



Law Enforcement and Custodial Officer Supplemental Retirement Fund of the Employees Retirement System of Texas

August 31, 2004
Actuarial Valuation Report
for Plan Year Beginning September 1, 2004
and
Fiscal Year Ending August 31, 2004

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

ACTUARIAL VALUATION REPORT

PREPARED AS OF AUGUST 31, 2004

This report describes the results of an actuarial valuation of the Law Enforcement and Custodial Officer Supplemental Retirement Fund, one of the funds of the Employees Retirement System of Texas. The Employees Retirement System of Texas retained Towers Perrin to perform this actuarial valuation for the purposes of determining (1) the funding status for the plan year September 1, 2004 through August 31, 2005; and (2) financial statement disclosure and reporting information for the fiscal year ending August 31, 2004.

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.

The calculations were made as of August 31, 2004. In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets as of August 31, 2004. 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.

The actuarial assumptions and the accounting policies and methods employed in this report have been selected by the plan sponsor, with the concurrence of Towers Perrin.

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.

The financial statement disclosure portion of this actuarial valuation has been conducted according to our understanding of Statements No. 25 and 27 of the Government Accounting Standards Board. The Government Accounting Standards Board requires the use of reasonable assumptions. The actuarial assumptions used are identical to the assumptions used for the funding determination portion of the valuation.

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.

The information contained in this report was prepared for the internal use of the Employees Retirement System of Texas and its auditors in connection with our actuarial valuation of the pension plan. It is not intended nor necessarily suitable for other purposes.

Towers Perrin



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**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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FUNDING DETERMINATION

A. ACTUARIAL VALUATION RESULTS

The key results from the current valuation, along with comparable figures from the prior valuation, are as follows:

	August 31, 2004 Valuation	August 31, 2003 Valuation
Total Contribution Rate		
— current biennium	0.000%	0.000%
— thereafter (assumed)	1.621%	1.607%
Total Normal Cost		
— percent of payroll	1.621%	1.607%
— dollars	\$19,943,898	\$20,530,863
Actuarial Value of Assets (AV)	\$679,242,950	\$666,588,289
Actuarial Accrued Liability (AAL)	\$621,457,336	\$597,914,188
Funded Ratio (AV/AAL)	109.3%	111.5%
Net Asset/(Liability) Balance (AV – AAL)	\$57,785,614	\$68,674,101
Amortization Period in Years	0.0	0.0
Valuation Payroll	\$1,230,580,964	\$1,277,894,221
Reported Payroll	\$1,218,792,550	\$1,265,791,324
Active Members	38,305	40,335

B. DETERMINATION OF FUNDED STATUS AND AMORTIZATION PERIOD

The current valuation has been determined based on the actuarial assumptions summarized in Appendix D and the actuarial cost method described in Appendix E.

The actuarial assumptions are used to predict the likelihood of various benefits becoming payable from the plan, the size of those benefits, and the estimated value today of those future benefits. Actual experience may deviate from these assumptions, resulting in actuarial gains and losses.

The actuarial cost method is a budgeting technique, used to allocate total estimated plan liabilities over past, current and future years. Thus, the choice of the cost method does not affect the overall long-term plan costs, but only the incidence of when those costs are reflected. The cost method is designed to give plan costs as a relatively level percentage of payroll if characteristics of the member group do not change significantly.

An actuarial valuation is the process by which the actuarial assumptions and cost method are applied to actual plan provisions, assets, and member data, to develop a funding level sufficient to provide for future benefit payments, the actual ultimate value of which is not now known.

C. CHANGES SINCE LAST VALUATION

Since the prior valuation, there were no changes in actuarial assumptions, actuarial cost methods, actuarial procedures, or plan provisions.

D. PLAN EXPERIENCE

For fiscal year 2004, the rate of investment return on the market value of assets was approximately 11.7%. The actuarial value of assets is a smoothed value that recognizes only 20% of outstanding investment gains and losses. The rate of investment return on the actuarial (smoothed) value of assets was approximately 6.3% for fiscal year 2004, which was less than the 8.0% assumed rate. As of August 31, 2004, the market value of assets was \$45 million less than the actuarial value. Unless the market value earns significantly more than 8% over the next few years (on the average), unrecognized investment losses will gradually be reflected in the actuarial value of assets and the funded ratio may fall below 100%.

The net asset balance of \$68.7 million as of the August 31, 2003 actuarial valuation decreased by approximately \$10.9 million to \$57.8 million as of the August 31, 2004 valuation. The following table shows the components of this change for 2004 (all amounts in millions of dollars):

Expected change in net asset/(liability) balance:	
Interest on net asset/(liability) balance	\$5.5
State contribution greater/(less) than normal cost	<u>(21.4)</u>
Total	(\$15.9)
Actuarial gains/(losses) from:	
Service retirements, disability retirement, death-in-service benefits, and withdrawal payments	0.5
Across-the-board salary increases	15.5
Death after retirement	(0.3)
Investment income	<u>(10.7)</u>
Total actuarial gains/(losses)	\$5.0
Change in net asset/(liability) balance due to changes in actuarial assumptions and plan provisions	<u>0.0</u>
Change in net asset/(liability) balance:	(\$10.9)

The net actuarial gain of \$5.0 million indicates that actual experience since the last valuation was more favorable than expected. The most significant factor was net actuarial gains from across-the-board pay increases, which offset the investment return loss (on the actuarial value of assets).

