



**TOWERS
PERRIN**

HR SERVICES

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

August 31, 2005
Actuarial Valuation Report
for Plan Year Beginning September 1, 2005
and
Fiscal Year Ending August 31, 2005

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

ACTUARIAL VALUATION REPORT

PREPARED AS OF AUGUST 31, 2005

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, 2005 through August 31, 2006; and (2) financial statement disclosure and reporting information for the fiscal year ending August 31, 2005.

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, 2005. In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. 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 have been developed based on actuarial assumptions that are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. 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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**LAW ENFORCEMENT AND CUSTODIAL OFFICER SUPPLEMENTAL RETIREMENT FUND
OF THE EMPLOYEES RETIREMENT SYSTEM OF TEXAS**

FUNDING DETERMINATION

A. ACTUARIAL VALUATION RESULTS

The key results from the current valuation, along with comparable figures from the prior valuation, are as follows. The “Before Changes” results reflect changes in salaries provided by 2005 legislation that are effective September 1, 2005. The “After Changes” results reflect all changes in salaries, plan provisions and actuarial assumptions.

	August 31, 2005 Valuation		August 31, 2004 Valuation
	After Changes	Before Changes	
Total Contribution Rate (current biennium)	0.000%	0.000%	0.000%
Total Normal Cost			
— percent of payroll	1.628%	1.619%	1.621%
— dollars	\$20,894,392	\$20,776,559	\$19,943,898
Actuarial Value of Assets (AV)	\$698,814,428	\$698,814,428	\$679,242,950
Actuarial Accrued Liability (AAL)	\$677,952,887	\$678,443,600	\$621,457,336
Funded Ratio (AV/AAL)	103.1%	103.0%	109.3%
Net Asset/(Liability) Balance (AV – AAL)	\$20,861,541	\$20,370,828	\$57,785,614
Amortization Period in Years	0.0	0.0	0.0
Remaining Period in Years that the Net Asset Balance will support the 0% LECOSRF Contribution	1.0*	1.0	3.1
Valuation Payroll	\$1,283,815,360	\$1,283,322,236	\$1,230,580,964
Reported Payroll	\$1,183,149,680	\$1,183,149,680	\$1,218,792,550
Active Members	37,150	37,150	38,305

* In order for the Fund to remain actuarially sound, the total contribution rate after the current biennium will need to be at least the normal cost rate plus an amount to amortize any net liability balance over no more than 31 years.

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 cost methods or actuarial procedures. There were across-the-board salary increases and changes to the longevity pay, hazardous duty pay and salary schedules. There were changes in plan provisions as a result of the passage of SB 1176 and other legislation by the 2005 legislature, but these plan changes had no material impact on the actuarial valuation results. The assumed rates of merit, promotion and longevity salary increases were changed to reflect the revised salary structure.

D. PLAN EXPERIENCE

For fiscal year 2005, the rate of investment return on the market value of assets was approximately 12.7%. 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 7.4% for fiscal year 2005, which was less than the 8.0% assumed rate. As a result, there was an actuarial loss from investment income (on the actuarial value of assets). As of August 31, 2005, the market value of assets was \$16 million less than the actuarial value. Unless the market value earns 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%.

There were also actuarial losses from pay increases that were greater than assumed as a result of the legislative changes (across-the-board salary increases and changes to longevity pay, hazardous duty pay and salary schedules). Demographic changes also produced a net actuarial loss. The most significant component of this actuarial loss was more retirements than expected, primarily the result of the retirement incentive.

The net asset balance of \$57.8 million as of the August 31, 2004 actuarial valuation decreased by approximately \$37.4 to \$20.4 million as of August 31, 2005 before reflecting legislative plan changes and changes in actuarial assumptions. Changes in actuarial assumptions and plan provisions increased the net asset balance by \$0.5 million to \$20.9 million as of August 31, 2005.

