

PRIVATE AND CONFIDENTIAL

November 21, 2006

Mr. John Lawson
Executive Director
Houston Police Officers Pension System
602 Sawyer, Suite 640
Houston, Texas 77007

Dear John:

2005 ACTUARIAL VALUATION REPORT AND DISCUSSION

Enclosed are 10 copies of the Actuarial Valuation Report as of July 1, 2005 for the Houston Police Officers Pension System. Please note the following regarding the liabilities and projections contained within the report:

Details Regarding Projected City Funding vs. The Actuarially Determined Rate

As we discussed, the funding to the System under the 2004 Meet & Confer Agreement (adopted October 9, 2004) was not sufficient (as expected) to cover the Actuarially Calculated City Contribution Rate during the 2005 Fiscal Year.

Effect on Fiscal Year Ending June 30, 2005

As shown on page 5 of the July 1, 2005 Actuarial Report, after the Expected Change Due to Normal Operation of the Plan, the next largest increase to the estimated Unfunded Actuarial Accrued Liability (UAAL) was the \$58 million increase due to the City funding less than the actuarial rate:

■ City funding less than actuarially determined rate (\$000)

— Actuarially determined city contribution:	\$92,780
— Actual city contribution:	<u>37,125</u>
— Difference:	\$55,655
— Interest:	<u>2,317</u>
— Total impact of one-year funding gap:	\$57,972

Effect on Future Fiscal Years

Over the next ten years, based on the 2004 Meet & Confer Agreement Contribution Schedule and the economic and demographic assumptions used in the July 1, 2005 valuation, (i) the projected actual City contribution rates are expected to be less than the corresponding estimated Actuarially Calculated City Contribution Rates and (ii) the projected estimated Unfunded Actuarial Accrued Liability is expected to increase each year.

As actual economic and demographic experience varies and future assumptions change to better reflect anticipated experience, the results will change. If experience varies to the detriment of the System (e.g., asset return is less than 8.5%), the unfunded actuarial accrued liability and the actuarially determined City contribution rate will increase, while the City funding requirements could potentially remain unchanged. Conversely, if experience is favorable to the System, it is possible for the actuarially determined contribution rate to decrease, while the City funding requirements could potentially remain unchanged. It should be noted that, other than the City agreement to maintain a funded status floor, the proposed funding schedule could potentially not be sufficient to cover all future benefit payments of the System. Moreover, over the next thirty years, it is possible the System will fall below the funded status floor as actual experience differs from assumed and/or assumptions change.

Other Losses and Gains

As we also discussed, the next largest increase to the estimated Unfunded Actuarial Accrued Liability after the effect of the city contribution was the \$34 million due to liability losses. The majority of this liability loss was due to actuarial losses from pay sources (i.e., Member salary increases in excess of the actuarially assumed rate). These liability losses were offset by asset gains of \$23 million.

* * *

The results shown in this analysis are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this analysis could have been developed by selecting different points within the best-estimate ranges for various assumptions.

We have prepared this letter and valuation report solely for use by the Houston Police Officers Pension System. They may not be copied, distributed to or used by any third party without Towers Perrin express consent and they may not be relied upon by any third party in any manner that would result in the creation of any duty or liability by Towers Perrin to any third party.

Mr. John Lawson
November 21, 2006
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Please call if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Ada".

ASB:mr

Enclosures

Houston Police Officers Pension System

Actuarial Valuation Report as of July 1, 2005

November, 2006

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.

Summary of Key Results (\$000)

	July 1, 2005	July 1, 2004
Actuarially Calculated City Contribution Rate		
■ Normal Cost (City Portion)	16.5%	16.7% ⁽¹⁾
■ Amortization of Unfunded Actuarial Accrued Liability (Surplus)	<u>17.5</u>	<u>14.5⁽¹⁾</u>
■ Actuarially Calculated City Contribution Rate (effective the following July 1)	34.0%	31.2% ⁽¹⁾
Summary of Assets		
■ Market Value	\$ 2,651,208	\$ 2,422,768
■ Actuarial Value	2,508,794	2,466,070
Summary of Liabilities		
■ Actuarial Accrued Liability	\$ 3,392,974	\$ 3,339,224 ⁽²⁾
■ Actuarial Value of Assets	<u>(2,508,794)</u>	<u>(2,466,070)</u>
■ Unfunded Actuarial Accrued Liability (Surplus)	884,180	873,154 ⁽²⁾
Summary of Data		
■ Number of Participants Included in the Valuation		
— Active participants enrolled in DROP	1,837	1,784
— Other active participants	3,030	3,441
— Inactive participants	<u>2,403</u>	<u>2,105</u>
— Total	7,270	7,330
■ Annual Total Direct Pay for Active and DROP Participants Included in the Valuation		
— Active participants enrolled in DROP	\$ 137,589	\$ 132,243 ⁽²⁾
— Other active participants	<u>183,468</u>	<u>197,597⁽²⁾</u>
— Total	321,057	329,840 ⁽²⁾
■ Annual Benefits for Inactive Participants	86,933	70,307

(1) Average for the year. See previous report for details.

(2) For July 1, 2004 results, before changes in plan provisions effective at October 9, 2004.

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Summary of Assets as of July 1, 2005 (\$000)

	Market Value	
	Amount	Percent
Investment Category		
■ Cash and Short-Term Investments	\$ 168,473	6.4%
■ Fixed Income Investments	507,309	19.1
■ Equity Securities	1,692,822	63.9
■ Alternative Investments	274,220	10.3
■ Other Investments	72	0.0
■ Other Assets (Liabilities)		
— Miscellaneous receivables	28,455	1.1
— Miscellaneous payables	(19,824)	(0.8)
— Other liabilities	<u>(319)</u>	<u>0.0</u>
— Net	8,312	0.3
■ Total	2,651,208	100.0

Change in Assets Since the Prior Valuation (\$000)

■ Market Value as of July 1, 2004	\$ 2,422,768
■ Contributions and Disbursements	
— City contributions	37,125
— Employee contributions	28,410
— Benefit payments	(153,861)
— Contributions refunds	<u>(1,198)</u>
— Net	(89,524)
■ Net Investment Return	338,139
■ Administrative and Investment Expenses	<u>(20,175)</u>
■ Market value as of July 1, 2005	2,651,208
■ Approximate Annual Rate of Return (Net of Expenses)*	13.4%

* Calculated using a dollar-weighted rate of return assuming all contributions and disbursements are made uniformly throughout the year.

