

Employees Retirement System of the City of St. Louis

*Actuarial Valuation and Review
as of October 1, 2006*

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January 18, 2007

*Board of Trustees
Employees Retirement System of the City of St. Louis
St. Louis, Missouri*

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of October 1, 2006. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2006 and analyzes the preceding year's experience.

The census information on which our calculations were based was prepared by the System and the financial information was provided in the Report of the Secretary. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Thomas D. Levy, FSA, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate.

We look forward to reviewing this report at your next meeting and to answering any questions.

Sincerely,

THE SEGAL COMPANY

*By: _____
Lall Bachan, ASA, MAAA, EA
Senior Vice President and Actuary*

Thomas D. Levy, FSA, MAAA, EA
Senior Vice President and Chief Actuary

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SECTION 1: Valuation Summary for the Employees Retirement System of the City of St. Louis

Purpose

This report has been prepared by The Segal Company to present a valuation of the Employees Retirement System of the City of St. Louis as of October 1, 2006. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- The benefit provisions of the Pension Plan, as administered by the Board;
- The characteristics of covered active participants, inactive vested participants, and retired participants and beneficiaries as of October 1, 2006, provided by the Board;
- The assets of the System as of September 30, 2006, provided in the Report of the Secretary; and
- Actuarial assumptions, regarding investment earnings, future salary increases, employee terminations, retirement, death, etc., as chosen by the Board.

Significant Issues in Valuation Year

- In accordance with the ordinance, the scheduled contribution for the Plan year ended September 30, 2006 was \$29.5 million, or 13.17% of compensation. Actual contributions for the year ended September 30, 2006 totaled \$15.8 million. The failure to make the scheduled contribution increases the unfunded actuarial accrued liability and hence the scheduled contribution for future years. This year, however, greater than expected asset returns and favorable demographic experience offset most of the increase.
- The scheduled contribution for the current Plan year (October 1, 2006 through September 30, 2007) is \$29.6 million, or 13.21% of compensation. We suggest that the level of contributions to the Fund be made at the scheduled contribution level, consistent with the Ordinance.
- On a market value basis, the asset return for the year ended September 30, 2006 was 11.35%. Due to the deferral of recognition of a portion of the investment gains, the actuarial rate of return was 8.67%, compared to the 8.0% assumption. As of September 30, 2006, the actuarial value of assets (\$554.1 million) represents 97.6% of the market value (\$568.0 million).

SECTION 1: Valuation Summary for the Employees Retirement System of the City of St. Louis

- 79 members entered the DROP in the year ended September 30, 2006, compared to 123 in 2005 and 109 in 2004. During the past year, the sixth year of the DROP, 154 participants who were previously in the DROP left the program, either by commencing payment or by resuming benefit accruals. Therefore, as of October 1, 2006, 398 active members are participating in the DROP, compared to 473 active participants last year. The retirement pattern of DROP participants may be different from the general active population. We will monitor this experience carefully and recommend a change if the difference significantly affects the overall cost of the plan.

SECTION 1: Valuation Summary for the Employees Retirement System of the City of St. Louis

Summary of Key Valuation Results

	2006	2005
Contributions for plan year beginning October 1:		
Scheduled	\$29,599,091	\$29,478,032
Actual	--	15,756,456
Funding elements for plan year beginning October 1:		
Normal cost	\$16,732,809	\$16,894,273
Market value of assets	567,954,414	527,733,171
Actuarial value of assets	554,065,539	527,733,171
Actuarial accrued liability	695,889,716	666,182,075
Unfunded actuarial accrued liability	141,824,177	138,448,904
GASB 25/27 for plan year beginning October 1:		
Annual required contributions	\$29,599,091	\$29,478,032
Actual contributions	TBD	15,756,456
Percentage contributed	TBD	53.45%
Funded ratio	79.62%	79.22%
Covered payroll	\$224,120,314	\$223,837,003
Demographic data for plan year beginning October 1:		
Number of retired participants and beneficiaries	3,758	3,755
Number of vested former participants	2,434	2,392
Number of active participants	5,674	5,756
Total compensation	\$224,120,314	\$223,837,003
Average compensation	39,500	38,888

TBD = To be determined

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

A. PARTICIPANT DATA

The Actuarial Valuation and Review considers the number and demographic characteristics of covered participants, including active participants, vested terminated participants, retired participants and beneficiaries.

This section presents a summary of significant statistical data on these participant groups.

More detailed information for this valuation year and the preceding valuation can be found in Section 3, Exhibits A and B.

A historical perspective of how the participant population has changed over the past ten valuations can be seen in this chart.

CHART 1
Participant Population: 1997 – 2006

Year Ended September 30	Active Participants	Vested Terminated Participants*	Retired Participants and Beneficiaries	Ratio of Non-Actives to Actives
1997	5,928	1,728	3,950	0.96
1998	6,033	1,825	3,925	0.95
1999	5,947	1,942	3,861	0.98
2000	5,948	2,025	3,882	0.99
2001	5,980	2,072	3,848	0.99
2002	6,186	2,092	3,796	0.95
2003	6,035	2,150	3,860	1.00
2004	5,770	2,308	3,763	1.05
2005	5,756	2,392	3,755	1.07
2006	5,674	2,434	3,758	1.09

*Beginning in 2001, rehires are included in both the active and vested terminated participant counts.

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Active Participants

Plan costs are affected by the age, years of service and compensation of active participants. In this year's valuation, there were 5,674 active participants (including 398 DROP participants) with an average age of 46.9, average years of creditable service of 12.2 years and average compensation of \$39,500. The 5,756 active participants (including 473 DROP participants) in the prior valuation had an average age of 46.2, average service of 12.0 years and average compensation of \$38,888.

Inactive Participants

In this year's valuation, there were 2,434 participants with a vested right to a deferred or immediate vested benefit.

These graphs show a distribution of active participants by age and by years of creditable service.

