



CITY OF DETROIT



**Policemen and Firemen
Retirement System**



**62nd Annual Actuarial Valuation
June 30, 2003**

Gabriel, Roeder, Smith & Company



Actuaries & Consultants



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April 19, 2004

Board of Trustees
City of Detroit Policemen and Firemen
Retirement System

The results of the **62nd Annual Actuarial Valuation** of the annuity and pension liabilities of the City of Detroit Policemen and Firemen Retirement System are presented in this report. The purpose of the valuation was to measure the System's funding progress and to determine an appropriate contribution level for the next fiscal year.

The date of the valuation was **June 30, 2003**.

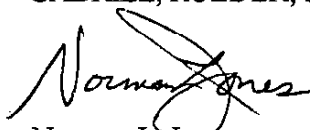
The actuarial assumptions used in the valuation are summarized in the appendix. Benefit provisions are summarized on pages 13-14. The statistical data concerning the active, inactive and retired persons covered by the System was furnished by the retirement system staff, together with needed financial information. Data was checked for year-to-year consistency, but was not otherwise audited by the actuary.

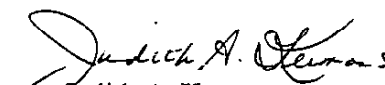
Your attention is directed particularly to the employer contribution rates on page 2, the COMMENTS on page 12, and the Financial Objective on pages 24-25.

The valuation was completed using generally accepted actuarial principles and in accordance with standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge this report is complete and accurate and the actuarial method and assumptions produce results which are reasonable.

Respectfully submitted,

GABRIEL, ROEDER, SMITH & COMPANY


Norman L. Jones


Judith A. Kermans

NLJ/rgs/lr

VALUATION RESULTS



**EMPLOYER CONTRIBUTION RATES
 COMPUTED PAYABLE LAST DAY OF FISCAL YEAR
 EXPRESSED AS PERCENTS OF ACTIVE MEMBER PAYROLL
 2004-2005 FISCAL YEAR**

Contributions for	Contributions Expressed as Percents of Payroll
Normal Cost	
Age & service allowances	22.47 %
Disability allowances	5.57 %
Death-in-service allowances	0.49 %
Total	28.53 %
Members current contributions: #	4.07 %
(Future refunds)	(0.36)%
Available for monthly benefits	3.71 %
Employer Normal Cost	24.82 %
Actuarial Accrued Liabilities	
Total (\$ millions)	\$3,721.6
Funding Value of Assets	3,205.5
Unfunded Actuarial Accrued Liabilities - dollars	516.1
- 14 year amortization	19.07 %
Computed Employer Rate after FFC Offset	43.89 %

Member statutory contributions of 5% to the Annuity Savings Fund are not payable during all periods of covered employment. The rate shown is the equivalent rate if paid during all covered employment.

ACTUARIAL ACCRUED LIABILITIES AS OF JUNE 30, 2003

Present Value, June 30	Amount
Accrued Pension Liabilities	
Retirees and beneficiaries	\$2,385,682,781
Inactive members future deferred pensions	5,538,149
Active members	974,330,771
Total accrued pension liabilities	3,365,551,701
Pension fund balances	2,849,475,148
Unfunded accrued pension liabilities (Full funding credit)	\$516,076,553
Accrued Annuity Liabilities	
Retirees and beneficiaries	
Future annuities	\$ 8,885,117
Contingency reserve	5,843,126 *
Total	\$ 14,728,243
Members annuities & future refunds	341,313,266
Total accrued annuity liabilities	356,041,509
Annuity fund balances	356,041,509
Unfunded accrued annuity liabilities	\$ 0
System Totals	
Actuarial accrued liabilities	\$3,721,593,210
Accrued assets	3,205,516,657
Unfunded actuarial accrued liabilities (Full funding credit)	\$516,076,553

* See comment on page 12.

VALUATION RESULTS - COMPARATIVE STATEMENT
-- \$ IN MILLIONS --

June 30	Active Payroll		Actuarial Accrued Liabilities			Unfunded / Active Pays	Employer Contributions % of Pays
	Total	Average	Computed Total	Valuation Assets	Unfunded		
1975	\$ 121.5	\$16,670	\$1,107.2	\$ 369.8	\$ 737.4	6.1	53.82%
1976	128.6	19,753	1,240.3	416.0	824.3	6.4	57.49%
1977	134.6	20,012	1,257.9	461.6	796.3	5.9	57.09%
1978	165.0	22,467	1,426.7	531.5	895.2	5.4	56.43%
1979	175.2	25,136	1,557.7	603.2	954.5	5.5	57.54%
1980	178.0	27,992	1,809.0	689.7	1,119.3	6.3	60.35%
1981	155.8	28,429	1,777.8	771.0	1,006.8	6.5	60.95%
1982(a)*	155.4	28,332	1,841.1	864.1	914.8	6.1	58.25%
1983	153.3	28,450	1,810.5	979.7	830.8	5.4	56.95%
1984(a)	148.2	28,455	1,887.2	1,090.2	797.0	5.4	58.16%
1985(a)	171.4	30,302	2,076.4	1,208.3	868.1	5.1	54.66%
1986	185.3	29,220	2,171.5	1,378.5	793.0	4.3	50.21%
1987	202.3	30,906	2,238.2	1,557.0	681.2	3.4	44.69%
1988	206.1	33,120	2,386.0	1,705.4	680.6	3.3	45.71%
1989(a)	208.4	33,179	2,327.9	1,848.9	479.0	2.3	36.52%
1990*	221.5	36,874	2,453.6	2,037.4	416.2	1.9	35.98%
1991	213.1	39,182	2,517.2	2,085.5	431.7	2.0	36.19%
1992(a)*	205.7	39,095	2,345.9	2,163.8	182.1	0.9	27.83%
1993(a)	204.3	38,846	2,493.2	2,256.0	237.2	1.2	28.97%
1994	199.7	38,693	2,486.2	2,304.4	181.8	0.9	27.64%
1995(a)	209.7	39,692	2,574.2	2,443.0	131.2	0.6	25.90%
1996	212.7	39,965	2,633.4	2,628.6	4.8	0.0	21.81%
1997(b)	217.6	40,145	2,724.1	2,944.2	(220.1)	-	7.32%
1998*	217.5	40,772	2,976.8	3,325.9	(349.1)	-	26.16%#
1999@	216.0	40,542	3,274.1	3,668.4	(394.3)	-	26.17%#
2000*	237.7	43,376	3,342.1	3,964.2	(622.1)	-	27.25%#
2001	253.3	45,353	3,463.2	3,900.0	(436.8)	-	27.22%#
2002	248.7	46,203	3,523.4	3,635.1	(111.7)	-	27.68%#
2002(a)	248.7	46,203	3,632.0	3,635.1	(3.1)	-	23.39%#
2003	248.7	47,305	3,721.6	3,205.5	516.1	2.1	43.89%

(a) After changes in actuarial assumptions.

