

**CITY OF TRENTON**  
**FIRE AND POLICE RETIREMENT SYSTEM**  
SIXTY-FOURTH ANNUAL ACTUARIAL VALUATION  
AS OF JUNE 30, 2016

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September 23, 2016

Retirement Board  
City of Trenton  
Fire and Police Retirement System  
Trenton, Michigan

The results of the June 30, 2016 annual actuarial valuation of the City of Trenton Fire and Police Retirement System are presented in this report. The purpose of the valuation was to measure the System's funding progress, provide actuarial information in connection with historical accounting standards and to determine the employer contribution for the 2017-2018 fiscal year. This report should not be relied upon for any other purpose. This report may be distributed to parties other than the System only in its entirety and only with the permission of the Board. GRS is not responsible for unauthorized use of this report.

The computed contribution rate shown on page A-2 may be considered as a minimum contribution rate that complies with the Board's funding policy. Users of this report should be aware that contributions made at that rate do not guarantee benefit security. Given the importance of benefit security to any retirement system, we suggest that contributions to the System in excess of those presented in this report be considered.

The contribution rate in this report is determined using the actuarial assumptions and methods disclosed in Section C of this report. This report includes risk metrics in Appendix 2 but does not include a more robust assessment of the risks of future experience not meeting the actuarial assumptions. Additional assessment of risks was outside the scope of this assignment. We encourage a review and assessment of investment and other significant risks that may have a material effect on the plan's financial condition.

This valuation assumed the continuing ability of the plan sponsor to make the contributions necessary to fund this plan. A determination regarding whether or not the plan sponsor is actually able to do so is outside our scope of expertise and was not performed.

The valuation was based upon information, furnished by the City, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. Data was checked for internal and year to year consistency, but was not audited, by us. As a result, we are unable to assume responsibility for the accuracy or completeness of the data provided.

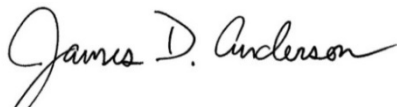
Future actuarial measurements may differ significantly from those presented in this report due to such factors as experience differing from that anticipated by actuarial assumptions, changes in plan provisions, actuarial assumptions/methods, or applicable law. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of future measurements.

To the best of our knowledge, this report is complete and accurate and the valuation was conducted in accordance with standards of practice prescribed by the Actuarial Standards Board and in compliance with the applicable state statutes. Mark Buis, James D. Anderson, and Laura Frankowiak are independent of the plan sponsor and are Members of the American Academy of Actuaries (MAAA) who meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinions contained herein. It is our opinion that the actuarial assumptions used for the valuation produce results which are reasonable.

Respectfully submitted,



Mark Buis, FSA, EA, FCA, MAAA



James D. Anderson, FSA, EA, MAAA



Laura Frankowiak, ASA, MAAA

MB/JDA/LF:sc

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**SECTION A**

**VALUATION RESULTS**

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## **FINANCIAL OBJECTIVE**

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The financial objective of the City of Trenton Fire and Police Retirement System is to establish and receive contributions, which will remain approximately level from year to year and will not have to be increased for future generations of citizens. This objective meets the requirements of the laws governing the operation of the Retirement System and Article IX, Section 24 of the Constitution of the State of Michigan.

## **CONTRIBUTION RATES**

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

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

- (1) cover the actuarial present value of benefits assigned to the current year by the actuarial cost methods described in Section C (the normal cost); and
- (2) amortize over a period of future years the actuarial present value of benefits not covered by valuation assets and anticipated future normal cost (unfunded actuarial accrued liability).

Computed Contributions for fiscal year beginning July 1, 2017 are shown on page A-2.

## CITY'S COMPUTED CONTRIBUTIONS

Contributions for the Fiscal Year Beginning	July 1, 2017
(1) Total Normal Cost of Benefits (as a % of member pay) *	19.50%
(2) Member Contribution %	6.00%
(3) Employer Normal Cost % = (1) - (2)	13.50%
(4) Projected Active Member Payroll for Coming Year	\$ 4,131,297
(5) Employer Normal Cost \$ = (3) x (4)	557,725
(6) Total Accrued Liability	66,906,300
(7) Funding Value of Assets	53,030,880
(8) Total Unfunded Actuarial Accrued Liabilities (UAAL) = (6) - (7)	13,875,420
(9) Amortization Factor (level percent of payroll payments)	13.579980
(10) Amortization Payment/(Credit) = (8) / (9)**	1,021,756
(11) Total Computed Employer Contribution Dollars = (5) + (10) , not less than zero	<b>\$ 1,579,481</b>
(12) Total Computed Employer Contribution Percent = (11) / (4)	<b>38.23%</b>

\* Includes administrative expense load of 0.5%.

\*\* Regular unfunded liability amortized over a period of 20 years.

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## PRESENT VALUE OF FUTURE BENEFITS AND ACCRUED LIABILITY

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### Determination of Unfunded Accrued Liability

	June 30,	
	<u>2015</u>	<u>2016</u>
A. Accrued Liability		
1. For retirees and beneficiaries	\$ 49,386,510	\$48,920,912
2. For vested terminated members	278,098	298,585
3. For present active members		
a. Value of expected future benefit payments	24,101,714	24,799,879
b. Value of future normal costs	<u>7,104,291</u>	<u>7,113,076</u>
c. Active member accrued liability: (a) - (b)	<u>16,997,423</u>	<u>17,686,803</u>
4. Total accrued liability	66,662,031	66,906,300
B. Present Assets (Funding Value)	<u>53,951,496</u>	<u>53,030,880</u>
C. Unfunded Accrued Liability: (A.4) - (B)	<u>12,710,535</u>	<u>\$13,875,420</u>
D. Funding Ratio: (B) / (A.4)	<u>80.9%</u>	<u>79.3%</u>
E. Funding Ratio Market Value Basis:	<u>79.4%</u>	<u>73.0%</u>