E. DISTRIBUTIONS OF NORMAL COST

Type of Benefit	Percent of Payroll	
	August 31, 2004	August 31, 2003
Retirement	1.476%	1.463%
Death	0.019	0.018
Occupational Disability	0.026	0.026
Expenses	<u>0.100</u>	<u>0.100</u>
Total	1.621%	1.607%

F. ACTUARIAL BALANCE SHEET

	August 31, 2004	August 31, 2003
<u>Actuarial Assets:</u>		
Actuarial Value of Tangible Assets	\$679,242,950	\$666,588,289
Actuarial Present Value of Future Normal Costs	<u>166,222,261</u>	<u>171,401,218</u>
Total	\$845,465,211	\$837,989,507
<u>Actuarial Liability:</u>		
Actuarial Present Value of Benefits		
Active members		
- service retirement	\$542,792,620	\$539,159,560
- death benefit plan	6,613,007	6,533,875
- occupational disability	<u>4,056,847</u>	<u>4,154,665</u>
- total	\$553,462,474	\$549,848,100
Inactive vested members	496,650	1,160,853
Annuitants	<u>233,720,473</u>	<u>218,306,453</u>
Total	\$787,679,597	\$769,315,406
<u>Net Asset/(Liability) Balance:</u>	\$57,785,614	\$68,674,101

Refer to Appendix B for additional detail regarding assets.

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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APPENDIX A

SUMMARY OF PLAN PROVISIONS

A. MEMBERSHIP

- A “law enforcement officer” who has been commissioned by the Department of Public Safety, Texas Alcoholic Beverage Commission, State Purchasing and General Services Commission Capital Area Security Force, Parks and Wildlife Department and commissions recognized by the Commission on Law Enforcement Officers Standards and Education.
- A “custodial officer” employed by the Texas Department of Corrections and certified by the department as having normal duties of supervising and having direct contact with inmates.

B. SERVICE RETIREMENT BENEFITS

Service Retirement Eligibility:

- Last day of any month following attainment of:
- age 50 and 20 years of service as a law enforcement or custodial officer or,
 - the sum of age and service is at least 80.

Standard Service Retirement
Annuity:

Monthly annuity payable for life equal to a percentage of final average compensation, multiplied by years and months of service. Final average compensation is the highest 36 months average paid while a law enforcement or custodial officer. The percentage is the sum of the percentage factor for a standard service retirement under ERS plus 0.5%.

The monthly annuity payable shall be reduced by retirement benefits payable for service as a law enforcement or custodial officer under the regular employee provisions of ERS.

Early Service Retirement Eligibility:

Last day of the month following completion of 20 years of service.

Reduced Early Service Retirement Annuity:

Standard service retirement benefit reduced by an early retirement factor if the sum of age and service is less than 80.

<u>Age at Retirement</u>	<u>Percentage of Normal Retirement Benefit</u>
38	33.0%
39	36.1
40	39.5
41	43.2
42	47.3
43	51.8
44	56.7
45	62.2
46	68.3
47	75.0
48	82.5
49	90.8

The monthly benefit is further reduced by the amount of the monthly benefit that the retiree is entitled to receive at age 50 for service as a law enforcement or custodial officer according to the regular retirement benefit provisions of ERS.

Optional Service Retirement Benefits:

Five optional forms plus partial lump sum option assumed actuarially equivalent to life annuity. Member must choose the same form under ERS and this Fund.

C. DISABILITY RETIREMENT BENEFITS

Occupational Disability Retirement:

Standard service retirement benefit percentage, with a minimum of 50%, times member's final average compensation, without reduction for age. Maximum benefit is 100% of salary. If the member's condition makes the person incapable of gainful occupation and is considered total disability under federal Social Security law, the standard disability retirement annuity is 100% of the member's final average compensation. Benefit is offset by payment from ERS under the standard disability provisions applicable to regular employees.

Nonoccupational Disability Retirement:

None from this Fund.

Optional Disability Retirement Benefits:

Five optional forms assumed actuarially equivalent to standard annuity. Member must choose the same form under ERS and this Fund.

D. DEATH BENEFITS

Before Retirement with 20 or More Years of Service:

Death benefit plan filed by member, beneficiary or estate payable as a lifetime annuity or 10-year certain annuity, offset by the death benefit payable from ERS under provisions for regular employees.

After Retirement:

Based on optional form selected.

E. VESTED BENEFITS AFTER TERMINATION OF EMPLOYMENT

Service Retirement Benefit:

Deferred retirement benefit with 20 or more years of service, forfeitable if regular employee contributions from ERS are withdrawn.

Death Benefit:

Vested in death benefit plan with 20 years of service. Forfeitable if regular employee contributions are withdrawn from ERS before death.

F. WITHDRAWAL BENEFITS None from this Fund.

G. CONTRIBUTIONS

Members: None.

State of Texas: For fiscal year 2005 there is no State contribution.

H. CHANGES IN PLAN PROVISIONS

There were no changes in plan provisions since the prior valuation.

I. REFERENCES

For a complete description of all of the provisions of the law which describe the Commissioned Law Enforcement and Custodial Officer Supplemental Retirement Fund, see Texas Government Code, Title 8, Subtitle B. Alternatively, the staff of the Employees Retirement System of Texas can provide more of the details of the provisions.

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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APPENDIX B

SUMMARY OF ASSETS

A. SOURCE OF INFORMATION

Towers Perrin used the plan asset data provided without audit.

B. VALUES

	<u>August 31, 2004</u>	<u>August 31, 2003</u>
Market Value of Plan Assets	\$633,812,393	\$594,093,643
Actuarial Value of Total Assets	\$679,242,950	\$666,588,289

The calculation of the actuarial value of assets is based on the market-related value of plan assets, with five-year smoothing of unexpected returns. The market-related value is equal to the value of net assets held in trust for pension benefits (fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities) as of the valuation date.

