
**THE REPORT OF THE
June 30, 2005 ACTUARIAL VALUATION
OF THE
PUBLIC EDUCATION EMPLOYEE
RETIREMENT SYSTEM OF MISSOURI**

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October 13, 2005

Board of Trustees
Public Education Employee Retirement System of Missouri
3210 W. Truman Blvd.
Jefferson City, MO 65109

Dear Members of the Board:

We are pleased to present the report of the actuarial valuation of the Public Education Employee Retirement System of Missouri (“PEERS”), formerly known as the Non-Teacher School Employee Retirement System of Missouri, as of June 30, 2005.

This valuation provides data on the funding status of PEERS. The results of the valuation show that the current contribution level will no longer fund the current benefits of PEERS within the framework of your funding policy.

This valuation is based on the provisions of PEERS in effect as of June 30, 2005, data on the PEERS membership and information on the asset value of the trust fund. All member data and asset information were provided by PEERS staff. While certain checks for reasonableness were performed, the data was used unaudited.

The actuarial assumptions and actuarial cost method used in this valuation are those used in the prior actuarial valuation of PEERS.

To the best of our knowledge, this actuarial statement is complete and accurate, and has been prepared in accordance with generally accepted actuarial principles and practice.

Respectfully submitted,

Gabriel, Roeder, Smith & Company

A handwritten signature in black ink, appearing to read 'Norman S. Losk'.

Norman S. Losk, F.S.A
Senior Consultant

A handwritten signature in black ink, appearing to read 'Alex Rivera'.

Alex Rivera, A.S.A
Senior Consultant

NSL: cml

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SUMMARY OF THE VALUATION



PURPOSES OF THE ACTUARIAL VALUATION

At your request we have performed the actuarial valuation of the Public Education Employee Retirement System of Missouri (“PEERS”), formerly known as the Non-Teacher School Employee Retirement System of Missouri, as of June 30, 2005.

The purposes of an actuarial valuation are as follows:

- To determine the funding status of PEERS as of the valuation date,
- To determine the contribution rate which would provide for the normal cost of the system plus an amount which will amortize the unfunded actuarial accrued liability over 30 years, and if different, the contribution for the fiscal year ending June 30, 2007 under the statute. and
- To provide accounting and other data required by PEERS.

REPORT HIGHLIGHTS

The key results of the valuation are summarized in the following table:

	June 30, 2004	June 30, 2005
	(\$ in Millions)	
A. Summary of Results		
(1) Present Value of Future Benefits for:		
(a) Active Members	\$2,164.6	\$2,342.1
(b) Retired members	\$804.9	\$904.3
(c) Inactive Members and Other Liabilities	<u>\$87.4</u>	<u>\$70.5</u>
(d) Total	\$3,056.9	\$3,316.9
(2) Present Value of Future Normal Costs	\$835.6	\$902.3
(3) Actuarial Accrued Liability: (1) – (2)	\$2,221.3	\$2,414.6
(4) Actuarial Value of Assets	\$1,837.3	\$2,011.6
(5) Unfunded Actuarial Accrued Liability: (3) – (4)	\$384.0	\$403.0
(6) Total Contribution Rate, Member + Employer	10.50%	11.00%
(7) Normal Cost Rate	10.64%	10.72%
(8) Approximate Rate Available for Unfunded Actuarial Accrued Liability: (6) – (7)	-0.14%	0.28%
(9) 30-Year Contribution Rate	12.56%	12.60%
(10) Recommended Contribution Fiscal Year End 2007 Based on Statutes	-	11.50%

B. Highlights of Report

(1) Actuarial Accrued Liability Funding Ratio:		
(a) Actuarial Value of Assets	\$1,837.3	\$2,011.6
(b) Actuarial Accrued Liability	2,221.3	2,414.6
(c) Funding Ratio: (a) / (b)	82.7%	83.3%
(2) Active Members:		
(a) Number:		
Male	11,346	11,492
Female	<u>34,534</u>	<u>35,106</u>
Total	45,880	46,598
(b) Total Compensation for Fiscal Year (for Active Members at end of year):		
Male	298.0	318.4
Female	<u>686.9</u>	<u>736.8</u>
Total	984.9	1,055.2
(c) Average Age:		
Male	46.9	47.5
Female	<u>46.0</u>	<u>46.3</u>
Total	46.2	46.6
(d) Average Service:		
Male	6.8	6.9
Female	<u>7.0</u>	<u>7.2</u>
Total	7.0	7.1
(e) Average Compensation for Fiscal Year (not in millions):		
Male	\$26,265	\$27,708
Female	<u>19,889</u>	<u>20,987</u>
Total	\$21,466	\$22,645
(f) Average Amount of Assets per Active Member (based on actuarial value, not in millions)	\$20,597	\$22,250
(3) Retired Members and Beneficiaries		
(a) Number Service Retired:		
Life Annuities	10,829	11,068
Options	<u>3,330</u>	<u>3,702</u>
Total	14,159	14,770
(b) Number Disability Retired	431	448
(c) Number Survivors, Beneficiaries	<u>855</u>	<u>924</u>
(d) Total Persons Receiving Benefits	15,445	16,142
(e) Average Monthly Pension Being Paid at Valuation Date for New Service Retired, Including Options (not in millions)	666	653
(f) Average Amount of Assets per Retired Member (based on actuarial value, not in millions)	\$52,112	\$56,021
(g) Average Amount of Assets per New Service Retired (based on actuarial value, not in millions)	\$99,471	\$99,042

MEMBERSHIP CHARACTERISTICS

Active and Inactive Membership

A total of 64,969 active and inactive members of PEERS are included in this 2005 actuarial valuation.

Active members	46,598
Inactive members	<u>18,371</u>
Total active and inactive members	64,969

Between the 2004 and 2005 actuarial valuations, the number of active employees increased by 718 or 1.56%. The average annual salaries of employees increased by 5.5% to \$22,645.

