

**CITY OF SIOUX FALLS EMPLOYEE'S RETIREMENT SYSTEM
FIFTY-NINTH ANNUAL ACTUARIAL VALUATION REPORT
DECEMBER 31, 2009**

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March 19, 2010

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-ninth 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 is to measure the System's funding progress and to determine contribution rates for the associated fiscal year.

The date of the valuation was December 31, 2009.

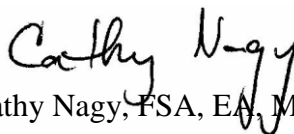
The valuation was based upon information, furnished by your Secretary, concerning Retirement System benefits, financial transactions, individual members, terminated members, retirees and beneficiaries. Data was checked for year-to-year consistency, but was not otherwise audited by us. The Appendix of this report includes retiree health valuation results based on assumptions and methods that comply with Governmental Accounting Standards Board (GASB) Statements No. 43 and No. 45 and with current actuarial standards of practice. This report may be provided to parties other than City of Sioux Falls only in its entirety and only with the permission of the Retirement System.

To the best of our knowledge this report is complete, accurate and was made in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the provisions governing the Retirement System. The actuarial assumptions used for the valuation produce results which we believe are reasonable. All actuaries submitting this report are Members of the American Academy of Actuaries (MAAA) and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

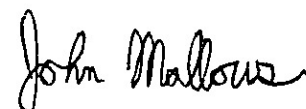
Respectfully submitted,



Louise M. Gates, ASA, MAAA



Cathy Nagy, FSA, EA, MAAA



John Mallows, ASA, MAAA

LMG/CN/JM:lr

SECTION A
VALUATION RESULTS

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).

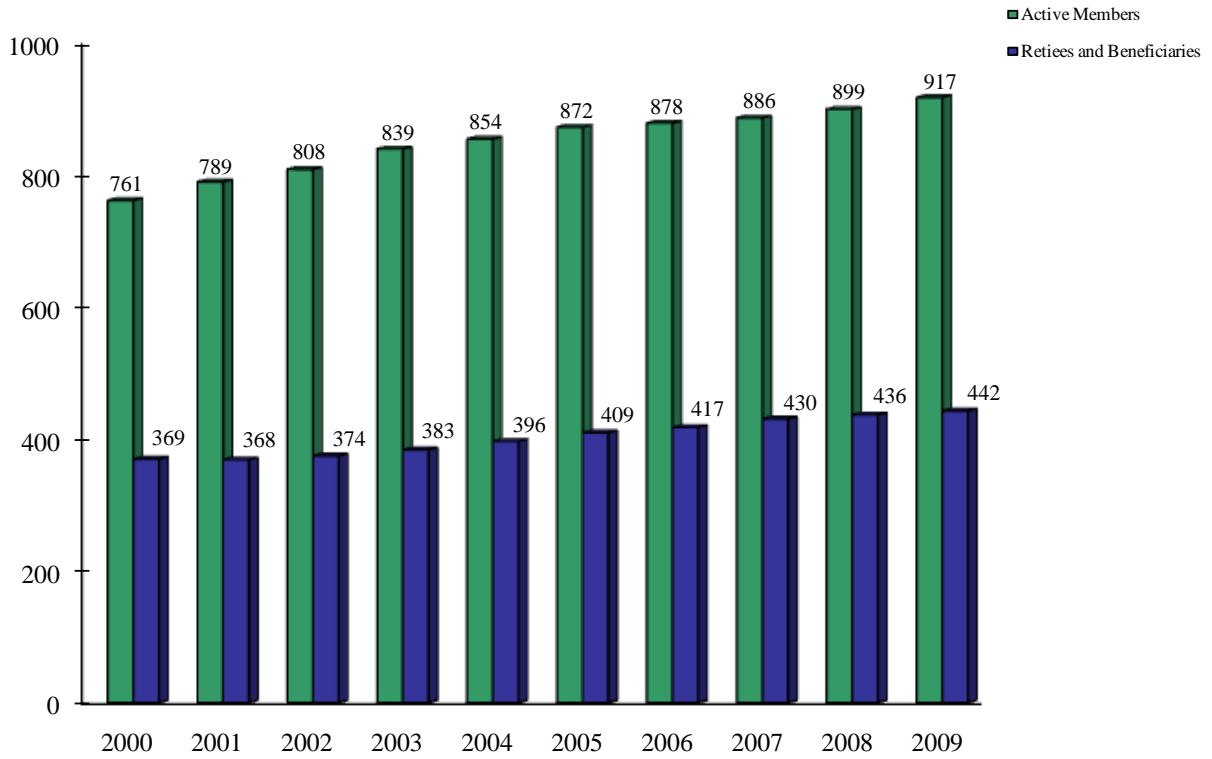
Pension contribution requirements for the year beginning January 1, 2011 are shown on page A-2.

**PENSION CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL
OBJECTIVE OF THE RETIREMENT SYSTEM
FOR THE YEAR BEGINNING JANUARY 1, 2011**

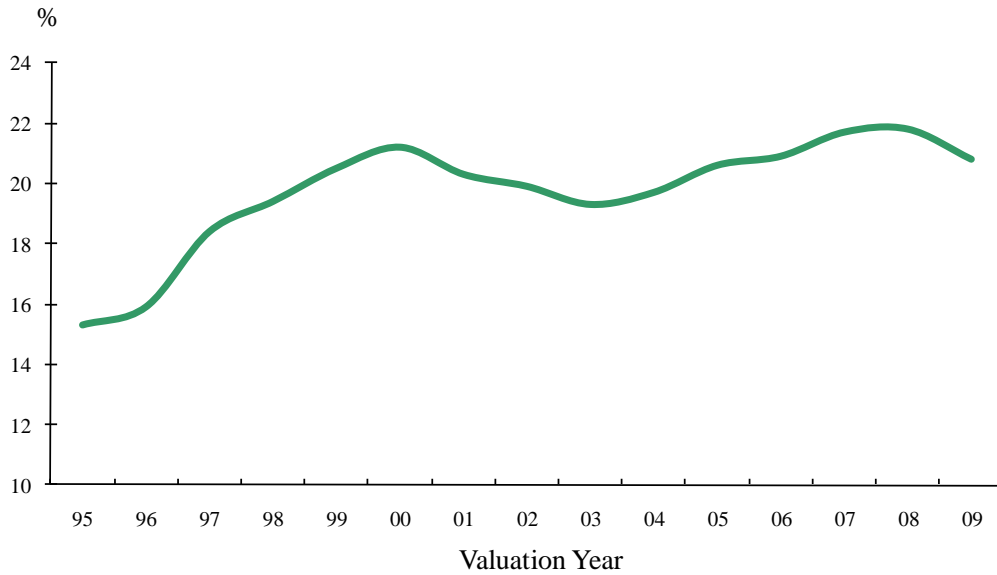
| Contributions for | Contributions Expressed As Percents of Payroll | |
|---|---|--------|
| | General/Management | Police |
| Normal Cost | | |
| Age & service benefits | 9.66% | 16.71% |
| Death and disability benefits | 0.98 | 1.27 |
| Termination benefits | | |
| Deferred age & service benefits | 0.49 | 0.23 |
| Refunds of member contributions | 0.47 | 1.09 |
| Total normal cost | 11.60% | 19.30% |
| Unfunded Actuarial Accrued Liabilities ⁽¹⁾ | 4.57% | 9.48% |
| Total Contribution Requirement | 16.17% | 28.78% |
| Member portion | 3.00% | 8.00% |
| City-State portion | 13.17% | 20.78% |