Development of Actuarial Value of Assets (\$000)

Actuarial Investment Gain (Loss) for the Year

■ Market Value of Assets as of July 1, 2004	\$ 2,422,768
■ City Contributions	37,125
■ Employee Contributions	28,410
■ Benefit Payments and Contribution Refunds	(155,059)
■ Miscellaneous Contributions and Disbursements	0
■ Expected Interest at 8.5%	<u>202,208</u>
■ Expected Market Value of Assets as of June 30, 2005	2,535,452
■ Actual Market Value of Assets as of June 30, 2005	<u>2,651,208</u>
■ Actuarial Investment Gain (Loss)	115,756

Schedule of Actuarial Investment Gains (Losses)

<u>Plan Year Ending</u>	<u>Initial Actuarial Gain (Loss)</u>	<u>Five-Year Amortization</u>	<u>Unrecognized Gain (Loss) as of July 1, 2005*</u>
June 30, 2005	\$ 115,756	\$ 23,151	\$ 92,605
June 30, 2004	264,695	52,939	158,817
June 30, 2003	(87,230)	(17,446)	(34,892)
June 30, 2002	(370,576)	(74,115)	<u>(74,116)</u>
			142,414

* Deferred for recognition in future years.

Actuarial Value of Assets

■ Market Value as of July 1, 2005	\$ 2,651,208
■ (Gain) Loss to be Recognized in Future Years	<u>(142,414)</u>
■ Actuarial Value as of July 1, 2005	2,508,794

Unfunded Actuarial Accrued Liability (Surplus) (\$000)

	July 1, 2005	July 1, 2004
■ Actuarial Present Value of Future Benefits		
— Active participants enrolled in DROP	\$ 1,676,659	\$ 1,719,644
— Other active participants	1,143,789	1,367,868
— Vested terminated participants	2,863	0
— Retirees and beneficiaries	<u>1,256,380</u>	<u>995,841</u>
— Total	4,079,691	4,083,353
■ Actuarial Present Value of Future Employee Contributions	(251,611)	(250,091)
■ Actuarial Present Value of Future Normal Costs (City Portion)	<u>(435,106)</u>	<u>(494,038)</u>
■ Actuarial Accrued Liability	3,392,974	3,339,244
■ Actuarial Value of Assets	<u>(2,508,794)</u>	<u>(2,466,070)</u>
■ Unfunded Actuarial Accrued Liability (Surplus)	884,180	873,154*
* July 1, 2004 results, before changes in plan provisions effective October 9, 2004. Changes in plan provisions had the following effect:		
■ Unfunded liability before changes		\$873,154
■ Change due to provisions other than pay definition		(162,783)
■ Change due to pay definition		(27,640)
■ Change in DROP assumptions subsequent to changes in plan provisions		<u>16,227</u>
■ Unfunded liability after changes		\$698,958

Change in Unfunded Actuarial Accrued Liability (Surplus) Since the Prior Valuation (\$000)

■ Unfunded Actuarial Accrued Liability (Surplus) as of July 1, 2004 ⁽¹⁾	\$ 698,958
■ Expected Change Due to Normal Operation	
— Normal Cost (City Portion)	54,366
— City Actuarially Determined Contribution	(92,780)
— Interest ⁽²⁾	61,493
— Recognition of Prior Asset Losses (Gains)	<u>93,109</u>
— Net Change	116,188
■ Expected Change Due to City Funding Less Than Actuarial Rate	57,972
■ Change Due to Actuarial Experience	
— Actuarial (Gain) Loss From Asset Sources	(23,151)
— Actuarial (Gain) Loss From Liability Sources	<u>34,213</u>
— Net Change	11,062
■ Change in Actuarial Assumptions and Methods	0
■ Unfunded Actuarial Accrued Liability (Surplus) as of July 1, 2005	884,180

⁽¹⁾ After changes in plan provisions effective at October 9, 2004

⁽²⁾ Excludes interest on the unrecognized investment losses

Historical Unfunded Actuarial Accrued Liability (Surplus) (\$000)

Valuation Date	Actuarial Accrued Liability (AAL)	Actuarial Value of Assets (AVA)	AVA as a Percentage of AAL	Unfunded AAL (Surplus)	Covered Payroll	UAAL (Surplus) as a Percentage of Covered Payroll
July 1, 1984	\$ 507,883	\$ 230,143	45%	\$ 277,740	\$ 111,489	249%
July 1, 1986	454,067	420,487	93	33,580	125,963	27
July 1, 1987	488,387	505,483	104	(17,096)	126,960	(13)
July 1, 1988	524,894	516,177	98	8,717	121,667	7
July 1, 1989	581,681	585,358	101	(3,677)	122,803	(3)
July 1, 1990	663,278	676,684	102	(13,406)	126,665	(11)
July 1, 1992	853,975	774,785	91	79,190	143,020	55
July 1, 1993	936,674	857,535	92	79,139	159,321	50
July 1, 1994	984,495	947,456	96	37,039	162,143	23
July 1, 1995	1,000,423	1,038,256	104	(37,833)	174,761	(22)
July 1, 1996	1,199,748	1,168,056	97	31,692	182,251	17
July 1, 1997	1,258,217	1,329,570	106	(71,353)	187,134	(38)
July 1, 1998	1,549,341	1,518,081	98	31,260	196,364	16
July 1, 1999	1,773,829	1,746,312	98	27,517	246,569	11
July 1, 2000	1,966,404	2,013,491	102	(47,087)	250,691	(19)
July 1, 2001	2,306,427	2,226,307	97	80,120	264,226	30
July 1, 2002	2,593,730	2,337,157	90	256,573	286,150	90
July 1, 2003	2,874,738	2,394,411	83	480,327	300,405	160
July 1, 2004	3,339,224	2,466,070	74	873,154	329,840	265
July 1, 2005	3,392,974	2,508,794	74	884,180	321,057	275

Historical Solvency Test (\$000)