## DEVELOPMENT OF FUNDING VALUE OF ASSETS

Year Ended June 30:	2013	2014	2015	2016	2017	2018	2019	2020
A. Funding Value Beginning of Year	\$53,891,504	\$54,709,029	\$54,501,943	\$53,951,496				
B. Market Value End of Year	51,384,609	55,736,027	52,961,843	48,809,071				
C. Market Value Beginning of Year	47,945,575	51,384,609	55,736,027	52,961,843				
D. Non-Investment Net Cash Flow	(1,660,302)	(3,475,721)	(3,118,152)	(2,992,837)				
E. Investment Income								
E1. Market Total: B - C - D	5,099,336	7,827,139	343,968	(1,159,935)				
E2. Amount for Immediate Recognition (0.0725)	3,846,948	3,840,410	3,838,358	3,802,993				
E3. Amount for Phased-In Recognition: E1-E2	1,252,388	3,986,729	(3,494,390)	(4,962,928)				
F. Phased-In Recognition of Investment Income								
F1. Current Year: 0.20 x E3	250,478	797,346	(698,878)	(992,586)				
F2. First Prior Year	(1,087,134)	250,478	797,346	(698,878)	\$ (992,586)			
F3. Second Prior Year	(532,465)	(1,087,134)	250,478	797,346	(698,878)	\$ (992,586)		
F4. Third Prior Year	0	(532,465)	(1,087,134)	250,478	797,346	(698,878)	\$ (992,586)	
F5. Fourth Prior Year	0	0	(532,465)	(1,087,132)	250,476	797,345	(698,878)	\$(992,584)
F6. Total Recognized Investment Gain	(1,369,121)	(571,775)	(1,270,653)	(1,730,772)	(643,642)	(894,119)	(1,691,464)	(992,584)
G. Funding Value of Assets								
G1. Preliminary Funding Value End of Year: A + D + E2 + F6	54,709,029	54,501,943	53,951,496	53,030,880				
G2. Funding Value End of Year	<b>54,709,029</b>	<b>54,501,943</b>	<b>53,951,496</b>	<b>53,030,880</b>				
H. Difference between Market & Funding Value: B-G	(3,324,420)	1,234,084	(989,653)	(4,221,809)	(3,578,167)	(2,684,048)	(992,584)	0
<b>I. Recognized Rate of Return</b>	<b>4.7 %</b>	<b>6.2 %</b>	<b>4.9 %</b>	<b>4.0 %</b>				
<b>J. Market Rate of Return</b>	<b>10.8 %</b>	<b>15.8 %</b>	<b>0.6 %</b>	<b>(2.3)%</b>				
K. Ratio of Funding Value to Market Value	<b>106 %</b>	<b>98 %</b>	<b>102 %</b>	<b>109 %</b>				

The Funding Value of Assets recognizes assumed investment income (line E2) fully each year. Differences between actual and assumed investment income (line E3) are phased-in over a closed 5-year period. During periods when investment performance exceeds the assumed rate, Funding Value of Assets will tend to be less than Market Value. During periods when investment performance is less than the assumed rate, Funding Value of Assets will tend to be greater than Market Value. The Funding Value of Assets is **unbiased** with respect to Market Value. At any time it may be either greater or less than Market Value. If actual and assumed rates of investment income are exactly equal for 4 consecutive years, the Funding Value will become equal to Market Value.

**DERIVATION OF EXPERIENCE GAIN (LOSS)  
YEAR ENDED JUNE 30, 2016**

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Actual experience will never (except by coincidence) coincide exactly with assumed experience. Gains and losses often offset one another over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below:

	<b>2015-2016</b>
(1) UAAL* at start of year	\$ 12,710,535
(2) Normal cost from last valuation	785,944
(3) Actual employer contributions	1,666,985
(4) Interest accrual: $(1) \times .0725 + ((2) - (3)) \times .0725 / 2$	889,576
(5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	12,719,070
(6) Change from benefit improvements and revised actuarial assumptions	0
(7) Expected UAAL after changes: $(5) + (6)$	12,719,070
(8) Actual UAAL at end of year	13,875,420
(9) Gain (loss): $(7) - (8)$	(1,156,350)
(10) Gain (loss) as percent of actuarial accrued liabilities at the start of year \$66,662,031	(1.7)%

\* *Unfunded Actuarial Accrued Liability.*

## COMPARATIVE STATEMENT

Valuation Date June 30	Actuarial Accrued Liabilities & Reserves	Actuarial Accrued Assets	% Funded	Unfunded Actuarial Accrued Liabilities & Reserves			City's Computed Contribution Rate <sup>(5)</sup>
				Dollars	Amortiz. Period	% of Payroll	
1997	\$ 36,120,482	\$ 33,527,612	92.8 %	\$ 2,592,870	25	62.8 %	22.92 %
1998	37,621,461	37,852,508	100.6 %	(231,047)	24	(5.4)%	18.78 %
1999	41,705,805 <sup>(3)</sup>	41,705,805	100.0 %	-	-	-	14.01 %
2000 <sup>(1)</sup>	44,798,847 <sup>(3)</sup>	44,798,847	100.0 %	-	-	-	15.01 %
2001	46,679,422 <sup>(3)</sup>	46,679,422	100.0 %	-	-	-	14.24 %
2002	46,492,395 <sup>(3)</sup>	46,492,395	100.0 %	-	-	-	18.00 %
2003	45,598,928 <sup>(3)</sup>	45,598,928	100.0 %	-	-	-	24.38 %
2004 <sup>(1)</sup>	45,716,012 <sup>(3)</sup>	45,716,012	100.0 %	-	-	-	27.33 %
2005	49,342,884 <sup>(3)</sup>	49,342,884	100.0 %	-	-	-	25.24 %
2006	52,250,005 <sup>(3)</sup>	52,250,005	100.0 %	-	-	-	19.06 %
2007	54,939,391 <sup>(4)</sup>	56,272,692	102.4 %	(1,333,301)	-	-	12.11 %
2008	57,069,715 <sup>(4)</sup>	59,293,847	103.9 %	(2,224,132)	-	-	11.91 %
2009	58,708,142 <sup>(1)</sup>	58,480,550	99.6 %	227,592	15	5.9 %	\$ 801,120
2010	60,608,694	56,713,241	93.6 %	3,895,453	14 <sup>(6)</sup>	118.2 %	1,116,778
2011	61,683,396	54,485,308	88.3 %	7,198,088	25 <sup>(6)</sup>	249.8 %	1,050,331
2012 <sup>(1), (2)</sup>	63,797,993	53,891,504	84.5 %	9,906,489	24 <sup>(6)</sup>	233.3 %	30.70 %
2013	65,829,182	54,709,029	83.1 %	11,120,153	23 <sup>(6)</sup>	254.1 %	31.62 %
2014	66,314,563	54,501,943	82.2 %	11,812,620	22 <sup>(6)</sup>	300.4 %	35.01 %
2015	66,662,031	53,951,496	80.9 %	12,710,535	21 <sup>(6)</sup>	327.9 %	36.87 %
2016	66,906,300	53,030,880	79.3 %	13,875,420	20	347.6 %	38.23 %

<sup>(1)</sup> Revised actuarial assumptions.

<sup>(2)</sup> Retirement System was amended.

<sup>(3)</sup> Under the aggregate funding method, accrued liabilities are equal to plan assets.

<sup>(4)</sup> The System for the years 1999-2008 used the aggregate funding method to determine the annual contribution. Because the aggregate method does not separately identify unfunded actuarial liabilities, information about the funded status and funding progress has been prepared using the entry age actuarial cost method. The information presented is intended to serve as a surrogate for the funded status and funding progress of the System in accordance with Governmental Accounting Standards Board Statement No. 50.

