The Report of the Fifty-Fourth Annual Actuarial Valuation

of the

City of Sioux Falls Employee's Retirement System
December 31, 2004

Submitted to
The Board of Trustees

City of Sioux Falls Employee's Retirement System
Sioux Falls, South Dakota

Gabriel, Roeder, Smith & Company

OUTLINE OF CONTENTS

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May 11, 2005

The Board of Trustees
City of Sioux Falls Employee's Retirement System
Sioux Falls, South Dakota

Ladies and Gentlemen:

Submitted in this report are the results of the Fifty-Fourth Annual Actuarial Valuation of the assets, actuarial values and contribution requirements associated with benefits (pensions and post-retirement health insurance) provided by the City of Sioux Falls Employee's Retirement System. The purpose of the valuation was to measure the System's funding progress and to determine contribution rates for the second following calendar year.

The date of the valuation was December 31, 2004.

The valuation was based upon information, furnished by your Secretary, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. Data was checked for year-to-year consistency but was not otherwise audited.

Section A of this report includes retiree health valuation results based on the current assumptions and methods. This contribution rate may be used for budget purposes, but does not comply with Governmental Accounting Standards Board (GASB) statement number 43 or with current actuarial standards of practice. Specifically, these contribution rates do not reflect the development of "premiums" based on claims analysis and age grading. Contribution rates that comply with GASB statement number 43 and actuarial standards of practice are shown in the Appendix of this report.

To the best of our knowledge this report is complete and accurate, except where noted above, and was made in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the statutes governing the Pension Fund. The actuarial assumptions used for the valuation produce results which we believe are reasonable.

Respectfully submitted,

Louise M. Gates, ASA W. James Koss, ASA, EA

LMG/WJK:dm

Section A

Valuation Results, Comments, Recommendations and Conclusions

FINANCIAL OBJECTIVE

The financial objective of the Retirement System is to establish and receive contributions, expressed as percents of active member payroll, which will remain approximately level from year-to-year and will accumulate reserves during members' working lifetimes which will be sufficient to pay promised benefits throughout retirement.

CONTRIBUTION RATES

The Retirement System is supported by member contributions, City contributions and investment income from Retirement System assets.

Contributions which satisfy the financial objective are determined by an annual actuarial valuation and are sufficient to:

(1) cover the actuarial present value of benefits assigned to the current year by the actuarial cost methods described in Section C (the normal cost); and

(2) amortize over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal costs (unfunded actuarial accrued liability).

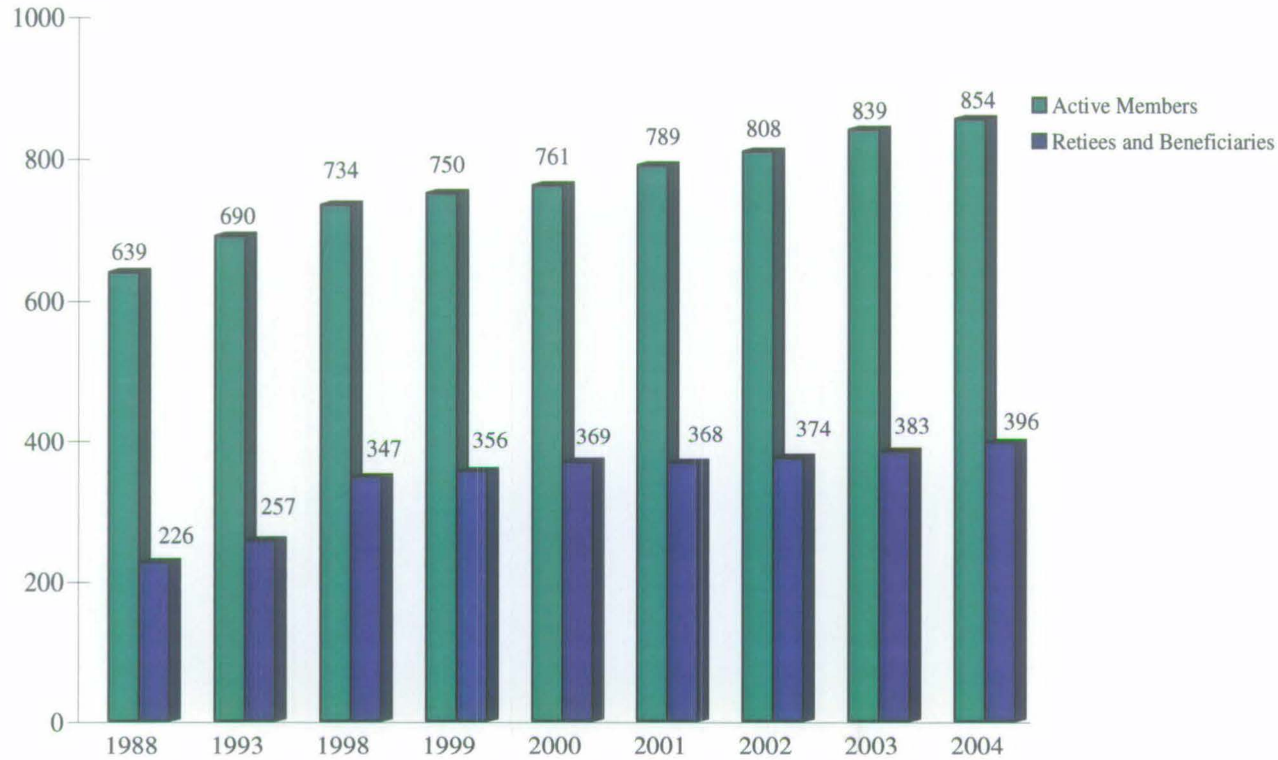
Pension contribution requirements for the year beginning January 1, 2006 are shown on page A-2.

Pension Contributions Computed to Meet the Financial Objective of the Retirement System for the Year Beginning January 1, 2006

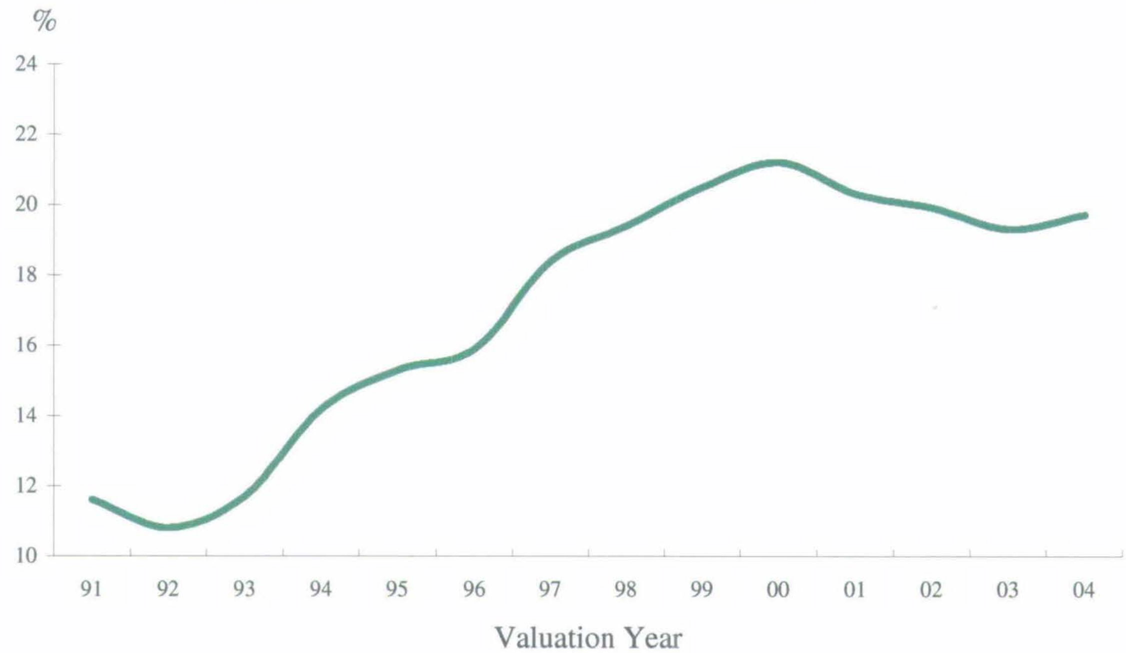
Contributions for	Contributions Expressed As Percents of Payroll	
	General	Police
Normal Cost		
Age & service benefits	9.37%	16.23%
Death and Disability benefits	0.92	1.22
Termination benefits		
Deferred age & service benefits	0.47	0.22
Refunds of member contributions	0.47	1.08
Total Normal Cost	11.23%	18.75%
Unfunded Actuarial Accrued Liabilities (1)	1.57%	4.09%
Total Contribution Requirement	12.80%	22.84%
Member portion	3.00%	8.00%
City-State portion	9.80%	14.84%