CHART 2
Distribution of Active Participants by Age as of September 30, 2006

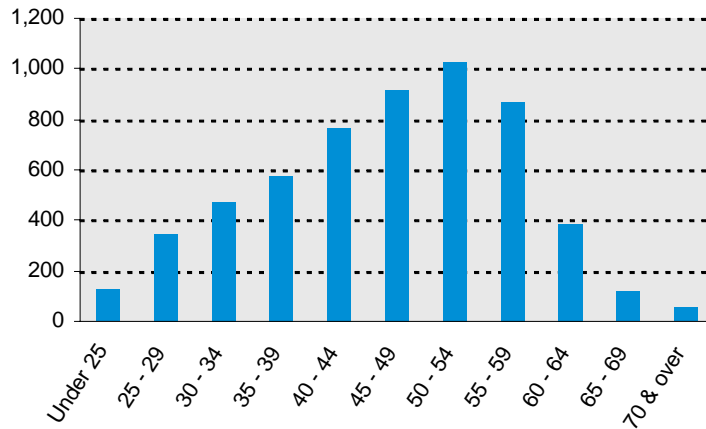
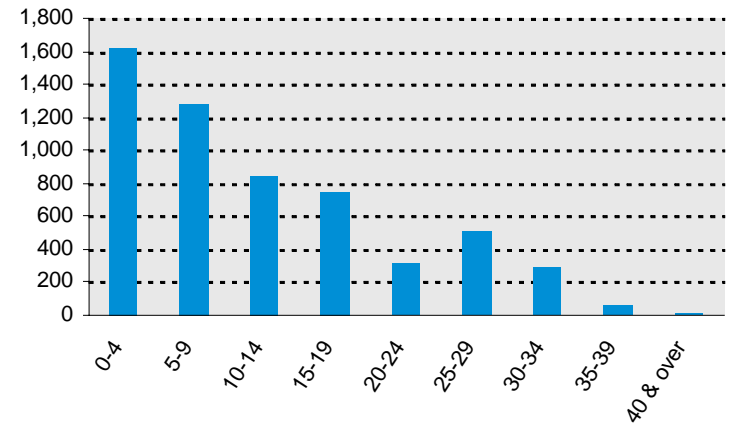


CHART 3
Distribution of Active Participants by Years of Creditable Service as of September 30, 2006



SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Retired Participants and Beneficiaries

As of September 30, 2006, 3,329 retired participants and 429 beneficiaries (not including DROP participants) were receiving total monthly benefits of \$2,730,780, including the January 1, 2007 cost-of-living adjustment. For comparison, in the previous valuation, there were 3,303 retired participants and 452 beneficiaries receiving monthly benefits of \$2,600,711.

These graphs show a distribution of the current retired participants and beneficiaries based on their monthly amount and age, by type of pension.

CHART 4
Distribution of Retired Participants and Beneficiaries by Type and by Monthly Amount as of September 30, 2006

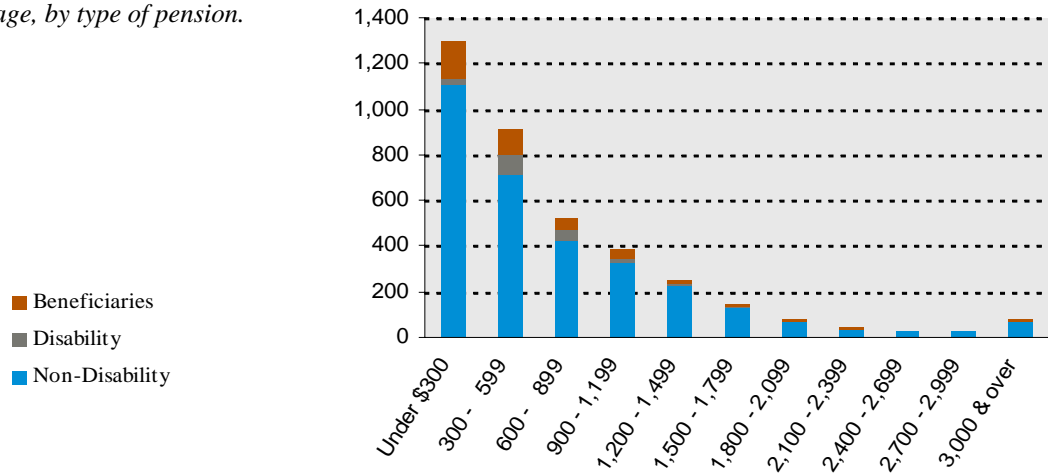
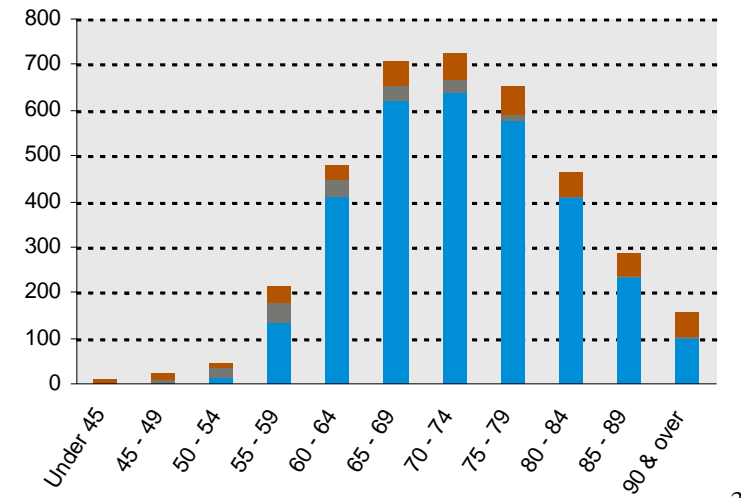


CHART 5
Distribution of Retired Participants and Beneficiaries by Type and by Age as of September 30, 2006



SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

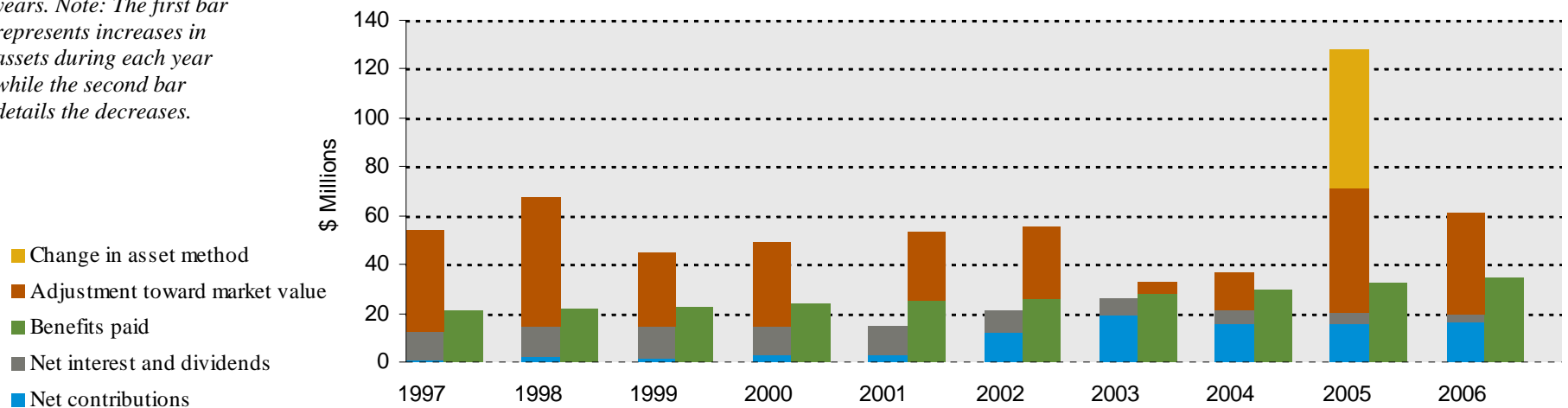
B. FINANCIAL INFORMATION

Retirement plan funding anticipates that, over the long term, both contributions and net investment earnings (less investment fees and administrative expenses) will be needed to cover benefit payments.

