

**RETIREMENT PLAN FOR THE CITY OF IRVING
SUPPLEMENTAL BENEFIT PLAN
ACTUARIAL VALUATION REPORT
FOR THE YEAR BEGINNING JANUARY 1, 2017**

May 15, 2017

Administrative Board
Supplemental Benefit Plan
City of Irving
825 West Irving Boulevard
Irving, TX 75060

Dear Members of the Board:

Subject: Actuarial Valuation as of January 1, 2017

We take pleasure in presenting you with the report of the actuarial valuation of the City of Irving Supplemental Benefit Plan (the Plan) as of January 1, 2017. The results of this valuation are based upon member data provided by your data processing staff, financial information provided by your bank trustee, and the actuarial assumptions and methods described in the report.

Results of this report should not be used for any other purpose without consultation with the undersigned. Valuations are prepared annually as of January 1, the first day of the plan year. This report was prepared at the request of the Administrative Board (the Board) and is intended for use by the Board and designated City staff and those designated or approved by the Board. This report may be provided to parties, other than those described above, only in its entirety and only with the permission of the Board.

Financing objectives

The employer contribution rate is set each year by the City Council and the purpose of this actuarial valuation, performed as of January 1, 2017, is to determine whether or not the current City and member contribution rates are sufficient to support the benefits of the Plan. The normal cost and liabilities are computed using the Entry Age Normal actuarial cost method. Both the normal cost and the amortization of the unfunded actuarial accrued liability are determined as a level percentage of pay. The combined City and member rate of 4.64% (2.14% City and 2.50% member) is sufficient to pay the Plan's normal cost and amortize its unfunded liability over a period of 26 years (assuming all actuarial assumptions are met). Therefore, we find that the current contributions are sufficient to support the benefits promised under the Plan.

Progress toward realization of financing objectives

The funded ratio (the ratio of the actuarial value of assets to the actuarial accrued liability) is a standard measure of a plan's funded status. In the absence of benefit improvements, it should increase over time, until it reaches 100%. The funded ratio as of January 1, 2017 is 72.2%. This is a decrease from the 72.3% funded ratio from the prior year's valuation. The

decrease is primarily a result of the recognition of the current and prior years' investment performance. However, the funded status alone is not appropriate for assessing the need for or the amount of future contributions and is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

Plan Experience

As part of each valuation, we examine the Plan's experience relative to the assumptions. The results of these analyses are disclosed in Table 4. This past fiscal year the Plan had a total experience liability loss of approximately \$47,948.

Assumptions and Methods

Actuarial assumptions and methods are set by the Board, based upon recommendations made by the Plan's actuary. The demographic assumptions and the rates of salary increase assumption were adopted in 2016 to match the assumptions used by the Texas Municipal Retirement System (TMRS) in their valuation of the City of Irving TMRS liabilities. We believe the assumptions are internally consistent and reasonable based on past and anticipated future experience of the Plan. The actuarial methods and assumptions are the same as used in the prior year.

The results of the actuarial valuation are dependent on the actuarial assumptions and methods used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions. Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. The actuarial calculations are intended to provide information for rational decision making.

This report 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.

All assumptions and methods are described in Appendix 1.

Plan Provisions

The principle benefit provisions of the Plan are amended periodically by the City Council. The provisions have not changed since the prior valuation. The benefit provisions are summarized in Appendix 2.

Data

Member data for retired, active and inactive participants was supplied as of January 1, 2017, by the City of Irving staff. We have not subjected this data to any auditing procedures, but have examined the data for reasonableness and consistency with the prior year's data. Asset

information was supplied by the City of Irving's Finance Department. GRS is not responsible for the accuracy or completeness of the information provided to us by the City of Irving.

Actuarial Certification

We certify that the information presented in the January 1, 2017 actuarial valuation report of the City of Irving Supplemental Benefit Plan is accurate and fairly portrays the actuarial position of the Plan as of January 1, 2017.

All of our work conforms with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board. In our opinion, our calculations also comply with the requirements of Texas state law and, where applicable, the Internal Revenue Code, ERISA, and the Statements of the Governmental Accounting Standards Board.

The undersigned are independent actuaries and consultants. Mr. Falls is a Fellow of the Society of Actuaries, an Enrolled Actuary, and Member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries. Both are experienced in performing valuations for large public retirement systems.