The following table shows the components of this change for 2005 (all amounts in millions of dollars):

Net Asset/(Liability) Balance as of August 31, 2004:		\$57.8
Expected change in net asset/(liability) balance:		
— Interest on net asset/(liability) balance	\$4.6	
— Member and State contribution greater/(less) than normal cost	<u>(20.7)</u>	
— Total		(\$16.1)
Actuarial gains/(losses) from experience during year:		
— Actuarial gains/(losses) from investment income:	(\$3.3)	
— Actuarial gains/(losses) from pay increases:		
— Across-the-board pay increases	(\$9.9)	
— Merit, promotion and longevity pay increases	<u>(7.4)</u>	
— Total net gains/(losses) from pay increases		(\$17.3)
— Actuarial gains/(losses) from demographic changes:		
— Death after retirement	\$3.3	
— Other demographic changes: service retirements, disability retirements, death benefits, withdrawals, etc.	<u>(4.0)</u>	
— Total net gains/(losses) from demographic changes		(\$0.7)
— Total actuarial gains/(losses)		<u>(\$21.3)</u>
Net Asset/(Liability) Balance as of August 31, 2005 Before Changes in Actuarial Assumptions and Plan Provisions:		\$20.4
Changes in net asset/(liability) balance due to changes in actuarial assumptions and plan provisions		
— Changes in actuarial assumptions	\$0.5	
— Changes in plan provisions	<u>0.0</u>	
— Total changes in actuarial assumptions and plan provisions		<u>\$0.5</u>
Net Asset/(Liability) Balance as of August 31, 2005 After Changes (reflecting all experience, plan changes and assumption changes)		\$20.9

E. DISTRIBUTIONS OF NORMAL COST

Type of Benefit	Percent of Payroll		
	August 31, 2005		August 31, 2004
	After Changes	Before Changes	
Retirement	1.484%	1.475%	1.476%
Death	0.019	0.019	0.019
Occupational Disability	0.025	0.025	0.026
Expenses	<u>0.100</u>	<u>0.100</u>	<u>0.100</u>
Total	1.628%	1.619%	1.621%

F. ACTUARIAL BALANCE SHEET

	August 31, 2005		August 31, 2004
	After Changes	Before Changes	
<u>Actuarial Assets:</u>			
Actuarial Value of Tangible Assets	\$698,814,428	\$698,814,428	\$679,242,950
Actuarial Present Value of Future Normal Costs	<u>173,311,939</u>	<u>171,863,065</u>	<u>166,222,261</u>
Total	\$872,126,367	\$870,677,493	\$845,465,211
<u>Actuarial Liability:</u>			
Actuarial Present Value of Benefits			
Active members			
- service retirement	\$587,915,367	\$586,979,729	\$542,792,620
- death benefit plan	7,188,184	7,176,459	6,613,007
- occupational disability	<u>4,252,676</u>	<u>4,241,878</u>	<u>4,056,847</u>
- total	\$599,356,227	\$598,398,066	\$553,462,474
Inactive vested members	433,702	433,702	496,650
Annuitants	<u>251,474,897</u>	<u>251,474,897</u>	<u>233,720,473</u>
Total	\$851,264,826	\$850,306,665	\$787,679,597
<u>Net Asset/(Liability) Balance:</u>	\$20,861,541	\$20,370,828	\$57,785,614

Refer to Appendix B for additional detail regarding assets.

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

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.

Membership begins after a 90-day waiting period.

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 2006 there is no State contribution.

H. CHANGES IN PLAN PROVISIONS

There were changes in plan provisions since the prior valuation from SB 1176 and other legislation, but these plan changes had no material impact on the actuarial valuation results.

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, 2005</u>	<u>August 31, 2004</u>
Market Value of Plan Assets	\$682,699,641	\$633,812,393
Actuarial Value of Total Assets	\$698,814,428	\$679,242,950

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, 2004:	\$633,812,393
2. Contributions	0
3. Benefits paid	29,036,000
4. Administrative expenses	520,982
5. Investment return	78,444,230
6. Value of Plan Net Assets, August 31, 2005: (1)+(2)-(3)-(4)+(5)	\$682,699,641

D. DEVELOPMENT OF ACTUARIAL VALUE OF PLAN ASSETS

1. Actuarial Value of Plan Assets, August 31, 2004:	\$679,242,950
2. Contributions	0
3. Benefits paid	29,036,000
4. Expenses	520,982
5. Expected investment return at 8%	53,157,157
6. Expected Value of Plan Assets, August 31, 2005: (1)+(2)-(3)-(4)+(5)	\$702,843,125
7. Market-related Value of Plan Assets, August 31, 2005:	682,699,641
8. Difference: (7)-(6)	(20,143,484)
9. Adjustment to expected value: 20% x (8)	(4,028,697)
10. Actuarial Value of Plan Assets, August 31, 2005: (6)+(9)	\$698,814,428

**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, 2005

The results in this actuarial valuation report are based on the member and annuitant data provided by ERS. We have reviewed this data for reasonableness and consistency, but we have not audited it. All actuarial computations performed by Towers Perrin are directly dependent on the accuracy and completeness of the information provided.