Specifically, the actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

C. ASSET RECONCILIATION

1. Value of Plan Net Assets, August 31, 2003:	\$594,093,643
2. Contributions	0
3. Benefits paid	27,557,057
4. Administrative expenses	630,216
5. Investment return	67,906,023
6. Value of Plan Net Assets, August 31, 2004: (1)+(2)-(3)-(4)+(5)	\$633,812,393

D. DEVELOPMENT OF ACTUARIAL VALUE OF PLAN ASSETS

1. Actuarial Value of Plan Assets, August 31, 2003:	\$666,588,289
2. Contributions	0
3. Benefits paid	27,557,057
4. Expenses	630,216
5. Expected investment return at 8%	52,199,573
6. Expected Value of Plan Assets, August 31, 2004: (1)+(2)-(3)-(4)+(5)	\$690,600,589
7. Market-related Value of Plan Assets, August 31, 2004:	633,812,393
8. Difference: (7)-(6)	(56,788,196)
9. Adjustment to expected value: 20% x (8)	(11,357,639)
10. Actuarial Value of Plan Assets, August 31, 2004: (6)+(9)	\$679,242,950

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

APPENDIX C

SUMMARY OF MEMBER DATA AND RELATED LIABILITIES

A. MEMBER DATA AS OF AUGUST 31, 2004

The results in this actuarial valuation report are based on the member and annuitant data provided by ERS. All actuarial computations performed by Towers Perrin are directly dependent on the accuracy and completeness of the information provided.

We have reviewed this data for reasonableness and consistency, but we have not audited it. During our review, we discovered a small number of missing and inconsistent data items. We discussed these issues with ERS staff and worked closely with them to get the best data possible, given the implementation of new systems during the 2004 plan year. In a few cases, we made approximations and assumptions to adjust the missing and inconsistent data. We believe that the number and degree of any missing or inconsistent data items were immaterial and had no significant impact on the validity of the actuarial valuation results.

Member data collected as of August 31, 2004 has been used as the basis for performing this valuation.

Section B contains a summary of active members used in the current valuation. The summary is based on age on the last birthday and completed years of service as of August 31, 2004. Pay is determined from reported ERS contributions for August 2004 for contributing members and from reported pay for noncontributing active members.

Section C contains a summary of annuitant data used in the current valuation. The annuitant summary is based on the monthly benefit reported as of August 31, 2004.

B. SUMMARY DATA ON ACTIVE AND INACTIVE MEMBERS

	<u>August 31, 2004</u>	<u>August 31, 2003</u>
<u>Active Members</u>		
Number:		
Male	24,750	25,981
Female	<u>13,555</u>	<u>14,354</u>
Total	38,305	40,335
Average Annual Rate of Salary:	\$31,818	\$31,382
Average Years of Service Credit:	8.1	7.5
Average Age:	40.4	39.8
<u>Inactive Members</u>		
Vested:		
Male	14	18
Female	<u>0</u>	<u>1</u>
Total	14	19

These figures exclude those who retired August 31, because they were included as retirees in the valuation. The average annual rate of salary is based on the member ERS contributions for the month of August for contributing members and on reported pay for noncontributing active members.

The following table shows additional detail for active members.

ANALYSIS OF PARTICIPANT DATA AS OF SEPTEMBER 1, 2004

ACTIVE PARTICIPANT DISTRIBUTION BY AGE AND COMPLETED YEARS OF SERVICE

Age Last Birthday	Completed Years of Service													Total		
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	Over 34				
15-19	Number	177	44	2	0	0	0	0	0	0	0	0	0	0	0	223
	Tot Pay	3,934,954	1,009,480	55,332	0	0	0	0	0	0	0	0	0	0	0	4,999,766
	Avg Pay	22,231	22,943	27,666	0	0	0	0	0	0	0	0	0	0	0	22,420
20-24	Number	874	726	684	346	221	87	0	0	0	0	0	0	0	0	2,938
	Tot Pay	20,086,594	18,087,476	17,949,458	9,430,162	6,237,752	2,536,192	0	0	0	0	0	0	0	0	74,327,734
	Avg Pay	22,982	24,914	26,242	27,255	28,225	29,152	0	0	0	0	0	0	0	0	25,299
25-29	Number	580	603	722	518	475	1,337	50	0	0	0	0	0	0	0	4,285
	Tot Pay	14,251,268	16,017,886	20,730,694	14,518,810	14,047,496	42,087,338	1,671,598	0	0	0	0	0	0	0	123,325,090
	Avg Pay	24,571	26,564	28,713	28,029	29,574	31,479	33,432	0	0	0	0	0	0	0	28,781
30-34	Number	452	449	618	412	480	2,328	997	18	0	0	0	0	0	0	5,754
	Tot Pay	11,111,310	12,160,252	17,501,236	11,739,464	14,477,196	77,073,282	34,405,360	632,104	0	0	0	0	0	0	179,100,204
	Avg Pay	24,583	27,083	28,319	28,494	30,161	33,107	34,509	35,117	0	0	0	0	0	0	31,126
35-39	Number	342	354	410	312	349	1,834	1,419	707	33	0	0	0	0	0	5,760
	Tot Pay	8,295,098	9,335,810	11,546,902	8,622,128	10,104,818	60,217,586	50,251,380	27,294,032	1,208,052	0	0	0	0	0	186,875,806
	Avg Pay	24,255	26,372	28,163	27,635	28,954	32,834	35,413	38,605	36,608	0	0	0	0	0	32,444
40-44	Number	287	292	385	276	287	1,508	1,293	1,122	595	0	0	0	0	0	6,063
	Tot Pay	7,001,396	7,636,238	10,609,156	7,812,750	8,476,924	47,844,688	44,512,192	44,763,952	24,917,792	0	0	0	0	0	204,358,542
	Avg Pay	24,395	26,152	27,556	28,307	29,536	31,727	34,426	39,897	41,879	0	0	0	0	0	33,706
45-49	Number	204	240	277	210	269	1,326	1,034	746	677	7	0	0	0	0	5,282
	Tot Pay	5,012,578	6,130,594	7,634,224	5,822,286	7,814,832	41,819,786	35,230,288	29,053,072	31,413,748	300,266	0	0	0	0	185,131,320
	Avg Pay	24,573	25,544	27,560	27,725	29,051	31,538	34,072	38,945	46,401	42,895	0	0	0	0	35,049
50-54	Number	165	173	227	165	202	1,128	1,005	560	151	41	0	0	0	0	3,924
	Tot Pay	3,994,666	4,503,872	6,194,812	4,583,896	5,902,586	35,594,762	34,268,256	21,396,108	6,602,314	2,461,310	0	0	0	0	131,415,932
	Avg Pay	24,210	26,034	27,290	27,781	29,221	31,556	34,098	38,207	43,724	60,032	0	0	0	0	33,490
55-59	Number	137	136	146	128	158	834	678	319	76	15	6	6	6	6	2,664
	Tot Pay	3,311,024	3,463,974	3,884,496	3,519,040	4,534,408	25,954,232	22,969,086	11,450,160	3,129,700	889,594	341,116	85,041,544	85,041,544	85,041,544	85,041,544
	Avg Pay	24,168	25,470	26,606	27,493	28,699	31,120	33,878	35,894	41,180	59,306	56,853	31,923	31,923	31,923	31,923
60-64	Number	50	59	74	61	61	396	284	132	17	1	3	3	3	3	1,140
	Tot Pay	1,247,198	1,495,102	2,009,260	1,627,570	1,737,924	12,318,400	9,560,754	4,691,720	669,982	49,930	222,014	35,705,226	35,705,226	35,705,226	35,705,226
	Avg Pay	24,944	25,341	27,152	26,681	28,491	31,107	33,665	35,543	39,411	49,930	74,005	31,320	31,320	31,320	31,320
Over 64	Number	8	15	25	11	23	102	60	21	6	0	0	0	0	0	272
	Tot Pay	195,708	348,030	634,788	317,380	649,584	3,214,768	2,114,884	725,396	270,978	0	0	0	0	0	8,511,386
	Avg Pay	24,464	23,202	25,392	28,853	28,243	31,517	35,248	34,543	45,163	0	0	0	0	0	31,292
Total	Number	3,276	3,091	3,570	2,439	2,525	10,880	6,820	3,625	1,555	64	10	38,305	38,305	38,305	38,305
	Tot Pay	78,442,194	80,188,714	98,750,358	67,993,486	73,983,520	348,661,034	234,983,798	140,006,544	68,212,566	3,701,100	603,000	1,218,792,550	1,218,792,550	1,218,792,550	1,218,792,550
	Avg Pay	23,945	25,943	27,661	27,878	29,300	32,046	34,455	38,622	43,867	57,830	60,300	31,818	31,818	31,818	31,818