<sup>(5)</sup> Starting with the 2009 valuation, contribution rates are calculated as Level Dollar amounts under the Entry-Age Normal Cost Method. Starting with the 2012 valuation, contribution rates are calculated as level percents of payroll, and percents of payroll are displayed.

<sup>(6)</sup> Starting with the 2010 valuation, unfunded liabilities attributed to an Early Retirement Window are financed over a closed 5-year period. This includes an additional Early Retirement Window that began with the 2011 valuation.

## COMMENTS, RECOMMENDATION AND CONCLUSION

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**COMMENT A: Computed Contribution Requirements** increased from the prior year, from \$1,479,258 to \$1,579,481. The contribution increase is primarily caused by unfavorable investment performance on a funding value basis (see Comment B).

**COMMENT B:** The market value of assets returned (2.3)% for the year ended June 30, 2016. Under the asset valuation method, investment gains and losses are spread over a 5-year period. Partial recognition of this year's loss combined with the continued phase-in of investment gains and losses from prior years resulted in a net recognized asset loss for 2016. The funding value return of 4.0% was below the 7.25% assumed.

**RECOMMENDATION:** The present value of future benefit payments to retirees and beneficiaries as of June 30, 2016 is \$48,920,912. The reported value of the Reserve for Retired Benefit Payments is \$46,107,254. The present value of future payments to retired members and beneficiaries is more than the reserve by \$2,813,658. We recommend a transfer of \$2,813,658 from the Reserve for Employer Contributions to the Retired Benefit Payments as of June 30, 2016. This transfer adjusts for differences between actual and required interest credits and retirements during the year. This is a bookkeeping recommendation that does not affect the valuation results. For purposes of this valuation, the transfer was assumed to have been made as of June 30, 2016.

Section F(1) of the Funding Policy adopted by the Board requires an experience study to review the actuarial assumptions at least once every five years. Since the last experience study was completed for the year ending June 30, 2011, we recommend that a study be conducted prior to the next valuation to review the following items:

- Mortality Rates
- Investment Return
- Wage Inflation
- Merit & Seniority Salary Increases
- Retirement Rates
- Rates of Separation
- Rates of Disability
- Review of Loads and Miscellaneous Assumptions

## **COMMENTS, RECOMMENDATION AND CONCLUSION**

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**LOOKING AHEAD:** Due to the asset smoothing method, only a portion of the current year asset loss was recognized this year, and portions of prior year's gains and losses remain to be recognized. If the Market Value of Assets were used (instead of smoothed value), the employer contribution would have been approximately \$1,890,000 (instead of \$1,579,481) and the funded status would have been about 73.0% (instead of 79.3%).

**CONCLUSION:** The City's contribution to the City of Trenton Fire and Police Retirement System, for the fiscal year beginning July 1, 2017, has been computed to be to \$1,579,481.

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**SECTION B**

**VALUATION DATA**

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# BRIEF SUMMARY OF ACT 345 BENEFIT CONDITIONS EVALUATED

## JUNE 30, 2016

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### Regular Retirement

**Eligibility:** For members hired before January 1, 1996: 25 or more years of service regardless of age or age 60 regardless of service. For members hired on or after January 1, 1996: eligibility is age 55 with 20 years of service.

**Annual Amount:** For members hired before January 1, 1996: Straight life pension equals 2.5% of 3-year Average Final Compensation (AFC) times years of service up to a maximum of 80% of AFC. For members hired on or after January 1, 1996: Straight life pension equals 2.0% of AFC times years of service up to a maximum of 80% of AFC.

**Average Final Compensation:** Highest 3 years out of last 10. Fire, hired on or before December 31, 1995, AFC includes base wages, holiday pay, overtime pay, and unused vacation time. Police, hired on or before December 31, 1995, AFC includes base wages, holiday pay, overtime pay, and unused vacation time. Police and Fire, hired after January 1, 1996, AFC includes base wages and up to 240 hours of accrued leave time, which is payable at time of retirement. (Effective July 1, 2014 for Fire, longevity and additional earned paid leave days are no longer included in AFC).

### Death After Retirement

**Eligibility:** Payable to a surviving spouse, if any, upon the death of a retired member who was receiving a straight life pension which was effective July 1, 1975 or later.

**Annual Amount:** Spouse's pension equals 60% of the straight life pension deceased retiree was receiving.

### Deferred Retirement

**Eligibility:** 10 or more years of service.

**Annual Amount:** Computed as service retirement but based upon service, AFC and benefit in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

### Duty Disability Retirement

**Eligibility:** Payable upon the total and permanent disability of a member in the line of duty. Automatic 60% to eligible spouse upon death of disability retiree.

**Annual Amount:** To age 55, 50% of AFC. At age 55, same as service retirement pension with service credit from date of disability to age 55.

# BRIEF SUMMARY OF ACT 345 BENEFIT CONDITIONS EVALUATED JUNE 30, 2016 (CONCLUDED)

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## **Non-Duty Disability Retirement**

**Eligibility:** Payable upon the total and permanent disability of a member with 5 or more years of service.

**Annual Amount:** To age 55, 1.5% of AFC times years of service. At age 55, same as service retirement pension.

## **Duty Death-in-Service Retirement**

**Eligibility:** Payable upon the expiration of worker's compensation to the survivors of a member who died in the line of duty until spouse remarries and until children marry or reach age 18.

**Annual Amount:** Same amount that was paid by worker's compensation.

## **Non-Duty Death-in-Service Retirement**

**Eligibility:** Payable to a surviving spouse, if any, upon the death of a member with 10 or more years of service.

**Annual Amount:** Accrued straight life pension actuarially reduced in accordance with an Option I election.

## **Post-Retirement Cost-of-Living Adjustments**

For members hired before January 1, 1996: 10% after 5 years, 10% after 10 years and 5% after 15 years (each increase based on base pension). For members hired on or after January 1, 1996: no cost-of-living adjustments.

## **Member Contributions**

6% of covered compensation.

## **Annuity Withdrawal Option**

If elected, member contribution account balance is paid in a lump sum at retirement. The regular retirement benefit is then reduced so that total benefits paid (lump sum plus monthly pension) are equivalent to the regular retirement benefit. For members hired before January 1, 1996, the interest rate used to establish equivalency is 4.5%. For members hired on or after January 1, 1996, the interest rate used to establish equivalency is 7.25%.



