,511	11,820,847	4,608,511	10,656,524	11,239,440	11,626,255	15,366,335
Contributions for year	(6,790,726)	(7,192,536)	(9,323,049)	(11,231,031)	(11,301,890)	(6,099,534)	(13,010,651)	(13,613,563)	(13,977,312)	(15,322,201)
NPO at end of year	2,731,563	4,698,816	6,854,869	8,753,349	9,272,306	7,781,283	5,427,156	3,053,032	701,976	746,110

POLICE

	<u>January 1</u>	
	<u>2001</u>	<u>2003</u>
ACTIVE PARTICIPANTS	741	762
NON-ACTIVE PARTICIPANTS		
Service Retirements	253	255
Surviving Spouses	109	118
Surviving Children	10	12
Vested Terminated	4	2
Disabled		
- In Line of Duty	138	145
- Not in Line of Duty	14	15
ANNUAL COMPENSATION FOR ACTIVE PARTICIPANTS		
Total Annual Compensation	\$39,253,379	\$43,184,378
Average Per Participant	52,974	56,672
ANNUAL PENSION BENEFIT*		
Service Retirements	\$6,714,636	\$7,416,228
Surviving Spouses	942,684	1,108,935
Disabled		
- In Line of Duty	2,837,256	3,277,649
- Not in Line of Duty	284,004	338,419

* Pension Benefits paid from Pension Fund only.

FIREFIGHTERS

	<u>January 1</u>	
	<u>2001</u>	<u>2003</u>
ACTIVE PARTICIPANTS	606	633
NON-ACTIVE PARTICIPANTS		
Service Retirements	302	311
Surviving Spouses	107	113
Surviving Children	6	10
Vested Terminated	4	3
Disabled		
- In Line of Duty	96	97
- Not in Line of Duty	13	13
ANNUAL COMPENSATION FOR ACTIVE PARTICIPANTS		
Total Annual Compensation	\$31,779,833	\$36,541,158
Average Per Participant	52,442	57,727
ANNUAL PENSION BENEFIT*		
Service Retirements	\$8,312,652	\$9,950,381
Surviving Spouses	842,544	1,017,879
Disabled		
- In Line of Duty	2,033,112	2,171,937
- Not in Line of Duty	161,664	193,266

* Pension Benefits paid from Pension Fund only.

POLICE AND FIREFIGHTERS

	January 1	
	<u>2001</u>	<u>2003</u>
ACTIVE PARTICIPANTS	1,347	1,395
NON-ACTIVE PARTICIPANTS		
Service Retirements	555	566
Surviving Spouses	216	231
Surviving Children	16	22
Vested Terminated	8	5
Disabled		
- In Line of Duty	234	242
- Not in Line of Duty	27	28
ANNUAL COMPENSATION FOR ACTIVE PARTICIPANTS		
Total Annual Compensation	\$71,033,212	\$79,725,536
Average Per Participant	52,734	57,151
ANNUAL PENSION BENEFIT*		
Service Retirements	\$15,027,288	17,366,609
Surviving Spouses	1,785,228	2,126,814
Disabled		
- In Line of Duty	4,870,368	5,449,586
- Not in Line of Duty	445,668	531,685

* Pension Benefits paid from Pension Fund only.

Appendix A

Plan Statistics Comparison

	January 1	
	<u>2001</u>	<u>2003</u>
ACTIVE MEMBERS		
Average Attained Age	38.7	38.9
Average Hire Age	28.1	27.7
Average Past Service	10.6	11.2
Average Annual Compensation	\$52,734	\$57,151
NON-ACTIVE MEMBERS		
<i>Average Attained Age</i>		
Service Retirees	62.8	63.3
Disability Retirees		
- In Line of Duty	61.8	62.0
- Not in Line of Duty	67.2	64.5
Surviving Spouses	74.8	74.4
<i>Average Monthly Benefit</i>		
Service Retirees	\$2,256	\$2,557
Disability Retirees		
- In Line of Duty	1,734	1,876
- Not in Line of Duty	1,376	1,582
Surviving Spouses	689	767
VALUE OF PLAN ASSETS MARKET VALUE	\$361,495,219	\$314,118,723
VALUE OF PLAN ASSETS ACTUARIAL VALUE (\$ millions)	\$357,501,331	\$374,252,476

Appendix B

Summary of Plan Provisions

Average Final Monthly Compensation:

Section 22-63

Highest average monthly compensation during any consecutive twenty-six (26) pay periods out of the last five years of service as a member of the system for which service credit had been earned.