Valuation Date	Actuarial Accrued Liability for:			Actuarial Value of Assets	Portion of Actuarial Accrued Liability Covered by Assets		
	Employee Contributions	Retirees, Beneficiaries, and Vested Deferreds	Active Participants (City-Financed Portion)		(1)	(2)	(3)
	(1)	(2)	(3)				
July 1, 1989	\$ 82,919	\$ 222,585	\$ 276,177	\$ 585,358	100%	100%	100%
July 1, 1990	87,430	261,114	314,734	676,684	100	100	100
July 1, 1991	98,099	338,914	416,962	774,785	100	100	81
July 1, 1992	105,464	372,674	458,536	857,535	100	100	83
July 1, 1993	114,279	401,989	468,227	947,456	100	100	92
July 1, 1994	123,471	416,053	460,899	1,038,256	100	100	100
July 1, 1995	91,687	764,518	343,543	1,168,056	100	100	91
July 1, 1996	95,615	812,498	350,104	1,329,570	100	100	100
July 1, 1998	99,298	1,017,723	432,320	1,518,081	100	100	93
July 1, 1999	107,008	1,157,882	508,939	1,746,312	100	100	95
July 1, 2000	111,099	1,324,079	531,225	2,013,491	100	100	100
July 1, 2001	138,248	707,152	1,461,027*	2,226,307	100	100	95
July 1, 2002	145,255	718,779	1,729,696	2,337,157	100	100	85
July 1, 2003	153,634	838,090	1,883,014	2,394,411	100	100	74
July 1, 2004	153,088	995,841	2,190,295	2,466,070	100	100	60
July 1, 2005	249,804	1,259,243	1,883,927	2,508,794	100	100	53

* Beginning July 1, 2001 the Actuarial Accrued Liability for DROP Participants was included in the Active liability.

Actuarially Calculated City Contribution Rate

	July 1, 2005 through June 30, 2006	July 1, 2004 through June 30, 2005⁽¹⁾
■ City Normal Cost Rate	16.5%	16.7%
■ Rate to Amortize Unfunded Actuarial Accrued Liability (Surplus) Over 30 Years	<u>17.5</u>	<u>14.5</u>
■ Actuarially Calculated City Contribution Rate	34.0	31.2

⁽¹⁾ Average for the year. The actuarially calculated rate after recognizing plan changes effective October 9, 2004 was 29.8%.

Change in Actuarially Calculated City Contribution Rate Since the Prior Valuation

■ Actuarially Calculated City Contribution Rate as of July 1, 2004 ⁽¹⁾	29.8%
■ Change in Actuarially Calculated City Contribution Rate	
— Normal operation	2.4
— Effect of City contribution less than actuarial rate	1.2
— Actuarial (gain) loss from asset sources	(0.4)
— Actuarial (gain) loss from liability sources	0.8
— Decrease in total earnings	<u>0.2</u>
■ Actuarially Calculated City Contribution Rate as of July 1, 2005	34.0

⁽¹⁾ After recognizing plan changes effective October 9, 2004.

Historical City Contributions as a Percentage of Covered Payroll

Actuarially Calculated City Contribution Rate		Actual City Contribution Rate	
Valuation Date	Rate	Period	Rate
July 1, 1990	14.2%	July 1, 1991 through June 30, 1993	14.3%
July 1, 1992	19.0	July 1, 1993 through June 30, 1994	19.0
July 1, 1993	18.0	July 1, 1994 through June 30, 1995	18.0
July 1, 1994	18.0	July 1, 1995 through June 30, 1996	18.0
July 1, 1995	17.4	July 1, 1996 through June 30, 1997	16.2
July 1, 1996	16.2	July 1, 1997 through June 30, 1998	16.2
July 1, 1997	16.8 ⁽¹⁾	July 1, 1998 through June 30, 1999	15.2
July 1, 1998	16.2	July 1, 1999 through June 30, 2000	12.4
July 1, 1999 ⁽²⁾	16.3	July 1, 2000 through June 30, 2001	12.2
July 1, 2000	11.3	July 1, 2001 through June 30, 2002	12.4
July 1, 2001	20.5	July 1, 2002 through June 30, 2003	12.1
July 1, 2002	24.4	July 1, 2003 through June 30, 2004	12.2
July 1, 2003	28.5	July 1, 2004 through June 30, 2005	11.3
July 1, 2004	31.2 ⁽¹⁾	July 1, 2005 through June 30, 2006	16.5
July 1, 2005	34.0	July 1, 2006 through June 30, 2007	N/A

⁽¹⁾ Average for the year.

⁽²⁾ For the period July 1, 1999 through July 1, 2000 the City Contribution rates are shown as a percentage of total direct pay less overtime rather than base pay.

Projection of Estimated Assets and Liabilities (\$000)

Year Beginning July 1	Annual Covered Payroll	Estimated City Contributions				Estimated Employee Contribution		Benefit Payments	Net Cash Flow	Market Value of Assets at End of Year	Unfunded Actuarial Liability (Surplus) at End of Year	Funded Percentage
		Actuarial		Actual		Amount	Percent					
		Amount	Percent	Amount	Percent							
2005	\$321,057	\$100,170	31.2%	\$53,000	16.5%	\$28,895	9.00%	\$192,598	(\$110,703)	\$2,761,249	\$962,675	73%
2006	332,294	112,980	34.0	58,000	17.5	30,039	9.04	195,829	(107,790)	2,883,678	967,819	74
2007	343,924	118,654	34.5	63,000	18.3	31,228	9.08	208,109	(113,881)	3,010,169	956,358	76
2008	355,962	119,603	33.6	68,000	19.1	32,499	9.13	222,526	(122,027)	3,138,926	998,651	76
2009	368,420	119,368	32.4	73,000	19.8	33,784	9.17	236,370	(129,586)	3,270,754	1,064,984	75
2010	381,315	122,783	32.2	78,000	20.5	35,119	9.21	253,821	(140,702)	3,402,208	1,132,290	75
2011	394,661	127,476	32.3	83,000	21.0	36,506	9.25	273,617	(154,111)	3,530,869	1,200,577	75
2012	408,474	132,346	32.4	93,000	22.8	37,947	9.29	293,464	(162,517)	3,661,710	1,264,683	74
2013	422,771	137,400	32.5	103,000	24.4	39,445	9.33	308,716	(166,271)	3,799,761	1,324,255	74
2014	437,568	141,772	32.4	113,000	25.8	41,044	9.38	320,941	(166,897)	3,948,895	1,378,775	74

The projection is based on the economic and demographic assumptions summarized in Section VI, including an 8.5% investment return beginning as of July 1, 2005. The total covered payroll is assumed to increase by 3.5% per year. As actual economic (such as the actual investment return from July 1, 2005 through June 30, 2006) and demographic experience vary, the results will change.