(1) Unfunded accrued liabilities were amortized as a level percent of active member payroll over a period of 19 years.

Active and Retired Members



Pension Benefits as a Percent of Payroll



COMPUTED AND ACTUAL CITY CONTRIBUTIONS
COMPARATIVE STATEMENT

Fiscal Year	Valuation Date December 31	% of Payroll Contributions General	Police	Weighted Average
1992	1990 @#	9.03	9.59	9.16 %
1993	1991 #	9.37	11.03	9.75
1994	1992 @#	10.26	17.20	11.85
1995	1993	9.50	17.36	11.20
1996	1994	9.69	17.57	11.37
1997	1995	9.25	16.92	11.09
1998	1996	9.29	17.27	11.20
1999	1997 #	10.33	18.09	12.14
2000	1998 @	9.68	16.85	11.42
2001	1999	8.47	13.90	9.80
2002	2000 **	7.60	15.60	9.67
2003	2001 **	7.77	14.42	9.45
2004	2002	8.68	15.68	10.48
2005	2003	9.43	13.96	10.65
2006	2004 @	9.80	14.84	11.21

@ *After changes in actuarial assumptions or methods*

After changes in benefit provisions

** *Reflects full funding credit*

ACTUARIAL BALANCE SHEET - DECEMBER 31, 2004

Present Pension Resources and Expected Future Pension Resources

	General	Police	Total
A. Valuation assets	$121,018,660	$63,034,673	$184,053,333
B. Actuarial present value of expected future employer contributions			
1. For normal costs	20,520,955	12,737,968	33,258,923
2. For unfunded actuarial accrued liabilities	6,565,067	6,650,200	13,215,267
3. Total	27,086,022	19,388,168	46,474,190
C. Actuarial present value of expected future member contributions	7,751,363	9,615,032	17,366,395
D. Total Actuarial Present Value of Present and Expected Future Resources	$155,856,045	$92,037,873	$247,893,918

Actuarial Present Value of Expected Future Pension Benefit Payments and Reserves

	General	Police	Total
A. To retirees and beneficiaries	$ 53,281,043	$37,055,821	$ 90,336,864
B. To vested terminated members	2,925,900	0	2,925,900
C. To present active members			
1. Allocated to service rendered prior to valuation date	71,376,784	32,629,052	104,005,836
2. Allocated to service likely to be rendered after valuation date	28,272,318	22,353,000	50,625,318
3. Total	99,649,102	54,982,052	154,631,154
D. Reserves			
1. Allocated to retirants and beneficiaries	0	0	0
2. Unallocated investment income	0	0	0
3. Total	0	0	0
E. Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	$155,856,045	$92,037,873	$247,893,918

DERIVATION OF ACTUARIAL GAIN (LOSS)
YEAR ENDED DECEMBER 31, 2004

The actuarial gains or losses realized in the operation of the Retirement System provide an experience test. Gains and losses are expected to cancel each other over a period of years (in the absence of double-digit inflation) and sizable year-to-year fluctuations are common. Details of the derivation of the actuarial gain (loss) are shown below.

	General	Police
(1) UAAL* at start of year	$ 3,647,147	$ 5,343,632
(2) Normal cost	3,200,272	1,984,135
(3) Actual contributions	3,366,614	2,622,431
(4) Interest accrual	285,118	401,959
(5) Expected UAAL before changes	3,765,923	5,107,295
(6) Change from benefit increases		
(7) Change from revised actuarial assumptions	838,627	(309,637)
(8) Expected UAAL after changes	4,604,550	4,797,658
(9) Actual UAAL at end of year	6,565,067	6,650,200
(10) Gain (loss) (8) - (9)	(1,960,517)	(1,852,542)
(11) Gain (loss) as percent of AAL at start of year	(1.64)%	(2.84)%

* *Unfunded actuarial accrued liability*

POST-RETIREMENT HEALTH INSURANCE
CITY'S COMPUTED CONTRIBUTIONS FOR THE FISCAL YEAR
BEGINNING JANUARY 1, 2006

Contributions for	Contributions Expressed as %'s of Active Payroll	
	General	**Police**
Normal Cost	0.97 %	1.61 %
UAAL Contribution	1.06	1.97
TOTAL COMPUTED CITY RATE	2.03 %	3.58 %
DOLLAR CONTRIBUTION BASED ON VALUATION PAYROLL*	$615,299	$421,569

* *Projected to coming fiscal year.*

Unfunded actuarial accrued liabilities (UAAL) were amortized as a level percent of active member payroll over a period of 19 years.

The contribution rates shown above (and in this section of the report) were developed based on current assumptions and methods adopted by the Boards for use in the December 31, 2004 actuarial valuation of the retiree health program. These contributions may be used for budgeting purposes and were based on assumptions/methods that do not comply with new actuarial or governmental accounting standards.

POST-RETIREMENT HEALTH INSURANCE
COMPARATIVE STATEMENT

Fiscal Year	Valuation Date December 31	Computed City Contributions As % of Payroll: General	Police	Weighted Average
1992	1990 @	1.03 %	2.07 %	1.26 %
1993	1991	1.02	1.97	1.24
1994	1992	0.95	1.85	1.16
1995	1993 @	1.06	2.02	1.27
1996	1994	1.12	2.31	1.37
1997	1995	1.10	2.03	1.32
1998	1996	1.03	1.79	1.21
1999	1997 @	0.73	1.92	1.01
2000	1998	0.71	1.75	0.96
2001	1999	0.96	1.81	1.16
2002	2000 @	1.59	2.60	1.85
2003	2001 @	1.97	3.01	2.23
2004	2002	2.18	3.58	2.54
2005	2003	2.55	4.63	3.11
2006	2004 @	2.03	3.58	2.46

@ *After changes in actuarial assumptions or methods*

COMMENTS

Comment A: System experience was overall unfavorable during the year ended December 31, 2004. Although the rate of return on trust assets exceeded the long term assumed rate, investment income on a funding value basis was lower than expected due to delayed recognition of prior year's investment losses. This was the primary source of unfavorable experience. The net funding value yield on System assets for the period ending December 31, 2004 was 5.6%.

Comment B: This valuation reflects the demographic assumption changes adopted by the Boards as recommended in the recent study of System experience. There were no changes in economic assumptions or the amortization period. The Appendix of this report includes a summary of assumption and method changes proposed in connection with GASB OPEB.

Comment C: The results of an actuarial valuation will be only as meaningful as the information it is based on. Section A of this report shows retiree health contribution rates based on the conventional premium provided in connection with the valuation as the measure of the cost of providing retiree health benefits currently. For future valuations of the retiree health program, we will need additional information related to retiree health program claims to develop "premium" rates. This additional information will be needed to comply with new actuarial and governmental accounting standards of practice applicable to retiree health programs.