Average Age = 40.4 Average Service = 8.1



C. ANNUITANT BENEFITS AS OF AUGUST 31, 2004

Type of Annuity	Number of Accounts	Monthly Payment
Service Retirements and Beneficiaries:		
Male Annuitants:		
Straight Life	1,484	\$731,218
Joint & Full	774	346,788
Joint & One-Half	827	404,486
Life With 60 Months Certain	54	27,634
Life With 120 Months Certain	68	29,576
Joint & Three-Fourths	524	262,402
Annuity Certain	1	65
Male Total	3,732	\$1,802,169
Female Annuitants:		
Straight Life	632	\$215,882
Joint & Full	24	6,929
Joint & One-Half	22	8,896
Life With 60 Months Certain	12	4,805
Life With 120 Months Certain	6	1,550
Joint & Three-Fourths	6	2,381
Annuity Certain	4	1,079
Female Total	706	\$241,522
Total Service Retirements	4,438	\$2,043,691

Type of Annuity	Number of Accounts	Monthly Payment
Disability Retirements:		
Male Annuitants:		
Straight Life	73	\$61,247
Joint & Full	9	7,509
Joint & One-Half	7	6,015
Life With 60 Months Certain	0	0
Life With 120 Months Certain	0	0
Joint & Three-Fourths	4	3,307
Annuity Certain	<u>0</u>	<u>0</u>
Male Total	93	\$78,078
Female Annuitants:		
Straight Life	40	\$28,460
Joint & Full	0	0
Joint & One-Half	2	932
Life With 60 Months Certain	0	0
Life With 120 Months Certain	2	1,764
Joint & Three-Fourths	1	252
Annuity Certain	<u>0</u>	<u>0</u>
Female Total	<u>45</u>	<u>\$31,408</u>
Total Disability Retirements	138	\$109,486
TOTAL SERVICE AND DISABILITY RETIREMENTS	4,576	\$2,153,177

D. AVERAGE AGE, SERVICE AND BENEFIT OF ANNUITANTS AS OF AUGUST 31, 2004

	Number of Annuitants	Average			Service at Retirement
		Monthly Benefit	Age at Retirement	Age at 08/31/2004	
All Annuitants in Pay Status	4,576	\$470.54	53.55	61.49	25.79
Service Retirees	3,995	\$479.18	53.90	60.64	26.20
Disability Retirees	138	\$793.38	44.38	57.38	7.51
Beneficiaries	443	\$291.99	53.30	70.42	27.79

E. RETIREMENT MEMBERS BY TYPE OF BENEFIT AS OF AUGUST 31, 2004

Amount of Monthly Benefit	Number of Annuitants	Type of Retirement			Option Selected				
		Service	Disability	Life	Option 1	Option 2	Option 3	Option 4	Option 5
0 – 200	296	295	1	167	74	30	4	2	19
200 – 400	1,734	1,674	60	964	338	236	32	37	127
400 – 600	1,632	1,602	30	687	245	406	11	28	255
600 – 800	588	587	1	233	90	142	8	5	110
800 – 1,000	153	152	1	72	26	33	5	2	15
1,000 – 1,200	53	52	1	24	18	3	3	1	4
1,200 – 1,400	42	31	11	26	7	4	2	0	3
1,400 – 1,600	36	22	14	27	5	2	0	1	1
1,600 – 1,800	13	5	8	11	1	0	1	0	0
1,800 – 9,999	<u>29</u>	<u>18</u>	<u>11</u>	<u>22</u>	<u>4</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>1</u>
Total	4,576	4,438	138	2,233	808	858	66	76	535

F. RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM THE ANNUITY PAYROLLS

	Number of Annuitants	Benefit Amount		Average Annual Benefit
		Monthly	Annually	
August 31, 2003	4,173	\$1,984,883.17	\$23,818,598	\$5,708
Added to Rolls	454	221,942.64	2,663,312	
Removed from Rolls (est.)	(51)	(53,649.21)	(643,791)	
Other Beneficiaries (est.)	<u>0</u>	<u>0</u>	<u>0</u>	
August 31, 2004	4,576	\$2,153,176.60	\$25,838,119	\$5,646

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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APPENDIX D

SUMMARY OF RECOMMENDED ACTUARIAL ASSUMPTIONS

A. ACTUARIAL ASSUMPTIONS

Investment Rate of Return:	8.0% per year, compounded annually.		
Administrative Expenses:	0.1% of payroll per year.		
Salary Increases:	Salary increase rates include 4.0% annual increase for inflation plus increases for merit, promotion and longevity (MPL). See sample rates.		
Payroll Growth:	4.0% per year, compounded annually.		
Mortality:			
Active Lives:	Tables based on LECOSRF experience; see sample rates.		
Service Retirees and Beneficiaries:	1994 Group Annuity Mortality, male and female tables.		
Disability Retirees:	Tables based on ERS and LECOSRF experience; see sample rates.		
Disability Retirement:			
Rates of Disability Retirement:	Graded tables based on LECOSRF experience.		
Option Selection Percentage:	<u>Standard</u>	<u>Option 1</u>	<u>Option 4</u>
Male Members	50%	40%	10%
Female Members	75%	15%	10%

Beneficiary Characteristics: Male Members	Member is three years older than female beneficiary.	
Female Members	Member is same age as male beneficiary.	
Termination of Employment:	Graded tables based on LECOSRF experience; see sample rates.	
Service Retirement: Rates of Service Retirement:	Graded tables based on LECOSRF experience; see sample rates.	
Form of Payment:	Standard Annuity (Life Annuity).	
Credited Service:	Assumed one year earned in each future year employed. Service credit upon service retirement is assumed to be increased by 4.6% for accumulated leave.	
Death Benefit Plan:		
Option Selection Percentage:	<u>Option 1</u>	<u>Option 4</u>
Male Members	75%	25%
Female Members	60%	40%
Beneficiary Characteristics: Male Members	Member is three years older than female beneficiary.	
Female Members	Member is same age as male beneficiary.	
Benefit Commencement:	Inactive members are assumed to commence receipt of benefits upon first eligibility.	
Missing Data:	Entry age is assumed to be age 30 and sex is assumed to be male if data is missing. The number of missing data items was immaterial.	

B. SAMPLE RATES

Annual Salary Increases for Merit, Promotion and Longevity – LECO Members:

Age	Male and Female – Based on Years of Service		
	0	1	2+
20	10.0%	4.5%	2.0%
25	10.0	4.5	2.0
30	10.0	4.5	2.0
35	10.0	4.5	2.0
40	10.0	4.5	2.0
45	10.0	4.5	2.0
50	10.0	4.5	2.0
55	10.0	4.5	2.0
60	10.0	4.5	2.0

Annual Rates of Termination – LECO Members:

Age	Male and Female – Based on Years of Service												
	0	1	2	3	4	5	6	7	8	9	10-14	15-19	20+
20	29%	25%	18%	18%	17%	17%	16%	11%	11%	11%	0%	0%	0%
25	25	20	16	16	15	14	14	10	10	10	10	0	0
30	24	19	15	15	11	10	10	10	9	9	9	0	0
35	24	15	13	13	10	10	9	8	8	7	6	2	0
40	23	14	10	10	10	10	9	7	7	7	6	2	0
45	21	13	9	9	9	9	8	7	7	7	5	2	0
50	19	10	8	8	6	5	5	5	5	5	5	2	0
55	18	10	8	8	6	5	5	4	4	4	4	2	0
60	25	22	10	10	6	5	5	0	0	0	0	0	0

Active Mortality Rates – LECO Members:

Age	Occupational		Nonoccupational	
	Females	Males	Females	Males
20	0.001%	0.003%	0.034%	0.044%
25	0.001	0.003	0.035	0.058
30	0.001	0.003	0.042	0.071
35	0.001	0.003	0.057	0.076
40	0.001	0.003	0.085	0.097
45	0.001	0.003	0.117	0.144
50	0.001	0.003	0.171	0.237
55	0.001	0.003	0.275	0.408
60	0.001	0.003	0.533	0.739
65	0.001	0.003	1.036	1.349

Disability Retirement Rates– LECO Members:

Age	Occupational (Females & Males)		Nonoccupational
	Total	Non-Total	Females & Males
20	0.0002%	0.0008%	0.000%
25	0.0002	0.0008	0.000
30	0.0006	0.0024	0.016
35	0.0012	0.0048	0.054
40	0.0018	0.0072	0.101
45	0.0028	0.0112	0.169
50	0.0040	0.0160	0.284
55	0.0048	0.0192	0.424
60	0.0054	0.0216	0.000
65	0.0052	0.0208	0.000

Service Retirement Rates – LECO Members:

First Year Eligible to Retire

<u>Age</u>	<u>Females</u>	<u>Males</u>
36-44	1%	1%
45-49	3	3
50	39	25
51-54	16	12
55	16	12
56-59	16	12
60	31	21
61-64	31	11
65	46	37
66-69	23	18
70+	100	100