⁽¹⁾ *Unfunded accrued liabilities were amortized as a level percent of active member payroll over a period of 14 years.*

Active and Retired Members



Pension Benefits as a Percent of Payroll



COMPUTED CITY CONTRIBUTIONS COMPARATIVE STATEMENT

| Fiscal Year | Valuation Date December 31 | % of Payroll Contributions | | Weighted Average |
|----------------|----------------------------------|----------------------------|--------|---------------------|
| | | General | Police | |
| 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 |
| 2007 | 2005 | 10.38 | 14.96 | 11.67 |
| 2008 | 2006 | 9.50 | 13.36 | 10.43 |
| 2009 | 2007 **@ | 9.33 | 14.58 | 10.80 |
| 2010 | 2008 | 10.93 | 17.66 | 12.73 |
| 2011 | 2009 | 13.17 | 20.78 | 15.15 |

@ After changes in actuarial assumptions or methods.

After changes in benefit provisions.

** Reflects full funding credit.

ACTUARIAL BALANCE SHEET - DECEMBER 31, 2009

Present Pension Resources and Expected Future Pension Resources

| | General | Police | Total |
|---|---------------|---------------|---------------|
| A. Valuation assets | \$161,979,408 | \$ 86,975,518 | \$248,954,926 |
| B. Actuarial present value of expected future employer contributions | | | |
| 1. For normal costs | 27,660,414 | 15,849,232 | 43,509,646 |
| 2. For unfunded actuarial accrued liabilities | 19,590,847 | 15,232,056 | 34,822,903 |
| 3. Total | 47,251,261 | 31,081,288 | 78,332,549 |
| C. Actuarial present value of expected future member contributions | 10,077,462 | 11,431,978 | 21,509,440 |
| D. Total actuarial present value of present and expected future resources | \$219,308,131 | \$129,488,784 | \$348,796,915 |

Actuarial Present Value of Expected Future Pension Benefit Payments and Reserves

| | | | |
|---|---------------|---------------|---------------|
| A. To retirees and beneficiaries | \$ 79,898,627 | \$ 50,385,760 | \$130,284,387 |
| B. To vested terminated members | 3,396,408 | 434,831 | 3,831,239 |
| C. To present active members | | | |
| 1. Allocated to service rendered prior to valuation date | 98,275,220 | 51,386,983 | 149,662,203 |
| 2. Allocated to service likely to be rendered after valuation date | 37,737,876 | 27,281,210 | 65,019,086 |
| 3. Total | 136,013,096 | 78,668,193 | 214,681,289 |
| 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 | \$219,308,131 | \$129,488,784 | \$348,796,915 |

**DERIVATION OF ACTUARIAL GAIN (LOSS)
YEAR ENDED DECEMBER 31, 2009**

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.

| | <u>General</u> | <u>Police</u> |
|---|----------------|---------------|
| (1) UAAL* at start of year | \$9,377,689 | \$10,004,777 |
| (2) Normal cost | 4,347,186 | 2,711,509 |
| (3) Actual contributions | 4,549,638 | 3,182,250 |
| (4) Interest accrual | 718,926 | 757,129 |
| (5) Expected UAAL before changes | 9,894,163 | 10,291,165 |
| (6) Change from benefit increases | | |
| (7) Change from revised actuarial assumptions | | |
| (8) Expected UAAL after changes | 9,894,163 | 10,291,165 |
| (9) Actual UAAL at end of year | 19,590,847 | 15,232,056 |
| (10) Gain (loss) (8) - (9) | (9,696,684) | (4,940,891) |
| (11) Gain (loss) as percent of AAL at start of year | (5.80)% | (5.26)% |

* *Unfunded actuarial accrued liability.*

COMMENTS

Comment A: Retirement System experience was overall unfavorable during the year ended December 31, 2009. The primary source of unfavorable experience was investment return. During calendar year 2009 the return on the market value of assets was higher than long term expectations. However, the market smoothing techniques used in this valuation of the System recognize both past and present investment experience. Due to the large prior year's investment loss, the recognized rate of return for the year was 4.20%. Additional information about the asset smoothing method is shown on page B-4. Higher than expected pay increases due to the additional pay period in calendar year 2009 contributed to the unfavorable experience.

Given the current state of capital markets and unrecognized investment losses from the prior year, it is likely that the Retirement System will continue to experience investment losses in the near term. In the absence of significant offsetting favorable experience, contribution increases are likely in the near term.

Comment B: The Appendix of this report includes the results of the retiree health valuation using assumptions and methods required by the Governmental Accounting Standards Board (GASB). The City has decided to make contributions to the retiree health plan at the recommended rates using the methods and assumptions that comply with the new GASB Statements. The Appendix of this report includes important additional information about this valuation.

Comment C: The Internal Revenue Code (IRC) Section 401(h) allows a pension plan to establish a separate account within the pension 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. As a result of this requirement the maximum permissible employer health contribution (to the pension trust) may be insufficient to actuarially fund the promised benefits.

COMMENTS (CONCLUDED)

The results of the most recent analysis conducted in 2008 indicate that the retiree health contributions are subordinate to pension contributions as of December 31, 2007. As a result, the plan has not violated the limit imposed by IRC Section 401(h). We recommend that this analysis be performed in 2010 to ensure continued compliance.