Comment D: Internal Revenue Code (IRC) Section 401(h) allows a pension plan to establish a separate account within the trust to pay benefits for sickness, accident, hospitalization and medical expenses of retired employees, their spouses and their dependents. In order for a pension plan to maintain its qualified status, the IRC Section 401(h) account must meet certain requirements, established by the code. An important (and often, the most restrictive) requirement is that employer contributions for medical benefits must be "subordinate" to the contributions for pension benefits. A result of the "subordinate benefits limitation" is that the maximum permissible employer health contribution (to the pension trust) may be less than required to actuarially fund the promised benefits.

We recommend that a special study of this limitation be performed for each pension plan (General/Management and Police). Once the City and Boards make a decision concerning the level of funding that will be made for retiree health benefits, the study could be performed on this basis only.

CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE OF THE RETIREMENT SYSTEM FOR THE YEAR BEGINNING JANUARY 1, 2006 GENERAL/MANAGEMENT

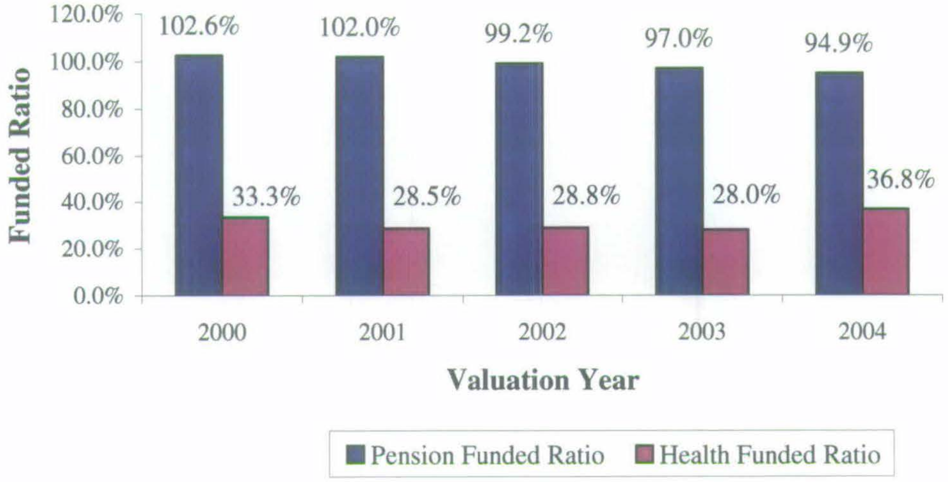
	Contributions Expressed As Percents of Payroll		
Contributions for	**Pension**	**Health**	**Total**
Normal Cost			
Age & service benefits	9.37%	0.84%	10.21%
Death and Disability benefits	0.92	0.13	1.05
Termination benefits			
Deferred age & service benefits	0.47	0.00	0.47
Refunds of member contributions	0.47	0.00	0.47
Total Normal Cost	11.23%	0.97%	12.20%
Unfunded Actuarial Accrued Liabilities	1.57%	1.06%	2.63%
Total Contribution Requirement	12.80%	2.03%	14.83%
Member portion	3.00%	0.00%	3.00%
City-State portion	9.80%	2.03%	11.83%

CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE OF THE RETIREMENT SYSTEM FOR THE YEAR BEGINNING JANUARY 1, 2006
POLICE

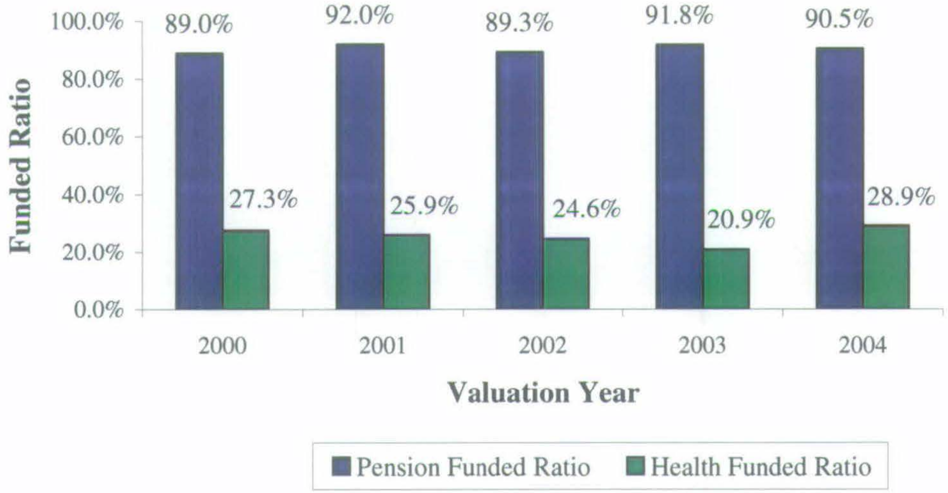
Contributions for	Contributions Expressed As Percents of Payroll		
	Pension	**Health**	**Total**
Normal Cost			
Age & service benefits	16.23%	1.49%	17.72%
Death and Disability benefits	1.22	0.12	1.34
Termination benefits			
Deferred age & service benefits	0.22	0.00	0.22
Refunds of member contributions	1.08	0.00	1.08
Total Normal Cost	18.75%	1.61%	20.36%
Unfunded Actuarial Accrued Liabilities	4.09%	1.97%	6.06%
Total Contribution Requirement	22.84%	3.58%	26.42%
Member portion	8.00%	0.00%	8.00%
City-State portion	14.84%	3.58%	18.42%

FUNDED RATIO HISTORY
PENSION AND RETIREE HEALTH

General/Management



Police



Section B

Summary of Benefit Provisions and Valuation Data

BENEFIT PROVISIONS EVALUATED AND/OR CONSIDERED (DECEMBER 31, 2004)

Regular Unreduced Retirement

Eligibility - General members: age 55 with 30 or more years service, or age 60 with 5 years service

Police: age 50 with 25 years service, or age 60 with 15 years service

Mandatory Retirement Age - Police: age 60 (age 65 with employer consent).

Annual Amount - General members: 1.8% of final average pay times years of service.
Police: final average pay times the sum of a) 2.5% times the first 25 years of service, plus b) 1.5% times service in excess of 25 years.

Type of Final Average Pay - Highest 3 consecutive years out of last 10. Some lump sums are included.

Early Reduced Retirement

Eligibility - 20 or more years of service

Annual Amount - Same as regular retirement except that the benefit is actuarially reduced.

Deferred Retirement (vested benefit):

Eligibility - General Members: 5 years of service. Benefit commences at age 60.

Police: 15 years of service. Benefit commences at deferred retirement age.

Annual Amount - Computed as a regular retirement benefit based on service and final average pay at termination.

Duty Disability Retirement:

Eligibility - No age or service requirement

Annual Amount - Computed as a regular retirement benefit. If disabled before eligible for regular retirement, additional service is credited for the period between disability and the time member would have been eligible for regular retirement if he had not been disabled. Minimum benefit is 12.5% of final average pay for general members and 20% of final average pay for police. Worker's Compensation payments are offset.

BENEFIT PROVISIONS EVALUATED AND/OR CONSIDERED (DECEMBER 31, 2004)

Non-Duty Disability Retirement:

Eligibility - 10 years of service

Annual Amount - Computed as a regular retirement benefit based on service and final average pay at time of disability. Worker's Compensation payments are offset.

Duty Death Before Retirement:

Eligibility - No age or service requirement. Worker's Compensation must be payable.