(b) After changes in actuarial assumptions and a temporary full funding credit.

* Plan amended.

Employer normal cost before full funding credit.

@ After \$55.4 million reserve for 1998-99 13th check and ASF distributions.

SOLVENCY TESTS

The PFRS funding objective is to meet long-term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due -- the ultimate test of financial soundness. Testing for level contribution rates is *the long-term solvency test*.

A short-term solvency test is one means of checking a system's progress under its funding program. In a short-term solvency test, the plan's present assets (cash and investments) are compared with:

- 1) Active member contributions on deposit;
- 2) The liabilities for future benefits to present retired lives;
- 3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent-of-payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will often be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the System.

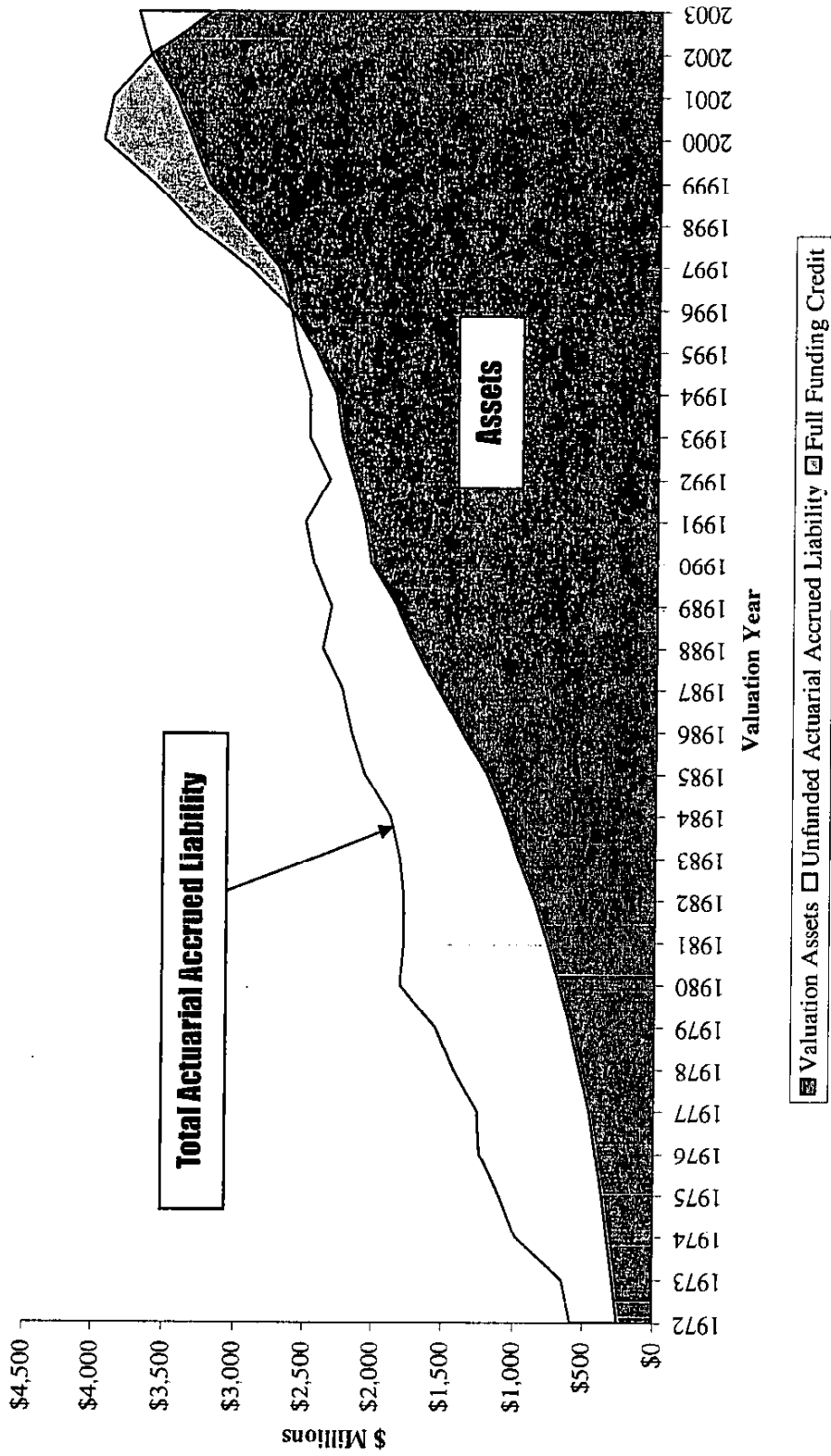
Short-Term Solvency Test 5 Year Comparative Statement (\$ millions)

June 30	Actuarial Accrued Liabilities			Assets	Portion of Accrued Liabilities Covered by Assets			
	(1) Active Member Contr.	(2) Retirees and Benef.	(3) Present Members (Employer Financed Portion)		(1)	(2)	(3)	Total
	1999	\$205	\$2,035		\$1,034	\$3,668	100%	100%
2000*	283	2,192	867	3,964	100%	100%	172%	119%
2001	365	2,255	843	3,900	100%	100%	152%	113%
2002	391	2,299	834	3,635	100%	100%	113%	103%
2002(a)	391	2,299	942	3,635	100%	100%	100%	100%
2003	341	2,400	980	3,206	100%	100%	47%	86%

* After changes in benefit provisions.

(a) After changes in actuarial assumptions.