Summary of Changes in Membership

	Male	Female	Total
Active and Inactive Members 7/1/2004	15,984	48,733	64,717
New Membership 7/1/2004 to 6/30/2005	<u>2,011</u>	<u>5,198</u>	<u>7,209</u>
Total Membership Before Decreases	17,995	53,931	71,926
Decreases:			
Service Retirements	315	773	1,088
Disability Retirements	10	33	43
Withdrawals	1,282	3,408	4,690
Deaths	53	49	102
Other Terminations	296	692	988
Previous Memberships Voided	14	31	45
Reciprocity	<u>0</u>	<u>1</u>	<u>1</u>
Subtotal	1,970	4,987	6,957
Net membership 6/30/2005 (includes Inactive Members)	16,025	48,944	64,969

Benefit Recipients

On June 30, 2005, PEERS was paying benefits to a total of 16,142 retired members, beneficiaries and survivors. The total number of benefit recipients increased 4.5% from 15,445 on June 30, 2004. The benefit recipients were comprised of 14,770 service retirees, 448 disability retirees, and 924 beneficiaries and survivors.

There are two classes of retired members – members retired because of service and members retired because of disability.

The changes among the retired group of members during the 2004-2005 year were as follows:

	<u>Service Retirements</u>	<u>Disability Retirements</u>	<u>Beneficiaries</u>	<u>Total</u>
Retired Members, July 1, 2004	14,159	431	855	15,445
Added During Year	1,092	43	98	1,233
Died During Year	(475)	(22)	(29)	(526)
Resumed Retirement During Year	24	0	0	24
Resumed Employment During Year	(30)	(4)	0	(34)
Retired Members, June 30, 2005	14,770	448	924	16,142

As of June 30, 2005, the average monthly benefit payable to new service retirees was \$653 compared to \$666 as of June 30, 2004. These average benefit amounts and the amounts shown in the tables that follow include all post-retirement benefit increases.

ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions used in this valuation are the same as those disclosed in the actuarial valuation report as of June 30, 2004. This set of assumptions and methods is described in Appendix E.

EXPERIENCE DURING FY 2005

Overall the system experienced a net actuarial gain of about 1.8 million.

The net gain is determined as follows:

	<u>(\$ in Millions)</u>
1. Actuarial (Gain) or Loss on Assets (at actuarial value)	(17.5)
2. Actuarial (Gain) or Loss on Liabilities	<u>15.6</u>
3. Total Actuarial (Gain) or Loss (1+2)	(1.8)

The PEERS investment return (measured on market value, all income sources combined) in FY 2005 was about \$171 million, compared with an expected return on actuarial value of \$147 million resulting in a total gain of over \$23 million. The use of the five year smoothing method to determine the actuarial value of assets would only have recognized 20% of this gain. Thus, the actuarial gain on investments was \$17.5 million as shown above.

In addition to the gain from investment activities, there was a loss of \$15.6 million on liabilities.

There was a loss of \$25.6 million from retirement that was partially offset by a salary increase gain of \$15.1 million.

PEERS BENEFITS

A summary of the current benefit provisions appears in Appendix F. There were no changes to the benefit provisions of PEERS during the 2005 session of the Legislature which impact the results of this valuation.

ASSET INFORMATION

The market value of the assets of the fund, which are available for benefits, has been increased from \$1.888 billion as of June 30, 2004 to \$2.069 billion as of June 30, 2005. The actuarial value of assets increased from \$1.837 billion as of June 30, 2004 to \$2.012 billion as of June 30, 2005.

Based on the actuarial value, the assets of the fund returned about 8.9%.

The detailed determinations of asset values utilized in this valuation and asset growth in the last year are set forth in Appendix B.

FUNDING STATUS

The funding status of PEERS is measured by the Funding Ratio. The Funding Ratio is the ratio of the assets available for benefits to a benefit liability measure for the System. While there are several such measures that could be appropriately used, the measure that ties most closely to your funding plan is the Actuarial Accrued Liability (“AAL”).

The PEERS actuarial accrued liability funding ratio increased from 82.7% at June 30, 2004 to 83.3% as of June 30, 2005.

GASB DISCLOSURE

PEERS produces its accounting statements under the terms of GASB Statement Number 25. In Table 16, you will find Required Supplemental Information mandated by that statement.

FUNDING PROCESS

In the 2003 session of the Legislature the funding provisions of PEERS were amended. The following changes were adopted:

1. The limitation on the total contribution rate (10% of pay) was eliminated.
2. Contribution rates will now be established by actuarial valuation.
3. The annual increase in the total contribution rate may not exceed 0.5% of pay.

As a result, the total contribution rate for the 2007 fiscal year may not increase by more than 0.5% of pay over the rate for the current fiscal year.

Appendices



Appendix A

Membership Data



Table 1**Number, Average Age-Service-Salary, and Total Payroll
of Active Members Included in Actuarial Valuations****Male**

Item	Actuarial Valuation as of June 30				
	2001	2002	2003	2004	2005
Number	11,215	11,529	11,564	11,346	11,492
Average Age	45.0	45.4	45.8	46.9	47.5
Average Years of Service	6.3	6.3	6.5	6.8	6.9
Average Annual Salary	\$22,336	\$23,467	\$25,384	\$26,265	\$27,708
Total Payroll (000's)	\$250,497	\$270,555	\$293,537	\$298,006	\$318,421

Female

Item	Actuarial Valuation as of June 30				
	2001	2002	2003	2004	2005
Number	34,302	35,199	35,299	34,534	35,106
Average Age	44.5	44.6	45.1	46.0	46.3
Average Years of Service	6.3	6.4	6.6	7.0	7.2
Average Annual Salary	\$16,432	\$17,752	\$19,197	\$19,889	\$20,987
Total Payroll (000's)	\$563,661	\$624,865	\$677,640	\$686,860	\$736,783

Total

Item	Actuarial Valuation as of June 30				
	2001	2002	2003	2004	2005
Number	45,517	46,728	46,863	45,880	46,598
Average Age	44.6	44.8	45.3	46.2	46.6
Average Years of Service	6.3	6.4	6.6	7.0	7.1
Average Annual Salary	\$17,887	\$19,162	\$20,724	\$21,466	\$22,645
Total Payroll (000's)	\$814,158	\$895,420	\$971,177	\$984,866	\$1,055,204