Retirement plan assets change as a result of the net impact of these income and expense components. Additional financial information, including a summary of these transactions for the valuation year, is presented in Section 3, Exhibits C and D.

The chart depicts the components of changes in the actuarial value of assets over the last ten years. Note: The first bar represents increases in assets during each year while the second bar details the decreases.

CHART 6
Comparison of Increases and Decreases in the Actuarial Value of Assets for Years Ended September 30, 1997 – 2006



SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

It is desirable to have level and predictable plan costs from one year to the next. For this reason, the Board has approved an asset valuation method that gradually adjusts to market value. As of October 1, 2005 the asset method was changed, with an initial value set to the market value of assets. Under this valuation method, the full value of market fluctuations is not recognized in a single year and, as a result, the asset value and the plan costs are more stable.

The amount of the adjustment to recognize market value is treated as income, which may be positive or negative. Realized and unrealized gains and losses are treated equally and, therefore, the sale of assets has no immediate effect on the actuarial value.

The chart shows the determination of the actuarial value of assets as of the valuation date.

**CHART 7
Determination of Actuarial Value of Assets for Year Ended September 30, 2006**

1. Market value of assets			\$567,954,414
	<u>Original</u>	<u>Unrecognized</u>	
2. Calculation of unrecognized return	<u>Amount*</u>	<u>Return**</u>	
(a) Year ended September 30, 2006	\$17,361,094	\$13,888,875	
(b) Year ended September 30, 2005	N/A	N/A	
(c) Year ended September 30, 2004	N/A	N/A	
(d) Year ended September 30, 2003	N/A	N/A	
(e) Year ended September 30, 2002	N/A	N/A	
(f) Total unrecognized return		<u> </u>	13,888,875
3. Preliminary actuarial value: (1) - (2f)			554,065,539
4. Adjustment to be within 20% corridor			0
5. Final actuarial value of assets: (3) + (4)			<u>\$554,065,539</u>
6. Actuarial value as a percentage of market value: (5) ÷ (1)			97.6%

*Total return minus expected return on a market value basis

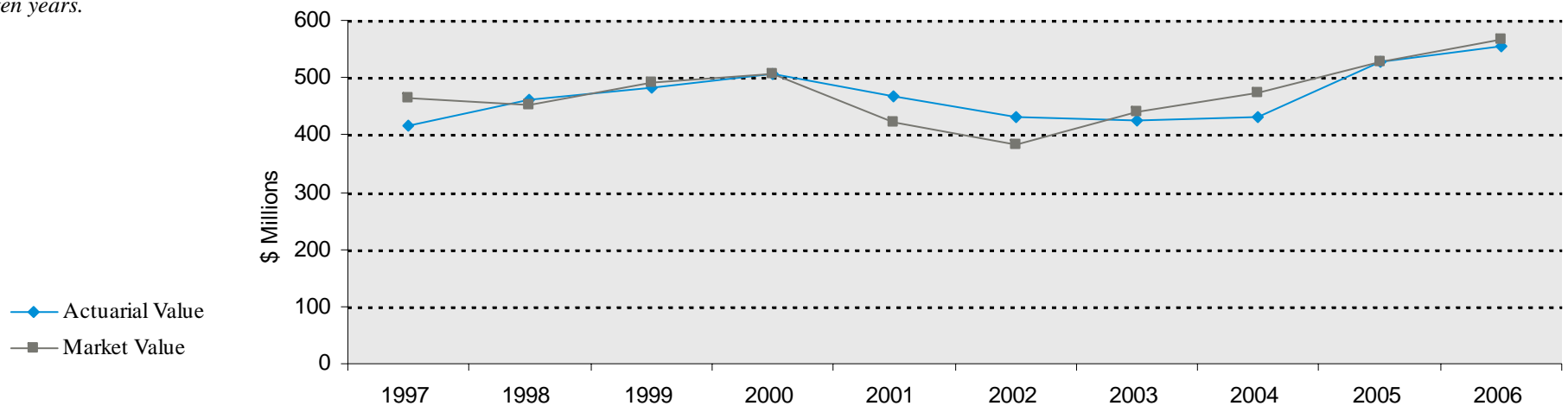
** Recognition at 20% per year over 5 years

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Both the actuarial value and market value of assets are representations of the Plan's financial status. As investment gains and losses are gradually taken into account, the actuarial value of assets tracks the market value of assets. The actuarial asset value is significant because the Plan's liabilities are compared to these assets to determine what portion, if any, remains unfunded. Amortization of the unfunded actuarial accrued liability is an important element in determining the contribution requirement.

This chart shows the change in the actuarial value of assets versus the market value over the past ten years.

CHART 8
Actuarial Value of Assets vs. Market Value of Assets as of September 30, 1997 – 2006



SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

C. ACTUARIAL EXPERIENCE

To calculate the required contribution, assumptions are made about future events that affect the amount and timing of benefits to be paid and assets to be accumulated. Each year actual experience is measured against the assumptions. If overall experience is more favorable than anticipated (an actuarial gain), the contribution requirement will decrease from the previous year. On the other hand, the contribution requirement will increase if overall actuarial experience is less favorable than expected (an actuarial loss).

Taking account of experience gains or losses in one year without making a change in assumptions reflects the belief that the single year's experience was a short-term

development and that, over the long term, experience will return to the original assumptions. For contribution requirements to remain stable, assumptions should approximate experience.

If assumptions are changed, the contribution requirement is adjusted to take into account a change in experience anticipated for all future years.

The total gain is \$9,311,666: \$3,472,219 from investments and \$5,839,447 from all other sources. The net experience variation from individual sources other than investments was 0.8% of the actuarial accrued liability. A discussion of the major components of the actuarial experience is on the following pages.