ASSETS AND ACCRUED LIABILITIES



DERIVATION OF EXPERIENCE GAIN (LOSS)
YEAR ENDED JUNE 30, 2003

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

(1) UAAL* at start of year	\$(111,659,946)
(2) Normal cost from last valuation	68,829,955
(3) Actual employer contributions	66,843,029
(4) Interest accrual: (1) x .078	(8,709,476)
(5) Expected UAAL before changes: (1) + (2) - (3) + (4)	(118,382,496)
(6) Change due to benefit provision modifications	13,360,866
(7) Change due to revised actuarial assumptions	162,252,871
(8) Expected UAAL after changes: (5) + (6) + (7)	57,231,241
(9) Actual UAAL at end of year	516,076,553
(10) Experience gain (loss): (8) - (9)	(458,845,312)
(11) Experience gain (loss) as a % of beginning of year accrued liability	(13.0)%

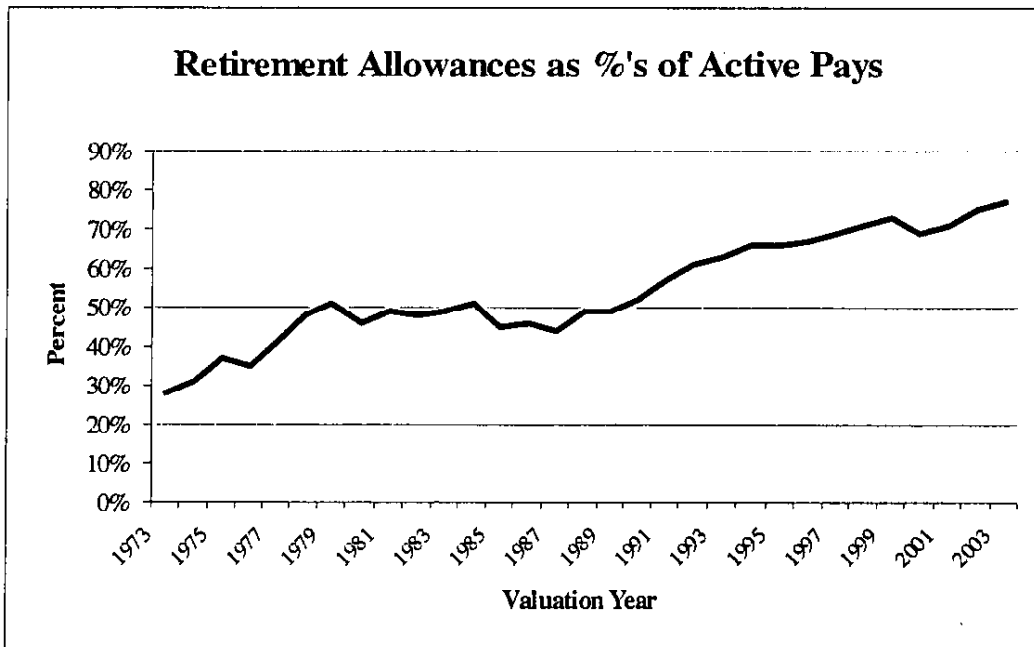
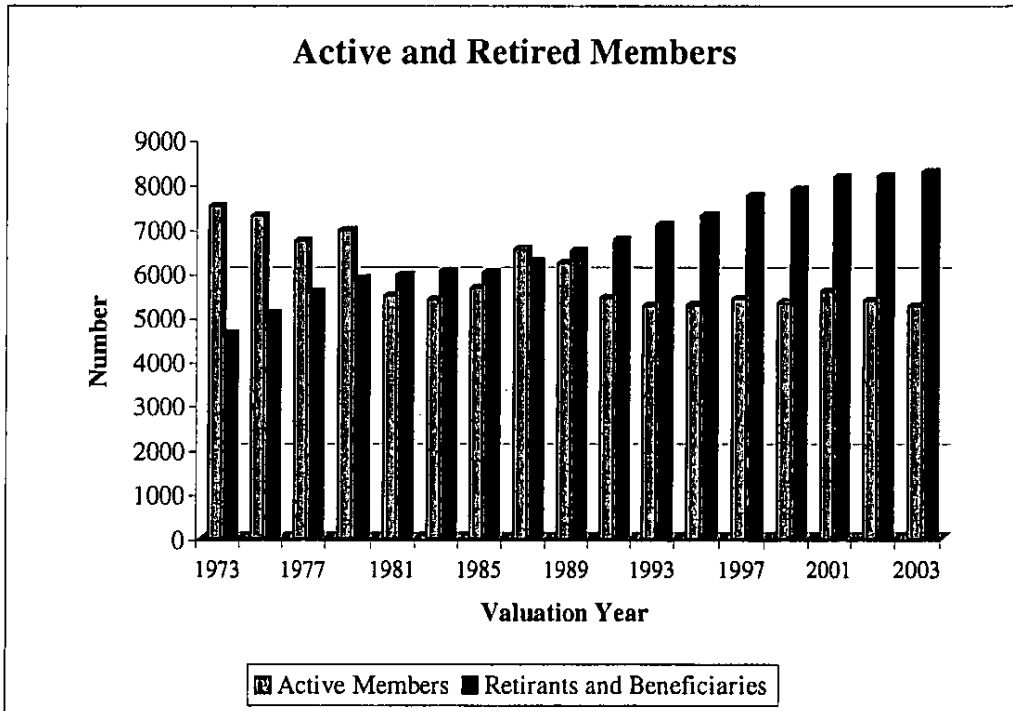
* *Unfunded actuarial accrued liability.*