Comment D: The current years' retiree health contributions were generally consistent with expectations. During 2009, retiree health cost increases were a bit higher than expectations. The increase in retiree payments for health coverage over the prior year was consistent with expectations. The assumed rates of medical inflation used in this valuation of the retiree health plan were modified to better reflect plan experience. Page 5 of the Appendix includes a summary of medical and dental rates of inflation used in this valuation.

**CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE
OF THE RETIREMENT SYSTEM
FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2011
GENERAL/MANAGEMENT**

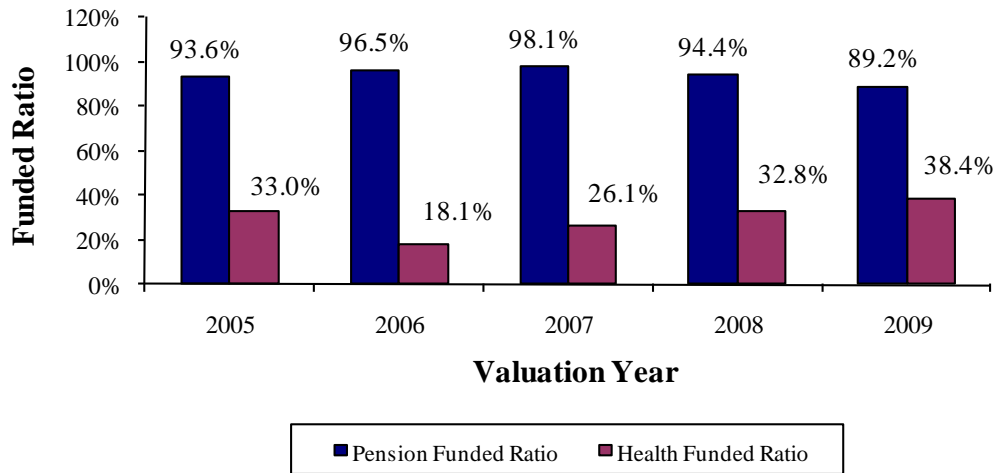
| Contributions for | Contributions Expressed as Percents of Payroll | | |
|--|---|---------------|--------------|
| | Pension | Health | Total |
| Total Normal Cost | 11.60% | 2.81% | 14.41% |
| Unfunded Actuarial Accrued Liabilities | 4.57% | 2.08% | 6.65% |
| Total Contribution Requirement | 16.17% | 4.89% | 21.06% |
| Member portion | 3.00% | 0.00% | 3.00% |
| City-State portion | 13.17% | 4.89% | 18.06% |

**CONTRIBUTIONS COMPUTED TO MEET THE FINANCIAL OBJECTIVE
OF THE RETIREMENT SYSTEM
FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2011
POLICE**

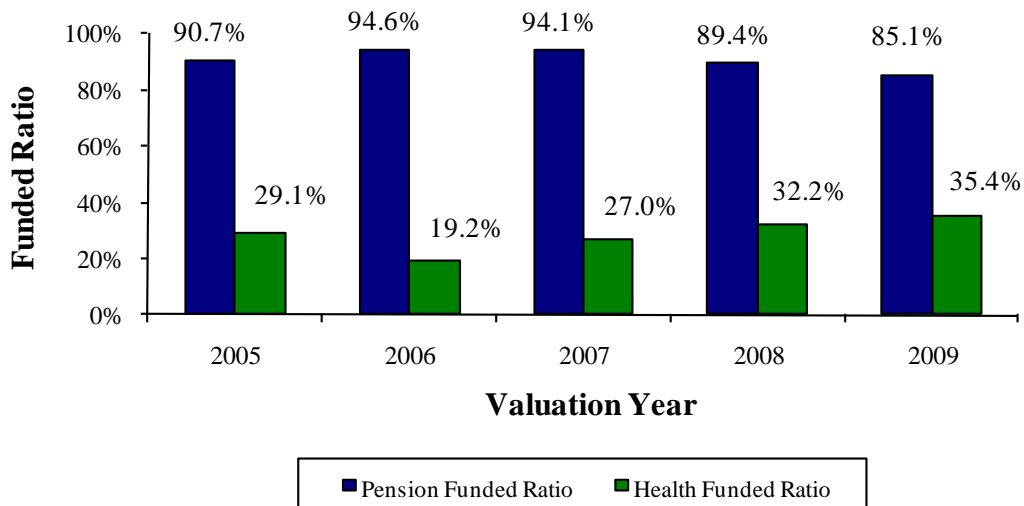
| Contributions for | <u>Contributions Expressed as Percents of Payroll</u> | | |
|--|--|---------------|--------------|
| | Pension | Health | Total |
| Total normal cost | 19.30% | 4.13% | 23.43% |
| Unfunded Actuarial Accrued Liabilities | 9.48% | 3.53% | 13.01% |
| Total Contribution Requirement | 28.78% | 7.66% | 36.44% |
| Member portion | <u>8.00%</u> | <u>0.00%</u> | <u>8.00%</u> |
| City-State portion | 20.78% | 7.66% | 28.44% |

FUNDED RATIO HISTORY PENSION AND RETIREE HEALTH

General/Management



Police



Effective with the 2006 actuarial valuation the health funded ratio was based on the results of an actuarial valuation that complies with GASB Statements No. 43 and No. 45. Please refer to the Appendix for additional information.

SECTION B
SUMMARY OF BENEFIT PROVISIONS AND
VALUATION DATA

**BENEFIT PROVISIONS EVALUATED
AND/OR CONSIDERED
(DECEMBER 31, 2009)**

Regular Unreduced Retirement:

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

Police: age 50 with 25 years of service, or age 60 with 15 years of 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, 2009)**

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 June CPI 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, 2008 | December 31, 2009 |
| Annuity Savings Fund | | |
| General division | \$ 19,704,665 | \$ 21,050,101 |
| Police division | 12,382,608 | 13,994,044 |
| Totals | 32,087,273 | 35,044,145 |
| Employer Reserve Fund | | |
| General division | 40,835,152 | 68,445,730 |
| Police division | 18,424,363 | 32,391,992 |
| Totals | 59,259,515 | 100,837,722 |
| Retirement Reserve Fund | | |
| General division | 53,517,644 | 54,276,264 |
| Police division | 42,261,517 | 42,266,846 |
| Totals | 95,779,161 | 96,543,110 |
| Income Fund | 0 | 0 |
| Expense Fund | 190,590 | 196,893 |
| Total Balances | \$187,316,539 | \$232,621,870 |