This chart provides a summary of the actuarial experience during the past year.

CHART 9
Actuarial Experience for Year Ended September 30, 2006

1. Net gain from investments*	\$3,472,219
2. Net gain from other experience**	<u>5,839,447</u>
3. Net experience gain: (1) + (2)	\$9,311,666

* Details in Chart 10

** Details in Chart 13

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Investment Rate of Return

A major component of projected asset growth is the assumed rate of return. The assumed return should represent the expected long-term rate of return, based on the Plan's investment policy. For valuation purposes, the assumed rate of return on the actuarial value of assets is 8.00%. The actual rate of return on an actuarial basis for the 2006 plan year was 8.67%.

Since the actual return for the year was greater than the assumed return, the Plan experienced an actuarial gain during the year ended September 30, 2006 with regard to its investments.

This chart shows the gain/(loss) due to investment experience.

CHART 10
Actuarial Value Investment Experience for Year Ended September 30, 2006

1. Actual return	\$44,946,315
2. Average value of assets	518,426,198
3. Actual rate of return: (1) ÷ (2)	8.67%
4. Assumed rate of return	8.00%
5. Expected return: (2) x (4)	\$41,474,096
6. Actuarial gain/(loss): (1) – (5)	<u>\$3,472,219</u>

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Because actuarial planning is long term, it is useful to see how the assumed investment rate of return has followed actual experience over time. The chart below shows the rate of return on an actuarial basis compared to the market value investment return for the last ten years, including five-year and ten-year averages.

CHART 11

Investment Return – Actuarial Value vs. Market Value: 1997 - 2006

Year Ended September 30	Net Interest and Dividend Income		Recognition of Capital Appreciation		Change in Asset Method		Actuarial Value Investment Return		Market Value Investment Return	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
1997	\$12,535,107	3.38%	\$41,030,387	11.05%	--	--	\$53,565,494	14.43%	\$94,185,458	24.88%
1998	13,156,159	3.25%	52,256,042	12.93%	--	--	65,412,201	16.18%	8,336,866	1.85%
1999	13,121,400	2.92%	30,043,185	6.69%	--	--	43,164,585	9.61%	61,556,347	13.99%
2000	12,386,611	2.63%	33,982,499	7.21%	--	--	46,369,110	9.84%	35,686,796	7.43%
2001	12,001,812	2.42%	-27,909,181	-5.63%	--	--	-15,907,369	-3.21%	-57,662,700	-11.68%
2002	9,146,847	1.99%	-28,958,738	-6.30%	--	--	-19,811,891	-4.31%	-26,532,945	-6.37%
2003	6,567,932	1.53%	-5,042,210	-1.17%	--	--	1,525,722	0.36%	66,296,658	17.54%
2004	5,966,120	1.43%	15,186,086	3.63%	--	--	21,152,206	5.06%	48,545,327	11.22%
2005	4,606,424	1.08%	50,831,750	12.00%	\$56,649,741	13.37%	112,087,915	26.45%	69,841,063	14.99%
2006	<u>3,707,172</u>	0.72%	<u>41,239,143</u>	7.95%	--	--	<u>44,946,315</u>	8.67%	<u>58,835,190</u>	11.35%
Total	\$93,195,584		\$202,658,963		\$56,649,741		\$352,504,288		\$359,088,060	
							Five-year average return	7.11%		9.81%
							Ten-year average return	7.94%		8.06%

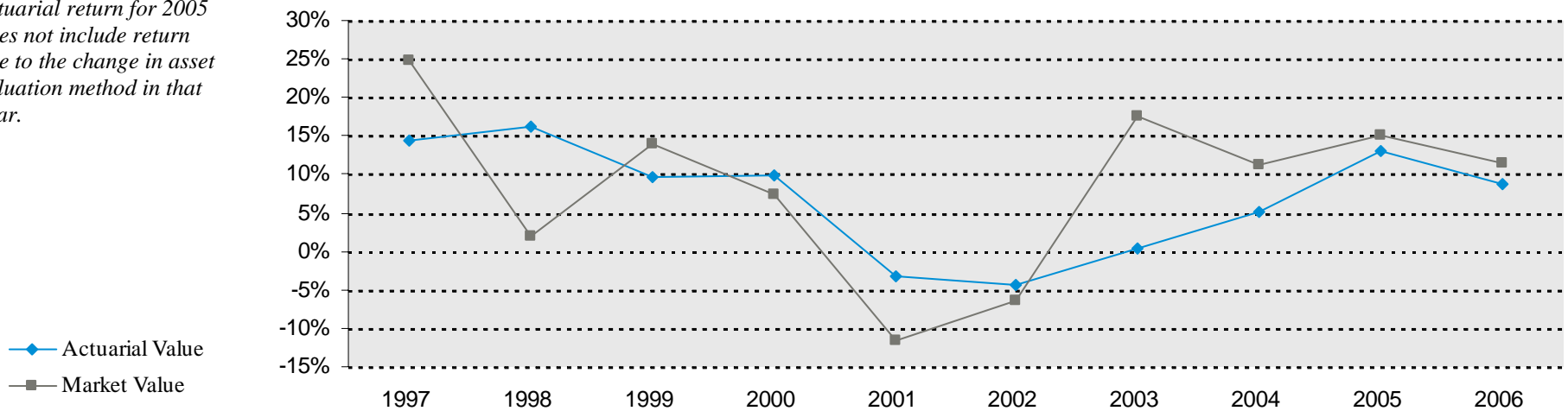
Note: Each year's yield is weighted by the average asset value in that year.

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Subsection B described the actuarial asset valuation method that gradually takes into account fluctuations in the market value rate of return. The effect of this is to stabilize the actuarial rate of return, which contributes to leveling pension plan costs.

This chart illustrates how this leveling effect has actually worked over the years 1997 - 2006. The actuarial return for 2005 does not include return due to the change in asset valuation method in that year.

CHART 12
Market and Actuarial Rates of Return for Years Ended September 30, 1997 - 2006



SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

Other Experience

There are other differences between the expected and the actual experience that appear when the new valuation is compared with the projections from the previous valuation. These include:

- the extent of turnover among the participants,
- retirement experience (earlier or later than expected),
- mortality (more or fewer deaths than expected),
- the number of disability retirements, and
- salary increases different than assumed.

The net gain from this other experience for the year ended September 30, 2006 amounted to \$5,839,447, which is 0.8% of the actuarial accrued liability.

A brief summary of the demographic gain/(loss) experience of the Plan for the year ended September 30, 2006 is shown in the chart below.

The chart shows elements of the experience gain/(loss) for the most recent year.