COMPARATIVE STATEMENT OF ACTIVE MEMBERS AND VALUATION PAYROLL

June 30	No. Members		Total Members					
	1969 Plan	Pre- 1969	No.	% Change	Ratio of Active to Retired	Annual Payroll	Average Pay	
							\$	Change
1973	2,796	4,712	7,508	2 %	1.6	\$101,084,327	\$13,463	7.1 %
1974	3,065	4,291	7,356	(2)%	1.5	112,925,940	15,352	14.0 %
1975	3,298	3,993	7,291	(1)%	1.4	121,540,470	16,670	8.6 %
1976	2,900	3,610	6,510	(11)%	1.2	128,594,291	19,753	18.5 %
1977	3,463	3,265	6,728	3 %	1.2	134,639,135	20,012	1.3 %
1978	4,432	2,911	7,343	9 %	1.3	164,975,236	22,467	12.3 %
1979	4,230	2,739	6,969	(5)%	1.2	175,174,674	25,136	11.9 %
1980	3,719	2,640	6,359	(9)%	1.1	178,004,349	27,993	11.4 %
1981	2,991	2,491	5,482	(14)%	0.9	155,849,804	28,429	1.6 %
1982	3,185	2,299	5,484	0 %	0.9	155,372,732	28,332	(0.3)%
1983	3,176	2,214	5,390	(2)%	0.9	153,347,716	28,450	0.4 %
1984	3,070	2,139	5,209	(3)%	0.9	148,223,416	28,455	0.0 %
1985	3,657	1,998	5,655	9 %	0.9	171,357,741	30,302	6.5 %
1986	4,463	1,879	6,342	12 %	1.0	185,312,563	29,220	(3.6)%
1987	4,918	1,627	6,545	3 %	1.0	202,277,028	30,906	5.8 %
1988	4,776	1,447	6,223	(5)%	1.0	206,107,980	33,120	7.2 %
1989	4,942	1,338	6,280	1 %	1.0	208,361,567	33,179	0.2 %
1990	4,834	1,174	6,008	(4)%	0.9	221,538,387	36,874	11.1 %
1991	4,372	1,066	5,438	(9)%	0.8	213,072,553	39,182	6.3 %
1992	4,411	850	5,261	(3)%	0.8	205,681,412	39,095	(0.2)%
1993	4,534	725	5,259	0 %	0.7	204,289,195	38,846	(0.6)%
1994	4,578	584	5,162	(2)%	0.7	199,734,550	38,693	(0.4)%
1995	4,779	505	5,284	2 %	0.7	209,733,734	39,692	2.6 %
1996	4,889	432	5,321	1 %	0.7	212,656,401	39,965	0.7 %
1997	5,049	371	5,420	2 %	0.7	217,585,229	40,145	0.5 %
1998	5,018	316	5,334	(2)%	0.7	217,479,443	40,772	1.6 %
1999	5,099	230	5,329	0 %	0.7	216,049,687	40,542	(0.6)%
2000	5,291	190	5,481	3 %	0.7	237,741,560	43,376	7.0 %
2001	5,453	132	5,585	2 %	0.7	253,297,027	45,353	4.6 %
2002	5,290	92	5,382	(4)%	0.7	248,663,133	46,203	1.9 %
2003	5,181	76	5,257	(2)%	0.6	248,681,461	47,305	2.4 %

COMPARATIVE STATEMENT OF ANNUAL RETIREMENT ALLOWANCES BEING PAID RETIREES AND BENEFICIARIES

June 30	No. Retired		% of Current Allowances			Current Allowances		Allowances as a % of Payroll
	Pre-69	Total	Annuities	Pensions	Escalators	Total	Average	
1973	4,626	4,626	5.2%	56.2%	38.6%	\$ 28,461,146	\$ 6,152	28%
1974	4,873	4,873	4.7%	51.3%	44.0%	34,888,040	7,159	31%
1975	5,075	5,075	4.0%	48.3%	47.7%	41,808,416	8,238	34%
1976	5,325	5,325	3.5%	48.1%	48.4%	47,479,044	8,916	37%
1977	5,576	5,576	3.2%	52.0%	44.8%	51,040,761	9,154	38%
1978	5,760	5,760	2.8%	44.2%	53.0%	58,117,007	10,090	35%
1979	5,869	5,869	2.6%	51.3%	46.1%	61,355,273	10,454	35%
1980	5,676	5,911	2.1%	45.3%	52.6%	72,671,386	12,294	41%
1981	5,691	5,951	2.0%	46.7%	51.3%	74,565,233	12,530	48%
1982	5,709	6,006	2.0%	49.0%	49.0%	75,348,490	12,545	48%
1983	5,705	6,038	2.0%	50.8%	47.2%	75,774,552	12,550	49%
1984	5,641	5,986	1.9%	51.7%	46.4%	76,126,476	12,717	51%
1985	5,581	6,011	1.9%	54.0%	44.1%	70,776,660	12,773	45%
1986	5,585	6,117	1.6%	52.5%	45.9%	85,409,280	13,962	46%
1987	5,486	6,264	1.5%	53.5%	45.0%	88,608,492	14,146	44%
1988	5,442	6,416	1.3%	53.9%	44.8%	100,659,780	15,689	49%
1989	5,415	6,496	1.3%	55.7%	43.0%	103,122,696	15,875	49%
1990	5,412	6,660	1.1%	54.3%	44.6%	114,650,196	17,215	52%
1991	5,361	6,754	1.1%	54.3%	44.6%	121,715,028	18,021	57%
1992	5,342	6,899	1.0%	57.0%	42.0%	124,835,208	18,095	61%
1993	5,349	7,091	1.0%	59.5%	39.5%	129,027,970	18,196	63%
1994	5,249	7,169	0.9%	61.7%	37.4%	131,595,379	18,356	66%
1995	5,161	7,311	0.9%	61.3%	37.8%	138,959,417	19,007	66%
1996	5,049	7,469	0.8%	62.6%	36.6%	143,536,485	19,218	67%
1997	5,012	7,743	0.8%	63.3%	35.9%	150,843,744	19,481	69%
1998	4,719	7,750	0.7%	65.8%	33.5%	154,226,437	19,900	71%
1999	4,573	7,883	0.7%	68.4%	30.9%	158,523,816	20,110	73%
2000	4,498	8,079	0.6%	70.0%	29.4%	164,279,376	20,334	69%
2001	4,394	8,166	0.6%	67.4%	32.0%	180,239,652	22,072	71%
2002	4,229	8,179	0.5%	68.4%	31.1%	185,658,396	22,699	75%
2003	4,104	8,277	0.5%	69.8%	29.7%	191,634,636	23,153	77%



COMMENTS

Experience During the Past Year

Overall experience was less favorable than assumed during the year ended June 30, 2003. The primary source of the experience loss was investment return that was less than assumed (see Page 16). Under the asset valuation method, gains and losses are spread over a 3 year period. As a result of market value losses in this year and the prior two years, the funding value of assets now exceeds the market value by \$327 million. If the unrecognized losses are not offset by future market gains (i.e., returns in excess of 7.8%), the funded status will decline over the next two years, and the computed employer contribution rate will continue to increase.

Annuity Reserve Fund

The contingency reserve in the Annuity Reserve Fund is \$5.8 million and the ratio of the ARF balance to computed liabilities is over 160% (see page 3). The size of the contingency is likely to increase further unless a balance is restored. The Board approved a transfer for \$12 million from the Annuity Reserve Fund to the Pension Accumulation Fund in May 2001. An additional transfer of \$4 million at this time would reduce the funded ratio to 120% which would still provide an ample margin for unforeseen contingencies.

Overall Financial Condition

The Retirement System continues in sound actuarial condition in accordance with the principles of level percent-of-payroll financing.

DATA FURNISHED FOR VALUATION



SUMMARY OF BENEFIT PROVISIONS (JULY 1, 2002)

Age and Service Retirement

Eligibility - 25 years of service regardless of age.