Table 2**Employee Distribution by Age and Years of Service
June 30, 2005**

Age	Years of Service							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 & Over	
Under 20	117	0	0	0	0	0	0	117
20-24	1,577	17	0	0	0	0	0	1,594
25-29	2,386	365	2	0	0	0	0	2,753
30-34	2,314	732	114	6	0	0	0	3,166
35-39	2,913	1,291	296	97	3	0	0	4,600
40-44	3,623	2,240	722	313	150	20	0	7,068
45-49	3,204	2,674	1,258	527	232	165	5	8,065
50-54	2,408	1,995	1,275	847	341	182	66	7,114
55-59	1,869	1,420	962	883	509	246	80	5,969
60-64	1,214	852	473	465	340	252	95	3,691
65 & Over	1,066	533	267	217	112	142	124	2,461
Unknown	0	0	0	0	0	0	0	0
Total	22,691	12,119	5,369	3,355	1,687	1,007	370	46,598

Table 3

**Salary Distribution
Employees in Active Service
on June 30, 2005**

Annual Salary	Number	Percent
Under \$10,000	5,891	12.6%
\$10,000 - 12,499	3,365	7.2%
\$12,500 - 14,999	4,411	9.5%
\$15,000 - 17,499	4,689	10.1%
\$17,500 - 19,999	4,394	9.4%
\$20,000 - 22,499	3,899	8.4%
\$22,500 - 24,999	3,412	7.3%
\$25,000 - 27,499	3,165	6.8%
\$27,500 - 29,999	2,588	5.6%
\$30,000 & Over	<u>10,784</u>	<u>23.1%</u>
Total	46,598	100.0%

Table 4

**Salary Increase Rates by Service Group
Employees in Both 2004 & 2005 Actuarial Valuations**

Service in 2004	Number	Percent Increase In Average Salary	
		Actual	Expected
1-4	14,718	9.16%	6.53%
5-9	10,416	6.99%	5.00%
10-14	4,701	5.99%	5.00%
15-19	2,975	5.27%	5.00%
20 & Over	<u>2,552</u>	<u>4.82%</u>	<u>5.00%</u>
Total	35,362	7.38%	5.64%

Table 5

**Pensions in Force on June 30, 2005
by Type and Monthly Amount**

Monthly	Service	Disability	Beneficiary	Total
Less than \$100	1,772	44	157	1,973
\$100 - 199	3,310	130	246	3,686
\$200 - 299	2,381	90	180	2,651
\$300 - 399	1,647	52	115	1,814
\$400 - 499	1,311	50	68	1,429
\$500 - 999	2,995	78	119	3,192
\$1,000 – 1,499	848	4	29	881
\$1,500 & Over	<u>506</u>	<u>0</u>	<u>10</u>	<u>516</u>
Total	14,770	448	924	16,142

Table 6

**Pensions in Force on June 30, 2005
by Type and Age**

Age	Service	Disability	Beneficiary	Total
Under 55	115	120	78	313
55-59	674	99	42	815
60-64	2,328	106	89	2,523
65-69	3,125	66	137	3,328
70-74	2,974	32	176	3,182
75-79	2,392	13	167	2,572
80-84	1,762	10	153	1,925
85-89	962	1	67	1,030
90 & Over	<u>438</u>	<u>1</u>	<u>15</u>	<u>454</u>
Total	14,770	448	924	16,142

Table 7

**Cost of Living Increases to Retired Members
June 30, 2005**

Retirement In	First Increase Effective Date	Percentage Increase	Total Increases Through January 2005	January 2006 Increase	Total Increases Through January 2006	Number of Retired Members at 6/30/05
1981&Earlier	Jan. 1985	Various	80.00%	0.00%	80.00%	824
1982	Jan. 1986	3.70%	76.94%	1.73%	80.00%	224
1983	Jan. 1987	1.70%	71.34%	2.50%	75.63%	189
1984	Jan. 1988	3.70%	68.78%	2.50%	73.00%	222
1985	Jan. 1989	4.00%	63.19%	2.50%	67.27%	322
1986	Jan. 1990	4.00%	57.15%	2.50%	61.08%	353
1987	Jan. 1991	4.00%	51.10%	2.50%	54.87%	343
1988	Jan. 1992	4.00%	45.29%	2.50%	48.92%	441
1989	Jan. 1993	3.10%	39.70%	2.50%	43.20%	446
1990	Jan. 1994	3.00%	35.51%	2.50%	38.90%	539
1991	Jan. 1995	2.50%	31.56%	2.50%	34.85%	512
1992	Jan. 1996	3.00%	28.35%	2.50%	31.56%	575
1993	Jan. 1997	2.80%	24.61%	2.50%	27.73%	549
1994	Jan. 1998	2.30%	21.21%	2.50%	24.24%	641
1995	Jan. 1999	1.70%	18.49%	2.50%	21.45%	682
1996	Jan. 2000	2.00%	16.50%	2.50%	19.41%	711
1997	Jan. 2001	3.70%	14.22%	2.50%	17.07%	784
1998	Jan. 2002	3.30%	10.15%	2.50%	12.90%	781
1999	Jan. 2003	1.10%	6.63%	2.50%	9.29%	877
2000	Jan. 2004	2.10%	5.47%	2.50%	8.11%	942
2001	Jan. 2005	3.30%	3.30%	2.50%	5.88%	908
2002	Jan. 2006			2.50%	2.50%	953
2003						1,039
2004						1,094
2005						267
Total						15,218

Table 8

**Analysis of Retired Membership by Type of Benefit
(Dollar Amounts in Millions)
June 30, 2005**

Type of Benefit	Number	Annual Benefit	Total Liability
Service Retirees			
Options 1 & 10 (Life Only)	11,068	53.5	544.3
Options 2 & 21 (100% J&S with Pop-Up)	1,933	11.7	157.2
Option 3 & 31 (75% J&S with Pop-Up)	228	2.0	27.3
Option 4 & 41 (50% J&S with Pop-Up)	472	4.1	49.7
Option 5 (10 Years Certain & Life)	309	1.8	21.2
Option 6 (5 Years Certain & Life)	95	0.7	7.9
Option 20 (100% J & S)	270	1.0	9.5
Option 30 (75% J & S)	1	0.0	0.0
Option 40 (50% J & S)	38	0.2	1.4
Accelerated Payment	<u>356</u>	<u>3.5</u>	<u>31.3</u>
Total	14,770	\$78.4	\$849.9
Disability Retirees	448	\$1.7	\$17.0
Beneficiaries of Retiree Deaths	924	\$3.6	\$35.5

Note: Excludes retirees returned to work.