Annual Amount - Refund of accumulated contributions. Spouse receives pension of 1/3 of final average pay until death. Unmarried children under age 18 or an eligible handicapped child each receive an equal share of 1/6 of final average pay (if no spouse each child receives 1/4 to a maximum of 1/2). If no spouse or eligible children, dependent parents each receive 1/6 of final average pay (each parent's pension limited to $600 annually). Worker's Compensation payments are offset.

Non-Duty Death Before Retirement:

Eligibility - 10 years of service

Annual Amount - Spouse (or some other dependent if an Option B election was in force) receives a benefit computed as regular retirement benefit but actuarially reduced in accordance with a 100% joint and survivor election. Minimum benefit is $360 annually. If no Option B election is in force, each unmarried child under age 18 or an eligible handicapped child receives $2,400 annually. If no Option B election is in force and there is no eligible spouse, member contributions are refunded.

Post-Retirement Cost-of-Living Adjustments: Annual increase equal to 100% of the CPI in June of each year (with a cap of 3%) applied to the member's current benefit. The first increase will be granted after 36 months of retirement.

Member Contributions: Police: 8% of compensation.
Elected officials, appointed officers and management.
employees: 3.0% of compensation.
Other members: 3.0% of compensation.

REPORTED FUND BALANCES (MARKET VALUE)

Reserves	Reported Fund Balances December 31, 2003	December 31, 2004
Annuity Savings Fund		
General division	$ 16,684,203	$ 17,213,514
Police division	7,618,779	8,252,113
Totals	24,302,982	25,465,627
Employer Reserve Fund		
General division	(2,729,098)	68,441,873
Police division	(9,658,819)	26,651,433
Totals	(12,387,917)	95,093,306
Retirement Reserve Fund		
General division	35,219,101	38,809,863
Police division	32,369,695	35,724,828
Totals	67,588,796	74,534,691
Income Fund	92,397,543	0
Expense Fund	66,476	148,562
Total Balances	$171,967,880	$195,242,186

DERIVATION OF VALUATION ASSETS

	Pensions	Health	Grand Total
Assumed Annual Rate of Interest	8.00%	8.00%	8.00%
A. Funding Value, 12/31/03	$175,891,684	$3,191,907	$179,083,591
B. Market Value, Beginning of Year			171,967,880
C. Non-Investment Net Cash Flow			(1,102,503)
D. Net Investment Income(Market total)			24,376,809
E. Market Value, End of Year			195,242,186
F. Phase-in Factor			20%
G. Expected Income			14,282,587
H. Market Value Gain (Loss): [(D) – (G)]			10,094,222
I. Method Change:			
J. Recognition of Gain/(Loss)			
J1. Year One			2,018,844
J2. Year Two			4,469,457
J3. Year Three			(5,705,227)
J4. Year Four			(2,768,788)
J5. Year Five			(2,340,286)
J6. Total (J1…J5)			(4,326,000)
K. Funding Value, 12/31/04 [(A) + (C) + (G) + (J6)]			187,937,675
L. Net Funding Value Rate of Return			5.6%
M. Percent Allocation (to pension and health)*	97.9%	2.1%	100.0%
N. Allocated Funding Value, 12/31/2004	$184,053,333	$3,884,342	$187,937,675

* Rounded

SUMMARY OF CURRENT ASSET INFORMATION REPORTED FOR VALUATION

Trust Assets

	December 31, 2004 Market Value
Cash	$ 665,483
Net receivables & accruals	464,148
Investments	194,119,374
Less accounts payable	6,819
Total Assets	$195,242,186

Revenues and Expenditures of Trust

	2004	2003
Balance - January 1	$171,967,880	$137,514,068
Revenues		
Employee's contributions	1,718,969	1,593,939
Employer contributions	5,261,202	4,373,347
Investment income	24,644,820	36,238,185
Other income	0	0
Expenditures		
Benefit payments	7,403,924	6,915,649
Hospitalization Insurance	490,656	450,714
Refunds of member contributions	188,094	132,505
Operating expenses	268,011	252,791
Miscellaneous	0	0
Balance - December 31	$195,242,186	$171,967,880

MARKET VALUE OF ASSETS REPORTED FOR VALUATION
COMPARATIVE STATEMENT

Year Ended Dec. 31	Assets Beginning of Year	Revenues: Employee Contrib.	Revenues: Employer Contrib.	Revenues: Investment Income	Expenses: Retirement Benefits	Expenses: Contrib. Refunds	Expenses: Misc. Expenses	Assets Year-End
1990	$ 49,897,200	$ 987,508	$1,529,071	($437,429)	$1,877,163	$100,727	$300,798	$ 49,697,662
1991	49,697,662	1,085,944	1,545,489	10,749,642	2,018,227	86,490	359,539	60,614,481
1992	60,614,481	1,120,093	2,002,226	4,717,981	2,208,203	76,968	416,011	65,753,599
1993	65,753,599	1,195,413	2,511,140	9,480,618	2,327,641	74,987	426,547	76,111,595
1994	76,111,595	1,270,016	3,164,398	209,322	2,727,077	77,774	379,964	77,570,516
1995	77,570,516	1,322,338	3,191,204	18,315,824	3,299,025	168,376	521,138	96,411,343
1996	96,411,343	1,485,256	3,369,320	12,535,654	3,782,793	83,772	510,740	109,424,268
1997	109,424,268	1,540,007	3,341,706	17,474,254	4,202,853	189,073	533,763	126,854,546
1998	126,854,546	1,462,159	3,723,334	14,571,870	4,998,076	114,099	504,691	140,995,043
1999	140,995,043	1,193,764	3,746,140	20,287,090	5,421,649	160,909	394,037	160,245,442
2000	160,245,442	1,249,943	3,667,166	(539,610)	5,847,524	177,771	438,219	158,159,427
2001	158,159,427	1,359,825	3,537,191	(1,535,524)	6,190,412	237,070	541,518	154,551,919
2002	154,551,919	1,442,154	3,896,795	(14,929,083)	6,600,911	182,350	664,456	137,514,068
2003	137,514,068	1,593,939	4,373,347	36,238,185	6,915,649	132,505	703,505	171,967,880
2004	171,967,880	1,718,969	5,261,202	24,644,820	7,403,924	188,094	758,667	195,242,186

ADDITIONS TO AND REMOVALS FROM RETIRED/SURVIVOR MEMBERSHIP
COMPARATIVE STATEMENT

Year Ended Dec. 31	Additions No.	Additions Annual Benefits	Removals No.	Removals Annual Benefits	End of Year No.	End of Year Annual Benefits	Average Annual Benefits	Present Value of Benefits	Expected Removals
1990	18	$218,652	13	$ 92,112	238	$2,012,847	$ 8,457	$23,236,648	8.5
1991	17	242,488	11	46,615	244	2,208,720	9,052	26,080,427	9.0
1992	9	135,704	9	62,352	244	2,282,072	9,353	26,466,852	8.9
1993	22	381,517	9	49,328	257	2,614,261	10,172	30,495,388	9.4
1994 +	30	735,959	8	57,983	279	3,292,237	11,800	39,021,252	10.0
1995	30	541,105	13	115,481	296	3,717,861	12,560	44,353,632	10.6
1996	25	516,018	13	163,629	308	4,070,250	13,215	48,501,396	11.6
1997	29	761,054	10	89,454	327	4,741,850	14,501	59,459,496	11.6
1998	25	594,946	5	38,762	347	5,298,034	15,268	66,486,000	9.8
1999	25	507,219	16	133,245	356	5,672,008	15,933	71,686,116	7.8
2000	27	544,081	14	59,225	369	6,156,864	16,685	76,925,868	10.9
2001	22	561,207	23	274,403	368	6,443,668	17,510	80,195,604	11.3
2002	21	397,601	15	140,349	374	6,700,920	17,917	82,787,796	11.2
2003	37	566,899	28	280,190	383	6,987,629	18,244	85,924,411	11.2
2004	24	749,117	11	159,821	396	7,576,925	19,134	90,336,864	11.3