Member data collected as of August 31, 2005 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, 2005. Pay is determined from reported ERS contributions for August 2005 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, 2005.

B. SUMMARY DATA ON ACTIVE AND INACTIVE MEMBERS

	<u>August 31, 2005</u>	<u>August 31, 2004</u>
<u>Active Members</u>		
Number:		
Male	23,880	24,750
Female	<u>13,270</u>	<u>13,555</u>
Total	37,150	38,305
Average Annual Rate of Salary:	\$31,848	\$31,818
Average Years of Service Credit:	8.3	8.1
Average Age:	40.8	40.4
<u>Inactive Members</u>		
Vested:		
Male	10	14
Female	<u>2</u>	<u>0</u>
Total	12	14

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, 2005

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	192	0	0	0	0	0	0	0	0	0	0	0	0	206
	Tot Pay	4,168,594	357,708	0	0	0	0	0	0	0	0	0	0	0	4,526,302
	Avg Pay	21,711	25,551	0	0	0	0	0	0	0	0	0	0	0	21,972
20-24	Number	1,066	637	444	376	175	94	0	0	0	0	0	0	0	2,752
	Tot Pay	24,399,736	16,245,484	11,664,966	10,139,226	4,892,484	2,771,676	0	0	0	0	0	0	0	70,113,572
	Avg Pay	22,889	25,503	26,272	26,966	27,957	29,486	0	0	0	0	0	0	0	25,112
25-29	Number	706	504	484	613	400	1,204	58	0	0	0	0	0	0	3,969
	Tot Pay	17,432,804	13,844,388	13,902,060	18,070,490	11,687,244	37,550,542	1,920,128	0	0	0	0	0	0	114,407,656
	Avg Pay	24,692	27,469	28,723	29,479	29,218	31,188	33,106	0	0	0	0	0	0	28,825
30-34	Number	541	392	373	513	368	1,895	1,171	33	0	0	0	0	0	5,286
	Tot Pay	13,263,878	10,734,724	10,633,336	15,178,484	10,887,510	62,563,130	40,744,880	1,157,918	0	0	0	0	0	165,163,860
	Avg Pay	24,517	27,385	28,508	29,588	29,586	33,015	34,795	35,088	0	0	0	0	0	31,246
35-39	Number	422	278	320	366	285	1,626	1,609	662	44	0	0	0	0	5,612
	Tot Pay	10,456,646	7,439,880	9,149,974	10,675,564	8,186,152	52,494,614	56,258,520	25,434,798	1,591,202	0	0	0	0	181,687,350
	Avg Pay	24,779	26,762	28,594	29,168	28,772	32,285	34,965	38,421	36,164	0	0	0	0	32,375
40-44	Number	341	247	246	337	247	1,303	1,480	701	22	0	0	0	0	6,020
	Tot Pay	8,397,548	6,663,686	6,897,910	9,575,914	7,225,074	40,878,472	50,198,594	28,313,656	854,734	0	0	0	0	203,104,570
	Avg Pay	24,626	26,978	28,040	28,415	29,251	31,373	33,918	40,236	38,852	0	0	0	0	33,738
45-49	Number	250	201	191	262	195	1,125	1,188	724	331	8	0	0	0	5,243
	Tot Pay	6,095,670	5,325,252	5,187,142	7,316,652	5,578,704	34,896,834	40,260,544	29,371,922	16,393,482	361,270	0	0	0	183,533,540
	Avg Pay	24,383	26,494	27,158	27,926	28,609	31,019	33,889	38,245	49,527	45,159	0	0	0	35,005
50-54	Number	175	153	168	199	150	978	1,167	553	139	40	0	0	0	3,887
	Tot Pay	4,245,970	4,015,972	4,590,324	5,600,382	4,306,784	30,257,726	39,306,836	20,413,412	7,564,522	2,418,678	0	0	0	129,848,654
	Avg Pay	24,263	26,248	27,323	28,143	28,712	30,938	33,682	36,914	54,421	60,467	0	0	0	33,406
55-59	Number	128	117	125	159	128	737	757	358	36	31	6	0	0	2,667
	Tot Pay	2,960,306	3,102,002	3,337,796	4,389,642	3,579,588	22,455,828	25,472,230	12,786,210	1,775,078	1,862,304	384,128	0	0	85,502,860
	Avg Pay	23,127	26,513	26,702	27,608	27,966	30,469	33,649	35,716	49,308	60,074	64,021	0	0	32,060
60-64	Number	54	50	61	82	64	354	315	131	6	2	4	0	0	1,144
	Tot Pay	1,253,324	1,293,060	1,716,608	2,239,074	1,817,972	10,672,050	10,390,366	4,573,224	283,542	98,834	281,752	0	0	35,457,696
	Avg Pay	23,210	25,861	28,141	27,306	28,406	30,147	32,985	34,910	47,257	49,417	70,438	0	0	30,994
Over 64	Number	21	13	16	26	17	106	89	27	1	0	1	0	0	324
	Tot Pay	410,782	341,164	417,888	659,622	453,468	3,164,270	2,998,428	1,014,106	73,510	0	41,464	0	0	9,803,620
	Avg Pay	19,561	26,243	26,118	25,370	26,675	29,852	33,690	37,559	73,510	0	41,464	0	0	30,258
Total	Number	3,896	2,606	2,428	2,933	2,029	9,422	7,834	3,628	1,747	81	11	0	0	37,150
	Tot Pay	93,085,258	69,363,320	67,498,004	83,845,050	58,614,980	297,705,142	267,550,526	138,850,572	74,243,530	26,944,868	4,741,086	0	0	707,344,183,149,680
	Avg Pay	23,893	26,617	27,800	28,587	28,889	31,597	34,152	38,272	42,498	58,532	64,304	0	0	31,848