Annual Amount - An annuity equal to the actuarial equivalent of the member's accumulated contribution account plus a defined benefit, which, when added to the annuity will provide the following:

Pre-1969 Members - 2.5% of AFC times the first 25 years of service, with a maximum allowance of 15/22 of a police officer's or firefighter's annual rate of compensation.

1969 Plan Members - 2.5% of AFC times the first 25 years of service plus 2.1% of AFC times each of the next 10 years of service.

Members may elect to receive their accumulated contribution account in a lump sum after 25 years of service. The defined benefit at retirement is then reduced by the actuarial equivalent of the amount of principal withdrawn. No reduction is made with regard to the interest portion of the withdrawal.

Pre-1969 plan members may elect 1969 plan benefits at the time of retirement.

Type of Average Final Compensation (AFC) - Average of the current compensation for the ranks held in each of last 5 years (last 3 years for DPCOA, Executive Members and their Fire equivalents). Pension benefits for non-union employees may not be diminished due to a reduction in compensation because of fiscal emergency. AFC includes prior longevity distributions during the averaging period in accordance with the following schedule: 1% of compensation after 5 years of service, 2% after 11 years, 3% after 16 years and 4% after 21 years.

Deferred Retirement (vested benefit)

Eligibility - 10 years of service for DPOA and Fire equivalents, age 40 with 8 years of service for all others.

Annual Amount - Same as regular retirement but based on average final compensation and credited service at the time of termination.

Benefit Commencement - DPOA and Fire equivalent members hired after 6/30/85: Unreduced benefit begins at age 62. **All other members:** Unreduced benefit begins at the age when the member would have first been eligible for regular retirement had the member continued in City service. **All members** may elect a reduced benefit payable immediately.

Duty Disability Retirement

Eligibility - No age or service requirement.

Annual Amount - A basic benefit of 50% of final compensation and a supplemental benefit of 16-2/3% of final compensation is payable for 24 months. After 24 months, members disabled from any occupation continue to receive both benefits; otherwise, only the 50% benefit is then payable. Upon attaining 25 years of service, the disability benefit is 50% of final compensation. Members convert to regular retirement benefit at age 65. Worker's compensation payments are offset. Members who have already filed under old duty disability plan will receive 66-2/3% of final compensation payable to eligibility date for regular retirement.

SUMMARY OF BENEFIT PROVISIONS (CONTINUED)

Non-Duty Disability Retirement

Eligibility - 5 years of service.

Annual Amount - Computed as a regular retirement benefit, but based on average final compensation and credited service at the time of disability. Minimum benefit is 20% of average final compensation.

Duty Death Before Retirement

Eligibility - No age or service requirement.

Annual Amount - Surviving spouse receives 5/11 of a police officer's or firefighter's compensation and each child under age 18 receives 1/10 of such compensation with a maximum total of 7/33 of such compensation. If there is no surviving spouse, each child receives 1/4 of such compensation with a maximum total of 1/2 of such compensation. If there is no surviving spouse or children, each dependent parent receives 1/6 of such compensation. Worker's compensation payments are offset.

Non-Duty Death Before Retirement

Eligibility - No age or service requirement.

Annual Amount - Same as a regular retirement benefit to a surviving spouse, but reduced in accordance with a 100% joint and survivor option election. Minimum benefit is 20% of average final compensation. Each child under 18 receives 1/7 of a police officer's or firefighter's compensation with a maximum total of 2/7 of such compensation. If there is no spouse or children, each dependent parent receives 1/7 of such compensation.

Post-Retirement Cost-of-Living Adjustments

Pre-1969 Members - Allowances increase in proportion to active member compensation for the corresponding rank.

1969 Plan Members - Pensions increase by 2.25% of the **current** pension amount each July 1.

Member Contributions

5% of covered compensation payable until first eligible for regular retirement.

ASSET INFORMATION FURNISHED FOR VALUATION

Reserve Accounts

Funds	Fund Balances	
	June 30, 2003	June 30, 2002
Annuity Savings	\$ 341,313,266	\$ 390,637,733
Annuity Reserve	14,728,243	14,153,863
Total Annuity Funds	356,041,509	404,791,596
Pension Accumulation	487,494,405	916,841,337
Pension Reserve	2,334,895,268	2,284,727,011
Survivor Benefit	27,085,475	28,746,637
Total Pension Funds	2,849,475,148	3,230,314,985
Total Fund Balances	\$3,205,516,657	\$3,635,106,581

Revenues and Expenditures

	2002-2003	2001-2002
Balance - June 30	\$3,635,106,581	\$3,900,020,703
Revenues		
Employes' contributions	10,143,948	10,301,295
Employer contributions	66,843,029	8,449,645
Recognized investment income	(240,379,198)	(59,243,772)
Total	(163,392,221)	(40,492,832)
Expenditures		
Regular benefit payments	190,516,952	186,683,099
13th Check payments	0	0
Withdrawal of member contributions	72,193,981	34,174,745
Administrative expenses	3,486,770	3,563,446
Total	266,197,703	224,421,290
Balance - June 30	\$3,205,516,657	\$3,635,106,581
Ratio of Net Investment Income to Mean Assets	(6.9)%	(1.7)%

DEVELOPMENT OF FUNDING VALUE OF ASSETS

	2001	2002	2003	2004	2005
A. Funding Value Beginning of Year	\$3,964,231,470	\$3,900,020,703	\$3,635,106,581		
B. Market Value End of Year	3,483,625,219	2,988,906,988	2,878,264,946		
C. Market Value Beginning of Year	4,175,946,568	3,483,625,219	2,988,906,988		
D. Contributions During Year					
D1. City Contributions (End of Year)	14,443,382	8,449,645	66,843,029		
D2. Member Contributions	10,300,781	10,301,295	10,143,948		
E. Benefits Paid During Year	249,252,060	220,857,844	262,710,933		
F. Investment Income					
F1. Market Total: B - C - D + E	(467,813,451)	(292,611,327)	75,081,914		
F2. Amount for Immediate Recog(A-E/2+D2/2)x.078 or actual	302,088,849	291,736,913	273,785,362		
F3. Amount for Phased-In Recognition: F1-F2	(769,902,300)	(584,348,240)	(198,703,448)		
G. Phased-In Recognition of Investment Income					
G1. Current Year: F3/3	(256,634,100)	(194,782,747)	(66,234,483)		
G2. 1st Prior Year:	96,872,716	(256,634,100)	(194,782,747)	\$ (66,234,483)	
G3. 2nd Prior Year:	17,969,665	96,872,716	(256,634,100)	(194,782,746)	\$(66,234,482)
G4. Total Recognized Investment Gain	(141,791,719)	(354,544,131)	(517,651,330)	(261,017,229)	(66,234,482)
H. Total Interest Distributed - Current Year (F2 + G4)	160,297,130	(62,807,218)	(243,865,968)		
I. Funding Value End of Year: A + D - E + H	3,900,020,703	3,635,106,581	3,205,516,657		
J. Difference Between Market & Funding Value (B - I)	(416,395,484)	(646,199,593)	(327,251,711)		
K. Recognized Rate of Return: H / [1/2 (A + I - H)]	4.2%	(1.7)%	(6.9)%		
L. Market Rate of Return: F1 / [C - 1/2 (E)]	(11.5)%	(8.7)%	2.6%		