\+ *2 years of COLA*

RETIREES AND BENEFICIARIES AS OF DECEMBER 31, 2004 TABULATED BY TYPE OF BENEFITS BEING PAID

Type of Benefits Being Paid	No.	Annual Benefits
Age and Service Retirement Benefits	307	$6,427,894
Disability Retirement Benefits	20	310,100
Survivor Retirement Benefits	69	838,931
Total Retirement Benefits Being Paid	396	$7,576,925

RETIREES AND BENEFICIARIES BY ATTAINED AGES AS OF DECEMBER 31, 2004

Attained Ages	No.	Annual Benefits
Under 40	6	$ 29,435
40 - 44	2	29,650
45 - 49	4	45,888
50 - 54	22	595,594
55 - 59	51	1,470,974
60 - 64	69	1,775,065
65 - 69	70	1,338,975
70 - 74	65	1,104,253
75 - 79	47	559,301
80 - 84	30	351,884
85 - 89	21	222,786
90 & Over	9	53,120
Totals	**396**	**$7,576,925**

Vested Former Members
as of December 31, 2004
Tabulated by Attained Ages

Attained Ages	No.	Monthly Benefits
Under 40	6	$ 29,647
40 - 44	6	49,629
45 - 49	9	109,928
50 - 54	15	149,067
55 - 59	9	105,798
60 & Over	2	10,706
Totals	**47**	**$454,775**

ACTIVE MEMBERS
AS OF DECEMBER 31, 2004
TABULATED BY VALUATION DIVISIONS

Valuation Groups	No.	Annual Payroll	Average Age	Average Service	Average Pay
General/Management Members	642	$27,756,043	44.8 yrs.	12.3 yrs.	$43,234
Police Members	212	10,783,344	37.8	10.0	50,865
Total Active Members	**854**	**$38,539,387**	**43.1**	**11.7**	**$45,128**

ACTIVE MEMBERS INCLUDED IN VALUATION
COMPARATIVE SCHEDULE

Valuation Date December 31	Active Members General	Active Members Police	Active Members Totals	Valuation Payroll	Average Age	Average Service	Average Pay	Average % Incr.
1990	529	133	662	$17,211,716	41.1	11.3	$26,000	1.7 %
1991	547	139	686	19,100,960	41.2	11.4	27,844	7.1
1992	555	143	698	21,155,752	41.8	12.0	30,309	8.9
1993	552	138	690	22,272,331	42.1	12.3	32,279	6.5
1994	563	136	699	23,186,822	42.0	12.0	33,171	2.8
1995	568	155	723	24,295,495	43.0	11.9	33,604	1.3
1996	575	160	735	25,525,258	42.0	11.8	34,728	3.3
1997	571	158	729	25,830,779	42.2	11.8	35,433	2.0
1998	573	161	734	27,295,184	42.2	11.7	37,187	5.0
1999	588	162	750	27,623,182	42.4	11.7	36,830	(1.0)
2000	587	174	761	29,068,666	42.4	11.7	38,198	3.7
2001	611	178	789	31,751,356	42.6	11.7	40,243	5.4
2002	626	182	808	33,718,220	43.0	11.8	41,730	3.7
2003	636	203	839	36,244,556	42.8	11.7	43,200	3.5
2004	642	212	854	38,539,387	43.1	11.7	45,128	4.5

ADDITIONS TO AND REMOVALS FROM ACTIVE MEMBERSHIP
ACTUAL AND EXPECTED NUMBERS

Year Ended Dec. 31	Number Added During Year A	Number Added During Year E	Normal Retirement A	Normal Retirement E	Disability Retirement A	Disability Retirement E	Died-In-Service A	Died-In-Service E	Other Terminations A	Other Terminations E	Active Members End of Year
1990	47	33	10	5.3	1	1.7	0	1.9	22	32.0	662
1991	51	27	13	5.5	1	1.8	2	1.9	11	32.9	686
1992	26	14	5	7.0	1	1.8	1	2.0	7	34.3	698
1993	27	35	20	8.9	0	1.8	0	2.1	15	30.8	690
1994	47	38	27	8.2	0	1.8	0	2.2	11	27.2	699
1995	66	42	20	8.2	3	1.8	0	2.2	19	27.2	723
1996	45	33	17	8.3	0	2.1	1	2.2	15	30.3	735
1997	38	44	21	8.3	1	2.1	0	2.2	22	30.3	729
1998	45	50	21	7.8	1	1.6	0	0.9	23	26.8	734
1999	56	46	14	7.5	1	1.6	2	0.9	23	27.5	750
2000	68	57	17	11.0	2	1.1	0	1.0	38	27.9	761
2001	64	36	11	10.0	1	1.2	1	1.0	23	29.2	789
2002	66	47	11	13.7	0	1.3	0	1.1	36	30.2	808
2003	74	43	19	15.3	2	1.3	0	1.1	22	31.5	839
2004	65	50	17	15.1	1	1.3	1	1.2	31	33.2	854
5 Year Totals	337	233	75	65	6	6	2	5	150	152	

A represents actual number.
E represents expected number based on assumptions outlined in Section C.

General/Management Active Members - December 31, 2004
by Attained Age and Years of Service

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	14							14	$ 390,860
25-29	36	8						44	1,448,803
30-34	33	17	3					53	1,962,576
35-39	35	22	12	2				71	2,908,119
40-44	27	21	22	17	16	1		104	4,555,584
45-49	25	22	23	20	18	24		132	5,808,834
50-54	14	15	21	17	12	26	8	113	5,169,613
55-59	12	11	9	13	5	21	10	81	4,026,707
60		2		2	1	3	3	11	589,201
61	1	2	3	2				8	370,305
62	1		1				2	4	173,903
63	2							2	135,730
64				1		1		2	102,396
65				1				1	36,773
66	1							1	32,920
67					1			1	43,719
Totals	201	120	94	75	53	76	23	642	$27,756,043

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

Age: 44.8 years
Service: 12.3 years
Annual Pay: $43,234

POLICE ACTIVE MEMBERS - DECEMBER 31, 2004
BY ATTAINED AGE AND YEARS OF SERVICE

Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	5							5	$ 185,235
25-29	28	1						29	1,090,030
30-34	30	18						48	2,110,630
35-39	14	13	17	4				48	2,422,317
40-44		5	7	18	2			32	1,939,578
45-49	3	3	5	5	6	5		27	1,584,036
50-54			4	7	1	5	3	20	1,275,780
55-59				1	2			3	175,738
Totals	**80**	**40**	**33**	**35**	**11**	**10**	**3**	**212**	**$10,783,344**

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

Age: 37.8 years
Service: 10.0 years
Annual Pay: $50,865

Section C

Actuarial Methods and Assumptions
and
Definitions of Technical Terms

Actuarial Cost Methods Used for the Valuation

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

(i) the annual normal costs for each individual active member, payable from the member's actual date of employment to projected date of retirement, are sufficient to accumulate the actuarial present value of the member's benefit at the time of retirement;

(ii) each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

Amortization of Unfunded Actuarial Accrued Liabilities

Except where indicated, unfunded actuarial accrued liabilities were amortized as a level percent of active member payroll over a period of 19 years.

Active payroll was assumed to increase 4.5% a year for the purpose of determining the level percent contributions.

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

The actuary calculates contribution requirements and actuarial present values of a retirement system by applying actuarial assumptions to the benefit provisions and census information of the system, using the actuarial cost methods described on page C-1.

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

(i) long-term rates of investment return to be generated by the assets of the system
(ii) patterns of pay increases to members
(iii) rates of mortality among members, retirees and beneficiaries
(iv) rates of withdrawal of active members
(v) rates of disability among active members
(vi) the age patterns of actual retirements.