## RETIRES AND BENEFICIARIES COMPARATIVE STATEMENT

Year Ended June 30	Added to Rolls*		Removed from Rolls		Rolls End of Year		Average Pension	Present Value of Pensions	No. of Active Per Retired	Pensions as a % of Pay
	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions				
1991	6	\$ 112,233	4	\$ 57,098	65	\$1,182,408	\$18,191	\$13,350,914	1.3	33.3%
1992	5	138,104	1	5,368	69	1,315,144	19,060	14,657,396	1.2	37.2%
1993	2	65,706 #			71	1,380,850	19,449	14,614,254	1.2	36.2%
1994	9	300,438	1	23,835	79	1,657,453	20,980	17,577,896	1.0	42.6%
1995	4	133,790 #	3	28,774	80	1,762,469	22,031	18,614,608	1.0	43.5%
1996		19,855 #			80	1,782,324	22,279	18,360,691	1.0	40.7%
1997	4	194,960			84	1,977,284	23,539	20,322,751	0.9	47.9%
1998	1	67,594 #	1	4,749	84	2,040,129	24,287	20,625,011	0.9	48.1%
1999	2	139,252 #	1	9,621	85	2,169,760	25,527	21,714,841	0.9	51.1%
2000	2	93,193 #	3	35,721	84	2,227,232	26,515	22,414,016	0.9	47.8%
2001	2	107,477 #	1	12,642	85	2,322,067	27,318	23,088,745	0.8	50.4%
2002	8	210,273 #	3	41,003	90	2,491,336	27,682	24,795,162	0.8	55.1%
2003		15,161 #			90	2,506,497	27,850	25,263,902	0.7	57.4%
2004	5	294,804 #	2	42,397	93	2,758,904	29,666	28,345,444	0.7	66.8%
2005	8	404,045 #	2	63,093	99	3,099,856	31,312	32,728,970	0.6	77.0%
2006	2	37,020 #	5	135,443	96	3,001,433	31,265	31,411,790	0.6	73.8%
2007	6	374,944 #	3	67,010	99	3,309,367	33,428	35,467,661	0.5	90.8%
2008	2	30,918 #	3	63,779	98	3,276,506	33,434	34,602,209	0.5	84.6%
2009	1	55,724 #	2	27,517	97	3,304,713	34,069	34,371,403	0.5	84.9%
2010	9	468,368 #	4	91,010	102	3,682,071	36,099	39,474,872	0.4	111.7%
2011	4	197,312 #	1	36,370	105	3,843,013	36,600	41,166,171	0.4	133.4%
2012	4	134,833 #	4	41,836	105	3,936,010	37,486	42,289,801	0.5	92.7%
2013	3	102,398 #	3	31,165	105	4,007,243	38,164	42,901,127	0.6	91.6%
2014	13	530,697 #	6	136,447	112	4,401,493	39,299	48,362,595	0.6	111.9%
2015	5	290,213 #	3	125,518	114	4,566,188	40,054	49,386,510	0.5	117.8%
2016	4	125,721 #	3	96,557	115	4,595,352	39,960	48,920,912	0.5	115.1%

\* Includes survivors of deceased retirees.

# Includes post-retirement adjustments.

**RETIREES AND BENEFICIARIES - JUNE 30, 2016**  
**TABULATED BY ATTAINED AGE**

Attained Ages	No.	Annual Pensions
50	2	\$ 96,219
51	3	141,292
52	1	54,612
53	1	61,225
54	4	199,835
55	5	221,274
56	2	69,363
57	2	109,632
58	3	122,578
59	3	142,374
60	5	284,546
61	3	114,440
62	3	110,601
63	5	246,392
64	5	262,175
65	4	237,632
66	1	72,011
67	2	118,588
68	4	194,334
69	2	86,354
70	1	8,791
71	2	80,268
73	3	126,791
74	1	22,706
75	1	32,393
76	5	146,307
77	2	125,018
78	5	173,217
79	3	96,419
80	2	53,401
81	4	146,368
82	1	28,212
83	4	130,837
84	3	108,566
85	3	84,877
86	1	27,455
87	4	102,560
88	2	27,444
89	2	60,808
90	2	35,858
91	1	6,746
93	2	15,766
101	1	9,067
<b>Totals</b>	<b>115</b>	<b>\$4,595,352</b>

## ACTIVE MEMBERS COMPARATIVE STATEMENT

Year Ended June 30	Active Members	Valuation Payroll	Averages			
			Pay	% Incr.	Age	Total Service
1986	79	\$2,637,488	\$33,386	(1.0)%	43.8 yrs.	17.1 yrs.
1987	80	2,817,500	35,219	5.5 %	43.4	16.9
1988	83	3,144,103	37,881	7.6 %	42.3	15.9
1989	83	3,153,878	37,999	0.3 %	39.8	13.6
1990	83	3,137,061	37,796	(0.5)%	38.9	12.8
1991	85	3,554,599	41,819	10.6 %	38.7	12.5
1992	82	3,533,754	43,095	3.1 %	38.6	12.6
1993	83	3,817,187	45,990	6.7 %	38.8	12.8
1994	81	3,890,064	48,025	4.4 %	37.6	11.7
1995	82	4,049,014	49,378	2.8 %	37.1	11.4
1996	83	4,376,296	52,726	6.8 %	37.9	12.3
1997	78	4,131,532	52,968	0.5 %	38.2	12.4
1998	77	4,244,194	55,119	4.1 %	38.9	13.2
1999	75	4,249,463	56,660	2.8 %	39.6	13.8
2000	74	4,656,993	62,932	11.1 %	40.4	14.6
2001	72	4,606,237	63,976	1.7 %	41.1	15.2
2002	69	4,521,806	65,533	2.4 %	41.7	15.8
2003	66	4,364,481	66,129	0.9 %	42.8	16.9
2004	61	4,132,159	67,740	2.4 %	43.0	17.1
2005	56	4,023,462	71,848	6.1 %	42.7	16.6
2006	56	4,066,424	72,615	1.1 %	43.7	17.5
2007	51	3,646,192	71,494	(1.5)%	43.8	17.5
2008	51	3,872,581	75,933	6.2 %	44.8	18.5
2009	51	3,892,915	76,332	0.5 %	45.8	19.5
2010	43	3,295,980	76,651	0.4 %	46.1	19.7
2011	38	2,881,249	75,822	(1.1)%	46.7	20.3
2012	57	4,245,698	74,486	(1.8)%	42.7	16.3
2013	66	4,376,244	66,307	(11.0)%	41.6	14.5
2014 <sup>^</sup>	63	3,932,237	62,416	(5.9)%	40.0	12.9
2015*	62	3,876,578	62,525	0.2 %	40.0	12.9
2016 <sup>#</sup>	63	3,991,591	63,359	1.3 %	40.4	13.3

<sup>^</sup> For those continuing active employees who were active as of 6/30/2013 and 6/30/2014, their average pay increase was 1.8% from 2013-2014.