DERIVATION OF VALUATION ASSETS

| | Pensions | Health | Grand Total |
|--|---------------|--------------|----------------|
| A. Funding Value, 12/31/08 | \$241,784,990 | \$10,718,920 | \$252,503,910 |
| B. Market Value, Beginning of Year | | | 187,316,539 |
| C. Non-Investment Net Cash Flow | | | (568,826) |
| D. Net Investment Income (Market total) | | | 45,874,157 |
| E. Market Value, End of Year | | | 232,621,870 |
| F. Phase-in Factor | | | 20% |
| G. Expected Income | | | 19,547,011 |
| H. Market Value Gain (Loss): [(D) – (G)] | | | 26,327,146 |
| I. Method Change | | | |
| J. Recognition of Gain/(Loss) | | | |
| J1. Year One | | | 5,265,429 |
| J2. Year Two | | | (18,293,260) |
| J3. Year Three | | | 354,503 |
| J4. Year Four | | | 3,302,352 |
| J5. Year Five | | | <u>317,453</u> |
| J6. Total (J1...J5) | | | (9,053,523) |
| K. Funding Value, 12/31/09 [(A) + (C) + (G) + (J6)] | | | 262,428,572 |
| L. Net Funding Value Rate of Return | | | 4.2% |
| M. Percent Allocation (to pension and health)* | 94.9% | 5.1% | 100.0% |
| N. Allocated Funding Value, 12/31/2009 | \$248,954,926 | \$13,473,646 | \$262,428,572 |

* *Rounded*

**SUMMARY OF
CURRENT ASSET INFORMATION
REPORTED FOR VALUATION**

Trust Assets

| | December 31, 2009 Market Value |
|------------------------|---|
| Cash | \$ 1,129,751 |
| Receivables & accruals | 729,750 |
| Investments | 230,762,369 |
| Less accounts payable | 0 |
| Total assets | \$232,621,870 |

Revenues and Expenditures of Trust

| | 2009 | 2008 |
|---------------------------------|---------------|---------------|
| Balance - January 1 | \$187,316,539 | \$260,388,129 |
| Revenues | | |
| Employee's contributions | 2,272,170 | 2,065,615 |
| Employer contributions | 8,433,917 | 7,710,786 |
| Investment income | 46,453,891 | (71,138,091) |
| Other income | 0 | 0 |
| Expenditures | | |
| Benefit payments | 10,471,659 | 10,005,006 |
| Hospitalization insurance | 712,478 | 763,261 |
| Refunds of member contributions | 90,776 | 275,474 |
| Expenses | 579,734 | 666,159 |
| Miscellaneous | 0 | 0 |
| Balance - December 31 | \$232,621,870 | \$187,316,539 |

**MARKET VALUE OF ASSETS REPORTED FOR VALUATION
COMPARATIVE STATEMENT**

| Year Ended Dec. 31 | Assets Beginning of Year | Revenues | | | Expenses | | | Assets Year-End |
|--------------------------|--------------------------------|----------------------|----------------------|----------------------|------------------------|---------------------|--------------------|--------------------|
| | | Employee Contrib. | Employer Contrib. | Investment Income | Retirement Benefits | Contrib. Refunds | Misc. Expenses* | |
| 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 |
| 2005 | 195,242,186 | 1,829,649 | 5,769,159 | 17,035,074 | 8,014,168 | 182,999 | 1,055,818 | 210,623,083 |
| 2006 | 210,623,083 | 1,907,951 | 5,975,325 | 33,030,851 | 8,662,750 | 189,338 | 1,253,516 | 241,431,606 |
| 2007 | 241,431,606 | 2,001,290 | 7,896,489 | 19,937,351 | 9,262,791 | 199,779 | 1,416,037 | 260,388,129 |
| 2008 | 260,388,129 | 2,065,615 | 7,710,786 | (71,138,091) | 10,005,006 | 275,474 | 1,429,420 | 187,316,539 |
| 2009 | 187,316,539 | 2,272,170 | 8,433,917 | 46,453,891 | 10,471,659 | 90,776 | 1,292,212 | 232,621,870 |

* Includes retiree health benefits.

**ADDITIONS TO AND REMOVALS FROM RETIRED/SURVIVOR MEMBERSHIP
COMPARATIVE STATEMENT**

| Year Ended Dec. 31 | Additions Annual No. Benefits | Removals Annual No. Benefits | End of Year Annual No. Benefits | Average Annual Benefits | Present Value of Benefits | Expected Removals |
|-----------------------------------|--|---|--|--|--|------------------------------|
| 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 |
| 2005 | 33 1,007,507 | 20 246,108 | 409 8,338,324 | 20,387 | 100,153,352 | 12.4 |
| 2006 | 25 802,970 | 17 281,824 | 417 8,859,470 | 21,246 | 105,705,500 | 12.5 |
| 2007 | 25 920,591 | 12 100,174 | 430 9,679,887 | 22,511 | 116,479,480 | 12.7 |
| 2008 | 21 707,365 | 15 251,647 | 436 10,135,605 | 23,247 | 124,265,687 | 13.0 |
| 2009 | 16 715,776 | 10 155,652 | 442 10,695,729 | 24,198 | 130,284,387 | 13.5 |

**RETIREES AND BENEFICIARIES AS OF
DECEMBER 31, 2009
TABULATED BY TYPE OF BENEFITS BEING PAID**

| <u>Type of Benefits Being Paid</u> | <u>No.</u> | <u>Annual Benefits</u> |
|--------------------------------------|------------|----------------------------|
| Age and Service Retirement Benefits | 340 | \$ 8,973,735 |
| Disability Retirement Benefits | 19 | 375,808 |
| Survivor Retirement Benefits | <u>83</u> | <u>1,346,186</u> |
| Total Retirement Benefits Being Paid | 442 | \$10,695,729 |

**RETIREES AND BENEFICIARIES BY ATTAINED AGES
AS OF DECEMBER 31, 2009**

| <u>Attained Ages</u> | <u>No.</u> | <u>Annual Benefits</u> |
|--------------------------|------------|----------------------------|
| Under 40 | 2 | \$ 14,630 |
| 40 - 44 | 1 | 6,208 |
| 45 - 49 | 3 | 46,831 |
| 50 - 54 | 14 | 398,217 |
| 55 - 59 | 49 | 1,589,055 |
| 60 - 64 | 98 | 2,950,770 |
| 65 - 69 | 78 | 2,119,483 |
| 70 - 74 | 71 | 1,536,127 |
| 75 - 79 | 59 | 1,146,749 |
| 80 - 84 | 32 | 459,039 |
| 85 - 89 | 26 | 340,333 |
| 90 & Over | 9 | 88,287 |
| Totals | 442 | \$10,695,729 |