The Funding Value of Assets recognizes assumed investment income (line F2) fully each year. Differences between actual and assumed investment income (line F3) are phased in over a closed 3-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than market value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than market value. The Funding Value of Assets is unbiased with respect to Market Value. At any time it may be either greater or less than Market Value. If assumed rates are exactly realized for 2 consecutive years, the Funding Value will become equal to Market Value.

RETIREES AND BENEFICIARIES JUNE 30, 2003
TABULATED BY ATTAINED AGE

Attained Age	Age & Service		Disability		Death-in-Service		Totals	
	No.	Monthly Allowances	No.	Monthly Allowances	No.	Monthly Allowances	No.	Monthly Allowances
Under 20*	7	\$ 8,561			78	\$ 35,859	85	\$ 44,420
20-24	1	518	1	\$ 2,079	1	216	3	2,813
25-29	2	2,242	2	5,078	2	2,537	6	9,857
30-34	1	896	16	40,995	5	4,850	22	46,741
35-39	5	5,759	70	170,526	6	8,563	81	184,848
40-44	27	22,711	95	229,357	13	17,774	135	269,842
45-49	167	239,988	172	390,825	26	30,846	365	661,659
50-54	653	1,281,137	421	861,480	41	49,234	1,115	2,191,851
55-59	1,010	2,139,422	474	922,647	42	58,650	1,526	3,120,719
60-64	833	1,831,158	260	481,141	30	42,439	1,123	2,354,738
65-69	503	1,016,311	99	205,049	22	31,741	624	1,253,101
70-74	627	1,228,601	123	237,921	34	53,392	784	1,519,914
75-79	976	1,839,008	179	349,472	46	71,933	1,201	2,260,413
80-84	602	1,023,231	83	164,968	33	51,424	718	1,239,623
85-89	330	550,818	29	61,979	13	21,558	372	634,355
90-94	83	127,899	2	3,435	8	12,280	93	143,614
95 & Over	22	27,658			2	3,387	24	31,045
Totals	5,849	\$11,345,918	2,026	\$4,126,952	402	\$496,683	8,277	\$15,969,553

* May include records with defective birth dates.

INACTIVE VESTED MEMBERS JUNE 30, 2003
TABULATED BY ATTAINED AGE

Attained Age	No.	Estimated Annual Allowances
45-49	8	\$ 166,212
50-54	14	175,440
55-59	11	148,344
60-64	2	16,956
Totals	35	\$506,952

**PRE 1969 RETIREES AND BENEFICIARIES JUNE 30, 2003
TABULATED BY ATTAINED AGE**

Attained Age	Age & Service#		Disability		Death-in-Service		Totals	
	No.	Monthly Allowances	No.	Monthly Allowances	No.	Monthly Allowances	No.	Monthly Allowances
Under 20*	5	\$ 5,582			2	\$ 1,509	7	\$ 7,091
20-24			1	\$ 2,079			1	2,079
25-29								
30-34	1	896					1	896
35-39								
40-44	3	2,742					3	2,742
45-49	5	4,992			1	1,408	6	6,400
50-54	4	3,187			6	9,267	10	12,454
55-59	194	313,737	103	191,107	15	24,662	312	529,506
60-64	392	682,805	165	297,666	20	28,413	577	1,008,884
65-69	338	593,984	74	134,683	21	30,012	433	758,679
70-74	416	710,114	106	196,308	30	44,101	552	950,523
75-79	815	1,455,662	166	319,532	44	67,724	1,025	1,842,918
80-84	583	979,719	82	163,625	31	49,180	696	1,192,524
85-89	329	548,175	28	59,684	12	20,428	369	628,287
90-94	78	122,304	2	3,435	8	12,280	88	138,019
95 & Over	22	27,658			2	3,387	24	31,045
Totals	3,185	\$5,451,557	727	\$1,368,119	192	\$292,371	4,104	\$7,112,047

* May include records with defective birth dates.
Includes survivor beneficiaries of service retirees.

ACTIVE MEMBERS JUNE 30, 2003 BY ATTAINED AGE AND YEARS OF SERVICE

Police Members

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	178							178	\$ 6,236,392
25-29	419	197	1					617	24,848,952
30-34	307	473	47	1				828	36,111,264
35-39	118	227	111	151				607	28,363,130
40-44	46	76	58	286	3			469	22,851,407
45-49	14	30	28	232	123	37	2	466	23,767,799
50-54	4	6	9	99	130	100	101	449	24,068,980
55-59	1		4	12	46	34	139	236	12,890,133
60	1				3	2	14	20	1,054,771
61	1				8	2	9	20	1,051,546
62					1	1	6	8	415,752
63							5	5	311,075
64							9	9	479,924
65							2	2	90,976
67							1	1	85,000
68							3	3	168,713
Totals	1,089	1009	258	781	314	176	291	3,918	\$182,795,814

Fire Members

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
Under 20									
20-24	53							53	\$ 1,804,065
25-29	112	16						128	4,787,846
30-34	98	69	46	1				214	8,965,878
35-39	35	48	126	59	1			269	12,777,566
40-44	20	21	65	83	14	3		206	10,096,836
45-49	4	3	19	56	34	32	0	148	7,987,088
50-54			6	9	26	98	63	202	11,808,316
55-59			1	4	7	20	82	114	7,309,918
60			1				4	5	348,134
Totals	322	157	264	212	82	153	149	1,339	\$ 65,885,647