\* For those continuing active employees who were active as of 6/30/2014 and 6/30/2015, their average pay increase was 3.1% from 2014-2015.

<sup>#</sup> For those continuing active employees who were active as of 6/30/2015 and 6/30/2016, their average pay increase was 3.0% from 2015-2016.

## ACTIVE MEMBERS ADDED TO AND REMOVED FROM ROLLS

Year Ended June 30	Number Added During Year		Terminations During Year										Active Members End of Year
			Normal Retirement		Disabled		Died-in-Service		Withdrawal				
			A	E #	A	E	A	E	Vested	Other	Total		
A	E #	A	E	A	E	A	A	A	E	A	E		
2007	0	0	5	1.5	0	0.1	0	0.1	0	0	0	0.3	51
2008	0	0	0	0.5	0	0.1	0	0.1	0	0	0	0.3	51
2009	0	0	0	0.4	0	0.2	0	0.1	0	0	0	0.2	51
2010	0	0	7	0.4	0	0.2	0	0.1	1	0	1	0.2	43
2011	0	0	3	0.0	0	0.2	0	0.1	2	0	2	0.2	38
2012	20	20 <sup>^</sup>	1	0.3	0	0.2	0	0.1	0	0	0	0.2	57
2013	11	2	1	1.5	0	0.2	0	0.1	0	1	1	0.4	66
2014	6	9	8	2.8	0	0.1	0	0.1	0	1	1	0.6	63
2015	3	4	3	2.7	0	0.1	0	0.1	0	1	1	0.6	62
2016	2	1	1	2.1	0	0.1	0	0.1	0	0	0	0.6	63
5-Year Totals	42	36	14	9.4	0	0.7	0	0.5	0	3	3	2.4	
10-Year Totals	42	36	29	12.2	0	1.5	0	1.0	3	3	6	3.6	

# The Defined Benefit plan was closed to new hires after 1/1/1996.

<sup>^</sup> The Defined Benefit plan was reopened.

A = Actual

E = Expected

**ACTIVE MEMBERS AS OF JUNE 30, 2016**  
**BY AGE AND YEARS OF SERVICE**

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Attained Age	Years of Service to Valuation Date							Totals	
	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	1							1	\$ 40,178
25-29	7							7	314,351
30-34	8	3	1					12	651,981
35-39	5	1	5	2				13	727,479
40-44	1		2	1	1			5	308,726
45-49	1			1	10	2		14	1,049,637
50-54					3	4		7	557,365
55-59					2	2		4	341,874
<b>Totals</b>	<b>23</b>	<b>4</b>	<b>8</b>	<b>4</b>	<b>16</b>	<b>8</b>		<b>63</b>	<b>\$3,991,591</b>

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

Age: 40.4 years  
Total Service: 13.3 years  
Annual Pay: \$63,359

## ASSET INFORMATION SUBMITTED FOR VALUATION

### Balance Sheet

Reported Assets		Reserves for	
Cash & Equivalents	\$ 0	Employee Contributions	\$ 2,701,817
Accruals & Payables	21,420	Employer Contributions	0
Stocks	32,101,474	Retired Benefit Payments	46,107,254
Bonds	14,413,816	Market Adjustment	4,221,809
Real Estate	808,759		
Other	1,463,602		
Market Adjustment	4,221,809		
<b>Total Valuation Assets</b>	<b>\$53,030,880</b>	<b>Total Reserves</b>	<b>\$53,030,880</b>

### Revenues and Expenditures

	Fiscal Year	
	2014-2015	2015-2016
Funding Value of Assets Balance - July 1	\$54,501,943	\$53,951,496
<b>Revenues</b>		
Employee Contributions	241,100	242,042
Employer Contributions	1,411,401	1,424,943
Recognized Investment Income	2,812,075	2,328,041
Other	0	0
<b>Total</b>	<b>4,464,576</b>	<b>3,995,026</b>
<b>Expenditures</b>		
Benefit Payments	4,478,528	4,561,724
Refund of Member Contributions	292,125	98,098
Expenses	244,370	255,820
<b>Total</b>	<b>5,015,023</b>	<b>4,915,642</b>
Funding Value of Assets Balance - June 30	\$53,951,496	\$53,030,880
Ratio of Investment Income (Net) to Mean Assets	4.9%	4.0%

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## **SECTION C**

### **VALUATION METHODS AND ASSUMPTIONS**

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## **ACTUARIAL METHODS AND ASSUMPTIONS USED FOR THE VALUATIONS**

***Age and Service and Casualty Benefits.*** Normal cost and the allocation of benefit values between service rendered before and after the valuation date was determined using the individual entry-age actuarial cost method having the following characteristics:

- the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and
- each annual normal cost is a constant percentage of the member's year by year projected covered pay.

***Financing of Unfunded Actuarial Accrued Liabilities.*** Unfunded actuarial accrued liabilities (the portion of total liabilities not covered by present assets or expected future normal cost contributions) were amortized by level (principal & interest combined) percent of payroll contributions over a closed period of 20 years.



## **ACTUARIAL METHODS AND ASSUMPTIONS USED FOR THE VALUATIONS**

The valuation process calculates the contribution requirements and benefit values of the System by applying actuarial assumptions to the benefit provisions and people information furnished, using the actuarial cost method described above.

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

- **long-term rates of investment return to be generated by the assets of the System**
- **patterns of pay increases to members**
- **rates of mortality among members, retirees and beneficiaries**
- **rates of withdrawal of active members (without entitlement to a retirement benefit)**
- **rates of disability among members**
- **the age patterns of actual retirement**

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

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

From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends (but not random year to year fluctuations).

## ACTUARIAL VALUATION ASSUMPTIONS

The rationale for the rates of merit and seniority increase, retirement rates, early retirement rates, rates of separation from active membership, disability rates, and mortality rates used in this valuation is included in the assumption review study issued April 13, 2012. All assumptions are expectations of future experience, not market measures.

*The rate of investment return* is 7.25%, compounded annually. This assumption is used to make money payable at one point in time equal in value to a different amount of money payable at another point in time. The assumed real rate of return (the net return in excess of the wage inflation rate) is 3.75%. Experience during the last 5 years has been as follows:

	Year Ended June 30,					5-Year Average
	2016	2015	2014	2013	2012	
1. Nominal rate#	4.0 %	4.9 %	6.2 %	4.7 %	4.4 %	4.8 %
2. Increase in CPI	1.0 %	0.1 %	2.1 %	1.8 %	1.7 %	1.3 %
3. Average salary increase	1.3 %	0.2 %	(5.9)%	(11.0)%	(1.8)%	(3.5)%
4. Real return						
- investment purposes						3.5 %
- funding purposes						8.3 %
- assumption						3.8 %

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

No specific **Price Inflation** assumption is required to perform this valuation, since there are no benefits that are linked to price increases. However, a rate of price inflation assumption on the order of 2.50% would be consistent with other economic assumptions in this report.