CHART 13

Experience Gain/(Loss) Due to Changes in Demographics for Year Ended September 30, 2006

1. Turnover	-\$1,754,989
2. Retirement (including DROP experience)	800,414
3. Deaths among retired members and beneficiaries	882,983
4. Salary increase for continuing actives	5,117,046
5. Miscellaneous	<u>793,993</u>
6. Total	\$5,839,447

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

D. SCHEDULED CONTRIBUTION

The amount of annual contribution required to fund the Plan is comprised of an employer normal cost payment and a payment on the unfunded actuarial accrued liability. This total amount is then divided by the projected compensation for active members to determine the funding rate. The funding rate is 13.21% of compensation as of October 1, 2006, compared to 13.17% as of October 1, 2005.

Section Eleven(3) of Ordinance #66511 requires that the unfunded actuarial accrued liability be amortized over 30 years. This period is reset to 30 each year.

The chart compares this valuation's scheduled contribution with the prior valuation.

CHART 14
Scheduled Contribution

	Year Beginning October 1			
	2006		2005	
	Amount	% of Compensation	Amount	% of Compensation
1. Total normal cost	\$16,732,809	7.47%	\$16,894,273	7.55%
2. Actuarial accrued liability	695,889,716		666,182,075	
3. Actuarial value of assets	<u>554,065,539</u>		<u>527,733,171</u>	
4. Unfunded actuarial accrued liability: (2) – (3)	\$141,824,177		\$138,448,904	
5. Payment on unfunded actuarial accrued liability, beginning of year	11,664,702	5.20%	11,387,093	5.09%
5. Total scheduled contribution: (1) + (5), adjusted for timing*	<u>\$29,599,091</u>	<u>13.21%</u>	<u>\$29,478,032</u>	<u>13.17%</u>
6. Projected compensation	\$224,120,314		\$223,837,003	

*Scheduled contributions are assumed to be paid at the end of every month.

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

The scheduled contribution as of October 1, 2006 is based on all of the data described in the previous sections, the actuarial assumptions described in Section 4, and the Plan provisions adopted at the time of preparation of the Actuarial Valuation. It includes all changes affecting future costs, adopted benefit changes, actuarial gains and losses and changes in the actuarial assumptions.

Reconciliation of Scheduled Contribution

The chart below details the changes in the scheduled contribution from the prior valuation to the current year's valuation.

The chart reconciles the contribution from the prior valuation to the amount determined in this valuation.

CHART 15
Reconciliation of Scheduled Contribution from October 1, 2005 to October 1, 2006

Scheduled Contribution as of October 1, 2005	\$29,478,032
Effect maintaining a fixed amortization period	-108,282
Effect of contributions less than scheduled contribution	1,203,014
Effect of investment gain	-300,317
Effect of other gains and losses on accrued liability	-505,061
Effect of net other changes, including composition and number of participants	<u>-168,295</u>
Total change	<u>\$121,059</u>
Scheduled Contribution as of October 1, 2006	\$29,599,091

SECTION 2: Valuation Results for the Employees Retirement System of the City of St. Louis

E. INFORMATION REQUIRED BY THE GASB

Governmental Accounting Standards Board (GASB) reporting information provides standardized information for comparative purposes of governmental pension plans. This information allows a reader of the financial statements to compare the funding status of one governmental plan to another on relatively equal terms.

Critical information to GASB is the historical comparison of the GASB required contribution to the actual contributions. This comparison demonstrates whether a plan is being funded within the range of the GASB reporting requirements. Chart 16 below presents a graphical representation of this information for the Plan.

The other critical piece of information regarding the Plan's financial status is the funded ratio. This ratio compares the

actuarial value of assets to the actuarial accrued liabilities of the plan as calculated under GASB. High ratios indicate a well-funded plan with assets sufficient to pay most benefits. Lower ratios may indicate recent changes to benefit structures, funding of the plan below actuarial requirements, poor asset performance, or a variety of other factors.

Although GASB requires that the actuarial value of assets be used to determine the funded ratio, Chart 17 shows the funded ratio calculated using both the actuarial value of assets and the market value of assets.

The details regarding the calculations of these values and other GASB numbers may be found in Section 4, Exhibits II, III, and IV.

These graphs show key GASB factors.

CHART 16
Required Versus Actual Contributions, Years Ended September 30

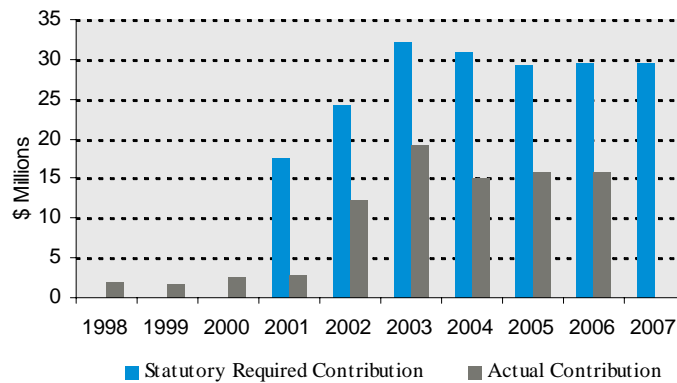
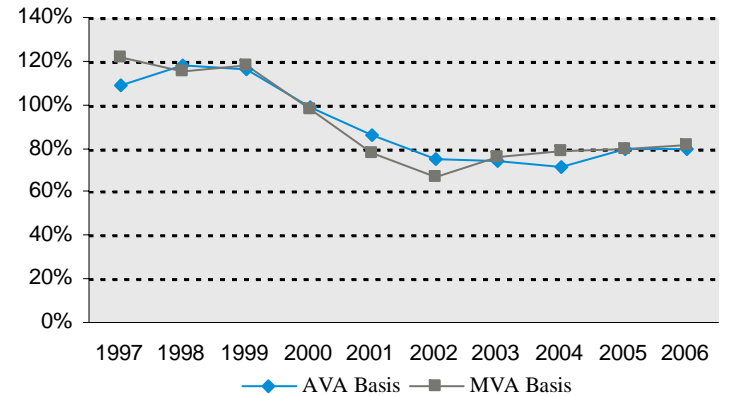