After First Year Eligible to Retire

<u>Age</u>	<u>Females</u>			<u>Males</u>									
	<u>0-9</u>	<u>10-19</u>	<u>20+</u>	<u>0-9</u>	<u>10-14</u>	<u>15-19</u>	<u>20-23</u>	<u>24</u>	<u>25-26</u>	<u>27</u>	<u>28</u>	<u>29-34</u>	<u>35+</u>
36-44	0%	0%	1%	0%	0%	0%	1%	1%	1%	1%	1%	1%	1%
45-49	0	0	2	0	0	0	3	3	3	3	3	3	3
50	0	0	30	0	0	26	29	30	45	47	50	50	60
51-54	0	0	12	0	0	13	14	15	11	12	12	14	14
55	0	12	24	0	12	13	30	30	22	24	25	30	30
56-59	0	12	12	0	12	13	14	13	11	12	12	14	14
60	24	24	24	21	24	26	43	45	45	47	50	50	60
61-64	24	24	24	11	24	26	29	30	28	29	31	36	36
65	35	35	35	37	41	45	50	50	40	40	43	50	50
66-69	18	18	18	18	20	22	24	25	19	20	21	24	24
70+	100	100	100	100	100	100	100	100	100	100	100	100	100

Mortality Rates – Retirees and Beneficiaries:

Age	Service Retirees & Beneficiaries (1994 GAM)		Disability Retirees*	
	Females	Males	Females	Males
15	0.0216%	0.0345%	2.50%	3.38%
20	0.0284	0.0507	2.50	3.38
25	0.0291	0.0661	2.50	3.38
30	0.0351	0.0801	2.25	2.53
35	0.0478	0.0851	2.03	1.95
40	0.0709	0.1072	1.99	1.97
45	0.0973	0.1578	2.13	2.25
50	0.1428	0.2579	2.44	2.68
55	0.2294	0.4425	2.80	3.37
60	0.4439	0.7976	3.14	4.42
65	0.8636	1.4535	3.52	5.09
70	1.3730	2.3730	3.90	5.91
75	2.2686	3.7211	4.67	7.16
80	3.9396	6.2027	7.09	10.15
85	6.7738	9.7240	10.72	15.98
90	11.6265	15.2931	16.82	25.25
95	18.6213	23.3606	25.25	37.89
100	27.6427	31.7238	37.89	56.84
105	38.3597	40.7224	56.84	85.27
110	48.2325	48.6745	100.00	100.00
115	50.0000	50.0000	100.00	100.00
120	100.0000	100.0000	100.00	100.00

* For females, assumption is 95% of PBGC disabled mortality grading to 100% from age 85 to 90. For males, assumption is 70% of PBGC disabled mortality grading to 100% from age 60 to 90.

C. CHANGES IN ACTUARIAL ASSUMPTIONS

Since the prior valuation, there were no changes in actuarial assumptions.

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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APPENDIX E

DESCRIPTION OF ACTUARIAL METHODS AND PROCEDURES

A. ACTUARIAL COST METHOD - NORMAL COST AND ACTUARIAL ACCRUED LIABILITY

The method used to determine the normal cost and actuarial accrued liability is the entry age actuarial cost method, described below:

Entry age is determined as the member's age on the valuation date minus years of service credit as of the valuation date.

On the actuarial valuation date, the actuarial present values of projected benefits and valuation earnings for each active employee included in the actuarial valuation whose attained age is less than the assumed latest retirement age are determined at the individual's entry age. For each such individual, the individual normal cost is the actuarial present value of projected benefits at entry age, divided by the actuarial present value of valuation earnings at entry age, multiplied by the individual's valuation earnings for the valuation year. The sum of all individual normal costs is the normal cost for the valuation year.

The excess on the actuarial valuation date of the actuarial present value of projected benefits for all individuals included in the actuarial valuation over the sum of the actuarial present values of future individual normal costs is the actuarial accrued liability. The excess of the actuarial accrued liability over the actuarial value of plan assets is the unfunded actuarial accrued liability. If the unfunded actuarial accrued liability is negative, the excess of the actuarial value of plan assets over the actuarial accrued liability is called the net asset balance.

The actuarial gain (loss) is a measure of the difference between actual experience and that expected based upon the actuarial assumptions between two actuarial valuation dates. Under this actuarial cost method, the actuarial gains (losses) are directly calculated and reduce (increase) the unfunded actuarial accrued liability.

Adjustments to the unfunded actuarial accrued liability can result from changes in actuarial assumptions and plan provisions. Such adjustments are determined by calculating, as of the actuarial valuation date, the increase or decrease in the unfunded actuarial accrued liability resulting from the change.

B. ACTUARIAL VALUE OF PLAN ASSETS

The actuarial value of plan assets is based on the market-related value of plan assets, with five-year smoothing of unexpected returns. The market-related value is equal to the value of net assets held in trust for pension benefits (fair value of investments plus the carrying value (net of depreciation) of other assets and liabilities) as of the valuation date.

Specifically, the actuarial value of assets is determined as the expected value of plan assets as of the valuation date plus 20% of the difference between the market-related value and the expected value. The expected value equals the actuarial value of plan assets as of the prior valuation date, plus contributions, less benefit payments and administrative expenses, all accumulated at the assumed rate of interest to the current valuation date.

C. OTHER ACTUARIAL VALUATION PROCEDURES

No provision was made in this actuarial valuation for the limitations of Internal Revenue Code Section 415.

Valuation payroll (earnings applied to the current valuation year) is the expected payroll for the fiscal year following the valuation date. It is based on reported payroll determined from August member contributions increased to reflect the across-the-board salary increase percentage effective on or after September 1 and projected according to the actuarial assumptions for the upcoming fiscal year.

D. CHANGES IN ACTUARIAL METHODS AND PROCEDURES

No changes in the actuarial cost method or actuarial valuation procedures have been adopted since the prior actuarial valuation.

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APPENDIX F

GASB 25 AND 27 REPORTING

A. DISCLOSURE OF PENSION INFORMATION

Actuarial calculations under Statement No. 25 of the Governmental Accounting Standards Board (GASB 25) are for purposes of providing the required supplementary information to the financial statement of the plan. The calculations and disclosures reported in this section have been made on a basis consistent with our understanding of GASB 25.