The projection assumes the Assumptions and Methods and the Plan Provisions as summarized in Section VI do not change throughout the projection period. It also assumes that new entrants receive the separate plan provisions detailed in Section VI. New entrants are assumed to linearly enter the plan over a 30 year period beginning July 1, 2005. The expected normal cost as a percentage of payroll for new entrants is 5.2%.

This projection is incomplete without the accompanying report.

Summary of Active Participants as of July 1, 2005

Age Last Birthday	-----Completed Years of Service-----									Total
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34		
15-19	Number	0	0	0	0	0	0	0	0	0
	Tot Earnings	0	0	0	0	0	0	0	0	0
	Avg Earnings	0	0	0	0	0	0	0	0	0
20-24	Number	14	0	0	0	0	0	0	0	14
	Tot Earnings	621,657	0	0	0	0	0	0	0	621,657
	Avg Earnings	44,404	0	0	0	0	0	0	0	44,404
25-29	Number	224	51	0	0	0	0	0	0	275
	Tot Earnings	10,771,351	2,831,346	0	0	0	0	0	0	13,602,697
	Avg Earnings	48,086	55,517	0	0	0	0	0	0	49,464
30-34	Number	171	400	110	0	0	0	0	0	681
	Tot Earnings	8,297,368	22,799,549	6,959,135	0	0	0	0	0	38,056,052
	Avg Earnings	48,523	56,999	63,265	0	0	0	0	0	55,883
35-39	Number	66	285	665	83	5	0	0	0	1,104
	Tot Earnings	3,197,240	16,332,202	42,673,196	5,524,773	338,986	0	0	0	68,066,396
	Avg Earnings	48,443	57,306	64,170	66,564	67,797	0	0	0	61,654
40-44	Number	7	84	259	305	427	5	0	0	1,087
	Tot Earnings	330,861	4,678,968	16,597,101	21,314,206	31,156,281	365,575	0	0	74,442,993
	Avg Earnings	47,266	55,702	64,081	69,883	72,966	73,115	0	0	68,485
45-49	Number	0	15	62	131	489	200	3	0	900
	Tot Earnings	0	828,592	3,953,206	9,153,863	36,438,957	15,431,503	248,993	0	66,055,113
	Avg Earnings	0	55,239	63,761	69,877	74,517	77,158	82,998	0	73,395
50-54	Number	0	3	8	32	201	193	106	2	545
	Tot Earnings	0	174,816	499,912	2,222,085	14,829,017	14,704,552	8,350,837	149,721	40,930,941
	Avg Earnings	0	58,272	62,489	69,440	73,776	76,189	78,781	74,861	75,103
55-59	Number	0	0	1	10	54	61	62	31	219
	Tot Earnings	0	0	61,108	643,298	3,960,493	4,610,074	4,588,121	2,303,855	16,166,949
	Avg Earnings	0	0	61,108	64,330	73,342	75,575	74,002	74,318	73,822
60-64	Number	0	0	0	1	3	10	8	15	37
	Tot Earnings	0	0	0	62,236	199,766	746,281	617,545	1,137,905	2,763,733
	Avg Earnings	0	0	0	62,236	66,589	74,628	77,193	75,860	74,695
Over 64	Number	0	0	0	0	0	0	0	5	5
	Tot Earnings	0	0	0	0	0	0	0	350,587	350,587
	Avg Earnings	0	0	0	0	0	0	0	70,117	70,117
Total	Number	482	838	1,105	562	1,179	469	179	53	4,867
	Tot Earnings	23,218,477	47,645,473	70,743,657	38,920,462	86,923,500	35,857,984	13,805,496	3,942,068	321,057,118
	Avg Earnings	48,171	56,856	64,021	69,253	73,726	76,456	77,126	74,379	65,966

Average Age = 42.0

Average Service = 16.1

Historical Active Participant Data

Valuation Date	Number of Participants	Average Age	Annual Covered Payroll (\$000)	Average Annual Covered Payroll	Percentage Increase in Average Covered Payroll
January 1, 1980	3,029	N/A	\$ 58,169	\$ 19,204	10.4%
January 1, 1982	3,243	N/A	89,529	27,607	43.8
July 1, 1984	3,997	N/A	111,489	27,893	1.0
July 1, 1986	4,526	33.5	125,963 ⁽¹⁾	27,831	(0.2)
July 1, 1987	4,494	34.4	126,960	28,251	1.5
July 1, 1988	4,239	35.0	121,667	28,702	1.6
July 1, 1989	4,105	35.7	122,803	29,915	4.2
July 1, 1990	4,073	36.2	126,665 ⁽²⁾	31,099	4.0
July 1, 1992	4,120	36.8	143,020	34,714	11.6
July 1, 1993	4,498	36.7	159,321	35,420	2.0
July 1, 1994	4,705	36.8	162,143	34,462	(2.7)
July 1, 1995	4,921	36.9	174,761	35,513	3.0
July 1, 1996 ⁽³⁾	4,395	35.1	150,903	34,335	(3.3)
July 1, 1997	4,282	35.5	149,631	34,944	1.8
July 1, 1998	4,247	35.9	153,479	36,138	3.4
July 1, 1999	4,253	36.3	187,967 ⁽⁴⁾	44,196 ⁽⁴⁾	22.3 ⁽⁴⁾
July 1, 2000	4,137	36.7	179,415	43,368	(1.9)
July 1, 2001 ⁽⁵⁾	5,325	40.2	264,226 ⁽⁶⁾	49,620 ⁽⁶⁾	14.4 ⁽⁶⁾
July 1, 2002	5,352	40.7	286,150	53,466	7.8
July 1, 2003	5,387	41.3	300,405	55,765	4.3
July 1, 2004	5,225	41.7	329,840	63,127	13.2
July 1, 2005	4,867	42.0	321,057 ⁽⁷⁾	65,966 ⁽⁷⁾	4.5 ⁽⁷⁾

(1) Reflects the July 5, 1986 pay decrease.