In making a valuation, the actuary calculates the monetary effect of each assumption for as long as a present covered person survives - - - a period of time which can be as long as a century.

The employer contribution rate has been computed to remain level from year-to-year so long as benefits and the basic experience and make-up of members do not change. Examples of favorable experience which would tend to reduce the employer contribution rate are:

(1) Investment returns in excess of 8% per year
(2) Member non-vested terminations at a higher rate than outlined in this report.
(3) Mortality among retirees and beneficiaries at a higher rate than indicated by the 1983 Group Annuity Mortality Table
(4) Increases in the number of active members

ACTUARIAL ASSUMPTIONS IN THE VALUATION PROCESS

Examples of unfavorable experience which would tend to increase the employer contribution rate are:

(1) Pay increases in excess of the rates outlined in this report.

(2) An acceleration in the rate of retirement from the rates outlined in this report.

(3) A pattern of hiring employees at older ages than in the past

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Actual experience of the system will not coincide exactly with assumed experience, regardless of the choice of the assumptions, or the skill of the actuary and the precision of the calculations. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments (usually small) to the computed contribution rate.

From time-to-time one or more of the assumptions are modified to reflect experience trends (but not random or temporary year-to-year fluctuations).

Valuation assets are equal to reported market value of assets, with investment gains and losses spread over a period of 5 years, (with 20% recognition in each year). Such spreading reduces the fluctuation in the City's computed contribution rate which might otherwise be caused by market value fluctuations. The details of the spreading technique are shown in Section B of this report.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Investment Return (net of expenses).

8.0% per year, compounded annually. This rate consists of a net real rate of return of 3.5% a year plus a long-term rate of wage inflation of 4.5% a year.

This assumption is used to equate the value of payments due at different points in time and was first used for the December 31, 1997 valuation. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below.

	Year Ended December 31,				
	2004	**2003**	**2002**	**2001**	**2000**
Rate of Investment Return	5.6 %	5.5 %	3.4 %	9.4 %	11.6 %

The nominal rate of return was computed using the approximate formula i = I divided by 1/2 (A + B - I), where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems -- ***to do so will mislead.***

Pay Projections: These assumptions are used to project current pays to those upon which benefits will be based.

	Annual Rate of Pay Increase for Sample Ages		
Sample	**Base**	**General/Management**	
Ages	**(Economic)**	**Merit and Longevity**	**Totals**
20	4.5 %	1.7 %	6.2 %
25	4.5	1.6	6.1
30	4.5	1.2	5.7
35	4.5	0.9	5.4
40	4.5	0.4	4.9
45	4.5	0.3	4.8
50	4.5	0.2	4.7
55	4.5	0.2	4.7
60	4.5	0	4.5
65	4.5	0	4.5

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Years of Service	Annual Rate of Pay Increase for Indicated Years of Service: Base (Economic)	Police: Merit and Longevity	Police: Total
1	4.5 %	4.0 %	8.5 %
2	4.5	4.0	8.5
3	4.5	4.0	8.5
4	4.5	4.0	8.5
5	4.5	4.0	8.5
6	4.5	3.0	7.5
7	4.5	3.0	7.5
8	4.5	2.0	6.5
9	4.5	2.0	6.5
10	4.5	1.0	5.5
11	4.5	1.0	5.5
12	4.5	1.0	5.5
13	4.5	1.0	5.5
14	4.5	1.0	5.5
15	4.5	0.0	4.5

The pay projection rates for the Police members were first used in the December 31, 2004 valuation.

Lump sum payments included in the calculation of the average pay upon which benefits are computed were assumed to increase benefits by 12% for members of the Police, General and Management divisions.

Active Member Group Size: The number of active members was assumed to remain constant. This assumption is unchanged from previous valuations.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

If the number of active members remains constant, the total active member payroll will increase 4.5% annually, the base portion of the individual pay increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

Changes actually experienced in average pay and total payroll have been as follows:

	Year Ended December 31,				
Increase in	**2004**	**2003**	**2002**	**2001**	**2000**
Average pay	4.5%	3.5%	3.7%	5.4%	3.7%
Total payroll	6.3	7.5	6.2	9.2	5.2

Mortality Table: The 1983 Group Annuity Mortality Table. This table was first used for the December 31, 1997 valuation. Sample values follow:

Sample	Actuarial Present Value of $1 Monthly for Life		Future Life Expectancy (Years)	
Ages	**Men**	**Women**	**Men**	**Women**
55	$124.57	$134.74	24.82	30.24
60	115.04	127.24	20.64	25.67
65	103.26	117.61	16.69	21.29
70	90.18	105.53	13.18	17.13
75	76.40	91.57	10.15	13.37
80	62.65	77.16	7.64	10.20

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Rates of separation from active membership: The rates do not apply to members eligible to retire and do not include separation on account of death or disability. This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	Percent Separating Within Next Year General/Management	Police
ALL	0	12.00 %	13.00 %
	1	11.00	8.00
	2	9.00	5.00
	3	7.00	4.00
	4	5.00	3.50
25	5 & Over	5.00	3.50
30		5.00	3.00
35		4.50	2.50
40		3.50	2.00
45		2.50	1.00
50		1.50	1.00
55		1.00	0.50
60		0.50	0.50

These rates were first used for the December 31, 2004 valuation.

Rates of Disability: These assumptions represent the probabilities of active members becoming disabled.

Sample Ages	Percent Becoming Disabled within Next Year
20	0.08 %
25	0.08
30	0.08
35	0.08
40	0.20
45	0.26
50	0.49
55	0.89

These rates were first used for the December 31, 1976 valuation.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Rates of Retirement: These rates are used to measure the probabilities of an eligible member retiring under the Regular and Early Reduced retirement provisions during the next year.

	Regular Retirement Rates		Early Retirement Rates		
Retirement Ages	**General/ Management**	**Police**	**Years of Service**	**General/ Management**	**Police**
50		40%	20	2%	2%
51		20	21	2	2
52		20	22	2	2
53		20	23	2	2
54		20	24	2	2
55	25%	20	25	2	2
56	25	20	26	2	2
57	20	20	27	2	2
58	20	20	28	2	2
59	20	20	29	2	2
60	25	100	30	2	2
61	25	100	31		2
62	30	100	32		2
63	20	100	33		2
64	20	100	34		2
65	40	100	35		2
66	30	100			
67	30	100			
68	30	100			
69	30	100			
70	100	100			

General and Management members were assumed to be eligible for regular retirement after attaining age 55 with 30 years of service, or age 60 with 5 years of service. These members were assumed to be eligible for early reduced retirement after completing 20 years of service.

A Police member was assumed eligible for retirement after attaining age 50 with 25 years of service, or, after attaining age 60 with 15 or more years of service. Police members were assumed to be eligible for early reduced retirement after completing 20 years of service.

The current rates were first used for the December 31, 2004 valuation of the System.

POST-RETIREMENT HEALTH INSURANCE

The "premiums" used in the actuarial valuation of the retiree health program (with contribution rates shown in Section A of this report) were based on the illustrative premiums provided by the City and a weighted average of these "premiums" based on utilization of health care plans by retirees. A summary of these premiums is shown below.

	50% of the Reported Illustrative Premiums		
Type	**12/02**	**12/03**	**12/04**
Retiree Only - General	$163.22	$209.30	$205.47
Retiree Only - Police	150.83	219.86	209.28
Retiree & Spouse - General	345.82	443.68	437.16
Retiree & Spouse - Police	319.50	465.82	444.95
Dental (1-person)	13.16	13.56	14.69

Retirees pay 50% of the reported illustrative premiums (the amounts shown above). The City pays the remaining portion of the retiree health care cost. Health insurance coverage terminates upon attainment of age 65 and each retiree must make their own arrangements for health care coverage.