Appendix B

Asset Information



Table 9**Market Value of Assets
Balance Sheet**

	<u>June 30, 2004</u>	<u>June 30, 2005</u>
Assets:		
Cash	\$ 10,966,140	\$ 5,281,379
Contribution Receivable	10,448,208	12,355,045
Accrued Interest and Dividends	6,982,477	8,212,815
Investments	1,902,639,908	2,105,444,311
Investment Sales – Receivable	121,978,719	344,534,582
Due to PSRS	-	(191,749)
Other Assets	16,633	15,302
Capital Assets	-	259
Prepaid Expenses	14,666	(40)
Total	<u>\$ 2,053,046,751</u>	<u>\$ 2,475,651,904</u>
Liabilities:		
Accounts Payable	770,853	1,086,687
Investment Purchases – Payable	163,506,329	405,654,430
Other Liabilities	499,655	263,621
Total	<u>\$ 164,776,837</u>	<u>\$ 407,004,738</u>
Net Assets	\$ 1,888,269,914	\$ 2,068,647,166

Table 10**Statement of Revenue and Expenses
Market Value Reconciliation For Fiscal Year Ended June 30, 2005**

Operating Revenues	Amount
<i>Contributions:</i>	
Employers	\$ 53,109,687
Members	<u>55,699,368</u>
Total Contributions	108,809,055
<i>Net Investment Income:</i>	
Interest	27,673,411
Dividends	18,511,344
Net Income from Security Lending Activities	<u>950,834</u>
Total Investment Income	47,135,589
Net Capital Appreciation (Depreciation)	127,544,006
Less: Investment Expenses	<u>(3,758,120)</u>
Total Investment Return	170,921,475
<i>Other Income</i>	<u>8,476</u>
Total Operating Revenues	<u><u>279,739,006</u></u>
Operating Expenses	
Benefit Payments	83,906,368
Refunds to Members	11,891,691
Administrative Expenses	3,563,676
Other Expense	<u>19</u>
Total Operating Expenses	<u><u>99,361,754</u></u>
Excess of Revenues over Expenses	180,377,252
Fund Balance, June 30, 2004	1,888,269,914
Fund Balance, June 30, 2005	\$ 2,068,647,166

Table 11

**Growth of Cash Flow
(In Thousands)**

Year Ending June 30	Contributions for the Year	Payments During the Year			External Cash Flow for the Year	Covered Payroll	Payments as Percent of Covered Payroll
		Benefit Payments and Refund of Contributions	Expenses	Total			
1985	\$18,956	(\$7,333)	(\$424)	(\$7,757)	\$11,199	\$228,781	3.4 %
1986	20,140	(8,974)	(411)	(9,385)	10,755	245,407	3.8
1987	21,986	(9,641)	(500)	(10,141)	11,845	268,173	3.8
1988	23,927	(10,886)	(538)	(11,424)	12,503	304,029	3.8
1989	26,110	(12,567)	(585)	(13,152)	12,958	331,352	4.0
1990	28,176	(14,643)	(712)	(15,355)	12,821	359,577	4.3
1991	30,505	(16,634)	(721)	(17,355)	13,150	389,080	4.5
1992	31,470	(18,858)	(813)	(19,671)	11,799	398,147	4.9
1993	32,640	(21,025)	(821)	(21,846)	10,794	415,672	5.3
1994	35,298	(23,772)	(901)	(24,673)	10,625	452,339	5.5
1995	38,706	(27,067)	(905)	(27,972)	10,734	495,449	5.6
1996	42,122	(30,338)	(1,233)	(31,571)	10,551	538,022	5.9
1997	49,009	(34,425)	(1,950)	(36,375)	12,634	556,534	6.5
1998	54,844	(38,460)	(2,652)	(41,112)	13,732	616,303	6.7
1999	60,385	(41,813)	(1,604)	(43,417)	16,967	685,272	6.3
2000	68,684	(51,432)	(1,920)	(53,352)	15,332	735,362	7.3
2001	75,434	(58,239)	(2,246)	(60,485)	14,949	814,158	7.4
2002	91,990	(67,737)	(2,574)	(70,311)	21,679	895,420	7.8
2003	97,927	(75,432)	(2,946)	(78,378)	19,549	971,177	8.1
2004	100,602	(85,290)	(3,210)	(88,500)	12,102	984,866	9.0
2005	108,809	(95,798)	(3,564)	(99,362)	9,447	1,055,204	9.4

Table 12

Development of the Actuarial Value of Assets

1. Valuation Assets June 30, 2004		\$1,837,307,758
2. Activity for FY 2005		
a. Contributions	\$108,809,055	
b. Benefits and Expenses	<u>(99,361,754)</u>	
c. Net Cash Flow	9,447,301	
3. Expected Returns	147,355,243	
4. Assets Before Allocation of G/L (1+2+3)		1,994,110,302
5. Actual Returns for 2005	170,929,951	
6. Excess Returns for 2005 (5-3)	23,574,708	
7. Recognized Excess Returns		
2005	4,714,942	
2004	12,740,539	
2003	0	
2002	0	
2001	0	
Total		<u>17,455,481</u>
8. Actuarial Value of Assets June 30, 2005		\$2,011,565,783

Note: Excess returns are total return on assets at market in excess of expected investment return at 8% on actuarial value.

Appendix C

Actuarial Determinations



Table 13**Ten Year Historical Summary
(All Dollar Figures in Thousands)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Active Members	34,153	35,982	38,672	41,599	43,533	45,517	46,728	46,863	45,880	46,598
Retired Members	10,643	10,811	11,218	12,461	13,061	13,673	14,270	14,837	15,445	16,142
Actuarial Assets	\$876,886	\$1,001,035	\$1,150,311	\$1,335,308	\$1,522,660	\$1,686,242	\$1,810,619	\$1,677,770	\$1,837,308	\$2,011,566
UAAL	\$2,675	(\$36,823)	(\$113,965)	(\$166,796)	(\$127,360)	(\$50,166)	\$45,363	\$371,946	\$383,902	\$402,928
Benefit And Refunds	\$30,338	\$34,425	\$38,460	\$41,813	\$51,432	\$58,239	\$67,737	\$75,432	\$85,290	\$95,798
Accumulated Members' Contributions	\$185,763	\$204,757	\$225,373	\$250,327	\$274,167	\$301,936	\$354,296	\$394,925	\$444,318	\$466,259
APV of Retirees' Benefits	\$293,937	\$312,390	\$350,860	\$396,846	\$467,653	\$565,126	\$651,295	\$731,059	\$804,864	\$904,292