CHART 17
Funded Ratio, Years Ended September 30



SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT A

Table of Plan Coverage

Category	Year Ended September 30		Change From Prior Year
	2006	2005	
Active participants in valuation:			
Number	5,674	5,756	-1.4%
Average age	46.9	46.2	N/A
Average service	12.2	12.0	N/A
Total compensation	\$224,120,314	\$223,837,003	0.1%
Average compensation	39,500	38,888	1.6%
Total active vested participants	4,058	4,007	1.3%
Vested terminated participants	2,434	2,391	1.8%
Beneficiaries with rights to a deferred benefit	0	1	-100.0%
Retired participants:			
Number in pay status	3,329	3,303	0.8%
Average age	72.9	72.8	N/A
Average monthly benefit	\$737	\$705	4.5%
Beneficiaries in pay status	429	452	-5.1%
DROP participants*:			
Number in pay status	398	473	-15.9%
Average age	60.3	60.6	N/A
Average monthly benefit deposited to account	\$1,507	\$1,490	1.1%
Average account balance	\$43,173	\$44,424	-2.8%

* *DROP participants are also included in active participant status*

SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT B

**Participants in Active Service as of September 30, 2006
By Age, Years of Creditable Service, and Average Compensation**

Age	Years of Creditable Service									
	Total	0-4	5-9	10-14	15-19	20-24	25-29	30-34	35-39	40 & over
Under 25	126	126	--	--	--	--	--	--	--	--
	25,704	25,704	--	--	--	--	--	--	--	--
25 - 29	350	288	60	2	--	--	--	--	--	--
	30,393	30,017	32,063	34,496	--	--	--	--	--	--
30 - 34	476	270	182	24	--	--	--	--	--	--
	33,796	32,900	34,547	38,197	--	--	--	--	--	--
35 - 39	578	219	209	115	33	2	--	--	--	--
	34,764	31,701	35,589	38,243	37,715	35,218	--	--	--	--
40 - 44	767	180	204	176	160	45	2	--	--	--
	38,898	34,661	35,923	41,058	43,454	44,579	41,431	--	--	--
45 - 49	915	186	197	172	177	75	96	12	--	--
	40,307	31,374	38,412	40,847	44,749	46,903	46,587	45,120	--	--
50 - 54	1,029	161	188	153	162	89	189	87	--	--
	43,546	38,134	37,009	42,300	44,551	48,934	49,667	49,192	--	--
55 - 59	870	123	131	124	119	56	152	138	27	--
	44,428	31,455	37,709	41,393	44,414	52,035	53,127	51,638	48,514	--
60 - 64	389	43	79	46	58	34	57	47	22	3
	43,271	31,880	37,307	43,688	42,799	45,819	50,446	52,255	44,456	51,734
65 - 69	115	14	19	20	27	12	6	4	6	7
	40,387	38,649	32,342	39,292	42,154	48,840	59,732	42,081	32,644	36,608
70 & over	59	6	9	12	13	6	6	4	1	2
	40,849	29,445	39,534	41,191	35,347	51,717	49,759	43,492	63,336	38,818
Total	5,674	1,616	1,278	844	749	319	508	292	56	12
	\$39,500	\$32,104	\$36,275	\$40,912	\$43,659	\$48,017	\$50,295	\$50,498	\$45,484	\$40,758

SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT C

Summary Statement of Income and Expenses on an Actuarial Value Basis

	Year Ended September 30, 2006	Year Ended September 30, 2005
Contribution income:		
Employer contributions	\$15,756,456	\$15,752,497
Member purchase of additional service	<u>238,533</u>	<u>61,071</u>
Net contribution income	\$15,994,989	\$15,813,568
Investment income:		
Interest, dividends and other income	\$7,402,913	\$7,542,063
Adjustment toward market value	41,239,143	50,831,750
Less investment and administrative fees	<u>-3,695,741</u>	<u>-2,935,639</u>
Net investment income	<u>44,946,315</u>	<u>55,438,174</u>
Total income available for benefits	\$60,941,304	\$71,251,742
Less benefit payments:		
Retirement payments	-\$31,638,554	-\$29,863,972
DROP distributions	-2,917,700	-1,963,635
Contribution refunds	0	-140,347
Pension service transfer payments	-52,682	-58,722
Member contributions	<u>0</u>	<u>4,958</u>
Net benefit payments	-\$34,608,936	-\$32,021,718
Change in actuarial asset method	\$0	\$56,649,741
Change in reserve for future benefits	\$26,332,368	\$95,879,765

SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT D

Table of Financial Information

	Year Ended September 30, 2006	Year Ended September 30, 2005
Cash equivalents	\$142,984	\$156,576
Accounts receivable:		
Accrued interest and dividends	\$994,062	\$1,132,617
Contributions	<u>230,861</u>	<u>80,586</u>
Total accounts receivable	1,224,923	1,213,203
Investments:		
Debt securities	\$187,926,137	\$165,221,840
Managed funds	139,834,726	118,322,940
Common stock and other	<u>239,392,487</u>	<u>243,346,152</u>
Total investments at market value	<u>567,153,350</u>	<u>526,890,932</u>
Total assets	\$568,521,257	\$528,260,711
Less accounts payable	-\$566,843	-\$527,540
Net assets at market value*	<u>\$567,954,414</u>	<u>\$527,733,171</u>
Net assets at actuarial value*	<u>\$554,065,539</u>	<u>\$527,733,171</u>

**Includes \$29,133,963.68 DROP account balances in 2006 and \$23,124,005 in 2005*

SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT E

Development of Unfunded Actuarial Accrued Liability for Year Ended September 30, 2006

1. Unfunded actuarial accrued liability at beginning of year		\$138,448,904
2. Normal cost at beginning of year		16,894,273
3. Total contributions		-15,994,989
4. Interest		
(a) For whole year on (1) + (2)	\$12,427,454	
(b) For half year on (3)	<u>-639,800</u>	
(c) Total interest		<u>11,787,654</u>
5. Expected unfunded actuarial accrued liability		\$151,135,842
6. Changes due to:		
(a) (Gain)/loss	-\$9,311,665	
(b) Change in assumptions	0	
(c) Change in funding method	0	
(d) Change in plan provisions	<u>0</u>	
(e) Total changes		<u>-9,311,665</u>
7. Unfunded actuarial accrued liability at end of year		<u>\$141,824,177</u>

SECTION 3: Supplemental Information for the Employees Retirement System of the City of St. Louis

EXHIBIT F

Section 415 Limitations

Section 415 of the Internal Revenue Code (IRC) specifies the maximum benefits that may be paid to an individual from a defined benefit plan and the maximum amounts that may be allocated each year to an individual's account in a defined contribution plan.

A qualified pension plan may not pay benefits in excess of the Section 415 limits. The ultimate penalty for non-compliance is disqualification: active participants could be taxed on their vested benefits and the IRS may seek to tax the income earned on the plan's assets.