**TOTAL ACTIVE MEMBERS JUNE 30, 2003
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
Under 20									
20-24	231							231	\$ 8,040,457
25-29	531	213	1					745	29,636,798
30-34	405	542	93	2				1042	45,077,142
35-39	153	275	237	210	1			876	41,140,696
40-44	66	97	123	369	17	3		675	32,948,243
45-49	18	33	47	288	157	69	2	614	31,754,887
50-54	4	6	15	108	156	198	164	651	35,877,296
55-59	1		5	16	53	54	221	350	20,200,051
60	1		1		3	2	18	25	1,402,905
61	1				8	2	9	20	1,051,546
62					1	1	6	8	415,752
63							5	5	311,075
64							9	9	479,924
65							2	2	90,976
66									
67							1	1	85,000
68							3	3	168,713
Totals	1,411	1166	522	993	396	329	440	5257	\$248,681,461

	Group Averages		
	Police	Fire	Total
Age:	38.9 years	40.6 years	39.3 years
Service:	12.4 years	14.8 years	13.0 years
Annual Pay:	\$46,655	\$49,205	\$47,305

**ACTUARIAL DISCLOSURES
REQUIRED BY STATEMENT NO. 25
OF THE GOVERNMENTAL ACCOUNTING BOARD**



GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION

Actuarial Valuation Date	Actuarial Value of Assets (a)	Schedule of Funding Progress			Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a) / c)
		Actuarial Accrued Liability (AAL) -- Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)		
1992*#	\$2,163,797,445	\$2,345,918,889	\$182,121,444	92.2 %	\$205,681,412	88.5 %
1993#	2,255,955,423	2,493,225,379	237,269,956	90.5 %	204,289,195	116.1 %
1994	2,304,360,431	2,486,218,878	181,858,447	92.7 %	199,734,550	91.1 %
1995#	2,443,016,319	2,574,189,310	131,172,991	94.9 %	209,733,734	62.5 %
1996	2,628,627,790	2,633,394,644	4,766,854	99.8 %	212,656,401	2.2 %
1997#	2,944,208,105	2,820,330,323	(123,877,782)	104.4 %	217,585,229	-
1998*#	3,325,929,721	2,976,770,662	(349,159,059)	111.7 %	217,479,443	-
1999	3,668,362,979	3,274,050,127	(394,312,852)	112.0 %	216,049,687	-
2000*	3,964,231,470	3,342,123,550	(622,107,920)	118.6 %	237,741,560	-
2001	3,900,020,703	3,463,248,393	(436,772,310)	112.6 %	253,297,027	-
2002	3,635,106,581	3,523,446,635	(111,659,946)	103.2 %	248,663,133	-
2002#	3,635,106,581	3,631,971,448	(3,135,133)	100.1 %	248,663,133	-
2003	3,205,516,657	3,721,593,210	516,076,553	86.1 %	248,681,461	207.5 %

* Plan amended.

After changes in actuarial assumptions.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30	Reported City Contribution
1994	\$54,898,990
1995	57,328,033
1996	55,010,539
1997	54,572,561
1998	48,120,578
1999	15,709,799
2000	19,972,058
2001	14,443,382
2002	8,449,645
2003	66,843,029

GASB STATEMENT NO. 25 REQUIRED SUPPLEMENTARY INFORMATION

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

Valuation date:	June 30, 2003
Actuarial cost method	Entry Age
Amortization method	Level percent
Remaining amortization period	14 years
Asset valuation method	3 year smoothed market
Actuarial assumptions:	
Investment rate of return	7.8%
Projected salary increases*	5.8% - 10.8%
*Includes inflation at	4.8%
Cost-of-living adjustments	Pre-1969 Plan Members: Allowances increase in proportion to active member compensation for corresponding rank. 1969 Plan Members: Pensions increase by 2.25% of current pension amount each July 1.

Membership of the plan consisted of the following at June 30, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	8,277
Terminated plan members entitled to but not yet receiving benefits	35
Active plan members	5,257
Total	13,569

FINANCIAL PRINCIPLES



BASIC FINANCIAL OBJECTIVE AND OPERATION OF THE RETIREMENT SYSTEM

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

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

The **Constitution of the State of Michigan** is directed to the question:

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

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

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

Normal Cost (the value of benefits likely to be paid which is assigned to service being rendered in the current year)

... plus ...

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

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

$$B = C + I - E$$

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

Contributions received over time on behalf of the group

... plus ...

Ivestment earnings on contributions received and not required for immediate payment of benefits

... minus ...

Expenses incurred in operating the program.

There are retirement programs designed to defer the bulk of contributions far into the future. Contributions in early years are low, but 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 for varying periods of time. Investment income becomes the major contributor to the retirement program, and the amount is directly related to the amount of past contributions and investment performance.

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

APPENDIX



**SUMMARY OF ASSUMPTIONS USED FOR DPFERS ACTUARIAL VALUATION
ASSUMPTIONS ADOPTED BY BOARD OF TRUSTEES
AFTER CONSULTING WITH ACTUARY**

ECONOMIC ASSUMPTIONS

The investment return rate used in the valuation was 7.8% per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering other financial assumptions, the 7.8% total investment return rate translates to an assumed real rate of return of 3%.

Pay increase assumptions for individual active members are shown on page 29. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.8% recognizes wage inflation.

Total active member payroll is assumed to increase 4.8% annually, which is the portion of the individual pay increase assumptions attributable to wage inflation.

NON-ECONOMIC ASSUMPTIONS

The number of active members is assumed to continue at the present number.

The mortality table used to measure retired life mortality was 90% of the 1983 Group Annuity Mortality Table. Related values are shown on page 29. This table was first used for the June 30, 1998 valuation.

The probabilities of age/service retirement for members eligible to retire are shown on page 30. These probabilities were last revised for the June 30, 2003 valuation.

The probabilities of separation from service (including *death-in-service*) are shown for sample ages on page 30. These probabilities were last revised for the June 30, 2003 valuation.

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

JUNE 30, 2003

Marriage Assumption:	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
Pay Increase Timing:	Beginning of (Fiscal) year. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
Decrement Timing:	Decrements are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and exact fractional service nearest the date the decrement is assumed to occur.
Decrement Relativity:	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
Decrement Operation:	Disability and mortality decrements do not operate during the first 5 years of service. Disability also does not operate during retirement eligibility.
Incidence of Contributions:	Member contributions are assumed to be received continuously throughout the year. Employer contributions are assumed to be received on the last day of the fiscal year.

FUNDING METHODS

The entry age actuarial cost method was used in determining age and service liabilities and normal cost, vesting liabilities and normal cost, and casualty liabilities and normal cost.