Table 14

**Determination of Normal Cost
June 30, 2005
For the 2005 - 2006 Plan Year**

	<u>Dollar</u>	<u>Rate</u>
Active Members		
Retirement Benefits	\$ 88,954,368	8.90%
Termination Benefits	14,710,563	1.47%
Death Benefits	2,095,995	0.21%
Disability Benefits	<u>1,397,771</u>	<u>0.14%</u>
Total Normal Cost	\$ 107,158,697	10.72%
Estimated Employee Contributions	<u>54,987,427</u>	
Employer Normal Cost	\$ 52,171,270	
(Total Normal Cost less Employee Contributions)		

Table 15

**Determination of the Unfunded Actuarial Accrued Liability
June 30, 2005**

Active Members:

Service Retirement	\$1,406,489,798
Death Benefits	28,848,701
Disability Benefits	13,534,917
Termination Benefits	(9,128,702)
Inactives	70,456,536
Total for Active and Inactive Members	1,510,201,250

Pay Status Members:

Service Retirees	851,723,964
Disability Retirees	17,027,370
Survivors	35,541,086
Total for Pay Status Members	904,292,420

Total Actuarial Accrued Liability 2,414,493,670

Actuarial Value of Assets 2,011,565,783

Total Unfunded Actuarial Accrued Liability 402,927,887

Table 16
GASB 25 Exhibits
Schedule of Funding Progress
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued			Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)		
6/30/1995	\$778,325	\$786,399	\$8,074	99.0%	\$495,449	1.6%
6/30/1996	876,886	879,561	2,675	99.7%	538,022	0.5%
6/30/1997	1,001,035	964,212	(36,823)	103.8%	556,534	-6.6%
6/30/1998	1,150,311	1,036,347	(113,964)	111.0%	616,303	-18.5%
6/30/1999	1,335,308	1,168,511	(166,797)	114.3%	685,272	-24.3%
6/30/2000	1,522,660	1,395,300	(127,360)	109.1%	735,400	-17.3%
6/30/2001	1,686,242	1,636,076	(50,166)	103.1%	814,158	-6.2%
6/30/2002	1,810,619	1,855,982	45,363	97.6%	895,420	5.1%
6/30/2003	1,677,770	2,049,716	371,946	81.9%	971,177	38.3%
6/30/2004	1,837,308	2,221,210	383,902	82.7%	984,866	39.0%
6/30/2005	2,011,566	2,414,494	402,928	83.3%	1,055,204	38.2%

Schedule of Employer Contributions

Actuarial Valuation Date	Annual Required Contribution	Employer Contribution	Percentage Contributed
6/30/1996	\$20,966,576	\$20,966,576	100.0%
6/30/1997	24,393,542	24,393,542	100.0%
6/30/1998	27,315,729	27,315,729	100.0%
6/30/1999	30,012,859	30,012,859	100.0%
6/30/2000	34,185,605	34,185,605	100.0%
6/30/2001	37,500,243	37,500,243	100.0%
6/30/2002	45,773,119	45,773,119	100.0%
6/30/2003	52,847,992	48,933,326	92.6%
6/30/2004	62,315,910	49,976,898	80.2%
6/30/2005	73,948,917	53,109,687	71.8%

Notes in Trend Data

Information:

Valuation Date
Actuarial Cost Method
Amortization Method
Remaining Amortization Period (years)
Asset Valuation Method

Data

6/30/2005
Entry Age Normal
Level Percent, Open
30
5-Year Smoothed Market
Marked to Market as of June 30, 2003

Actuarial

Investment rate of return 8.0%
Projected salary increases 5.0% - 10.0%
Cost-of-living adjustments 3.5%

Table 17
GASB
Annual Pension Cost and Contributions

<i>Fiscal Year Ending</i>	6/30/2005												
<i>Annual Pension Cost for fiscal year ending</i>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Annual Required Contribution (ARC)</td> <td style="width: 5%; text-align: center;">\$</td> <td style="width: 35%; text-align: right;">73,948,917</td> </tr> <tr> <td>Interest on Net Pension Obligation</td> <td></td> <td style="text-align: right;">1,309,902</td> </tr> <tr> <td>Adjustment to ARC</td> <td></td> <td style="text-align: right;"><u>(807,577)</u></td> </tr> <tr> <td>Total Annual Pension Cost</td> <td style="text-align: center;">\$</td> <td style="text-align: right;">74,451,242</td> </tr> </table>	Annual Required Contribution (ARC)	\$	73,948,917	Interest on Net Pension Obligation		1,309,902	Adjustment to ARC		<u>(807,577)</u>	Total Annual Pension Cost	\$	74,451,242
Annual Required Contribution (ARC)	\$	73,948,917											
Interest on Net Pension Obligation		1,309,902											
Adjustment to ARC		<u>(807,577)</u>											
Total Annual Pension Cost	\$	74,451,242											
<hr/>													
<i>Net Pension Obligation (NPO):</i>	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">Net Pension Obligation (NPO) at beginning of fiscal year</td> <td style="width: 5%;"></td> <td style="width: 35%; text-align: right;">16,373,774</td> </tr> <tr> <td>Total Annual Pension Cost</td> <td></td> <td style="text-align: right;">74,451,242</td> </tr> <tr> <td>Total Employer Contribution</td> <td></td> <td style="text-align: right;"><u>(53,109,687)</u></td> </tr> <tr> <td>Net Pension Obligation (NPO) at end of fiscal year</td> <td style="text-align: center;">\$</td> <td style="text-align: right;">37,715,329</td> </tr> </table>	Net Pension Obligation (NPO) at beginning of fiscal year		16,373,774	Total Annual Pension Cost		74,451,242	Total Employer Contribution		<u>(53,109,687)</u>	Net Pension Obligation (NPO) at end of fiscal year	\$	37,715,329
Net Pension Obligation (NPO) at beginning of fiscal year		16,373,774											
Total Annual Pension Cost		74,451,242											
Total Employer Contribution		<u>(53,109,687)</u>											
Net Pension Obligation (NPO) at end of fiscal year	\$	37,715,329											
<hr/>													
<i>Contribution rates:</i>													
<i>Employer</i>	5.25%												
<i>Plan members</i>	5.25%												