Beginning with the fiscal year ending August 31, 1996, the System has prepared the plan's financial statements in accordance with GASB 25, which supersedes GASB 5 for the plan's financial reporting. Effective with the fiscal year ending August 31, 1998, the State has prepared financial Statements in accordance with Statement No. 27 of the Governmental Accounting Standards Board (GASB 27), which supersedes GASB 5 for the employer's financial reporting.

B. SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	
	August 31, 2004	August 31, 2003
1. Actuarial Value of Assets	\$679,242,950	\$666,588,289
2. Actuarial Accrued Liability (AAL)	\$621,457,336	\$597,914,188
3. Unfunded AAL (UAAL): (2)-(1)	(\$57,785,614)	(\$68,674,101)
4. Funded Ratio: (1)÷(2)	109.3%	111.5%
5. Covered Payroll (Valuation Payroll as of the Actuarial Valuation Date)	\$1,230,580,964	\$1,277,894,221
6. UAAL as a Percentage of Covered Payroll (3)÷(5)	(4.7%)	(5.4%)

C. SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Year Ended August 31	
	2005	2004
	August 31, 2004	August 31, 2003
1. Actuarial Valuation Date		
2. Annual Required Contribution (ARC)		
a. Employer's Normal Cost	\$19,943,898	\$20,530,863
b. UAAL	(\$57,785,614)	(\$68,674,101)
c. Amortization of UAAL	(\$19,943,898)	(\$20,530,863)
d. ARC: (a)+(c)	\$0	\$0
3. Employer Contributions	\$0	\$0
4. Percentage Contributed: (3)÷(2)(d)	100%	100%
5. Excess Contributions/Contribution Deficiencies: (3)-(2)(d)	\$0	\$0

D. ANNUAL PENSION COST AND NET PENSION OBLIGATION

The State's annual pension cost and net pension obligation for the current and prior year were as follows:

	Year Ended August 31	
	2005	2004
1. Annual required contribution (ARC)	\$0	\$0
2. Interest on net pension obligation	0	0
3. Adjustment to annual required contribution	0	0
4. Annual pension cost, APC (1)+(2)-(3)	0	0
5. Contributions made	0	0
6. Increase/(decrease) in net pension obligation (4)+(5)	0	0
7. Net pension obligation beginning of year	0	0
8. Net pension obligation end of year (6)+(7)	0	0

E. NOTES TO TREND DATA

	Year Ended August 31	
	2005	2004
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period (Years)**	3.1	3.7
Asset Valuation Method	5-year smoothed market	5-year smoothed market
Actuarial Assumptions:		
Investment Rate of Return*	8.0%	8.0%
Projected Salary Increases*	6.0%-14.0%	6.0%-14.0%
*Includes inflation at	4.0%	4.0%
Cost-of-Living Adjustments	None	None

** For the Law Enforcement Supplemental Fund there is no unfunded actuarial accrued liability. This period represents the number of years the fund is projected to remain actuarially sound at the current contribution rate.

F. SOLVENCY TEST

	Actuarial Accrued Liabilities	Valuation Assets	Portion of AAL Covered by Valuation Assets
Active Member Contributions	\$0	\$0	
Retirees and Beneficiaries	233,720,473	233,720,473	100.0%
Active Members (Employer Financed Portion)	<u>387,736,863</u>	<u>445,522,477</u>	114.9%
Total	\$621,457,336	\$679,242,950	

**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
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APPENDIX G

ACTUARIAL METHODOLOGY AND PENSION TERMINOLOGY

A. ACTUARIAL METHODOLOGY

This section summarizes the conceptual methodology used in preparing the Actuarial Balance Sheet in this valuation.

Actuarial Methodology

The actuarial valuation of a defined benefit plan is comprised of two separate processes.

First, the actuarial present value, as of the actuarial valuation date, of both current and projected benefits to be paid under the plan is determined. In determining the actuarial present value of these benefits, actuarial assumptions must be made as to the number of members eventually receiving benefits, the amount of benefits to be paid, and the portion of the benefit obligation to be covered by future investment earnings.

Second, the financing of these benefit obligations on an advance basis is established. An actuarial cost method is applied to determine the Actuarial Accrued Liability, which is the amount of the eventual cost that has accrued as of the actuarial valuation date. The actuarial cost method also establishes the Normal Cost, which is the rate at which future costs will accrue annually after the actuarial valuation date.

Actuarial Assumptions

The true cost of a member's pension benefit is not known until the final benefit payment has been made. Consequently, the exact cost of plan benefits for the current employee group will not be determinable for 50 to 75 years. Since provision for this cost must be made prior to the exact determination, a model is established that will estimate the future cost of plan benefits. The model utilizes parameters which require assumptions as to the future occurrences of various events affecting the demographic profile of the employee group and the assets of the pension fund. Such actuarial assumptions include death, retirement, termination, disability, salary increases and investment return. Current and long-term economic factors, the nature of the covered workforce, and significant features of the plan must be considered in the selection of a set of actuarial assumptions to assure the reasonableness of the results predicted by the actuarial assumptions.

While care is taken in the selection of actuarial assumptions, actual experience is expected to deviate from these actuarial assumptions over the short term. The suitability of the actuarial assumptions is measured by how closely the experience of the plan, on a long-term basis, conforms to projected results. Deviations from projected results are called actuarial gains and losses. Periodic actuarial valuations will measure the extent of these gains and losses as of an actuarial valuation date. If either actuarial gains or losses predominate, then it is possible that one or more of the actuarial assumptions is no longer appropriate. Thus, actuarial assumptions must be continually monitored for reasonableness and subsequent cost estimates may be modified accordingly. While individual actuarial assumptions are intended to be representative, it is the aggregate effect of all actuarial assumptions working together that determines their appropriateness.