Differences between assumed experience and actual experience ("actuarial gains and losses") become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities, if any, are amortized over periods of future years to produce contribution amounts (principal & interest) which are level percent of payroll contributions.

Employer contribution dollars were assumed to be paid in a single sum on the last day of the employer fiscal year. (Adopted for the 6-30-79 actuarial valuation.)

Valuation assets recognize investment return above or below the actuarial assumed rate over a three year period. (Adopted for the 6-30-95 actuarial valuation.)

The effect of changes in eligibility for normal retirement due to service purchases was approximated by increasing computed actuarial accrued liabilities by 5%. In addition, active member accrued liabilities were increased by 2% to approximate the effect of incomplete service data.

The data about persons now covered and about present assets were furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the actuary.

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

SAMPLE SALARY ADJUSTMENT RATES

Service	Salary Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economic)	Increase Next Year
5	6.00%	4.80%	10.80%
10	2.00%	4.80%	6.80%
15	1.00%	4.80%	5.80%
20	1.00%	4.80%	5.80%
25	1.00%	4.80%	5.80%
30	1.00%	4.80%	5.80%
35	1.00%	4.80%	5.80%
Ref			21 + 4.80%

SINGLE LIFE RETIREMENT VALUES BASED ON 1983 GROUP ANNUITY MORTALITY & 7.8% INTEREST

Sample Attained Ages	Present Value of \$1.00 Monthly Increasing "X"% Annually After Retirement						Future Life Expectancy (years)	
	4.8% Compound		2.25% Simple		2.25% Compound		Men	Women
	Men	Women	Men	Women	Men	Women		
45	\$251.08	\$276.66	\$173.68	\$183.84	\$180.93	\$192.80	34.78	40.65
50	229.39	257.20	164.33	176.80	170.22	184.37	30.19	35.86
55	206.16	235.52	153.16	167.82	157.74	173.98	25.79	31.15
60	181.12	211.60	139.67	156.56	143.05	161.34	21.55	26.56
65	154.72	185.69	123.81	142.81	126.15	146.31	17.54	22.13
70	128.80	158.13	106.82	126.42	108.33	128.82	13.96	17.93
75	104.33	130.47	89.48	108.30	90.39	109.81	10.84	14.1
80	82.29	104.80	72.72	90.12	73.24	91.01	8.23	10.84
Ref:	30 x 0.90	31 x 0.90	30 x 0.90	31 x 0.90	30 x 0.90	31 x 0.90		

PROBABILITIES OF SERVICE RETIREMENT

Service	Percent of Eligible Active Members Retiring Within Next Year			Retirement
	Police	Fire	Police & Fire	Ages
24	35%	20%	25%	60
25	25%	20%	25%	61
26	20%	15%	25%	62
27	20%	15%	22%	63
28	20%	15%	20%	64
29	18%	15%	18%	65
30	18%	15%	15%	66
31	18%	15%	15%	67
32	20%	15%	15%	68
33	25%	20%	15%	69
34	30%	25%	15%	70
35	30%	30%	15%	71
36	30%	30%	15%	72
37	30%	30%	15%	73
38	30%	30%	15%	74
39	30%	30%	40%	75
40	100%	100%	30%	76
			30%	77
			30%	78
			30%	79
			30%	80
			30%	81
			30%	82
			30%	83
			30%	84
			100%	85
Ref	823	824	537	

PROBABILITIES OF SEPARATION

Sample Ages	Years of Service	% of Active Members Separating Within Next Year			
		Withdrawal		Death	
		Police	Fire	Police	Fire
ALL	0	7.00%	5.00%		
	1	5.50%	4.00%		
	2	4.00%	3.00%		
	3	4.00%	2.00%		
	4	3.50%	2.00%		
25	5 & Over	4.50%	2.30%	0.02%	0.01%
30		3.30%	1.90%	0.03%	0.02%
35		2.30%	1.30%	0.04%	0.02%
40		1.70%	0.90%	0.06%	0.03%
45		1.50%	0.70%	0.11%	0.05%
50		1.10%	0.60%	0.20%	0.08%
55		0.80%	0.60%	0.31%	0.13%
60	0.80%	0.60%	0.46%	0.21%	
Ref		154 207	230 113	30 x .50	31 x .50

Sample Ages	% of Active Members Becoming Disabled Within Next Year			
	Police		Fire	
	Ordinary	Duty	Ordinary	Duty
25	0.08%	0.15%	0.08%	0.31%
30	0.09%	0.22%	0.09%	0.46%
35	0.11%	0.38%	0.11%	0.80%
40	0.14%	0.55%	0.14%	1.16%
45	0.21%	0.81%	0.21%	1.71%
50	0.62%	1.29%	0.62%	2.72%
55	0.97%	2.19%	0.97%	4.61%
60	1.10%	3.15%	1.10%	6.64%
Ref	105 x 1.00	90 x 0.95	105 x 1.00	90 x 2.00

MEANING OF "UNFUNDED ACTUARIAL ACCRUED LIABILITIES"

Actuarial accrued liabilities are the portion of the present value of plan promises to pay benefits in the future not covered by future normal cost contributions

--- a liability has been established ("accrued") because the service has been rendered, but the resulting monthly cash benefit may not be payable until years in the future.

If actuarial accrued liabilities at any time exceed the plan's accrued assets (cash & investments), the difference is *unfunded actuarial accrued liabilities*. If the plan's assets equal the plan's actuarial accrued liabilities, the plan would be termed "fully funded."

Each time a plan adds a new benefit which applies to service already rendered, an actuarial accrued liability is created. If assets are insufficient to cover the value of the new benefit promises, an additional unfunded actuarial accrued liability is also created. Payment for such unfunded accrued liabilities is generally spread over a period of years, commonly in the 15-30 year range.

Unfunded actuarial accrued liabilities can occur in another way: if actual financial experience is less favorable than assumed financial experience, the difference is added to unfunded actuarial accrued liabilities. For example, during periods of high inflation, unfunded actuarial accrued liabilities generally increase because unexpected rates of pay increase will create additional liabilities which may not be matched by investment performance.

The existence of unfunded actuarial accrued liabilities is not bad, but the changes from year to year in the amount of unfunded actuarial accrued liabilities are important -- "bad" or "good" or somewhere in between.

Unfunded actuarial accrued liabilities do not represent a bill payable immediately, but it is important that policy-makers prevent the amount from becoming unreasonably high and *it is vital that there is a sound method in place for making payments toward them*, so that they are controlled.

GLOSSARY

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

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

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

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

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

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

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

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

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.

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.