*The rates of salary increase* used for individual members are in accordance with the following table. This assumption is used to project a member's current salary to the salaries upon which benefit amounts will be based.

Service	Salary Increase Assumptions for an Individual Member		
	Merit & Seniority	Base (Economy)	Increase Next Year
1	8.0%	3.5%	11.5%
2	7.0%	3.5%	10.5%
3	6.0%	3.5%	9.5%
4	5.0%	3.5%	8.5%
5	4.0%	3.5%	7.5%
10	1.6%	3.5%	5.1%
15	0.9%	3.5%	4.4%
20	0.4%	3.5%	3.9%
25	0.2%	3.5%	3.7%
30	0.2%	3.5%	3.7%
Ref:	144		

*The mortality table* used was the RP-2000 Combined Healthy Mortality Table for males and females, adjusted for mortality improvements to 2020 using projection scale AA. This assumption was first used for the June 30, 2012 valuation.

Sample Attained Ages	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life		Future Life Expectancy (years)	
	Men	Women	Men	Women
45	\$154.72	\$156.27	37.54	39.46
50	148.84	150.73	32.77	34.63
55	140.89	143.37	28.04	29.88
60	130.74	134.14	23.47	25.31
65	118.50	123.10	19.17	21.02
70	104.41	110.47	15.22	17.06
75	88.00	96.22	11.58	13.47
80	70.35	80.35	8.42	10.23
Ref:	454 x 1.00	455 x 1.00		

The assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement. Mortality rates were adjusted to include margin for future mortality improvement as described in the table name above.

*The rates of retirement* used to measure the probability of eligible members retiring during the next year were as follows:

Members Hired before July 1, 1996	
Service	Percent
25	25%
26	25%
27	20%
28	20%
29	20%
30	20%
31	20%
32	50%
33	50%
34	50%
35	50%
36	50%
37	50%
38	50%
39	50%
40	50%
41	50%
42 & Up	100%
Ref.	889

Members Hired after July 1, 1996	
Age	Percent
55	25%
56	25%
57	25%
58	25%
59	25%
60 & Up	100%
Ref	954

**Rates of separation from active membership** were as shown below (rates do not apply to members eligible to retire and do not include separation on account of death or disability). This assumption measures the probabilities of members remaining in employment.

Age	% of Active Members Separating within Next Year	
	35	1.10%
40	0.40%	
45	0.40%	
50	0.40%	
55	0.40%	
60	0.40%	
65	0.40%	
Ref.	285	

**Rates of disability** were as follows:

Age	% of Active Members Becoming Disabled within Next Year	
	Male	Female
20	0.08%	0.10%
25	0.08%	0.10%
30	0.08%	0.10%
35	0.08%	0.10%
40	0.20%	0.36%
45	0.27%	0.41%
50	0.49%	0.57%
55	0.89%	0.77%
Ref.	9	10

**Lump sum at retirement redemption factor:** Retirement Present Values were loaded to account for the additional amount included in the FAC due to lump sums at retirement as follows:

Police Officers:	7.5%
Police Command:	7.5%
Police Non-Union:	8.5%
Fire hired before January 1, 1996:	6.0%
Fire hired after January 1, 1996:	7.5%

**Subsidized Annuity Withdrawal Option:** Retirement present values were loaded by 2.5% for the subsidized annuity withdrawal option for members hired before January 1, 1996.

**Administrative Expenses:** 0.5% of payroll included in Normal Cost.

## GLOSSARY

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**Actuarial Accrued Liability** - The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as “accrued liability” or “past service liability.”

**Accrued Service** - The service credited under the plan which was rendered before the date of the actuarial valuation.

**Actuarial Assumptions** - Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

**Actuarial Cost Method** - A mathematical budgeting procedure for allocating the dollar amount of the “actuarial present value of future plan benefits” between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the “actuarial funding method.”

**Actuarial Equivalent** - A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

**Actuarial Present Value** - The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

**Actuary** - A person who is trained in the applications of probability and compound interest to problems in business and finance that involve payment of money in the future, contingent upon the occurrence of future events. Most actuaries in the United States are Members of the American Academy of Actuaries. The Society of Actuaries is an international research, education and membership organization for actuaries in the life and health insurance, employee benefits, and pension fields. It administers a series of examinations leading initially to Associateship and the designation A.S.A. and ultimately to Fellowship with the designation F.S.A.

**Amortization** - Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

## **GLOSSARY (CONCLUDED)**

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***Experience 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, in accordance with the actuarial cost method being used.

***Normal Cost*** - The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as “current service cost.” Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

***Reserve Account*** - An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

***Unfunded Actuarial Accrued Liability*** - The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as “unfunded accrued liability.”

***Valuation Assets*** - The value of current plan assets recognized for valuation purposes. Generally based on book value plus a portion of unrealized appreciation or depreciation.

## MISCELLANEOUS AND TECHNICAL ASSUMPTIONS

### JUNE 30, 2016

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<b>Marriage Assumption:</b>	100% of males and 100% of females are assumed to be married for purposes of death-in-service benefits. Male spouses are assumed to be three years older than female spouses.
<b>Pay Increase Timing:</b>	Beginning of year, on valuation date. This is equivalent to assuming that reported pays represent amounts paid to members during the year ended on the valuation date.
<b>Decrement Timing:</b>	Decrements of all types are assumed to occur mid-year.
<b>Eligibility Testing:</b>	Eligibility for benefits is determined based upon the age nearest birthday and exact fractional service.
<b>Decrement Relativity:</b>	Decrement rates are used directly from the experience study, without adjustment for multiple decrement table effects.
<b>Decrement Operation:</b>	Non-duty disability and mortality decrements do not operate during the first 5 years of service. Disability does not operate during retirement eligibility.
<b>Option Factors:</b>	Option factors are based upon 7.25% interest and the RP-2000 Table for Males and Females, adjusted for mortality improvements to 2020 using projection scale AA, effective January 1, 2013.