Member Contributions:

Section 22-73(a)

Section 22-68

13.135% of total monthly salary.

City of Omaha Contributions:

Section 22-73(b)

18.75% of each members total monthly salary.

In addition, the City shall make contributions of \$1,327,600 annually through the year 2028.

Service Retirement Eligibility:

Section 22-75

Available after age 55 and 10 years of service, age 50 and 20 years of service, or age 45 and 25 years of service.

Service Retirement Pension:

Section 22-76

Starting December 21, 2003, Lifetime monthly annuity as follows:

<u>Years of Service</u>	<u>Minimum Age</u>	<u>Percentage of Average Final Monthly Compensation</u>
10 but less than 15	55	20%
15 but less than 20	55	30%
20 but less than 25	50	49%
25 years	45	69%

Appendix B

Summary of Plan Provisions

Disability Retirement:

1. **In Line of Duty:**
Section 22-78

A member shall become entitled to the following benefits while permanently disabled.

<u>Years of Service</u>	<u>Percentage of Average Final Monthly Compensation</u>
Less than 25	50%
25	*

* Same as Service Retirement Pension

2. **Not in Line of Duty:**
Section 22-79

A member shall become entitled to the following benefits while permanently disabled.

<u>Years of Service</u>	<u>Percentage of Average Final Monthly Compensation</u>
Up to 10 years	10%
10 but less than 15	20%
15 but less than 20	30%
20 but less than 25	*
25 or more	*

Not payable while full salary continues.

* Same as Service Pension.

Spouse's Pension:

1. **Death of Active Member in Line of Duty:**

A monthly pension equal to 49% of the member's average final monthly compensation is paid to the surviving spouse if death occurs while the active member has less than 25 years of service. A monthly pension equal to 69% of the member's average final monthly compensation is paid to the surviving spouse if death occurs after the active member has 25 years or more of service.

Appendix B

Summary of Plan Provisions

2. Death of Active Member Not in Line of Duty:

The following monthly pension is paid to the surviving spouse.

<u>Years of Service at Death</u>	<u>Percentage of Average Final Monthly Compensation</u>
0-3	0%
3-10	35%
11	36.4%
12	37.8%
13	39.2%
14	40.6%
15	42.0%
16	43.4%
17	44.8%
18	46.2%
19	47.6%
20-25	49.0%
25+	69%

Benefit terminates upon remarriage of spouse.

3. Death of Member Eligible for Retirement or Death of Retired Member:
Section 22-82

75% of the pension the member was receiving or was eligible to receive at the time of death. Upon spouse's remarriage, all benefits cease.

Children's Pension:
Section 22-83

Upon the death of an active or retired member, the following benefit will be paid to the surviving children until age 18.

<u>Number of Dependent Children</u>	<u>Percentage of Average Final Monthly Compensation</u>
1	15%
2	30%
3	45%
4 or more	50%

Lump Sum Death Benefits:

1. Active Member without Eligible Dependents:
Section 22-84(a)

Accumulated member's contributions, or \$500 if greater.

Appendix B

Summary of Plan Provisions

2. **Retired Member without Eligible Dependents:**
Section 22-84(b) Accumulated member's contribution less previous pension payments made, or \$500 if greater.
3. **Active Member with Eligible Dependents:**
Section 22-84(c) An amount payable immediately, equal to one year's salary computed on the basis of the maximum monthly rate for patrolmen and firefighters, plus the deceased member's accumulated contributions less pension payments to his dependents, payable to the dependent who last ceases to receive pension benefits.
4. **Retired Member with Eligible Dependents:**
Section 22-84(c) \$1,000 payable immediately, plus the excess over \$1,000 if any, of the deceased member's accumulated **contributions less pension payments to the member** and his dependents, payable to the dependent who last ceases to receive pension benefits.