In particular, Section 415(b) of the IRC limits the maximum annual benefit payable at the Normal Retirement Age to a dollar limit of \$160,000 indexed for inflation. That limit is \$175,000 for 2006. Normal Retirement Age for these purposes is age 62. These are the limits in simplified terms. They must be adjusted based on each participant's circumstances, for such things as age at retirement, form of benefits chosen and after tax contributions.

Benefits in excess of the limits may be paid through a qualified governmental excess plan that meets the requirements of Section 415(m).

Legal Counsel's review and interpretation of the law and regulations should be sought on any questions in this regard.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT G

Definitions of Pension Terms

The following list defines certain technical terms for the convenience of the reader:

Assumptions or Actuarial

Assumptions:

The estimates on which the cost of the Plan is calculated including:

- (a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;
- (b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;
- (c) Retirement rates — the rate or probability of retirement at a given age;
- (d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost:

The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial Accrued Liability

For Actives:

The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability

For Pensioners:

The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued

Liability:

The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Amortization of the Unfunded

Actuarial Accrued Liability: Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

Investment Return:

The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial valuation purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT I

Summary of Actuarial Valuation Results

The valuation was made with respect to the following data supplied to us:

1. Retired participants as of the valuation date (including 429 beneficiaries in pay status)		3,758
2. Participants inactive during year ended September 30, 2006 with vested rights		2,434
3. Participants active during the year ended September 30, 2006 (including 398 DROP participants)		5,674
Fully vested	4,058	
Not vested	1,616	

The actuarial factors as of the valuation date are as follows:

1. Normal cost		\$16,732,809
2. Actuarial accrued liability		695,889,716
Retired participants and beneficiaries	\$295,581,168	
Inactive participants with vested rights	43,854,109	
Active participants	356,454,439	
3. Actuarial value of assets (\$567,954,414 at market value)		554,065,539
4. Unfunded actuarial accrued liability		\$141,824,177

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT I (continued)

Summary of Actuarial Valuation Results

The determination of the scheduled contribution is as follows:

1. Employer normal cost	\$16,732,809
2. Payment on unfunded actuarial accrued liability	11,664,702
3. Total scheduled contribution: (1) + (2), adjusted for timing	<u>\$29,599,091</u>
4. Projected compensation	\$224,120,314
5. Total Scheduled contribution as a percentage of projected compensation: (3) ÷ (4)	13.21%

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT II

Supplementary Information Required by the GASB – Schedule of Employer Contributions

Plan Year Ended September 30	Annual Required Contributions	Actual Contributions	Percentage Contributed
2001	\$17,492,110	\$2,768,207	15.8%
2002	24,269,937	12,106,532	49.9%
2003	32,186,050	19,115,679	59.4%
2004	30,926,604	15,158,997	49.0%
2005	29,243,453	15,752,497	53.9%
2006	29,478,032	15,756,456	53.5%
2007	29,599,091	--	--

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT III

Supplementary Information Required by the GASB – Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded/ (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll* [(b) - (a)] / (c)
10/01/2001	\$466,630,792	\$542,547,374	\$75,916,582	86.01%	\$216,527,124	35.06%
10/01/2002	432,590,313	574,817,702	142,227,389	75.26%	230,184,836	61.79%
10/01/2003	424,917,296	576,127,904	151,210,608	73.75%	228,550,406	66.16%
10/01/2004	431,853,406	602,795,470	170,942,064	71.64%	221,768,791	77.08%
10/01/2005	527,733,171	666,182,075	138,448,904	79.22%	223,837,003	61.85%
10/01/2006	554,065,539	695,889,716	141,824,177	79.62%	224,120,314	63.28%

* Not less than zero

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EXHIBIT IV

Supplementary Information Required by the GASB

Valuation date	October 1, 2006
Actuarial cost method	Projected Unit Credit Cost Method
Amortization method	Level dollar amount for unfunded liability, open
Remaining amortization period	30 years as of October 1, 2006
Asset valuation method	The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Unrecognized return is equal to the difference between the actual market return and the expected market return, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of market value. The actuarial asset value was initialized at market value as of October 1, 2005.

Actuarial assumptions:

Investment rate of return	8.00%
Projected salary increases	Varies by age, ranging from 3.825% to 7.226%
Cost of living adjustments	5.00% per year; maximum cumulative increase of 25%

Plan membership:

Retired participants and beneficiaries receiving benefits	3,758
Terminated participants entitled to, but not yet receiving benefits	2,434
Active participants	<u>5,674</u>
Total	11,866

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT V

Actuarial Assumptions and Actuarial Cost Method

Mortality Rates:

Healthy: 1994 Group Annuity Mortality Table

Disabled: 1983 Railroad Retirement Board Disabled Life Mortality Table

Mortality and Disability Rates before Retirement:

Age	Mortality Rate (%)		Disability Rate (%)	
	Male	Female	Male	Female
20	0.05	0.03	0.00	0.00
25	0.07	0.03	0.00	0.00
30	0.08	0.04	0.00	0.00
35	0.09	0.05	0.00	0.00
40	0.11	0.07	0.14	0.06
45	0.16	0.10	0.21	0.12
50	0.26	0.14	0.63	0.30
55	0.44	0.23	0.77	0.42
60	0.80	0.44	0.49	0.30

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Withdrawal Rates before Retirement:

Withdrawal Rate (%)					
With Less Than Four Years of Creditable Service			With Four or More Years of Creditable Service		
Creditable Service	Male	Female	Age	Male	Female
0	25.0	22.5	20	25.00	13.90
1	17.0	16.0	25	17.80	12.34
2	13.0	13.0	30	10.24	9.14
3	11.5	10.5	35	7.38	6.74
			40	5.74	5.56
			45	4.44	4.78
			50	3.64	3.84
			55	3.16	3.16

Retirement Rates:

Age	Retirement Rate (%)	Age	Retirement Rate (%)
55	6.0	63	15.0
56	3.5	64	20.0
57 – 59	5.0	65	40.0
60	10.0	66	25.0
61	15.0	67 – 69	20.0
62	25.0	70	100.0

In addition, the first year that a participant satisfies the requirements under the “Rule of 85,” retirement is assumed to occur at the greater of 65% or the age-related rate in the table above.

Retirement Age for Inactive Vested Participants:

For members who terminate employment with 30 or more years of creditable service or are eligible for a Rule of 85 pension, immediate commencement of benefits is assumed. All others are assumed to retire at age 62.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

DROP Participants: Participants in the DROP are assumed to remain in the DROP for 5 years. The standard retirement rates are assumed. Interest to the DROP account is assumed to be creditable at 6% for those participants who enter the DROP after January 21, 2003.