(2) Reflects the November 1, 1990 pay increase.

(3) For the July 1, 1996 to July 1, 2000 valuations includes those participants currently accruing benefits (i.e. excludes current DROP participants).

(4) Definition of covered payroll changed from base pay to total direct pay less overtime.

(5) Beginning July 1, 2001 includes active participants eligible for DROP.

(6) Beginning July 1, 2001 the definition of total direct pay changed from the average of the last 26 pay periods to the highest bi-weekly pay period.

(7) Beginning October 9, 2004 pensionable pay is the total of the last 26 pay periods, excluding CMEPP and SOSPP.

Summary of Inactive Participants as of July 1, 2005

	Number	Annual Benefits (\$000)	Average Annual Benefit
■ Retirees	1,809	\$ 68,030	\$ 37,606
■ Beneficiaries	484	15,420	31,859
■ Disabled Participants	97	3,182	32,804
■ Deferred Vesteds	<u>13</u>	<u>301</u>	<u>23,154</u>
■ Total	2,403	\$ 86,933	\$ 36,177

In addition to annual benefits, there is \$117,449,424 in the PROP accounts.

Inactive Participants Added to and Removed from Rolls

Period Ended	Added to Rolls		Removed from Rolls		Rolls at the End of the Year		Percentage Increase in Annual Benefits	Average Annual Benefit
	Number	Annual Benefits (\$000)	Number	Annual Benefits (\$000)	Number	Annual Benefits (\$000)		
December 31, 1981	81	1,191	17	184	666	6,499	20.6	9,759
December 31, 1982	104	1,106	24	240	746	7,842	20.7	10,513
December 31, 1983	82	967	35	362	793	8,931	13.9	11,262
June 30, 1984	53	779	18	150	855	4,760	6.6	11,095
June 30, 1985	83	1,141	42	259	896	10,166	6.8	11,346
June 30, 1986	44	530	37	431	903	10,939	7.6	12,114
June 30, 1987	42	585	36	421	909	11,321	3.5	12,455
June 30, 1988	138	2,668	25	243	1,022	14,069	24.3	13,766
June 30, 1989	89	1,349	46	502	1,065	16,127	14.6	15,142
June 30, 1990	105	1,811	29	457	1,141	18,029	11.8	15,801
June 30, 1992	222	4,662	75	1,127	1,288	22,999	27.6	17,857
June 30, 1993	105	2,012	16	205	1,377	25,474	10.8	18,500
June 30, 1994	106	2,172	64	953	1,419	27,286	7.1	19,229
June 30, 1995	107	2,425	48	847	1,478	29,464	8.0	19,935
June 30, 1996*	893	19,109	36	602	2,335	48,624	65.0	20,824
June 30, 1997	182	3,481	29	618	2,488	52,772	8.5	21,211
June 30, 1998	159	3,483	28	589	2,619	63,957	21.2	24,420
June 30, 1999	150	3,770	46	1,001	2,723	70,432	10.1	25,866
June 30, 2000	233	6,421	36	857	2,920	76,401	8.5	26,165
June 30, 2001**	131	3,755	1,250	33,892	1,801	54,006	(29.3)	29,987
June 30, 2002	104	2,809	46	1,113	1,859	55,013	1.9	29,593
June 30, 2003	106	2,967	47	1,109	1,918	61,531	11.8	32,081
June 30, 2004	220	9,172	33	1,014	2,105	70,307	14.3	33,400
June 30, 2005	353	15,962	55	1,776	2,403	86,933	23.6	36,177

* From June 30, 1996 through June 30, 2001 includes DROP participants.

** Beginning July 1, 2001 excludes active participants eligible for DROP.

Summary of Actuarial Methods and Assumptions

Actuarial Methods

Actuarial Value of Assets

Gains and losses in the market value of assets, based on the difference between the actual and the assumed rate of return, are recognized over five years.

Actuarial Cost Method

Entry Age Normal Method with liabilities allocated from date of entry to assumed retirement age. The Unfunded Actuarial Accrued Liability (Surplus), including effects of actuarial gains and losses, is amortized as a level percentage of pay over 30 years. The contribution is increased for interest for one-half of a year to reflect timing of payments.

Economic Assumptions

Investment Return

8.5% per year, net of expenses

Payroll Growth Rate/Inflation

3.50% per year

Individual Merit Increase Rate

<i>Service</i>	<i>Increase</i>
1	7.00%
2	0.25
3	0.25
4	5.00
5	9.50
6	8.50
7	0.75
8	0.50
9	7.75
10	1.00
11	9.00
12	0.75
13	1.25
14	1.50
15	0.50
16	5.50
17	0.75
18 and over	0.00

Individual Pay Increase Rate

Merit plus 3%

DROP Crediting Rate

Five year average returns using actual return through June 30, 2005 and estimated 8.5% returns thereafter, with a maximum 5-year average of 7.0%.

Summary of Actuarial Methods and Assumptions (continued)

Demographic Assumptions

Entry Age

Date sworn.

DROP Participation Rates

100% of eligible active participants are assumed to elect the DROP. Participants are assumed to elect the maximum duration for the back DROP, up to 20 years, except in cases where the DROP benefit as of October 9, 2004 determined using the highest biweekly pay period during the last 26 pay periods is greater than the back-DROP benefit using the new definition of Final Average Compensation. If the employee is currently participating in the DROP and his current actual DROP benefit is greater than his estimated back-DROP benefit, then his current DROP benefit is used for valuation purposes.