We would like to thank the members of the City of Irving Staff and the Human Resources Department for their assistance. Without such assistance, this study could not have been completed.

We look forward to presenting the results to you.

Sincerely,



Lewis Ward
Consultant



R. Ryan Falls FSA, EA, MAAA
Senior Consultant

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BACKGROUND

Effective March 1, 1984, the City of Irving established the City of Irving Supplemental Benefit Plan (SBP or “the Plan”) in order to provide death, disability and retirement benefits to its employees in conjunction with the Texas Municipal Retirement System (TMRS). The Plan contains substantial death and disability benefits. In addition, there are modest retirement benefits to supplement those of TMRS. The actuarial demographic assumptions (rates of withdrawal, disability, retirement, etc.) reflect the current assumptions used by TMRS.

The City contributed 2.17% of the salaries of those covered under the Plan since its inception on March 1, 1984 through the 1989 plan year. Beginning in 1990, the City began to annually adjust its contribution rate to correspond to increases in the TMRS contribution. With the decrease in the City’s TMRS contribution rate, the City has once again begun contributing to the SBP. The City will make a contribution of 2.14% of pay during the 2017 calendar year. The table below shows the City's contribution rate for each year since 1990.

<u>Year</u>	<u>City's Contribution Rate</u>
1990	1.85%
1991	1.33%
1992	1.26%
1993	1.41%
1994	0.99%
1995-2011	0.00%
2012	1.42%
2013-2015	1.49%
2016-2017	2.14%

The purpose of this actuarial valuation, performed as of January 1, 2017, is to determine whether or not the current contribution rates (2.14% by the City and 2.50% by the active members) are sufficient to support the benefits of the Plan.

Like the previous year, the SBP’s assets underperformed the Plan’s assumed rate of return during 2016. The 2016 performance has resulted in the Plan continuing to defer net investment losses. The Plan also continues to be in an underfunded position.

The Texas Pension Review Board policy on actuarial soundness is as follows:

- Funding should be adequate to amortize the unfunded actuarial accrued liability over a period not to exceed 40 years, with 15 - 25 years being a more preferable target.

The combined City and member rate of 4.64% (2.14% City and 2.50% member) is sufficient to pay the Plan's normal cost and amortize its unfunded liability over a period of 26 years (assuming all actuarial assumptions are met). Therefore, we find that the current contributions satisfy the Pension Review Board's guidelines for actuarial soundness and are sufficient to support the benefits promised under the Plan. (Table 5 in Section III will provide more information about the projected funding status of the Plan.) For informational purposes, we have also determined the total contribution rate required to amortize the unfunded liability over 30 years is 4.52% (2.02% City and 2.50% member).

In the remainder of the report, we will provide the actuarial valuation results which support this statement. In addition we will describe the actuarial methods, assumptions and techniques utilized in developing the results of this valuation.

The Governmental Accounting Standards Board (GASB) has issued Statement No. 67 which provides the manner for the disclosure of the actuarial funding condition of a public sector retirement plan. The new GASB No. 67 disclosure requirements have divorced the funding requirements of the Plan from the accounting requirements. For that reason, except as noted below we have removed all GASB disclosure information from this valuation report.

Table 7 contains the Schedule of Funding Progress that was previously required under GASB No. 25. While this table is no longer required we believe the information contained in this table is useful and therefore have decided to retain this exhibit.

GASB also issued Statement No. 68 which governs the disclosure for governmental pension plans' sponsors. GASB No. 68 was applicable to the City beginning with the fiscal year ending on September 30, 2015.

ACTUARIAL BASIS OF THE VALUATION

In developing any actuarial valuation, choices must be made relative to actuarial assumptions and methods used in that valuation. These items, plus the member information and financial information, constitute the basis underlying the actuarial results which will be discussed further in this report. TMRS adopted new demographic assumptions for the valuation of the City of Irving TMRS benefits, effective December 31, 2015. After discussions with its actuary, the Board of Trustees elected to adopt these new demographic assumptions effective with the January 1, 2016 SBP valuation. The SBP Board also adopted the investment return assumption to 6.75% effective with the January 1, 2016 valuation.