Eighty percent of future retired members were assumed to elect 2 person coverage at retirement.

Premiums shown above were assumed to increase in future years as follows:

Year	Rate (%)
1	8
2	7
3	6
4	5
5	4.5
6+	4.5

Effective with the December 31, 2004 valuation, the indemnity plan option was eliminated, and an additional plan option was added to both the Sioux Valley and Avera McKennan plans. The premiums used in this valuation of the System (see report Section A) reflect the change in health plan utilization and are based on a weighted average of premiums in each plan. The 2003 premiums include a factor to account for the subsidy that exists in the reported premiums. The 2004 valuation premiums shown above do not reflect such an adjustment.

MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

Marriage Assumption:	80% of participants are assumed to be married for purposes of death and retiree health benefits. In each case the male was assumed to be 3 years older than the female.
Pay Increase Timing:	Beginning of year
Decrement Timing:	Decrements of all types are assumed to occur mid-year.
Eligibility Testing:	Eligibility for benefits is determined based upon the age nearest birthday and service nearest whole year on the date the decrement is assumed to occur.
Benefit Service:	Exact fractional service is used to determine the amount of benefit payable.
Other:	Disability and turnover decrements do not operate during retirement eligibility.
Miscellaneous Loading Factors:	The calculated retirement benefits were increased by 12% to account for the inclusion of unused sick leave and vacation time in the calculation of Final Average Compensation and by 1% to account for the impact of subsidized optional forms of payment.
Disability Assumption:	Fifty percent of disabilities were assumed to be duty related. Fifty percent were assumed to be unrelated to duty. The recovery rate from disability was assumed to be 0 (i.e. no disabled individual was assumed to recover and return to work.
Death Assumption:	Fifty percent of deaths were assumed to be duty related and fifty percent were assumed to be unrelated to duty.
Non-forfeiture Assumption:	All vested terminated Police members were assumed to elect a deferred retirement benefit. General and Management members who terminate close to retirement were assumed to elect a deferred retirement while those terminating with less service were assumed to elect a refund of their contributions in lieu of deferred retirement benefits.

DEFINITIONS OF TECHNICAL TERMS

Accrued Service - Service credited under the system which was rendered before the date of the actuarial valuation.

Actuarial Accrued Liability - The difference between the actuarial present value of system benefits and the actuarial present value of future normal costs. Also referred to as "past service liability."

Actuarial Assumptions - Estimates of future 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 benefit" between future normal costs and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent - One series of payments is said to be actuarially equivalent to another series of payments if the two series have the same actuarial present value.

Actuarial Gain (Loss) - The difference between actual unfunded actuarial accrued liabilities and anticipated unfunded actuarial accrued liabilities -- during the period between two valuation dates. It is a measurement of the difference between actual and expected experience.

DEFINITIONS OF TECHNICAL TERMS

Actuarial Present Value - The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

Amortization - Paying off an interest-discounted amount with periodic payments of interest and (generally) principal -- as opposed to paying it off with a lump sum payment.

Normal Cost - The portion of the actuarial present value of future benefits that is assigned to the current year by the actuarial cost method. Sometimes referred to as "current service cost."

Unfunded Actuarial Accrued Liabilities - The difference between actuarial accrued liabilities and valuation assets. Sometimes referred to as "unfunded past service liability" or "unfunded supplemental present value."

Most retirement systems have unfunded actuarial accrued liabilities. They arise each time new benefits are added and each time an actuarial loss occurs. The existence of unfunded actuarial accrued liabilities is not in itself bad, any more than a mortgage on a house is bad. Unfunded actuarial accrued liabilities do not represent a debt that is payable today. What is important is the ability to amortize the unfunded actuarial accrued liabilities and the trend in their amount (after due allowance for devaluation of the dollar).

Section D

Certain Disclosures Required By Statements Nos. 25, 26, and 27 of the Governmental Accounting Standards Board

GASB Statement No. 25
Required Supplementary Information

Schedule of Pension Funding Progress (Police & General Combined)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll ($ millions) (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1995	$ 89,428,548	$ 99,726,478	$10,297,930	89.7	$24,295,495	42.4 %
1996	96,807,905	107,879,698	11,071,793	89.7	25,525,258	43.4
1997	109,200,617	124,303,639	15,103,022	87.8	25,830,779	58.5
1998	122,549,700	134,514,381	11,964,681	91.1	27,295,184	43.8
1999	138,462,917	142,638,847	4,175,930	97.1	27,623,182	15.2
2000	152,796,352	156,540,695	3,744,343	97.6	29,068,666	12.88
2001	164,995,804	167,764,361	2,768,557	98.3	31,751,356	8.7
2002	168,572,303	176,313,178	7,740,875	95.6	33,718,220	23.0
2003	175,891,684	184,882,463	8,990,779	95.1	36,244,556	24.8
2004	184,053,333	197,268,600	13,215,267	93.3	38,539,387	34.3

Schedule of Employer Pension Contributions

Valuation Year Ended Dec. 31	Fiscal Year Ended Dec. 31	Contribution Rates as % of Valuation Payroll			Computed Dollar Contributions	Actual Contribution	% Contributed
		General	Police	Wt. Avg.			
1995	1997	9.25	16.92	11.09	$2,829,089	$2,864,633	100 %
1996	1998	9.29	17.27	11.19	3,001,770	3,054,331	100
1997	1999	10.33	18.09	12.14	3,276,970	3,353,454	100
1998^	2000	9.68	16.85	11.42	3,257,380	3,319,642	100
1999	2001	8.47	13.90	9.80	2,827,978	3,111,633	100
2000#	2002	7.60	15.60	9.67	2,936,546	3,273,019	100
2001#	2003	7.77	14.42	9.45	3,134,728	3,557,438	100
2002#	2004	8.68	15.68	10.48	3,693,299	4,270,076	100
2003	2005	9.43	13.96	10.65	4,125,255		
2004^	2006	9.80	14.84	11.21	4,717,920		

\# *Reflects amortization credit*
^ *New methods or assumptions adopted*

Computed dollar contributions are based on contribution rates and projected valuation payroll. Actual contributions were based on the financial statements provided by the City. Deviations may be attributable to differences between projected and actual payroll. This information is presented in draft form for review by the City's auditor. Please let us know if there are any items that the auditor changes so that we may maintain consistency with the City's financial statements.

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	December 31, 2004
Actuarial Cost Method	Entry-Age
Amortization Method	Level percent closed
Remaining amortization period	19 years
Asset valuation method	5 year smoothed market
Actuarial assumption:	
Investment rate of return	8.0%
Projected salary increases*	4.5% - 8.5%
* Includes inflation at	4.5%
Cost-of-living adjustments	Annual increase equal to CPI with a cap of 3% beginning 36 months after retirement.

Membership of the Retirement System is shown below at December 31, 2004, the date of the latest actuarial valuation:

Retirees and Beneficiaries receiving benefits	396
Terminated plan members entitled to but not yet receiving benefits	47
Active plan members	854
Total	1,297

GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF PLAN ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2004

Assets:	
Cash and equivalents	$ 665,483
Net Accruals and Receivables	464,148
Total	1,129,631
Investments, at market value:	
Mutual Funds	95,890,266
STW	26,753,408
Northern Trust	71,475,700
Total Investments	194,119,374
Total Assets (market value)	195,249,005
Less accounts payable	6,819
Net assets held in trust for pension and health benefits	$195,242,186

GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN PLAN ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2004

	Pension	Retiree Health	Total
Additions:			
Contributions			
Employer	$4,270,076	$991,126	$ 5,261,202
Plan members	1,718,969		1,718,969
Total	5,989,045	991,126	6,980,171
Investment income			24,644,820
Miscellaneous			0
Total Additions			31,624,991
Deductions:			
Pension Benefits Paid	7,403,924		7,403,924
Refunds of Contributions	188,094		188,094
Health Benefits		490,656	490,656
Administrative Expenses^	262,844	5,167	268,011
Total Deductions	7,854,862	495,823	8,350,685
Net Increase (Decrease)			$ 23,274,306
Net assets held in Trust Fund:			
Beginning of year			$171,967,880
End of year			$195,242,186

^ *The administrative expenses shown above were allocated based on the average funding value of assets and are shown for illustration purposes.*

Employer contributions for pension and retiree health were reported in total and allocated by the actuary based on contribution recommendations.