Vesting:

Section 22-86

Upon severance of employment by a member with less than 10 years of service and prior to obtaining eligibility under Section 22-75, a refund of such member's accumulated contributions.

Section 22-90

Upon severance of employment by a member before age 50 with more than 20 years of service and prior to obtaining eligibility under Section 22-75, the member may elect, in lieu of receiving a refund of contributions, to receive a monthly pension, according to the table below, commencing at age 55. Such deferred pension shall be based on service credited to the date of severance.

<u>Years of Service</u>	<u>Minimum Age</u>	<u>Percentage of Average Final Monthly Compensation</u>
10 but less than 15	55	20%
15 but less than 20	55	30%
20 but less than 25	50	49%
25 or more	45	69%

ACTUARIAL METHOD

Valuation of the plan use the "entry age-normal" cost method. Under this actuarial method, the value of future costs attributable to future employment of participants is determined. This is called present value of future normal costs. The following steps indicate how this is determined for benefits expected to be paid upon normal retirement.

1. The expected pension benefit at normal retirement is determined for each participant.
2. A normal cost, as a level percent of pay, is determined for each participant assuming that such level percent is paid from the employee's entry age into employment to his normal retirement. This normal cost is determined so that its accumulated value at normal retirement is sufficient to provide the expected pension benefits.
3. The sum of the normal costs for all participants for one year determines the total normal cost of the plan for one year.
4. The value of future payments of normal cost in future years is determined for each participant based on his years of service to normal retirement age.
5. The sum of the value of future payments of normal cost for all participants determines the present value of future costs.

The value of future costs attributable to past employment of participants, which is called the accrued liability is equal to the present value of benefits less the present value of future normal costs. The unfunded accrued liability is equal to the excess of the accrued liability over assets. The unfunded accrued liability is amortized as a level percent of pay over 30 years.

As experience develops with the plan, actuarial gains and actuarial losses result. These actuarial gains and losses indicate the extent to which actual experience is deviating from that expected on the basis of the actuarial assumptions. In each year, as they occur, actuarial gains and losses are recognized in the unfunded accrued liability as of the valuation date.

Appendix C

Actuarial Assumptions

Interest:	8.0% (net of investment expenses)
Salary Increases:	Merit increases based on age plus an inflation increase.
Service Retirement Age:	Ages 50 to 62.
Mortality:	
Active Members	1983 GAM Table.
Service Pensioners and Beneficiaries	1983 GAM Table.
Disabled	1983 GAM, set forward 10 years.
Disability:	Graduated rates by age.
Percent of Disabilities in Line of Duty:	85%
Medical Expenses for Disabilities in Line of Duty:	5% load on liability.
Percent Married at Death or Retirement:	75%
Percent with Dependents at Death:	77%
Average Number of Children per Married Member:	1
Turnover:	Graduated rates by age.
Assets:	Actuarial value of assets equal to 1/3 of market value, plus 2/3 of expected value.

SAMPLE RATES

Age	Mortality		Annual Rate	Turnover
			Disability	
	Males	Females		
20	.04%	.02%	.52%	1.41%
30	.06	.03	.59	1.69
40	.12	.07	1.04	.63
50	.39	.16	1.90	.00
60	.92	.42	2.89	.00

Salary Progression

Age	Average Annual % Increase
25	9.9%
30	7.6
35	6.8
40	6.0
45	5.8
50	5.6
55	5.5
60	5.4

Service Retirements

Assumed retirement rates are based on the number of years of credited service as follows:

Years of Service	Distribution	Annual Rate
Less than 25	0%	0%
25	50%	50%
26	25%	50%
27	15%	60%
28	5%	50%
29	5%	100%

Also, if a member was hired after age 37, then it is assumed that member would retire at the later of age 62 or 10 years of service.