The actuarial cost method used to determine the Plan's liabilities is known as the Entry Age Normal actuarial cost method (EAN cost method). The EAN cost method assigns the plan's total unfunded liabilities (the actuarial present value of future benefits less the actuarial value of assets) to various periods. The unfunded actuarial accrued liability is assigned to years prior to the valuation, and the normal cost is assigned to the year following the valuation. The remaining costs are the normal costs for future years.

Under the EAN cost method, a calculation is made to determine the rate of contribution which, if applied to the compensation of each individual member during the entire period of anticipated covered service, would be required to meet the cost of all benefits payable on his behalf. The salary-weighted average of these rates is the normal cost rate. This calculation reflects the plan provisions that apply to each individual member.

The actuarial accrued liability is the difference between the total present value of future benefits and the actuarial present value of future normal costs. The unfunded actuarial accrued liability (UAAL) is the excess of the actuarial accrued liability over the actuarial value of assets.

The actuarial value of assets is determined using a method that starts with the market value of assets and is modified by the "Excess (Shortfall)" between expected investment return and actual income. Only 20% of this Excess (Shortfall) is recognized in the valuation immediately following the year in which the Excess (Shortfall) occurs. The remaining 80% of the Excess (Shortfall) is deferred until future valuations, with an additional 20% recognized in each subsequent valuation until 100% of the difference is recognized by the fifth year.

RESULTS OF THE ACTUARIAL VALUATION

The purpose of this section is to summarize and interpret the results of this actuarial valuation. Table 1 on Page 6 summarizes these results as of January 1, 2017.

The first major area in this table is a breakdown of the actuarial present values of benefits by the three benefit types.

1. Actuarial present value of all future benefits - this is the value, as of the valuation date, of all benefits estimated to be paid over future years under the Plan to current members of the Plan. Thus, this actuarial present value incorporates projections of pay and service to a retirement date, a date of disability, etc. This value represents the value, with which the fund with interest on those dollars, would pay all estimated benefits. Said another way, if the assets in the fund equal or exceed this value, theoretically, there would never need to be another contribution for current members of the Plan.
2. Actuarial present value of future benefits accrued to date (AAL) - this is the portion of the actuarial present value of all future benefits which is attributed to years of service prior to the valuation date. It is this item which, under the actuarial cost method, equals the Actuarial Accrued Liability (AAL). The difference between the AAL and the actuarial value of assets is called the Unfunded Actuarial Accrued Liability (UAAL). From Table 1, it is clear that the actuarial value of assets is less than the AAL. Thus, the Plan is underfunded.

In addition, the actuarial valuations present the funded ratio. It is the ratio of the actuarial value of assets of the fund to the actuarial accrued liability, which is a measure of the funded status. As may be seen in Table 1, the funded ratio is 72.2%. A ratio less than 100% means that the assets in the Plan as of the valuation date (as measured by the value of actuarial assets as opposed to the market value of those assets) are less than the targeted levels based on the benefits earned to the valuation date.

3. Normal cost of benefits - this is the value at the valuation date by which the AAL is expected to increase during the 2017 plan year due to service being earned. In other words, the Normal Cost is the average annual actuarial cost of the benefits provided by the Plan for the current employees. The total normal cost (3.31%) is equal to the normal cost of benefits (3.17% of pay) plus the expected administrative expenses for the upcoming year (0.14% of pay).

As stated previously, the Plan is underfunded. The total normal cost of the Plan (3.31% as shown on Table 3) currently exceeds the 2.50% of pay being contributed by the members; the City contribution of 2.14% will be used to fund the remaining 0.81% of the normal cost. The excess City contribution of 1.33% (2.14% minus 0.81%) will fund the unfunded liabilities of the Plan. As of this valuation, it is expected the City contribution rate is expected to eliminate the unfunded liabilities over the next 26 years.

The 26-year funding period mentioned above is based on the snapshot valuation measurement and assumes that all assumptions will be exactly met, including the 6.75% rate of return on the actuarial value of assets. As shown on Table 9a, the Plan currently has approximately \$4.3 million in net deferred investment shortfall to be recognized in future valuations. When the funding period is determined by the actuarial valuation these deferred net investment shortfalls are assumed to be offset by investment gains in the future. However, when we performed our projection (shown on Table 5), we assumed that the market value of assets would grow at 6.75% and that any deferred investment excesses or shortfalls would be recognized in the four projected valuations following the current measurement date.