**VESTED FORMER MEMBERS
AS OF DECEMBER 31, 2009
TABULATED BY ATTAINED AGES**

| Attained Ages | No. | Monthly Benefits |
|--------------------------|------------|-----------------------------|
| Under 40 | 8 | \$ 43,701 |
| 40 - 44 | 6 | 50,230 |
| 45 - 49 | 10 | 108,424 |
| 50 - 54 | 14 | 136,035 |
| 55 - 59 | 16 | 188,588 |
| Totals | 54 | \$526,978 |

**ACTIVE MEMBERS
AS OF DECEMBER 31, 2009
TABULATED BY VALUATION DIVISIONS**

| Valuation Groups | No. | Annual Payroll | Age | Average Service | Pay |
|-----------------------------|------------|---------------------------|-------------|----------------------------|-----------------|
| General/Management Members | 698 | \$37,475,739 | 45.3 yrs. | 12.5 yrs. | \$53,690 |
| Police Members | <u>219</u> | <u>14,034,727</u> | 40.1 | 12.3 | 64,086 |
| Total Active Members | 917 | \$51,510,466 | 44.1 | 12.5 | \$56,173 |

ACTIVE MEMBERS INCLUDED IN VALUATION COMPARATIVE SCHEDULE

| Valuation Date | Active Members | | | Valuation Payroll | Average | | | |
|-------------------|----------------|--------|--------|----------------------|---------|---------|----------|---------|
| | General | Police | Totals | | Age | Service | Pay | % Incr. |
| December 31 | | | | | | | | |
| 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 |
| 2005 | 654 | 218 | 872 | 40,492,380 | 43.0 | 11.6 | 46,436 | 2.9 |
| 2006 | 664 | 214 | 878 | 42,456,531 | 43.4 | 11.9 | 48,356 | 4.1 |
| 2007 | 669 | 217 | 886 | 44,646,848 | 43.5 | 11.9 | 50,391 | 4.2 |
| 2008 | 676 | 223 | 899 | 46,433,304 | 43.8 | 12.2 | 51,650 | 2.5 |
| 2009 | 698 | 219 | 917 | 51,510,466 | 44.1 | 12.5 | 56,173 | 8.8 |

ADDITIONS TO AND REMOVALS FROM ACTIVE MEMBERSHIP ACTUAL AND EXPECTED NUMBERS

| Year Ended | Number Added | | | | | | | | | | Active Members End of Year |
|---------------|----------------|-----|----------------------|------|--------------------------|-----|---------------------|-----|-----------------------|-------|-------------------------------------|
| | During Year | | Normal Retirement | | Disability Retirement | | Died-In- Service | | Other Terminations | | |
| | A | E | A | E | A | E | A | E | A | E | |
| Dec. 31 | | | | | | | | | | | |
| 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 |
| 2005 | 65 | 47 | 19 | 13.9 | 3 | 1.1 | 1 | 1.2 | 24 | 31.2 | 872 |
| 2006 | 56 | 50 | 14 | 14.0 | 0 | 1.1 | 0 | 1.2 | 36 | 31.4 | 878 |
| 2007 | 57 | 49 | 22 | 16.7 | 0 | 1.1 | 1 | 1.3 | 26 | 29.9 | 886 |
| 2008 | 54 | 41 | 11 | 18.5 | 1 | 1.2 | 0 | 1.3 | 29 | 29.9 | 899 |
| 2009 | 48 | 30 | 12 | 24.8 | 0 | 1.2 | 0 | 1.4 | 18 | 29.4 | 917 |
| 5 Year Totals | 280 | 217 | 78 | 87.9 | 4 | 5.7 | 2 | 6.4 | 133 | 151.8 | |

A represents actual number.

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

GENERAL/MANAGEMENT ACTIVE MEMBERS - DECEMBER 31, 2009
BY ATTAINED AGE AND YEARS OF SERVICE

| Attained Age | Years of Service on Valuation Date | | | | | | | Totals | |
|---------------|------------------------------------|------------|-----------|-----------|-----------|-----------|-----------|------------|---------------------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No. | Valuation Payroll |
| 20-24 | 14 | | | | | | | 14 | \$ 507,284 |
| 25-29 | 42 | 11 | | | | | | 53 | 2,209,587 |
| 30-34 | 52 | 27 | 7 | | | | | 86 | 4,253,744 |
| 35-39 | 28 | 21 | 12 | 3 | | | | 64 | 3,150,016 |
| 40-44 | 19 | 29 | 16 | 12 | 2 | | | 78 | 4,563,508 |
| 45-49 | 24 | 24 | 19 | 21 | 16 | 14 | | 118 | 6,412,093 |
| 50-54 | 10 | 19 | 20 | 22 | 21 | 17 | 22 | 131 | 7,514,113 |
| 55-59 | 7 | 10 | 13 | 19 | 14 | 9 | 22 | 94 | 5,281,655 |
| 60 | | 2 | 1 | 3 | 2 | | 2 | 10 | 639,088 |
| 61 | 1 | | | 3 | 3 | | 4 | 11 | 612,845 |
| 62 | 1 | 3 | 3 | 2 | 3 | 2 | 2 | 16 | 895,563 |
| 63 | | 4 | 4 | | | | 1 | 9 | 497,601 |
| 64 | | 1 | 1 | | 1 | | | 3 | 229,481 |
| 65 | | | 1 | | | 1 | | 2 | 128,106 |
| 66 | | 1 | 1 | 1 | | | | 3 | 175,913 |
| 67 | | 1 | | 1 | | | | 2 | 83,190 |
| 68 | | 1 | | | | | | 1 | 110,873 |
| 69 | | | | | 1 | | | 1 | 49,147 |
| 71 | 1 | 1 | | | | | | 2 | 161,932 |
| Totals | 199 | 155 | 98 | 87 | 63 | 43 | 53 | 698 | \$37,475,739 |