Average Age = 40.8 Average Service = 8.3



C. ANNUITANT BENEFITS AS OF AUGUST 31, 2005

Type of Annuity	Number of Accounts	Monthly Payment
Service Retirements and Beneficiaries:		
Male Annuitants:		
Straight Life	1,706	\$838,955
Joint & Full	861	388,575
Joint & One-Half	875	424,289
Life With 60 Months Certain	62	28,456
Life With 120 Months Certain	72	29,682
Joint & Three-Fourths	560	283,584
Annuity Certain	1	65
Male Total	4,137	\$1,993,606
Female Annuitants:		
Straight Life	710	\$256,276
Joint & Full	34	11,612
Joint & One-Half	28	12,649
Life With 60 Months Certain	12	4,805
Life With 120 Months Certain	8	2,872
Joint & Three-Fourths	7	2,699
Annuity Certain	6	1,640
Female Total	805	\$292,553
Total Service Retirements	4,942	\$2,286,159

Type of Annuity	Number of Accounts	Monthly Payment
Disability Retirements:		
Male Annuitants:		
Straight Life	66	\$56,977
Joint & Full	10	7,876
Joint & One-Half	5	4,416
Life With 60 Months Certain	0	0
Life With 120 Months Certain	0	0
Joint & Three-Fourths	3	2,995
Annuity Certain	<u>0</u>	<u>0</u>
Male Total	84	\$72,264
Female Annuitants:		
Straight Life	39	\$28,316
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>44</u>	<u>\$31,264</u>
Total Disability Retirements	128	\$103,528
TOTAL SERVICE AND DISABILITY RETIREMENTS	5,070	\$2,389,687

D. AVERAGE AGE, SERVICE AND BENEFIT OF ANNUITANTS AS OF AUGUST 31, 2005

	Number of Annuitants	Average			Service at Retirement
		Monthly Benefit	Age at Retirement	Age at 08/31/2005	
All Annuitants in Pay Status	5,070	\$471.34	53.32	61.20	25.48
Service Retirees	4,455	\$482.19	53.58	60.34	25.79
Disability Retirees	128	\$808.81	44.67	58.26	7.42
Beneficiaries	487	\$283.38	53.18	69.77	27.42