Table 5 shows a fifteen-year projection of selected actuarial information for the Plan. As shown on the table, the dollar amount of the UAAL of the Plan is expected to increase over the next decade. Because the Plan's unfunded liability is being financed as level percentage of pay and the funding period is above 20, the contributions towards the UAAL do not yet cover the expected year to year interest growth of the UAAL (in other words we are still in a period of negative amortization). However, it is important to note that these are estimates. Projections can differ dramatically from actual results if the Plan's experience is significantly different from the actuarial assumptions used in the projection

Although the Plan is underfunded, the 2.14% of pay being contributed by the City together with the 2.50% of pay being contributed by the members is currently sufficient to cover the on-going costs of the Plan.

SUMMARY OF ACTUARIAL VALUATION RESULTS
As of January 1, 2017

1. Actuarial Present Value of Benefits

Benefit Type	Actuarial Present Values of		
	All Future Benefits	Future Benefits Accrued to Date (AAL)	Normal Cost Rate
(1)	(2)	(3)	(4)
<u>Active Members</u>			
Retirement	\$ 62,311,926	\$ 47,627,561	1.96%
Disability	\$ 3,255,353	\$ (206,010)	0.49%
Death	\$ 1,230,495	\$ 898,730	0.05%
Vesting	\$ 3,164,170	\$ (291,742)	0.44%
Refund	\$ 349,799	\$ (1,396,992)	0.23%
Subtotal	<u>\$ 70,311,743</u>	<u>\$ 46,631,547</u>	<u>3.17%</u>
Terminated Members	6,041,512	\$ 6,041,512	N/A
Retired Members	<u>25,727,842</u>	<u>25,727,842</u>	<u>N/A</u>
Administrative Expenses	N/A	N/A	0.14%
	<u>\$ 102,081,097</u>	<u>\$ 78,400,901</u>	<u>3.31%</u>
2. Actuarial Value of Assets		\$ 56,606,215	
3. Unfunded Actuarial Accrued Liability (UAAL)		\$ 21,794,686	
4. Funded Ratio			
- Current Valuation		72.2%	
- Prior Valuation		72.3%	
5. Projected Payroll		\$ 99,517,204	
6. 30-Year Funding Cost			
- Employee and City		\$ 4,498,178	
30-Year Funding Cost as Percentage of Pay		4.52%	
7. 2017		\$ 4,617,598	
8. Funding Period to Amortize UAAL		26 years	

COMPARISON OF ACTUARIAL VALUES

	<u>January 1, 2017</u>	<u>January 1, 2016</u>
	(1)	(2)
1. Normal Cost Rate (includes admin expenses in 2016)	3.31%	3.26%
2. Present Value of Accrued Benefits (AAL)	\$ 78,400,901	\$ 74,102,638
3. Value of Assets	\$ 56,606,215	\$ 53,607,895
4. Unfunded Actuarial Accrued Liability (UAAL)	\$ 21,794,686	\$ 20,494,743
5. 30-Year Funding Cost (Employee + City)	\$ 4,498,178	\$ 4,266,338
6. 30-Year Funding Cost as a Percentage of Payroll	4.52%	4.44%
7. Funded Ratio	72.2%	72.3%

EVALUATION OF CONTRIBUTION LEVEL
January 1, 2017

1. Actuarially Calculated 30-year Contribution Rate		
a.	Normal Cost (includes assumed administrative	3.31%
b.	30-year Amortization of UAAL	<u>1.21%</u>
c.	TOTAL	<u><u>4.52%</u></u>
2. Current Contribution Rate		
a.	Member	2.50%
b.	Total Employer Contribution Rate	<u>2.14%</u>
c.	TOTAL	<u><u>4.64%</u></u>

**ACTUARIAL GAIN OR LOSS
 As of December 31, 2016**

1. Unfunded actuarial accrued liability (UAAL) as of December 31, 2015	\$ 20,494,743
2. Normal Cost (NC) for year ending December 31, 2016	\$ 3,014,502
3. Actual administrative expenses for year ending December 31, 2016	\$ 165,946
4. Contributions during year ending Decemeber 31, 2016	\$ (4,516,067)
5. Interest at prior valuation's rate of 6.75%	
a. On UAAL	\$ 1,383,395
b. On normal cost and administrative expenses	\$ 105,587
c. On contributions	\$ (149,929)
d. Total	\$ 1,339,053
6. Expected UAAL as of December 31, 2016 (1 + 2 + 3 + 4 + 5)	\$ 20,498,177
7. Actual UAAL as of December 31, 2016	\$ 21,794,686
8. Actuarial gain/(loss) for the period (6 – 7)	\$ (1,296,509)