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

Age: 45.3 years
Service: 12.5 years
Annual Pay: \$53,690

POLICE ACTIVE MEMBERS - DECEMBER 31, 2009
BY ATTAINED AGE AND YEARS OF SERVICE

| Attained Age | Years of Service on Valuation Date | | | | | | | Totals | |
|---------------|------------------------------------|-----------|-----------|-----------|-----------|----------|----------|------------|---------------------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30 Plus | No. | Valuation Payroll |
| 25-29 | 24 | 3 | | | | | | 27 | \$ 1,415,368 |
| 30-34 | 8 | 27 | 1 | | | | | 36 | 1,991,434 |
| 35-39 | 2 | 27 | 17 | | | | | 46 | 2,844,412 |
| 40-44 | 1 | 12 | 11 | 15 | 4 | | | 43 | 2,841,493 |
| 45-49 | | | 5 | 7 | 19 | 2 | | 33 | 2,460,885 |
| 50-54 | | 3 | 3 | 5 | 5 | 4 | 2 | 22 | 1,579,808 |
| 55-59 | | | | 3 | 5 | 1 | 2 | 11 | 838,367 |
| 61 | | | | | 1 | | | 1 | 62,960 |
| Totals | 35 | 72 | 37 | 30 | 34 | 7 | 4 | 219 | \$14,034,727 |

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

Age: 40.1 years
Service: 12.3 years
Annual Pay: \$64,086

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 for Pension Benefits

The unfunded actuarial accrued liability (UAAL) was determined using the funding value of assets and actuarial accrued liability calculated as of the valuation date. Except where indicated, the UAAL amortization payment (one component of the contribution requirement), is the level percent of pay required to fully amortize the UAAL over a 14 year period beginning on the date contributions determined by this report are scheduled to begin. This UAAL payment does not reflect any payments expected to be made between the valuation date and the date contributions determined by this report are scheduled to begin.

Active payroll was assumed to increase 4.25% 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 in this report.

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 7.75% 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.

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).

7.75% 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 4.25% 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, 2007 valuation. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below.

| | Year Ended December 31, | | | | |
|---------------------------|-------------------------|-------|--------|--------|-------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Rate of Investment Return | 4.2 % | 3.0 % | 12.8 % | 10.2 % | 7.1 % |

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.

| Sample Ages | Annual Rate of Pay Increase for Sample Ages | | |
|----------------|---|---------------------|--------|
| | Base (Economic) | General/Management | |
| | | Merit and Longevity | Totals |
| 20 | 4.25 % | 1.70 % | 5.95 % |
| 25 | 4.25 | 1.60 | 5.85 |
| 30 | 4.25 | 1.20 | 5.45 |
| 35 | 4.25 | 0.90 | 5.15 |
| 40 | 4.25 | 0.40 | 4.65 |
| 45 | 4.25 | 0.30 | 4.55 |
| 50 | 4.25 | 0.20 | 4.45 |
| 55 | 4.25 | 0.20 | 4.45 |
| 60 | 4.25 | 0.00 | 4.25 |
| 65 | 4.25 | 0.00 | 4.25 |

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

| Years of Service | Annual Rate of Pay Increase for Indicated Years of Service | | |
|---------------------|--|---------------------|--------|
| | Base | Police | |
| | (Economic) | Merit and Longevity | Total |
| 1 | 4.25 % | 4.00 % | 8.25 % |
| 2 | 4.25 | 4.00 | 8.25 |
| 3 | 4.25 | 4.00 | 8.25 |
| 4 | 4.25 | 4.00 | 8.25 |
| 5 | 4.25 | 4.00 | 8.25 |
| 6 | 4.25 | 3.00 | 7.25 |
| 7 | 4.25 | 3.00 | 7.25 |
| 8 | 4.25 | 2.00 | 6.25 |
| 9 | 4.25 | 2.00 | 6.25 |
| 10 | 4.25 | 1.00 | 5.25 |
| 11 | 4.25 | 1.00 | 5.25 |
| 12 | 4.25 | 1.00 | 5.25 |
| 13 | 4.25 | 1.00 | 5.25 |
| 14 | 4.25 | 1.00 | 5.25 |
| 15 | 4.25 | 0.00 | 4.25 |

The base economic assumptions were first used in the December 31, 2007 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 is expected to increase 4.25% 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:

| Increase in | Year Ended December 31, | | | | |
|---------------|-------------------------|------|------|------|------|
| | 2009 | 2008 | 2007 | 2006 | 2005 |
| Average pay | 8.8% | 2.5% | 4.2% | 4.1% | 2.9% |
| Total payroll | 10.9 | 4.0 | 5.2 | 4.9 | 5.1 |

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

| Sample Ages | Actuarial Present Value of | | Future Life | |
|----------------|----------------------------|----------|--------------------|-------|
| | \$1 Monthly for Life | | Expectancy (Years) | |
| | Men | Women | Men | Women |
| 55 | \$127.14 | \$137.81 | 24.82 | 30.24 |
| 60 | 117.18 | 129.90 | 20.64 | 25.67 |
| 65 | 104.97 | 119.83 | 16.69 | 21.29 |
| 70 | 91.48 | 107.29 | 13.18 | 17.13 |
| 75 | 77.33 | 92.89 | 10.15 | 13.37 |
| 80 | 63.28 | 78.10 | 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 |

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.

| Retirement Ages | Regular Retirement Rates | | Early Retirement Rates | | |
|--------------------|--------------------------|--------|------------------------|------------------------|--------|
| | 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.

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 for Police were assumed to be duty related. Fifty percent were assumed to be unrelated to duty. Twenty-five percent of disabilities for General/Management were assumed to be duty related. Seventy-five 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 Police deaths were assumed to be duty related and fifty percent were assumed to be unrelated to duty. Twenty-five percent of General/Management deaths were assumed to be duty related and seventy-five 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

**DISCLOSURES REQUIRED BY GASB STATEMENTS
NO. 25, NO. 26 AND NO. 27**

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) |
|--------------------------------|--|--|------------------------------------|--------------------------|--|--|
| 2000 | \$ 152,796,352 | \$ 156,540,695 | \$ 3,744,343 | 97.6 | \$29,068,666 | 12.9 % |
| 2001 | 164,995,804 | 167,764,361 | 2,768,557 | 98.3 | 31,751,356 | 8.72 |
| 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 |
| 2005 | 195,203,944 | 210,940,503 | 15,736,559 | 92.5 | 40,492,380 | 38.9 |
| 2006 | 213,015,364 | 222,363,698 | 9,348,334 | 95.8 | 42,456,531 | 22.0 |
| 2007 | 238,029,788 | 246,147,797 | 8,118,009 | 96.7 | 44,646,848 | 18.2 |
| 2008 | 241,784,990 | 261,167,456 | 19,382,466 | 92.6 | 46,433,304 | 41.7 |
| 2009 | 248,954,926 | 283,777,829 | 34,822,903 | 87.7 | 51,510,466 | 67.6 |

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 Contributions | % Contributed |
|---------------------------------------|------------------------------------|--|---------|----------|----------------------------------|-------------------------|------------------|
| | | General | Police | Wt. Avg. | | | |
| 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 | 4,499,260 | 100 |
| 2004^ | 2006 | 9.80 | 14.84 | 11.21 | 4,717,920 | 4,928,487 | 100 |
| 2005 | 2007 | 10.38 | 14.96 | 11.67 | 5,160,605 | 5,373,132 | 100 |
| 2006 | 2008 | 9.50 | 13.36 | 10.43 | 4,907,566 | 4,889,940 | 100 |
| 2007#^ | 2009 | 9.33 | 14.58 | 10.80 | 5,238,815 | 5,459,718 | 100 |
| 2008 | 2010 | 10.93 | 17.66 | 12.73 | 6,470,984 | | |
| 2009 | 2011 | 13.17 | 20.78 | 15.15 | 8,533,571 | | |

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.