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**SECTION D**

**HISTORICAL ACCOUNTING INFORMATION**

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**SCHEDULE OF FUNDING PROGRESS  
(DOLLAR AMOUNTS IN MILLIONS)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) Entry Age (b)</b>	<b>Unfunded AAL (UAAL) (b)-(a)</b>	<b>Funded Ratio (a)/(b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a Percent of Covered Payroll [(b)-(a)]/(c)</b>
6/30/02	\$46.5	\$46.5	\$ 0.0	100.0 %	\$4.5	--
6/30/03	45.6	45.6	0.0	100.0 %	4.4	--
6/30/04 <sup>(1)</sup>	45.7	45.7	0.0	100.0 %	4.1	--
6/30/05	49.3	49.3	0.0	100.0 %	4.0	--
6/30/06	52.3	52.3	0.0	100.0 %	4.1	--
6/30/07	56.3	54.9	(1.4)	102.6 %	3.6	(38.9)%
6/30/08	59.3	57.1	(2.2)	103.9 %	3.9	(56.4)%
6/30/09 <sup>(1),(3)</sup>	58.5	58.7	0.2	99.6 %	3.9	5.9 %
6/30/10	56.7	60.6	3.9	93.6 %	3.3	118.2 %
6/30/11	54.5	61.7	7.2	88.3 %	2.9	249.8 %
6/30/12 <sup>(1),(2)</sup>	53.9	63.8	9.9	84.5 %	4.2	233.3 %
6/30/13	54.7	65.8	11.1	83.1 %	4.4	254.1 %
6/30/14	54.5	66.3	11.8	82.2 %	3.9	300.4 %
6/30/15	54.0	66.7	12.7	80.9 %	3.9	327.9 %
6/30/16	53.0	66.9	13.9	79.3 %	4.0	347.6 %

<sup>(1)</sup> Revised actuarial assumptions or methods.

<sup>(2)</sup> Retirement System was amended.

<sup>(3)</sup> Change to entry age funding method.

## PENSION ONLY

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<b>Fiscal Year Ended June 30</b>	<b>Annual Recommended Contribution</b>	<b>Actual Contributions</b>	<b>Percent Contributed</b>
2003	\$ 695,675	\$ 695,508	100%
2004	883,109	883,109	100%
2005	1,154,506	1,154,506	100%
2006	1,225,311	1,225,411	100%
2007	1,100,318	1,100,318	100%
2008	838,615	838,615	100%
2009	455,199	455,199	100%
2010	485,174	485,174	100%
2011	801,120	801,113	100%
2012	1,116,778	1,116,778	100%
2013	1,050,331	1,050,327	100%
2014	1,329,444	1,329,445	100%
2015	1,411,401	1,411,401	100%
2016	1,424,943	1,424,943	100%
2017	1,479,258	N/A	N/A
2018	1,579,481	N/A	N/A

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**APPENDIX 1**

**ACTUARIAL FUNDING POLICY**

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## **ACTUARIAL FUNDING POLICY**

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**WHEREAS**, the City of Trenton Fire and Police Retirement System (“Retirement System”) is established and administered pursuant to the provisions of Public Act 345 of 1937, as amended, applicable collective bargaining agreements, and applicable state and federal laws including, but not limited to Public Act 314 of 1965, as amended (“Act 314”) [MCL 38.1132 et seq.], and

**WHEREAS**, the Board of Trustees of the Retirement System (“Board”) is vested with the authority and fiduciary responsibility for the administration, management and operation of the Retirement System, and

**WHEREAS**, the Board, in consultation with its Actuary, has an obligation to establish the economic and demographic assumptions to be utilized in performing the required actuarial valuation of the Retirement System and in determining the required annual employer contribution to the Retirement System, and

**WHEREAS**, the Board is aware of upcoming changes to the accounting and reporting standards approved by the Governmental Accounting Standards Board (GASB) for public pension plans, and

**WHEREAS**, the Board wishes to establish a formal Actuarial Funding Policy addressing the funding objectives and actuarial assumptions to be utilized in determining the funding status of the Retirement System, therefore be it

**RESOLVED**, that the Board hereby adopts the following Actuarial Funding Policy:

**I. GENERAL**

**A. Purpose**

- (1) In light of upcoming changes to the GASB financial accounting and reporting standards for public pension plans, the Board of Trustees of the Retirement System desires to establish a formal Actuarial Funding Policy to ensure the systematic funding of future pension obligations of the Retirement System.

**B. Policy Objectives**

- (1) Maintain adequate levels of assets sufficient to fund all benefits expected to be paid to members and beneficiaries when due.
- (2) Maintain stability of employer contributions rates, consistent with other funding objectives.
- (3) Support the public policy goals of accountability and transparency.
- (4) Monitor material risks to assist in any risk management strategies the Board deems appropriate.

- (5) Promote intergenerational equity. Each generation of members and employers should incur the cost of benefits for the employees who provide services to them, rather than deferring costs to future members and employers.
- (6) Provide a reasonable margin for adverse experience to offset risk.
- (7) Review the Plan's investment return assumption in consideration of the Board's risk profile.
- (8) Continue the systematic reduction of the Plan's Unfunded Actuarial Accrued Liabilities (UAAL).

## **II. LEGAL**

### **A. Annual Actuarial Valuation**

- (1) Section 20h(4) of Act 314 [MCL 38.1140h(4)], requires the Retirement System to have an actuarial valuation performed annually as follows:

Except as otherwise provided in this subsection, a system shall have an annual actuarial valuation with assets valued on a market-related basis. The actuarial present value of total projected benefits shall include all pension benefits to be provided by the system to members or beneficiaries pursuant to the terms of the system and any additional statutory or contractual agreements to provide pension benefits through the system that are in force at the actuarial valuation date, including, but not limited to, service credits purchased by members, deferred retirement option plans, early retirement programs, and postretirement adjustment programs. A system that has less than \$20,000,000.00 is only required to have an actuarial valuation as required under this subsection done every other year.

### **B. Annual Employer Contribution**

- (1) The Board is required, pursuant to Section 20m of Act 314 [MCL 38.1140m], to annually certify the annual required contribution to be made by the employer as follows:

The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of any system shall confirm in the annual actuarial valuation required under section 20h and the summary annual report required under section 13 that each system under this act provides for the payment of the required employer contribution as provided in this section and shall confirm in the summary annual report that the system has received the required employer contribution for the year covered in the summary annual report. The required employer contribution is the actuarially determined contribution amount. An annual required employer contribution in a system under this act shall consist of a current service cost payment and a payment of at least the annual accrued amortized interest on any unfunded actuarial liability

and the payment of the annual accrued amortized portion of the unfunded principal liability. For fiscal years that begin before January 1, 2006, the required employer contribution shall not be determined using an amortization period greater than 40 years. Except as otherwise provided in this section, for fiscal years that begin after December 31, 2005, the required employer contribution shall not be determined using an amortization period greater than 30 years. In a plan year, any current service cost payment may be offset by a credit for amortization of accrued assets, if any, in excess of actuarial accrued liability. A required employer contribution for a system administered under this act shall allocate the actuarial present value of future plan benefits between the current service costs to be paid in the future and the actuarial accrued liability. The governing board vested with the general administration, management, and operation of a system or other decision-making body that is responsible for implementation and supervision of a system shall act upon the recommendation of an actuary and the board and the actuary shall take into account the standards of practice of the actuarial standards board of the American academy of actuaries in making the determination of the required employer contribution.