Table 18

**GASB
Schedule of Employer Contributions**

Fiscal Year Ending	Annual Pension Cost	Total Employer Contribution	Net Pension Obligation
6/30/2002	45,773,119	45,773,119	0
6/30/2003	52,847,992	48,933,326	3,914,666
6/30/2004	62,436,006	49,976,898	16,373,774
6/30/2005	74,451,242	53,109,687	37,715,329

Table 19

**Calculation of Unfunded Actuarial Accrued Liability
June 30, 2005**

	<u>Amount</u>
(1) Present Value of Future Benefits for:	
Active Members	\$ 2,342,072,555
Service Retirees	851,723,964
Disability Retirees	17,027,370
Survivors	35,541,086
Inactive Members	70,456,536
Total	<u>3,316,821,511</u>
(2) Present Value of Future Normal Costs	902,327,841
(3) Actuarial Accrued Liability ((1)-(2))	2,414,493,670
(4) Actuarial Value of Assets	2,011,565,783
(5) Unfunded Actuarial Accrued Liability ((3)-(4))	\$ 402,927,887

**Required Contribution Rate & Amortization of Unfunded Liability
for the Fiscal Year Ending 2006**

	<u>Percentage of Payroll</u>
(1) Total Contribution Rate, Member + Employer	11.00%
(2) Normal Cost Rate	10.72%
(3) Approximate Rate Available for Unfunded Actuarial Accrued Liability ((1)-(2))	0.28%
(4) Benchmark Contribution Rate for the System to Amortize the Unfunded Actuarial Accrued Liability in 30 Years	12.60%

Table 20

Analysis of Actuarial Gains and Losses

	<u>Amount</u>
1. Unfunded Actuarial Liability as of July 1, 2004	\$ 383,901,924
2. Normal Cost for 2005 Plan Year	99,318,447
3. Contribution Received during Year	(108,809,055)
4. Interest to Year End @ 8.00% on 1., 2., and 3.	30,339,833
5. Expected Unfunded Actuarial Liability as of June 30, 2005	404,751,150
6. Actuarial (Gain)/Loss During the Year	
a. From Investment	(17,455,481)
b. From Actuarial Liabilities	15,632,218
c. Total	<u>(1,823,263)</u>
7. Actuarial Unfunded Actuarial Liability as of June 30, 2005	402,927,887

Appendix D

Additional Data



Table 21**Schedule of Active Member Valuation Data**

Actuarial Valuation Date	Number of Members	Covered Annual Payroll (000)	Average Annual Salary	% Increase in Average Salary	Average Attained Age	Average Years of Service
6/30/1991	28,554	\$389,080	\$13,626	5.1%	45.5	7.4
6/30/1992	28,410	398,147	14,014	2.8%	45.7	7.6
6/30/1993	29,055	415,672	14,306	2.1%	45.7	7.7
6/30/1994	30,662	452,339	14,752	3.1%	45.5	7.6
6/30/1995	32,598	495,449	15,199	3.0%	45.3	7.3
6/30/1996	34,153	538,022	15,753	3.6%	45.2	7.2
6/30/1997	35,982	556,534	15,467	-1.8%	45.1	7.1
6/30/1998	38,672	616,303	15,937	3.0%	44.8	6.7
6/30/1999	41,599	685,272	16,473	3.4%	44.6	6.5
6/30/2000	43,533	735,400	16,893	2.5%	44.5	6.4
6/30/2001	45,517	814,158	17,887	5.9%	44.6	6.3
6/30/2002	46,728	895,420	19,162	7.1%	44.8	6.4
6/30/2003	46,863	971,177	20,724	8.2%	45.3	6.6
6/30/2004	45,880	984,866	21,466	3.6%	46.2	7.0
6/30/2005	46,598	1,055,204	22,645	5.5%	46.6	7.1

Table 22

**Solvency Test
(\$ in 000's)**

Actuarial Accrued Liability

Actuarial Valuation Date	Member Contributions (1)	Current Retirees & Beneficiaries (2)	Active & Inactive Members. Employer Financed Portion (3)	Net Assets Available for Benefits	Percentage of Actuarial Liabilities Covered by Net Assets for:		
					(1)	(2)	(3)
6/30/1991	\$113,462	\$144,240	\$244,839	\$453,722	100.0%	100.0%	80.1%
6/30/1992	127,335	163,586	248,947	513,693	100.0%	100.0%	89.5%
6/30/1993	140,790	196,936	277,693	583,058	100.0%	100.0%	88.3%
6/30/1994	155,238	224,650	306,192	698,988	100.0%	100.0%	104.2%
6/30/1995	169,846	252,034	364,519	778,325	100.0%	100.0%	97.8%
6/30/1996	185,763	293,937	399,861	876,886	100.0%	100.0%	99.3%
6/30/1997	204,757	312,390	447,065	1,001,035	100.0%	100.0%	108.2%
6/30/1998	225,454	350,860	460,033	1,150,311	100.0%	100.0%	124.8%
6/30/1999	231,252	396,846	540,413	1,335,308	100.0%	100.0%	130.9%
6/30/2000	274,167	467,653	653,480	1,522,660	100.0%	100.0%	119.5%
6/30/2001	301,936	565,126	769,014	1,686,242	100.0%	100.0%	106.5%
6/30/2002	354,296	651,295	850,391	1,810,619	100.0%	100.0%	94.7%
6/30/2003	394,925	731,059	923,732	1,677,770	100.0%	100.0%	59.7%
6/30/2004	444,318	804,864	972,028	1,837,308	100.0%	100.0%	60.5%
6/30/2005	466,259	904,292	1,043,943	2,011,566	100.0%	100.0%	61.4%