Retirement Rates

▶ Participants as of October 9, 2004

Age	Service						
	<u>20-21</u>	<u>22-23</u>	<u>24-25</u>	<u>26-27</u>	<u>28-29</u>	<u>30-39</u>	<u>40 and over</u>
40-54	5%	5%	5%	10%	20%	20%	100%
55-59	5	10	10	30	30	40	100
60-64	10	10	25	50	50	50	100
65 and over	100	100	100	100	100	100	100

▶ New Participants after October 9, 2004

Age	Service						
	<u>20-21</u>	<u>22-23</u>	<u>24-25</u>	<u>24-27</u>	<u>28-29</u>	<u>30-37.5</u>	<u>37.5 and over</u>
55-59	5%	10%	10%	30%	30%	40%	100%
60-64	10	10	25	50	50	50	100
65 and over	100	100	100	100	100	100	100

Mortality Rates

▶ Active participants and non-disabled retirees

1994 Group Annuity Mortality Table (see table below for sample rates).

▶ Disabled retirees

1987 Commissioners Group Disabled Mortality Table (see table below for sample rates).

Summary of Actuarial Methods and Assumptions (continued)

Disability Rates	Graduated rates (see table below for sample rates).
Percentage of Deaths and Disabilities in the Line of Duty	100%.
Termination Rates and Terminated Vested Pension Benefit Election	Graduated rates (see table below for sample rates). 50% of members eligible to receive a terminated vested pension are assumed to elect the pension at age 60 instead of a refund of contributions.
Marital Status at Benefit Eligibility	
▶ Percentage married	90%. (No beneficiaries other than the spouse assumed).
▶ Age difference	Husbands assumed to be three years older than wives.
Valuation Earnings	Pay excluding CMEPP and SOSP in the last 26 pay periods preceding the valuation date annualized and increased for one year of assumed pay increases. Grandfathered CMEPP and SOSP amounts were added back in on a prorated basis for determining transition earnings through 2007.

Sample Rates

Sample Rates per 100 Participants						
Age	Non-disabled Mortality		Disabled Mortality (Ultimate)	Termination	Disability	
	Male	Female	All	All	Male	Female
20	0.05	0.03	2.82	4.44	0.08	0.10
25	0.07	0.03	2.82	3.99	0.08	0.10
30	0.08	0.04	2.82	3.02	0.08	0.12
35	0.09	0.05	2.82	1.92	0.10	0.16
40	0.11	0.07	2.82	0.92	0.14	0.22
45	0.16	0.10	2.82	0.21	0.21	0.30
50	0.26	0.14	2.82	0.00	0.37	0.54
55	0.44	0.23	2.82	0.00	0.79	1.08
60	0.80	0.44	3.14	0.00	2.15	2.86
65	1.45	0.86	3.98	0.00	0.00	0.00

Changes in Methods and Assumptions Since the Prior Valuation

There were no changes in methods and assumptions since the prior valuation, other than those listed in the July 1, 2004 report as necessary to reflect the plan provision changes as of October 9, 2004.

Summary of Plan Provisions

Covered Members	<p>All police officers sworn before September 1, 1975 are covered under Plan 1, except those who elected by December 31, 1981 to participate in Plan 3.</p> <p>All police officers sworn on or after September 1, 1975, but before September 1, 1981 are covered under Plan 2, except those who elected by December 31, 1981 to participate in Plan 3 and those from Police Cadet Classes 70 and 71 who elected to transfer to Plan 1.</p> <p>All other police officers are covered by Plan 3, except those from Police Cadet Classes 70 and 71 who elected to pay additional contributions and transfer to Plan 1.</p>
Final Compensation	
Prior to November 28, 1998	Monthly base salary paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base salary for the 3 years prior to retirement.
After November 28, 1998 but prior to July 1, 2001	Monthly total direct pay less overtime paid to the participant in his/her last month of service. For any participant from a position held for less than 3 years, final compensation is the average monthly base pay for the 3 years prior to retirement plus the other current components of total direct pay.
After July 1, 2001 but prior to October 9, 2004	Highest biweekly pay period (excluding overtime) during the last 26 pay periods annualized. Amounts not paid on a biweekly basis are deducted from period paid. Annual amounts are divided by 26 and added to the highest pay period, including motorcycle allowances.
After October 9, 2004	Average of the last three years of compensation (excluding exempt time, overtime and strategic officer staffing pay). This average will be phased in beginning with the pay period ending after October 9, 2004 until the new definition is fully phased in after 78 pay periods.
Service Retirement	
Eligibility	
▶ Sworn prior to October 9, 2004	20 years of service.
▶ Sworn on or after October 9, 2004	Age 55 with 10 years of service
Benefit:	
▶ Prior to November 1, 1955	\$75 per month plus \$2 per month for each year of service in excess of 25 years.

Summary of Plan Provisions (continued)

- ▶ After November 1, 1955 but prior to January 13, 1968 30% of final compensation plus 1% of final compensation for each year of service in excess of 20 years.
- ▶ After January 13, 1968 but prior to July 1, 1986 Plans 1 and 2: 30% of final compensation plus 2% of final compensation for each year of service in excess of 20 years.
Plan 3: 2% of final compensation for each year of service up to 40 years, reduced 0.42% for each month benefit commencement precedes age 55.
- ▶ After July 1, 1986 but prior to July 1, 1988 2% of final compensation for each year of service up to 40 years.
- ▶ After July 1, 1988 but prior to September 1, 1997 45% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation. Benefit based on prior formula is payable until July 1, 1991 and recomputed benefit is payable thereafter.
- ▶ After September 1, 1997 but prior to July 1, 2001 50% of final compensation plus 2% of final compensation for each year of service in excess of 20 years; maximum 80% of final compensation.
- ▶ After July 1, 2001 but prior to October 9, 2004 55% of final compensation plus 2% of final compensation for service in excess of 20 years.

The Pension System recomputed the benefit of each person who retired before July 1, 2001. The retiree's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of retirement in computing the retiree's benefit for the first 20 years of service by the base salary of the retiree at the time of retirement. Retroactive cost-of-living increases were not applied to the increased benefit. This recomputed benefit is effective for all payments on or after July 1, 2001.

- ▶ After October 9, 2004 Participants sworn prior to October 9, 2004 will receive the highest of the following alternatives using Final Average Compensation effective after October 9, 2004, from October 9, 2004 through October 7, 2007:
 - 1) 2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.
 - 2) Benefit participant would have received had participant retired or entered the DROP immediately before October 9, 2004
 - 3) Benefit calculated using a sliding average of the pay received for the pay periods elapsed since October 9, 2004.