Actuarial Liabilities

Actuarial liabilities include the actuarial present value of all future benefits and expenses. To determine the actuarial present value of all future benefits, the probability of future events which establish benefit payments is forecast utilizing the actuarial assumptions. The plan provisions and current employee data are used to forecast the amount of benefits to be paid. Actuarial assumptions for survival among retired members are used to estimate the duration of these benefit payments. Each probable benefit payment is then discounted to the actuarial valuation date using the actuarial assumption for investment return. These discounted payments are then summed to arrive at the total actuarial present value of benefits.

Assets

The assets at any time are equal to the sum of present assets in the pension fund plus future assets. Future assets will result from future contributions and future investment return on all assets.

Actuarial Balance Sheet

The actuarial balance sheet of a retirement plan displays the fundamental financial status of the plan on the actuarial valuation date. As stated previously, the actuarial liabilities are the sum of the actuarial present value of all future projected benefit payments to current active and inactive plan members. Current assets in the pension fund plus the actuarial present value of future contributions comprise the total assets of the plan.

Actuarial Cost Method

To determine the funding requirements of the plan, it is necessary to adopt an actuarial cost method. The choice of the actuarial cost method does not affect the actuarial balance sheet financial status, which is a function only of the plan provisions, actuarial assumptions, employee data and assets. However, the actuarial cost method has a direct impact on the incidence of the funding requirements. The actuarial cost method allocates the actuarial present value of future employer contributions between the past and future, and thus establishes the Unfunded Actuarial Accrued Liability and Normal Cost, respectively.

The funding requirements for each plan year equal the Normal Cost for that year plus an amortization payment in respect of the Unfunded Actuarial Accrued Liability.

B. PENSION TERMINOLOGY

The following terms are defined in accordance with standard pension terminology adopted by the actuarial profession.

Accumulated Plan Benefit

The amount of an individual's benefit (whether or not vested) as of a specified date, determined in accordance with the terms of a pension plan and based on compensation (if applicable) and service to that date.

Actuarial Accrued Liability

That portion, as determined by a particular Actuarial Cost Method, of the Actuarial Present Value of pension plan benefits and expenses which is not provided for by future Normal Costs.

Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement, and retirement; changes in compensation and Social Security benefits; rates of investment earnings and asset appreciation or depreciation; and other relevant items.

Actuarial Cost Method

A procedure for determining the Actuarial Present Value of pension plan benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, in the form of a Normal Cost and an Actuarial Accrued Liability.

Actuarial Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of Actuarial Assumptions, during the period between two Actuarial Valuation dates, as determined in accordance with a particular Actuarial Cost Method.

Actuarial Present Value

The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions.

Actuarial Value of Plan Assets

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

Actuarial Valuation

The determination, as of a valuation date, of the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets, and related Actuarial Present Values for a pension plan.

Actuarially Equivalent

Of equal Actuarial Present Value, determined as of a given date with each value based on the same set of Actuarial Assumptions.

Amortization Payment

That portion of the pension plan contribution which is designed to pay interest on and to amortize the Unfunded Actuarial Accrued Liability.

Normal Cost

That portion of the Actuarial Present Value of pension plan benefits and expenses which is allocated to a valuation year by the Actuarial Cost Method.

Projected Benefits

Those pension plan benefit amounts which are expected to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such items as the effect of advancement in age and past and anticipated future compensation and service credits.

Unfunded Actuarial Accrued Liability

The Excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

C. ACCOUNTING TERMINOLOGY

The following terms are defined in accordance with accounting profession terminology.

Actuarial Present Value of Total Projected Benefits

The value as of the valuation date is the present value of the cost to finance benefits payable in the future, discounted to reflect the expected effects of the time value (present value) of money and the probabilities of payment. Total projected benefits include all benefits estimated to be payable to all plan members as a result of their service through the valuation date and their expected future service.

Amortization Period (Closed or Open Basis)

A closed amortization period is a specific number of years that is counted from one date and, therefore, declines to zero with the passage of time. An open amortization period is one that begins again or is recalculated at each actuarial valuation date.

Annual Pension Cost

A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Annual Required Contributions of the Employer (ARC)

The employer's periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters.

Contribution Deficiencies (Excess Contributions)

The difference between the annual required contributions of the employer (ARC) and the employer's actual contributions in relation to the ARC.

Employer's Contribution

Contributions made in relation to the annual required contributions of the employer (ARC).

Funded Ratio

The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Investment Return Assumption (Discount Rate)

The rate used to adjust a series of future payments to reflect the time value of money.

Level Dollar Amortization Method

The amount to be amortized is divided into equal dollar amounts to be paid over a given number of years; part of each payment is interest and part is principal (similar to a mortgage payment on a building). Because payroll can be expected to increase as result of inflation, level dollar payments generally represent a decreasing percentage of payroll.

Level Percentage of Projected Payroll Amortization Method

Amortization payments are calculated so that they are a constant percentage of the projected payroll of active plan members over a given number of years. The dollar amount of the payments generally will increase over time as payroll increases due to inflation; in dollars adjusted for inflation, the payments can be expected to remain level.

Market-Related Value of Plan Assets

A term used with reference to the actuarial value of assets. A market-related value may be market value (or estimated market value) or a calculated value that recognizes changes in market value over a period of, for example, three to five years.

Net Pension Obligation (NPO)

The cumulative difference since the effective date of GASB Statement between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to pension-related debt.

Normal Cost

For GASB Statements 25 and 27, the term refers to employer normal cost.

Parameters

The set of requirements for calculating actuarially determined pension information included in financial reports.

Payroll Growth Rate

An actuarial assumption with respect to future increases in total covered payroll attributable to inflation; used in applying the level percentage of projected payroll amortization method.

Pension Expenditures/Expense

The amount recognized by an employer in each accounting period for contributions to a pension plan.