Table 23

**Schedule of Retirees and Beneficiaries Added to
and Removed From Retirement Rolls**

Actuarial Valuation Date	Service Retirees			Disability Retirees			Beneficiaries		
	Added to Rolls	Removed from Rolls	Rolls End of Year	Added to Rolls	Removed from Rolls	Rolls End of Year	Added to Rolls	Removed from Rolls	Rolls End of Year
6/30/1989	703	272	7,645	24	14	151	30	1	148
6/30/1990	678	253	8,070	23	10	164	29	8	169
6/30/1991	712	277	8,505	24	13	175	54	4	219
6/30/1992	715	316	8,904	28	7	196	46	5	260
6/30/1993	689	336	9,257	26	10	215	40	7	293
6/30/1994	658	358	9,557	29	9	235	60	9	344
6/30/1995	782	372	9,967	33	19	249	54	12	386
6/30/1996	799	390	10,376	26	8	267	47	18	415
6/30/1997	823	388	10,811	22	13	276	63	18	460
6/30/1998	841	424	11,218	29	17	288	59	22	497
6/30/1999	813	431	11,600	35	7	316	67	19	545
6/30/2000	945	432	12,113	45	14	347	76	20	601
6/30/2001	987	468	12,632	53	22	378	76	14	663
6/30/2002	980	471	13,141	30	21	387	97	18	742
6/30/2003	979	501	13,619	31	13	405	96	25	813
6/30/2004	1,081	541	14,159	44	18	431	86	44	855
6/30/2005	1,116	505	14,770	43	26	448	98	29	924

Table 24**Schedule of Retirees by Type
(\$ in 000's)**

Actuarial Valuation Date	<u>Service Retirees</u>		<u>Disability</u>		<u>Beneficiaries</u>	
	<u>Number</u>	<u>Benefits</u>	<u>Number</u>	<u>Benefits</u>	<u>Number</u>	<u>Benefits</u>
6/30/1991	8,505	12,616	175	232	219	318
6/30/1992	8,904	14,403	196	287	260	414
6/30/1993	9,257	16,464	215	347	293	478
6/30/1994	9,557	18,534	235	417	344	572
6/30/1995	9,967	20,842	249	481	383	699
6/30/1996	10,376	23,785	267	550	415	820
6/30/1997	10,811	27,250	276	616	460	1,007
6/30/1998	11,218	30,240	288	672	497	1,126
6/30/1999	11,600	35,395	316	826	545	1,384
6/30/2000	12,113	41,091	347	1,002	601	1,653
6/30/2001	12,632	50,512	378	1,232	663	2,038
6/30/2002	13,141	57,697	387	1,346	742	2,413
6/30/2003	13,619	63,860	405	1,449	813	2,752
6/30/2004	14,159	70,710	431	1,558	855	3,076
6/30/2005	14,770	78,435	448	1,709	924	3,569

Average New Retiree Statistics

<u>Actuarial Valuation Date</u>	<u>New Service Retirees</u>	<u>Average New Benefit</u>	<u>% Change From Previous Year</u>
6/30/1991	606	228.87	3
6/30/1992	609	242.19	6
6/30/1993	597	275.23	12
6/30/1994	571	306.20	11
6/30/1995	679	298.76	(3)
6/30/1996	797	330.40	11
6/30/1997	823	327.16	(1)
6/30/1998	805	324.82	(1)
6/30/1999	813	366.42	13
6/30/2000	945	431.89	18
6/30/2001	987	565.29	31
6/30/2002	980	660.51	17
6/30/2003	979	676.19	2
6/30/2004	1,081	665.97	(2)
6/30/2005	1,116	652.87	(2)

Appendix E

Actuarial Method and Assumptions



Statement of Funding Policy

In order to establish long-term, consistent methods in the funding of the System, the Board of Trustees has adopted this statement of its funding policy. The funding of the System shall be carried out in such a way that the burden of paying retirement costs shall be shared equitably by present and succeeding generations of members and taxpayers. To this end, the following principles shall apply:

1. The Board of Trustees shall adopt actuarial assumptions, each of which individually represents a reasonable long-term estimate of anticipated experience under the System, derived from experience studies conducted every fifth year.
2. The actuarial funding method used shall be the Entry Age Normal Method with normal costs calculated as a percentage of payroll.
3. It shall be the general objective to maintain an amortization period of 30 years or less in the funding of the Unfunded Actuarial Accrued Liability. Whenever a change is made in the System's benefit and contribution rate structures, the amortization period for the System after this change should not exceed 30 years initially.
4. If an escalation in future payroll is assumed in determining the amortization payments toward the Unfunded Actuarial Accrued Liability, then the annual rate of such escalation shall not exceed the expected rate of expansion in total System payroll based upon the actuarial assumptions.
5. Assets used in the actuarial valuation shall be valued using adjusted market values averaged over a period of five years.
6. Annual actuarial valuations shall be made of the System's assets and liabilities. The contribution rate shall be established based on the results of these valuations.

Actuarial Assumptions

(Adopted for Use with the June 30, 2001 Valuation)

Investment Return

It is assumed that investments of the System will return, on average, a yield of 8% per annum compound, net of system expenses (investment and administrative expenses).

Salary and Payroll Increases

Salaries are assumed to increase each year at the rate of 5%. Longevity adjustments are made for those with less than 5 years of service.

Service	Longevity Adjustment	Total Increase
0	5.00%	10.00%
1	2.50	7.50
2	1.75	6.75
3	1.00	6.00
4	0.75	5.75
5 and Over	0.00	5.00

Total covered payroll of the entire membership is assumed to increase 5.0% per year in the future.

Withdrawal Rates

Termination of membership prior to eligibility for retirement from all causes other than death, disability or retirement, whether resulting in a refund or a deferred benefit, is assumed in accordance with the following illustrative rates per 1,000 members:

Service	Rate
0	300.0
1	175.0
2	125.0
3	105.0
4	85.0
5	75.0
10	44.0
15	28.0
20	18.0
25	0.0

Retirement Rates

Retirement rates are only applied to those eligible for retirement. Retirement is assumed in accordance with the following rates per 1,000 eligible members:

Age	Service						
	<25 ²	25	26	27	28	29	30+
<50 ¹		45	60	75	90	105	100
50 ¹		45	60	75	90	105	100
51 ¹		45	60	75	90	100	100
52 ¹		45	60	75	100	100	100
53 ¹		45	60	100	100	100	100
54 ¹		45	100	100	100	100	100
55	35	100	100	100	100	100	100
56	35	100	100	100	100	100	100
57	35	100	100	100	100	100	100
58	35	100	100	100	100	100	100
59	35	100	100	100	100	100	100
60	100	100	100	100	100	100	100
61	125	125	125	125	125	125	125
62	300	300	300	300	300	300	300
63	250	250	250	250	250	250	250
64	150	150	150	150	150	150	150
65	350	350	350	350	350	350	350
66	250	250	250	250	250	250	250
67	250	250	250	250	250	250	250
68	250	250	250	250	250	250	250
69	250	250	250	250	250	250	250
70	250	250	250	250	250	250	250
71	250	250	250	250	250	250	250
72	250	250	250	250	250	250	250
73	250	250	250	250	250	250	250
74	250	250	250	250	250	250	250
75+	1000	1000	1000	1000	1000	1000	1000

¹ Rates for members with less than 30 years of service are applicable from 1999-2008

² Rates for members who are younger than 60 are for early (age reduced) retirement.