Summary of Plan Provisions (continued)

	<p>New participants after October 9, 2004:</p> <p>2.25% of Final Average Compensation for each of the first 20 years of service plus 2% of Final Average Compensation for each year of service in excess of 20 years, with a maximum of 80% of Final Average Compensation.</p>
Additional Benefits	<p>An extra monthly benefit of \$150.00 is payable for life. Effective November 28, 1998, a \$5,000 lump sum is payable upon retirement for members sworn prior to October 9, 2004.</p>
Terminated Vested Pension Benefit	
Eligibility	<p>More than 10 but less than 20 years of service. Termination on or after November 28, 1998.</p>
Benefit	<p>2.75% of final compensation times years of service. This benefit commences at age 60 or at termination of service if later.</p>
Deferred Retirement Option Plan (DROP)	
Eligibility	<p>20 years of service and sworn in prior to October 9, 2004.</p>
Benefit:	
▶ After September 1, 1995 but prior to September 1, 1997	<p>Eligible participants may elect to participate in the DROP until they leave active service. The member's retirement pension will be calculated based on service and earnings at the time the DROP is elected.</p> <p>A notional account will be maintained for each DROP participant. This account will be credited with the following amounts while the member is participant of the DROP:</p> <ul style="list-style-type: none">— The member's monthly retirement pension, including applicable cost-of-living adjustments,— The member's contribution to the Pension System, and— Investment earnings/losses at the rate of the Pension System's earnings/losses averaged over a five-year period. Effective July 1, 2001, this rate is subject to a minimum of 0%.

Summary of Plan Provisions (continued)

- A benefit equal to the DROP account balance is paid at the time the member leaves active service. The payment is made as a single lump sum.
- If a DROP participant suffers an on-duty disability resulting in the inability to perform his/her usual and customary duties as a police officer or dies in the line of duty, he (or his survivors) are allowed to revoke the DROP election and to receive the more generous on-duty disability or death benefits.
- ▶ After September 1, 1997 but prior to December 1, 1998 The Pension System recomputed the benefit of each person who entered the DROP before September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.
 - ▶ After December 1, 1998 but prior to July 1, 2001 The Pension System recomputed the benefit of each person who entered the DROP before December 1, 1998. The benefit was recalculated based on Total Direct Pay less overtime upon entry to the DROP. This recomputed benefit is effective for all payments on or after December 1, 1998.
 - ▶ After July 1, 2001 but prior to October 9, 2004 The Pension System recomputed the benefit of each person who entered the DROP before July 1, 2001. The member's benefit was increased by the result of multiplying the difference between 55% and the percentage used at the time of DROP entry in computing the member's benefit for the first 20 years of service by the base salary of the member at the time of DROP entry. Retroactive cost-of-living increases were applied to the increased benefit. The account balance for each participant was recomputed as if this new benefit had been effective since DROP entry.
 - ▶ After October 9, 2004 A minimum of 3.00% interest will be credited to existing DROP accounts with a maximum of 7.00%. If the actuary certifies that past service costs are fully funded, the credit may be as high as 10.00%.
- Benefit Recalculation Effective July 1, 2001, monthly benefit at retirement will be recalculated to be the greater of (i) current monthly benefit, or (ii) monthly benefit based on service at DROP entry and Final Compensation at retirement date.

Summary of Plan Provisions (continued)

Back DROP Option	Effective on July 1, 2001, a back DROP option is available for all eligible participants. The DROP account is recalculated under the option based on what the account balance would have been had the participant elected the DROP earlier than he/she actually did. The initial DROP entry date cannot be backdated prior to September 1, 1995 or prior to 20 years of credited service, and must be on the first of the month selected.
Postretirement Option Plan (PROP)	
Eligibility	Retired from DROP and sworn in prior to October 9, 2004.
Benefit:	
▶ After November 28, 1998 but prior to July 1, 2001	A retired member is allowed to leave all or a portion of their DROP account in the System. These accounts are credited every calendar year with the 30-year Treasury bond rate as of June of the preceding year.
▶ After July 1, 2001	The interest rate earned on PROP accounts will be the same as the interest rate credited to DROP accounts, including a minimum credited rate of 0%.
Partial Lump Sum Optional Payment (PLOP)	
Eligibility	Participant on or after October 9, 2004.
Benefit:	
▶ After October 9, 2004	Up to 20% of the actuarial value of the accrued pension at retirement.
Disability Retirement	
Eligibility	Effective July 1, 2001, participant partially or totally disabled is eligible for Disability Retirement as defined below: <ul style="list-style-type: none">— Total: Disability is defined as “unable to perform his/her usual and customary duties as a police officer”.— Partial: Disability is an impairment which renders the participant unable to work as a police officer and which is expected to last 12 months.
Benefit:	
▶ Duty-connected	Total: The service retirement benefit accrued to date of disability (or 20 years, if greater).

Summary of Plan Provisions (continued)

	Partial: 35% of final compensation is payable for life or as long as he remains incapacitated.
▶ Not duty-connected	Total or partial: The disability benefit is 2.75% of final compensation times years of service up to 20, minimum 27.5% of final compensation.
Additional Benefits	For participants before October 9, 2004, an education allowance equal to 100% of final compensation less disability benefit is payable for up to four years for off-duty or duty-related disability. Proportionate members injured while on-duty as a municipal worker will receive immediate off-duty benefit upon Board approval.
Survivor Benefits	
Eligibility	Surviving spouses and dependent children and parents of participants, including surviving spouses of retired or disabled participants who were not married at the time of retirement or disability, provided the spouse was married to the participant for at least 5 years at the time of death:
Benefit	Spouse's benefit upon death before retirement:
▶ Prior to September 1, 1997	If duty-connected: monthly lifetime benefit equal to 100% of final compensation at date of death. If not duty-connected: monthly lifetime benefit equal to 100% of the service retirement benefit the participant had accrued at the time of death. Spouse's benefit upon death after retirement: monthly lifetime benefit equal to actual benefit payable at time of death. Dependent children's benefit if no surviving spouse: the benefit that would have been payable to the spouse is divided equally among the dependent children. If there is a surviving spouse, the dependent children of Plan 1 and Plan 2 participants receive \$25 per month. Dependent children include unmarried children who are under age 18, and for Plan 3, full-time students under age 22, or permanently disabled children. Dependent parent's income if no surviving spouse or children, but there is a dependent parent: the benefit that would have been payable to the spouse will be paid to the dependent parent.