### **III. POLICY**

#### **A. Actuarial Cost Method**

- (1) The individual entry age normal actuarial cost method of valuation shall be utilized in determining actuarial accrued liability and normal cost with the following characteristics:
  - (a) the annual normal costs for each individual active member, payable from the date of employment to the date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement; and
  - (b) each annual normal cost is a constant percentage of the member's year by year projected covered pay.
- (2) Differences in the past between assumed experience and actual experience (actuarial gains and losses) shall be factored into the actuarial accrued liability.
- (3) The normal cost shall be determined on an individual basis for each active member.
- (4) The Retirement System's total normal cost shall take into account amounts paid as administrative (non-investment) related expenses for the applicable fiscal year.

#### **B. Asset Smoothing Method**

The investment gains or losses of each valuation period, resulting from the difference between actual investment return and assumed investment return, shall be recognized annually in level amounts over a period not to exceed five (5) years in calculating the funding value of assets.

### **C. Amortization Method**

- (1) A level percent of payroll amortization method shall be used to systematically pay off the unfunded actuarial accrued liabilities over a closed amortization period not to exceed 25 years as of July 1, 2012.
- (2) Unfunded liabilities associated with benefit changes or assumption changes shall be funded over a period not exceeding ten (10) years.
- (3) Unfunded liabilities arising from benefit changes provided to retirees or in conjunction with early retirement incentive programs offered by the employer shall be separately funded over a period not exceeding five (5) future years.
- (4) In the event that the Retirement System's assets exceed its liabilities, all amortization schedules other than those related to benefit changes for retirees or early retirement incentive programs offered by the employer shall be considered completed, and employer contributions will be set based upon the normal cost and the completion of any remaining amortizations due to benefit changes for retirees or early retirement incentive programs offered by the employer, without regard to the overfunding status of the Retirement System.

### **D. Assumptions**

The economic and demographic actuarial assumptions utilized to determine the contribution requirements and benefit values of the Retirement System shall be determined by the Board in consultation with its actuary.

### **E. Funding Target**

- (1) The targeted funded ratio of the Retirement System shall be 100%.
- (2) The employer contribution rate shall at least be equal to the normal cost unless the funded ratio of the Retirement System exceeds 150%.
- (3) A funding plan shall be developed by the Board in consultation with its actuary if the funded ratio of the Retirement System falls below 60%, which may include additional funding requirements.

### **F. Risk Management**

- (1) Assumption Changes
  - (a) The actuarial assumptions utilized to determine the annual contribution requirements and valuations shall be those last adopted by the Board based on the most recent experience study and upon the advice and recommendation of the Board's actuary. The Board's actuary shall conduct an experience study at least once every five years. The results of the experience study shall be the basis for the actuarial assumptions recommended to the Board.

- (b) The actuarial assumptions may be revised during the five-year period between experience studies if significant plan design changes or other significant economic events occur, as advised by the actuary.
- (2) Risk Measures. The following risk measures will be annually determined to provide quantifiable measurements of risk as it applies to the Retirement System.
- (a) Funded ratio;
  - (b) Unfunded actuarial accrued liabilities – the years required to pay down the unfunded liabilities of the Retirement System based upon the current funding schedule;
  - (c) Total unfunded actuarial accrued liabilities as a percentage of total payroll;
  - (d) Total assets as a percentage of total payroll; and
  - (e) Total actuarial accrued liabilities as a percentage of total payroll.
- (3) Risk Control
- (a) The Board shall carefully monitor the risk measures identified above and shall consider steps to mitigate risk, particularly as the funded ratio increases.

## **IV. REVIEW AND AMENDMENT**

### **A. Periodic Review**

- (1) This Actuarial Funding Policy shall be reviewed no less frequently than once every five years in conjunction with the required experience study performed by the Board's actuary, and may be reviewed at any time at the Board's discretion.

### **B. Amendment**

- (1) The Board, in consultation with its Actuary and Legal Counsel, may amend this Actuarial Funding Policy at any time as deemed necessary to address changes in the makeup, benefit structure and/or funding status of the Retirement System.



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**APPENDIX 2**  
**RISK MEASURES**

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## RISK MEASURES

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Covered Payroll	(5) Funded Ratio (1) / (2)	(6) Assets / Payroll (1) / (4)	(7) Liability / Payroll (2) / (4)	(8) Unfunded / Payroll (3) / (4)
6/30/2007	\$56,272,692	\$54,939,391	\$ (1,333,301)	\$3,646,192	102.4 %	1543.3 %	1506.8 %	0.0 %
6/30/2008	59,293,847	57,069,715	(2,224,132)	3,872,581	103.9 %	1531.1 %	1473.7 %	0.0 %
6/30/2009	58,480,550	58,708,142	227,592	3,892,915	99.6 %	1502.2 %	1508.1 %	5.9 %
6/30/2010	56,713,241	60,608,694	3,895,453	3,295,980	93.6 %	1720.7 %	1838.9 %	118.2 %
6/30/2011	54,485,308	61,683,396	7,198,088	2,881,249	88.3 %	1891.0 %	2140.9 %	249.8 %
6/30/2012 <sup>(a),(b)</sup>	53,891,504	63,797,993	9,906,489	4,245,698	84.5 %	1269.3 %	1502.7 %	233.3 %
6/30/2013	54,709,029	65,829,182	11,120,153	4,376,244	83.1 %	1250.1 %	1504.2 %	254.1 %
6/30/2014	54,501,943	66,314,563	11,812,620	3,932,237	82.2 %	1386.0 %	1686.4 %	300.4 %
6/30/2015	53,951,496	66,662,031	12,710,535	3,876,578	80.9 %	1391.7 %	1719.6 %	327.9 %
6/30/2016	53,030,880	66,906,300	13,875,420	3,991,591	79.3 %	1328.6 %	1676.2 %	347.6 %

(a) Revised actuarial assumptions.

(b) Retirement System was amended.

(5) The Funded Ratio is the most widely known measure of a plan's financial strength, but the trend in the funded ratio is much more important than the absolute ratio. The funded ratio should trend to 100%. As it approaches 100%, it is important to re-evaluate the level of investment risk in the portfolio and, potentially, to re-evaluate the assumed rate of return.

(6) and (7) The ratios of assets and liabilities to payroll gives an indication of both maturity and volatility. Many systems have ratios between 5 and 7. Ratios significantly above that range may indicate difficulty in supporting the benefit level as a level % of pay. For systems that are closed to new hires, it is expected that these ratios will grow as payroll declines.

(8) The ratio of the unfunded liability to payroll gives an indication of the plan sponsor's ability to actually pay off the unfunded liability. A ratio above approximately 3 or 4 may indicate difficulty in discharging the unfunded liability within a reasonable time frame.