Disability Rates

Retirement for disability prior to age 60 is assumed in accordance with the following illustrative rates per 1,000 eligible members:

<u>Age</u>	<u>Male and Female Rates</u>
35	-
40	0.465
45	0.697
50	1.395
55	2.557

Mortality Rates

Mortality Rates for retirees, beneficiaries, and survivors are based on the GAM94 Table with male ages set forward one year. Rates for active members are 70% of retiree rates for males and 64% of retiree rates for females. Illustrative rates per 1,000 for retirees and disabled members at various ages are as follows:

<u>Service Retired Members, Beneficiaries and Survivors</u>		
<u>Age</u>	<u>Male</u>	<u>Female</u>
20	0.530	0.284
30	0.821	0.351
40	1.156	0.709
50	2.872	1.428
60	8.986	4.439
70	25.951	13.730
80	68.615	39.396
90	167.260	116.265
100	333.461	276.427
110	496.356	482.325

Disability Retired Members, Male and Female

<u>Age</u>	<u>Rate</u>
40	24.075
50	26.175
60	31.500
70	44.625
80	76.650
90	173.276
100	507.128

Cost of Living Adjustments

The cost of living adjustment assumed in the valuation is 3.5% per year. The total lifetime COLA cannot exceed 80% of the original benefit.

Asset Valuation Method

The Actuarial Value of Assets is based on a five-year average of adjusted market value returns. The actuarial value for a year is computed by taking the actuarial value at June 30 of the prior year, subtracting all expenses (including benefit payments), and adding contributions and expected investment return at 8%. The difference between the actual returns at market value for the year and expected returns is determined. Twenty percent (20%) of that difference is added to the actuarial value along with corresponding amounts from each of the prior four years. The Actuarial Value of Assets has been marked to the market value as of June 30, 2003.

Provisions for Expenses

The assumed investment return rate is intended to represent the net rate of return after payment of all investment and administrative expenses.

Beneficiaries

Eighty percent (80%) of males and females are assumed to be married or to have eligible dependent beneficiaries. Beneficiaries are assumed to be of the opposite sex from the member. Female beneficiaries are assumed to be 3 years younger than the member, and male beneficiaries are assumed to be 3 years older than the member.

Terminations

Half of all active members who terminate for reasons other than death, disability or retirement are assumed to take of refund of their member account balance. The other half are expected to elect a termination benefit deferred to age 60. The same approach is used to value vested, inactive members.

Appendix F
Summary Of Benefit Provisions Of PEERS

Member Contributions

Half the total PEERS contribution rate. The current total PEERS contribution rate is 11.0% of pay.

Normal (Unreduced) Retirement

Eligibility

Attainment of age 60 with at least five years of Creditable Service, or
Completion of 30 years of Creditable Service at any age, or
Age plus Creditable Service is at least 80.

Benefit

1.61% of Final Average Salary for each year of Membership Service. A year of Prior Service is treated as 0.6 year of Membership Service. Any person retiring prior to age 62 under the Rule of 80 or with 30 years of creditable service will receive an additional benefit payable to attainment of age 62. This benefit is equal to 0.8% of Final Average Salary for each year of Membership Service.

Final Average Salary

Average monthly salary over the Member's three highest consecutive years of service.

Membership Service

Service while a participating member of PEERS. Service is measured each year in relation to minimum salary for 20 hours per week in the position for that year.

Prior Service

Service rendered in a covered position prior to November 1, 1965.

Creditable Service

Membership Service plus any Prior Service.

Normal Form of Benefit

Single Life Annuity

Options available include joint and survivor (50%, 75%, or 100%) and term certain (60 or 120 months) and life thereafter.

Early (Age Reduced) Retirement

Eligibility

Attainment of age 55 and under age 60 with at least five years of creditable service.

Benefit

Normal retirement benefit accrued to the date of early retirement, actuarially reduced from age 60.

Special Normal Retirement – Under Modified Formula

Eligibility

Retirement on or before July 1, 2008 at an age under 55 and with at least 25 years of creditable service but not eligible for the Rule of 80.

Benefit

Based on a percentage of final average salary per year of creditable service. Percentages are as follows:

<u>Years of Service</u>	<u>Benefit Percentage</u>
25-25.9	1.51%
26-26.9	1.53
27-27.9	1.55
28-28.9	1.57
29-29.9	1.59

COLA Adjustments

In any year in which the Board determines that the CPI has increased, the Board may provide for annual increases in the current benefit of up to 5%. For any member such adjustments commence in the fourth January after commencement of benefits. The total of such increases may not exceed 80% of the original benefit for any member.

Disability Benefits

Definition of Disability

Incapacity for performance of gainful employment after completion of five years of creditable service and before age 60.

Benefit

Lifetime benefit equal to 90% of accrued normal retirement benefit.

Form of Benefit

If eligible, surviving spouse may elect a survivor benefit. COLA adjustments similar to those provided retirees are provided on this benefit.

Vesting

Eligibility

Completion of five years of creditable service.

Benefit

Accrued normal retirement benefit payable at earliest retirement age based on service at date of termination. Benefit is based on formula in effect at commencement of benefit.

Death / Survivor Benefits

Refund

Refund of accumulated member contributions with interest

Survivor Benefits

If the member has at least 5 years of creditable service at date of death, the spouse may receive a survivor benefit based on 100% J & S equivalent of the benefit accrued to date of death. The benefit may commence:

1. immediately if member is eligible to retire at date of death, or
2. at a future retirement date of the deceased member.

The benefit may be reduced for early commencement if the deceased member would not have been eligible for unreduced retirement at that date based on service to date of death. COLA adjustments similar to those provided retirees are provided on these benefits.