Appendix

Retiree Health Valuation Based on Alternate Assumptions and Methods

RETIREE PREMIUM RATE DEVELOPMENT

Background

Health care premiums are an important part of a retiree health valuation. Eligible City retirees (and their spouses) may elect to receive benefits from a number of health care plans, including those offered by Sioux Valley and Avera McKennan. Retirees (and surviving spouses) receive benefits from these providers under the Patient Choice I plan. All benefits provided by the retiree health plan are self insured. This means that the City pays claims and takes the risk associated with the health care program. The City buys stop loss insurance to help manage this risk. Dental insurance benefits are also self insured.

Historically, the City has provided the illustrative retiree health care premiums for use in the actuarial valuation of the retiree health program. As a test, these premiums are applied to health benefit recipients and the result is compared to reported benefit disbursements. If the relationship between this result and actual disbursements is reasonable, it is one measure of premium reasonability.

Actuarial standards of practice have evolved as measurement of retiree health liabilities developed within the actuarial profession. The current actuarial standard covering the valuation of retiree medical liability became effective for measurements on or after January 1, 2003. Changes include the development of facsimile premiums based on the actual claims experience and the use of age grading. The combination of these two techniques produces "premiums" at each age during the retiree's lifetime based on the group's actual, historical claims experience.

We believe that using illustrative rates alone to determine retiree medical liability will likely understate the value of retiree health benefits and will fail to comply with both current actuarial standards of practice and governmental accounting standards. A summary of the proposed health care "premium" rates for use in the December 31, 2004 valuation of the retiree health program are shown on the following page. The current actuarial assumptions and methods are shown in the prior section of this report.

PREMIUM RATE DEVELOPMENT METHOD

PROPOSED MONTHLY PER PERSON HEALTH CARE RATES

Facsimile Premiums Proposed for Use in the 2004 Valuation at Sample Ages

	Pre-65 Rates	
Age	**Male**	**Female**
50	$396.29	$449.32
55	518.30	532.76
60	651.13	625.87
65		
70		
75		

The rates shown above include medical and prescription drug coverage. These rates do not include dental coverage. Based on the current policy, retirees who receive retiree health benefits pay the illustrative premium rates shown on page C-9 as of the valuation date. A retiree age 60 receiving health coverage for himself would pay $205.47 per month while the illustrative monthly premium (based on claims analysis) would be $651.13. The resulting cost sharing arrangement in this example is a 32% / 68% split with the City paying 68%.

Dental Rates Proposed for Use in the 2004 Valuation

Coverage for	Monthly Rate
1-person	$21.49
2-person	42.98

HEALTH COST TREND ASSUMPTION

Background

Retiree health care valuations require an assumption about how the health costs that the plan is absorbing will change over the years. This assumption includes more than just "health inflation". It includes the impact of

- The introduction of new procedures and medications and how they are priced.
- The utilization of services and products by covered retirees and their dependents and how that utilization changes over the years.

Retiree health valuations use a health cost trend assumption that changes over the years. The near term rates reflect the fact that currently employers are seeing sharp increases in the cost of health goods and services. However, they do not anticipate that health costs will increase at these rates indefinitely. To do so would be to ignore the real word implications of this sort of projection. For example, if health costs would grow at 12% per year for the next 10 years while disposable income increases at 4% would imply that after 10 years health would absorb 40% of our disposable income. Over a 20 year period, these rates of increase would imply that at the end of the 20 year period, health costs would absorb almost 90% of our disposable income.

The valuations attempt to deal with the future by recognizing that it is more reasonable to assume that current trends will have to change in the future before we reach the absurd situation of having little or no money to spend on things that are not related to health (including food, shelter, clothes, etc.). Health costs are assumed to increase at rates greater than general inflation for a temporary "cooling off" period. At the end of the cooling off period, health costs are assumed to increase in line with general inflation. As years elapse, there are fewer remaining years in the cooling off period. The current medical inflation assumption (page C-9) has only 4 remaining years in the cooling off period. Continued use of this assumption suggests that medical inflation will increase at the same rate as general inflation in the near future. Given the recent history of plan experience, this is unlikely. A summary of proposed rates of medical inflation is shown on the next page. Current rates of medical inflation are shown on page C-9.

Health Cost Trend Assumption

Summary of Proposed Medical Inflation Rates

Rates of Inflation for Medical Benefits

Future Health Cost Increases	
Year Beginning December 31,	**Valuation Assumption**
2005	11.00%
2006	10.00
2007	9.00
2008	8.00
2009	7.00
2010	6.00
2011	5.00
2012 & After	4.50

Rates of Inflation for Dental Benefits

Future Health Cost Increases	
Year Beginning December 31,	**Dental & Vision**
2005	6.00%
2006	6.00
2007	6.00
2008	6.00
2009	6.00
2010	6.00
2011	5.00
2012 & After	4.00

THE EFFECT OF ASSUMPTION/METHOD CHANGES ON COMPUTED CITY RETIREE HEALTH CONTRIBUTIONS FOR GENERAL AND MANAGEMENT MEMBERS AS OF DECEMBER 31, 2004

Assumption Set	Present	Proposed	Increase
Benefits	All	All	
Valuation Date	12/31/2004	12/31/2004	
Number Active	642	642	
Number Retired*	302	302	
Total NC%	0.97 %	2.11 %	
-Employee %	0.00	0.00	
-Employer %	0.97 %	2.11 %	1.14 %
UAL%	1.06 %	2.93 %	1.87 %
Total Employer Contribution (19 Year Amortization of UAL)	2.03 %	5.04 %	3.01 %
First Year $ Contribution	$ 615,299	$ 1,527,639	$ 912,340
UAL%		2.17 %	
Total Employer Contribution (NC% + UAL%) (30 Year Amortization of UAL)		4.28 %	2.25 %
First Year $ Contribution		$ 1,297,281	$ 681,982

UAL: Unfunded Accrued Liability

* *Based on the information provided in connection with this report two hundred and twenty retirees were not receiving health benefits as of December 31, 2004.*

THE EFFECT OF ASSUMPTION/METHOD CHANGES ON COMPUTED CITY RETIREE HEALTH CONTRIBUTIONS FOR POLICE MEMBERS AS OF DECEMBER 31, 2004

Assumption Set	Present	Proposed	Increase
Benefits	All	All	
Valuation Date	12/31/2004	12/31/2004	
Number Active	212	212	
Number Retired*	94	94	
Total NC%	1.61 %	3.03 %	
-Employee %	0.00	0.00	
-Employer %	1.61 %	3.03 %	1.42 %
UAL%	1.97 %	4.40 %	2.43 %
Total Employer Contribution	3.58 %	7.43 %	3.85 %
(19 Year Amortization of UAL)			
First Year $ Contribution	$ 421,569	$ 874,933	$ 453,364
UAL%		3.26 %	
Total Employer Contribution (NC% + UAL%)		6.29 %	2.71 %
(30 Year Amortization of UAL)			
First Year $ Contribution		$ 740,690	$ 319,121

UAL: Unfunded Accrued Liability

* *Based on the information provided in connection with this report forty retirees were not receiving health benefits as of December 31, 2004.*