E. RETIREMENT MEMBERS BY TYPE OF BENEFIT AS OF AUGUST 31, 2005

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	345	344	1	184	86	38	7	5	25
201 – 400	1,980	1,927	53	1,116	377	266	38	39	144
401 – 600	1,710	1,681	29	734	266	409	11	29	261
601 – 800	640	639	1	267	104	144	8	5	112
801 – 1,000	173	172	1	88	28	37	5	2	13
1,001 – 1,200	79	78	1	41	23	6	3	1	5
1,201 – 1,400	51	41	10	34	7	6	1	0	3
1,401 – 1,600	36	23	13	26	5	2	0	1	2
1,601 – 1,800	19	11	8	13	2	0	1	0	3
1,801 – 9,999	<u>37</u>	<u>26</u>	<u>11</u>	<u>25</u>	<u>7</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>3</u>
Total	5,070	4,942	128	2,528	905	910	74	82	571

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

	Number of Annuitants	Benefit Amount		Average Annual Benefit
		Monthly	Annually	
August 31, 2004	4,576	\$2,153,176.60	\$25,838,119	\$5,646
Added to Rolls	548	297,743.37	3,572,920	
Removed from Rolls (est.)	(122)	(66,963.44)	(803,561)	
Other Beneficiaries (est.)	<u>68</u>	<u>5,730.72</u>	<u>68,769</u>	
August 31, 2005	5,070	\$2,389,687.25	\$28,676,247	\$5,656

**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:

Male and Female – Based on Years of Service					
Age	0	1	2-4	5-9	10+
20	10.0%	5.0%	2.2%	2.1%	2.0%
25	10.0	5.0	2.2	2.1	2.0
30	10.0	5.0	2.2	2.1	2.0
35	10.0	5.0	2.2	2.1	2.0
40	10.0	5.0	2.2	2.1	2.0
45	10.0	5.0	2.2	2.1	2.0
50	10.0	5.0	2.2	2.1	2.0
55	10.0	5.0	2.2	2.1	2.0
60	10.0	5.0	2.2	2.1	2.0

Annual Rates of Termination – LECO Members:

Male and Female – Based on Years of Service													
Age	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, actuarial assumptions were changed. The rates of assumed annual salary increases for merit, promotion, and longevity were changed.

**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 increases 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, 2005	August 31, 2004
1. Actuarial Value of Assets	\$698,814,428	\$679,242,950
2. Actuarial Accrued Liability (AAL)	\$677,952,887	\$621,457,336
3. Unfunded AAL (UAAL): (2)-(1)	(\$20,861,541)	(\$57,785,614)
4. Funded Ratio: (1)÷(2)	103.1%	109.3%
5. Covered Payroll (Valuation Payroll as of the Actuarial Valuation Date)	\$1,283,815,360	\$1,230,580,964
6. UAAL as a Percentage of Covered Payroll (3)÷(5)	(1.6%)	(4.7%)

C. SCHEDULE OF EMPLOYER CONTRIBUTIONS

	Year Ended August 31	
	2006	2005
	August 31, 2005	August 31, 2004
1. Actuarial Valuation Date		
2. Annual Required Contribution (ARC)		
a. Employer's Normal Cost	\$20,894,392	\$19,943,898
b. UAAL	(\$20,861,541)	(\$57,785,614)
c. Amortization of UAAL	(\$20,894,392)	(\$19,943,898)
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	
	2006	2005
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	
	2006	2005
Actuarial Cost Method	Entry Age	Entry Age
Amortization Method	Level Percent Open	Level Percent Open
Remaining Amortization Period (Years)**	1.0	3.1
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. For the year ending August 31, 2007 (based on the results of the August 31, 2006 actuarial valuation) the maximum amortization period will be 30 years as required by GASB 25 and GASB 27.

F. SOLVENCY TEST

	Actuarial Accrued Liabilities	Valuation Assets	Portion of AAL Covered by Valuation Assets
Active Member Contributions	\$0	\$0	
Retirees and Beneficiaries	251,474,897	251,474,897	100.0%
Active Members (Employer Financed Portion)	<u>426,477,990</u>	<u>447,339,531</u>	104.9%
Total	\$677,952,887	\$698,814,428	

**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.