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, 2009 |
| Actuarial Cost Method | Entry-Age |
| Amortization Method | Level percent, closed |
| Remaining Amortization Period | 14 years |
| Asset Valuation Method | 5 year smoothed market |
| Actuarial Assumption: | |
| Investment rate of return | 7.75% |
| Projected salary increases* | 4.25% - 8.25% |
| * Includes inflation at | 4.25% |
| 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, 2009, the date of the latest actuarial valuation:

| | |
|---|------------|
| Retirees and beneficiaries receiving benefits | 442 |
| Terminated plan members entitled to but not yet receiving benefits | 54 |
| Active plan members | <u>917</u> |
| Total | 1,413 |

GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF REPORTED ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2009

Assets:

| | |
|------------------------------------|------------------|
| Cash and equivalents | \$ 1,129,751 |
| Interest and dividend receivables* | 729,750 |
| Total | <u>1,859,501</u> |

Investments, at market value:

| | |
|-------------------|--------------------|
| Other investments | 133,968,807 |
| STW | 39,021,713 |
| Northern trust | 57,771,849 |
| Total investments | <u>230,762,369</u> |

| | |
|-----------------------------|--------------------|
| Total assets (market value) | <u>232,621,870</u> |
|-----------------------------|--------------------|

| | |
|-----------------------|----------|
| Less accounts payable | <u>0</u> |
|-----------------------|----------|

| | |
|--|----------------|
| Assets held in trust for pension and health benefits | \$ 232,621,870 |
|--|----------------|

* Includes accounts receivable

GASB STATEMENT NO. 26
REQUIRED SUPPLEMENTARY INFORMATION
STATEMENT OF CHANGES IN REPORTED ASSETS
(INCLUDES RETIREE HEALTH)
AS OF DECEMBER 31, 2009

| | Pension | Retiree Health | Total |
|--------------------------------|----------------|---------------------------|---------------|
| Additions: | | | |
| Contributions: | | | |
| Employer | \$5,459,718 | \$2,974,199 | \$ 8,433,917 |
| Plan Members | 2,272,170 | | 2,272,170 |
| Total | 7,731,888 | 2,974,199 | 10,706,087 |
| Investment Income | | | 46,453,891 |
| Miscellaneous | | | 0 |
| Total Additions | | | 57,159,978 |
| Deductions: | | | |
| Pension Benefits Paid | 10,471,659 | | 10,471,659 |
| Refunds of Contributions | 90,776 | | 90,776 |
| Health Benefits | | 712,478 | 712,478 |
| Expenses [^] | 552,497 | 27,237 | 579,734 |
| Total Deductions | 11,114,932 | 739,715 | 11,854,647 |
| Net Increase (Decrease) | | | \$ 45,305,331 |
| Net Assets Held in Trust Fund: | | | |
| Beginning of Year Market Value | | | \$187,316,539 |
| End of Year Market Value | | | \$232,621,870 |

[^] The administrative and other 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 ASSUMPTIONS AND METHODS PRESCRIBED BY THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD

RETIREE HEALTH PREMIUM RATES

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 health plans offered by Sanford and Avera McKennan. All benefits provided by the City sponsored retiree health Program (plan) are self-funded. 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-funded.

Retiree health benefit recipients pay for a portion of their benefits based on premium rates established by the City (illustrative premiums). These premiums were used in the actuarial valuation of the retiree health program based on a weighted average of reported premiums and utilization of health care plans by retirees. A summary of these premiums is shown in this section of the report.

Retirees who participate in the retiree health program pay 50% of the reported illustrative premiums. The City pays the remaining portion of the retiree health care cost. Health insurance coverage terminates upon attainment of age 65. At this time, each retiree must make their own arrangements for health care coverage.

The current actuarial standard covering the valuation of retiree medical liability became effective for measurements on or after January 1, 2003. The standard includes 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 premium 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 facsimile health care “premium” rates used in the December 31, 2009 valuation of the retiree health program are shown on the following page. The actuarial assumptions and methods used in the retiree health program valuation are shown in this section of the report.

PREMIUM RATE DEVELOPMENT METHOD MONTHLY PER PERSON HEALTH CARE RATES

Initial premiums were developed for pre-65 retirees only. These premiums were developed using claims experience from January 2007 to November 2009 in conjunction with exposure data for the retired members of the health care program. These claims were projected on a paid claim basis, adjusted for plan design changes, large claims and loaded for administrative expenses.

Age graded and sex distinct premiums are utilized by this valuation. The premium developed by the preceding process is appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process “distributes” the average premium over all age/sex combinations and assigns a unique premium to each combination. This process more accurately reflects health care costs in the retired population over the projection period. The table below shows the combined medical and prescription drug one-person monthly premiums at selected ages effective January 1, 2010 to December 31, 2010.

Facsimile Health Care Premiums Used in the 2009 Valuation

| Age | Monthly Pre-65 Rates at Sample Ages | |
|------------|--|---------------|
| | Male | Female |
| 50 | \$ 655.49 | \$ 742.71 |
| 55 | 856.71 | 880.62 |
| 60 | 1,076.28 | 1,034.54 |

The above rates reflect the total medical and prescription drug retiree cost without considering any applicable retiree contributions.

PREMIUM RATE DEVELOPMENT METHOD MONTHLY PER PERSON HEALTH CARE RATES

Monthly Dental Premiums Used in the 2009 Valuation

| Coverage for | Monthly Rate |
|--------------|--------------|
| 1-person | \$38.61 |
| 2-person | 77.22 |

The dental premium rates used in the valuation were not “age graded” since dental claims do not vary significantly by age.