Summary of Plan Provisions (continued)

- ▶ After September 1, 1997 but prior to July 1, 2001 The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to September 1, 1997. The benefit was increased in the same manner as the retiree's benefit.
- ▶ After July 1, 2001 The Pension System recomputed the benefit of each survivor whose original benefit was computed prior to July 1, 2001. The benefit was increased in the same manner as the retiree's benefit.

Additional Benefits

Effective December 1, 1998, a \$5,000 lump sum is paid upon the death of an active member who was sworn in prior to October 9, 2004.

Effective July 1, 2001, an extra monthly benefit of \$150.00 is payable for life. Children receiving equivalent of the spouse's benefit do not receive this additional benefit.

Benefit Adjustments

Cost-of-Living

- ▶ Prior to October 9, 2004 Monthly benefits for participants receiving payments are increased each April 1 by 2/3 of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding calendar year. Effective September 1, 1997 this increase is subject to a minimum of 3.0% per year compounded and a maximum increase of 8.0% per year compounded.
- ▶ After October 9, 2004 Monthly benefits for participants receiving payments are increased each April 1 by 80% of the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for the preceding year, with a minimum of 2.4% and a maximum of 8%.

13th Benefit Check

Effective November 28, 1998, a 13th benefit check is paid to current retirees and DROP members when:

- The assets on the fund equal or exceed the liabilities after the 13th benefit check is paid.
- The return on investments for the preceding fiscal year exceeds 9.25%.
- The payment of the benefit will not cause the City of Houston's contribution to the System to increase.
- Effective October 9, 2004, the funded ratio of the plan must be at least 120% for the 13th check to be paid out.

Summary of Plan Provisions (continued)

Service Adjustments

Effective November 28, 1998, participants with previous service with the City in non-classified positions may use that service to satisfy the service requirement of 20 years for retirement purposes only.

Effective July 1, 2001, participants who have service credit in more than one City of Houston Pension Plan may use their combined service to qualify for DROP participation.

Effective July 1, 2001, participants involuntarily transferred to the System from the Houston Municipal Employees System will receive service under this plan for years worked while serving as a City Marshall, Airport Police or Park Police.

Contributions

Employee Contributions

- ▶ Prior to December 1, 1998 Each participant contributes 8.75% of base salary.
- ▶ After December 1, 1998 but before October 9, 2004 Each participant contributes 8.75% of average total direct pay less overtime.
- ▶ After October 9, 2004
 - Members sworn in prior to October 9, 2004 Each participant contributes 9.00% of pay. The additional 0.25% will be credited to the Plan's general fund.
 - Others Each participant contributes 10.25% of pay, which will be credited to the Plan's general fund.

Summary of Plan Provisions (continued)

- Refunds Refunds of contributions are made if
- (i) The participant dies before 10 years of service and the death is not duty-connected,
 - (ii) The participant dies with no eligible survivor,
 - (iii) A Plan 1 or 2 participant leaves service before eligibility for retirement after completing 5 years of service, or
 - (iv) A Plan 3 participant leaves service with less than 20 years of service.

Contributions are refunded without interest.

Employer Contribution

The city will follow the following contribution schedule:

Fiscal Year Ending (June 30)	City Contribution Amount
2001	\$ 30,645,000
2002	32,645,000
2003	34,645,000
2004	36,645,000
2005	36,645,000
2006	16% of total compensation, with a minimum of \$53,000,000
2007-2012	\$5,000,000 above the prior year's payment

Beginning in Fiscal Year 2013 and continuing until the plan's funded ratio is 100%, payments will increase each year by \$5,000,000 or, if the scheduled payment is less than the actuarial rate, \$10,000,000. In addition, once the plan's funded ratio is 100%, the city will pay the actuarially required rate, but not less than 16% of covered pay.

Additionally, beginning in Fiscal Year 2013 and once the funded ratio reaches 75%, if the funded ratio drops below 75%, the City will pay additional amounts in the following fiscal year to return the plan to 75% funded. Once the fund ratio reaches 80%, the City will contribute additional amounts to return the plan to 80% funded.

Changes in Plan Provisions from Since the Prior Valuation

There were no changes to the plan provisions from the prior valuation to the date of the current valuation, other than those listed in the July 1, 2004 report to be effective October 9, 2004.

Actuarial Certification, Reliances and Distribution

This report describes the results of an actuarial valuation of the Houston Police Officers Pension System. The Houston Police Officers Pension System retained Towers Perrin to perform this actuarial valuation for the purposes of determining the funding status for the plan year July 1, 2005 through June 30, 2006.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the actuarial results, we have relied upon information provided by the Board of Trustees regarding plan provisions, plan participants, plan assets, and other matters. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. Historical information for years prior to 1986 was prepared by the prior actuaries and was not subjected to our actuarial review.

The actuarial methods and assumptions used in this valuation were selected by the Board of Trustees. The Board has sole authority to determine the actuarial assumptions. In our opinion, the actuarial assumptions used are appropriate for purposes of the valuation and, in the aggregate, are reasonably related to the experience of the Fund and to reasonable expectations as of the valuation date.

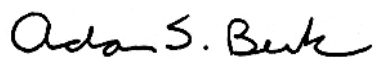
The funding determination portion of this actuarial valuation has been conducted in accordance with principles of practice prescribed by the Actuarial Standards Board and the requirements of the Texas Government Code. Section 802.101 of the Texas Government Code requires the use of actuarial "assumptions and methods that are reasonable in the aggregate, considering the experience of the program and reasonable expectations, and that, in combination, offer the actuary's best estimate of anticipated experience under the program."

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

It should be noted that other than the City agreement to maintain a funded status floor as specified under the 2004 Meet and Confer (see City Contribution Schedule on page 27), the City funding schedule could potentially not be sufficient to cover all future benefit payments of the Houston Police Officers Pension System. Moreover, it is possible that the Houston Police Officers Pension System will fall below the funded status floor as actual experience differs from assumed and/or assumptions change. Towers Perrin has not been provided detailed provisions on how the funded status floor will be maintained if the funded status declines below specified levels.

The information contained in this report was prepared for the internal use of the Houston Police Officers Pension System and its auditors in connection with our actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. The Houston Police Officers Pension System may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require the Houston Police Officers Pension System to provide them with this report, in which case, the Houston Police Officers Pension System will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.

Towers Perrin



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November, 2006