Unknown Data for Participants: Same as those exhibited by participants with similar known characteristics. For inactive vested participants with unknown benefit amounts, \$250 per month is assumed.

Rehires: A 0.4% load on active accrued liability and normal cost has been added to reflect the cost of rehires.

Sick Leave: Sick leave may be used to increase either Final Average Compensation, Creditable Service, or both. The valuation assumes:

- 25 hours accrued each year
- 50% of accrued hours are “banked”
- 50% of banked hours are used first to increase Final Average Compensation
- The remainder of available banked hours is used to increase Creditable Service

Percent Married: 1960 U.S. census, varies by sex and age

Age of Spouse: Females (or males) are three years younger (or older) than their spouses

Net Investment Return: 8.00% per year, net of expenses

Salary Increases: Varies by age, ranging from 3.825% to 7.226%

Increase in Social Security Taxable Wage Base: 3.5% per year

Cost-of-Living Adjustment: 5% per year for 5 years

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Actuarial Value of Assets: The market value of assets less unrecognized returns in each of the last five years, but no earlier than October 1, 2005. Initial unrecognized return is equal to the difference between the actual market return and expected market return, and is recognized over a five-year period. The actuarial value is further adjusted, if necessary, to be within 20% of the market value. The actuarial asset value was initialized at the market value as of October 1, 2005.

Actuarial Cost Method: Projected Unit Credit Actuarial Cost Method

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

EXHIBIT VII

Summary of Plan Provisions

This exhibit summarizes the major provisions of the Plan included in the valuation. It is not intended to be, nor should it be interpreted as, a complete statement of all plan provisions.

Plan Year: October 1 through September 30

Final Average Compensation: One-half the sum of:

- (a) The total compensation earned during the last two highest consecutive years of Creditable Service prior to termination (subject to the Section 401(a)(17) limit); and
- (b) The balance of sick leave pay as of the date of retirement less sick leave hours paid upon termination and less sick leave hours considered as Creditable Service. Said balance cannot exceed 25% of a member's total sick leave pay as of the date of retirement.

Benefit Compensation Base: Amount of annual compensation with respect to which old age and survivor's insurance benefits would be provided under the Social Security Act as revised on December 1, 1973 to become effective in 1974 (old law) calculated when the member terminates employment.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Normal Retirement:

<i>Age Requirement</i>	65
<i>Service Requirement</i>	Five years of Creditable Service
<i>Amount</i>	The product of: (a) 1.30% of Final Average Compensation up to the Benefit Compensation Base, plus 2.05% of Final Average Compensation in excess of the Benefit Compensation Base, and (b) Creditable Service Minimum \$200 per month for retirees with 12 or more years of service.

Rule of 85 Retirement:

<i>Age and Service Requirement</i>	Sum of Age and Creditable Service at date of termination equals or exceeds 85
<i>Amount</i>	The product of: (a) 1.30% of Final Average Compensation plus 0.75% of Final Average Compensation in excess of the Benefit Compensation Base, and (b) Creditable Service

Early Service Retirement:

<i>Age and Service Requirement</i>	Age 60 with five years of Creditable Service; or age 55 with 20 years of Creditable Service; or any age with 30 years of Creditable Service
<i>Amount</i>	Normal retirement amount reduced by 1/3% for each month benefit begins before age 65.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Disability:

<i>Age Requirement</i>	None
<i>Service Requirement</i>	Five years of Creditable Service and an active employee at disablement
<i>Amount</i>	Normal retirement amount based on Creditable Service and Final Average Compensation at disability, payable immediately

DROP (Deferred Retirement Option Plan):

Members who have achieved eligibility for retirement can continue active employment and defer receipt of their retirement allowance for a period not to exceed five years. During the DROP period, the member's retirement allowance will be paid directly into a separate account.

Service during the DROP period shall not be counted as Creditable Service, nor shall it count toward determination of retirement allowance. A member's DROP account shall not be adjusted for any cost-of-living increases during participation in the DROP. No member returning to non-DROP status shall make any withdrawal from his/her DROP account until after termination of employment.

The account balance is credited with interest annually. In no event does the total account balance exceed the accumulated value of five-years-payments with interest.

The annuity awarded upon full termination and subsequent benefit receipt reflects the unused sick-leave conversion to Creditable Service and/or Final Average Compensation. During participation in the DROP, the annual deposit to the account does NOT reflect any conversion of unused sick leave as each participant continues to accrue sick leave hours.

Vesting:

<i>Age Requirement</i>	None
<i>Service Requirement</i>	Five years of Creditable Service
<i>Amount</i>	Normal or early service retirement amount

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Spouse's Pre-Retirement Death Benefit:

<i>Age Requirement</i>	None
<i>Service Requirement</i>	Five years of Creditable Service and an active employee
<i>Amount</i>	<p>If married, 100% of the benefit the employee would have received had he or she retired the day before he or she died and elected the joint and 100% survivor option. If the employee died prior to eligibility for early service retirement, the spouse's benefit is deferred to the employee's earliest retirement date.</p> <p>Death benefits may also be payable to members who have terminated employment. The cost of those benefits are paid for by the reduction of the accrued benefit payable to the inactive vested participant.</p>

Post-Retirement Death Benefits:

If married, the employee and spouse may elect to have pension benefits paid in the form of a 100% joint and survivor annuity. A member may also elect a ten year certain and life equivalent form of benefit. If any one of these options is elected, the benefit amount otherwise payable is reduced to reflect the coverage. If not elected, benefits are payable for the life of the employee without reduction.

Cost-of-Living Adjustment:

Based on the change in the Consumer Price Index (CPI) for the fiscal year, subject to a maximum increase of 5.0% per year (3.0% for retirements between March 21, 1972 and March 26, 1974; none for retirements prior to March 21, 1972), with a cumulative percentage increase (equal to the sum of the annual percentage increases) limited to 25.0%. If the increase in CPI is less than 1.0%, no adjustment is made. If the change is a decrease, the cost-of-living adjustment shall be zero unless the decrease is 5.0% or more. Adjustments begin on the second January 1 after payments begin.

SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

Creditable Service: Number of years and completed months of service during which the member receives compensation after April 1, 1960. Creditable Service for employment prior to April 1, 1960 is granted only if the member was an employee of an employer of the System on April 1, 1960. Unused credited sick leave shall be considered as Creditable Service provided the member does not receive payment for the sick leave.

Membership: Immediate upon employment

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SECTION 4: Reporting Information for the Employees Retirement System of the City of St. Louis

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