The chart below shows the retiree paid premiums (50% of the weighted average illustrative premiums) reported to the actuary in connection with this valuation of the program.

| Coverage for | Monthly Rate |
|---|--------------|
| Health Care Premiums (Retiree Only - General) | \$355.83 |
| Health Care Premiums (Retiree Only - Police) | 355.83 |
| Health Care Premiums (Retiree & Spouse - General) | 754.62 |
| Health Care Premiums (Retiree & Spouse - Police) | 754.62 |
| Dental (Retiree only) | 18.21 |
| Dental (Retiree & Spouse) | 34.77 |

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 world implications of this sort of projection. For example, if health costs represent 20% of disposable income initially and 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 80% 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. A summary of the rates of medical inflation used in this valuation of the program are shown on the next page. Retirees pay the premium rates shown at the bottom of the prior page. These premiums were assumed to increase with medical inflation. The assumed rate of increase is shown on the following page.

HEALTH COST TREND AND RELATED ASSUMPTIONS

Rates of Inflation for Medical, Rx and Dental Benefits

| Future Health Cost Increases | | |
|--------------------------------|--------------|--------|
| Year Beginning December 31, | Medical & Rx | Dental |
| 2010 | 9.00% | 4.25% |
| 2011 | 8.50 | 4.25 |
| 2012 | 8.00 | 4.25 |
| 2013 | 7.50 | 4.25 |
| 2014 | 7.00 | 4.25 |
| 2015 | 6.50 | 4.25 |
| 2016 | 6.00 | 4.25 |
| 2017 | 5.50 | 4.25 |
| 2018 | 5.00 | 4.25 |
| 2019 & After | 4.25 | 4.25 |

Cumulative Aging Factors at Select Ages

| Age | Male | Female |
|-----|-------|--------|
| 45 | 0.514 | 0.673 |
| 50 | 0.696 | 0.788 |
| 55 | 0.909 | 0.935 |
| 57 | 1.000 | 1.000 |
| 60 | 1.142 | 1.098 |

**COMPUTED RETIREE HEALTH CONTRIBUTION RATES
 BASED ON ASSUMPTIONS/METHODS PRESCRIBED BY GASB
 FOR GENERAL AND MANAGEMENT MEMBERS
 FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2011**

| Contributions for | Contribution Requirements Expressed as Percents of Payroll |
|-------------------------------------|---|
| Total NC% | 2.81 % |
| -Employee % | <u>0.00</u> |
| -Employer % | 2.81 % |
| | |
| UAL% (26 Year Amortization of UAL*) | <u>2.08</u> % |
| Total Employer Contribution | 4.89 % |
| | |
| First Year \$ Contribution | \$1,991,642 |

* *Unfunded accrued liability (UAL) was amortized as a level percent of active member payroll.*

**COMPUTED RETIREE HEALTH CONTRIBUTION RATES
 BASED ON ASSUMPTIONS/METHODS PRESCRIBED BY GASB
 FOR POLICE MEMBERS
 FOR THE FISCAL YEAR BEGINNING JANUARY 1, 2011**

| Contributions for | Contribution Requirements Expressed as Percents of Payroll |
|-------------------------------------|---|
| Total NC% | 4.13 % |
| -Employee % | <u>0.00</u> |
| -Employer % | 4.13 % |
| | |
| UAL% (26 Year Amortization of UAL*) | <u>3.53</u> % |
| Total Employer Contribution | 7.66 % |
| | |
| First Year \$ Contribution | \$1,168,382 |

* *Unfunded accrued liability (UAL) was amortized as a level percent of active member payroll.*

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF HEALTH FUNDING PROGRESS FOR
THE RETIREE HEALTH PLAN
(POLICE & GENERAL COMBINED)**

| Actuarial Valuation Date Dec. 31 | 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) |
|---|--|--|--|-----------------------------------|--|---|
| 2006 | \$ 5,747,326 | \$ 31,127,424 | \$ 25,380,098 | 18.5 % | \$ 42,456,531 | 59.8 % |
| 2007 [^] | 8,379,519 | 31,758,969 | 23,379,450 | 26.4 | 44,646,848 | 52.4 |
| 2008 | 10,718,920 | 32,930,510 | 22,211,590 | 32.6 | 46,433,304 | 47.8 |
| 2009 | 13,473,646 | 36,173,536 | 22,699,890 | 37.2 | 51,510,466 | 44.1 |

[^] *New methods or assumptions adopted.*

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER HEALTH CONTRIBUTIONS
(POLICE & GENERAL)**

| Valuation Year Ended Dec. 31 | Fiscal Year Ended Dec. 31 | Contribution Rate as a % of Valuation Payroll | | Annual Required Contribution (ARC) | Actual Contributions | Percentage Contributed |
|---|--|--|---------------|---|---------------------------------|-----------------------------------|
| | | General | Police | | | |
| 2005 | 2007 | 5.04% | 7.23% | \$ 2,501,513 | \$ 2,523,357 | 100.0 % |
| 2006 | 2008 | 5.49% | 7.57% | 2,816,421 | 2,820,846 | 100.0 |
| 2007 [^] | 2009 | 5.18% | 7.36% | 2,808,976 | 2,974,199 | 100.0 |
| 2008 | 2010 | 5.03% | 7.45% | 2,881,839 | | |
| 2009 | 2011 | 4.89% | 7.66% | 3,160,024 | | |

Annual required 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 can maintain consistency with the City's financial statements.

**REQUIRED SUPPLEMENTARY INFORMATION
FOR THE RETIREE HEALTH PLAN**

The following assumptions and methods were used in the December 31, 2009 actuarial valuation for the Retiree Health Plan:

| | |
|--|--|
| Valuation Date | December 31, 2009 |
| Actuarial Cost Method | Entry-Age |
| Amortization Method | Level percent, closed |
| Remaining Amortization Period | 26 years |
| Asset Valuation Method | 5 year smoothed market |
| Premium Rate Development Method | Please refer to page 1 |
| Actuarial Assumptions | |
| Annual Rate of return (discount rate) | 7.75% per year |
| Dependent Coverage elections | 80% of employees are assumed to cover a spouse at retirement |
| Coverage election | All eligible future retirees are assumed to elect benefits |
| Rates of inflation for medical and dental benefits | Please refer to page 5 |

Membership of the Retiree Health Plan is shown below at December 31, 2009, the date of the latest actuarial valuation.

| | |
|--|------------|
| Retirees receiving medical benefits | 121 |
| Active plan members | <u>917</u> |
| Total number of current and former City employees who are members of the Retiree Health Plan | 1,038 |