SOURCE OF GAINS AND LOSSES

9. Asset gain/(loss) (See Table 9c)	(1,248,561)
10. Total liability gain/(loss) (8 – 9)	(47,948)
11. Gain/(loss) due to benefit enhancements	0
12. Gain/(loss) due to retiree ad hoc increases	0
13. Gain/(loss) due to assumption changes	0
14. Gain/(loss) due to funding method changes	0
15. Liability Experience gain/(loss) (10 – 11 – 12 – 13 – 14)	(47,948)
16. Liability Experience gain/(loss) by source	
a) Salary increases	242,447
b) New Hires	(76,795)
c) Retirements	(325,513)
d) Withdrawals	350,764
e) Active mortality	(30,670)
f) Disabilities	266,154
g) Retiree mortality	(424,589)
i) Other (data)	(49,746)

**PROJECTION RESULTS
As of January 1, 2017**

Valuation as of January 1,	Projected Compensation	30 - Year Employer Contribution Rate	Funding Period*	UAAL	Funded Ratio
(1)	(2)	(3)	(4)	(5)	(6)
2017	\$ 99,517,204	2.02%	26 years	\$21,794,686	72.2%
2018	102,345,205	2.08%	28 years	23,527,330	72.0%
2019	105,202,943	2.15%	31 years	25,492,413	71.6%
2020	108,096,484	2.20%	33 years	27,307,054	71.4%
2021	111,025,056	2.22%	34 years	28,316,474	72.1%
2022	114,149,069	2.20%	33 years	28,862,775	73.1%
2023	117,296,495	2.19%	33 years	29,407,542	74.0%
2024	120,595,568	2.18%	32 years	29,950,383	74.8%
2025	124,080,259	2.17%	32 years	30,489,303	75.6%
2026	127,677,989	2.15%	31 years	31,021,756	76.3%
2027	131,342,894	2.13%	30 years	31,545,914	76.9%
2028	135,125,030	2.12%	30 years	32,060,393	77.5%
2029	138,985,575	2.10%	29 years	32,563,098	78.1%
2030	142,966,692	2.09%	28 years	33,052,271	78.6%
2031	147,093,383	2.07%	28 years	33,525,514	79.1%
2032	151,368,608	2.05%	27 years	33,979,963	79.6%

* Based on the City of Irving continuing to contribute 2.14% of pay.

Note: The projection assumes that market value of assets will return the assumed 6.75% investment return assumption and that all other actuarial assumptions are exactly met. The projection also assumes that the active member population will remain constant, i.e. one new hire for each active member that terminates, dies, retires, or becomes disabled. Finally, the projection assumes that there will be no change in the City or member contribution rates to the Plan (except as noted above).

SUMMARY OF CHARACTERISTICS OF COVERED GROUP

	<u>January 1, 2017</u>	<u>January 1, 2016</u>
	(1)	(2)
1. <u>Active Members</u>		
a. Vested Members	966	1,012
b. Non-vested Members	453	414
c. Total	1,419	1,426
d. Average Age	44.15	44.14
e. Average Service	11.97	12.04
f. Reported Payroll	\$ 95,365,820	\$ 92,985,815
g. Average Annual Pay	\$ 67,206	\$ 65,207
2. <u>Benefit Recipients</u>		
a. Number	378	361
b. Total Annual Benefit	\$ 2,574,885	\$ 2,427,992
c. Average Annual Benefit	\$ 6,812	\$ 6,726
3. <u>Vested Terminated</u>		
a. Number	191	171
b. Total Annual Benefit	\$ 1,030,095	\$ 809,447
c. Average Annual Benefit	\$ 5,393	\$ 4,734

SCHEDULE OF FUNDING PROGRESS

Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (2) - (3)	Funded Ratio	Annual Covered Payroll	UAAL as % of Payroll (4)/(6)	Funding Period
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1-1-2006	\$39,672	\$37,486	(\$2,186)	105.8%	\$72,941	-3.0%	6.1 years*
1-1-2007	\$41,806	\$39,488	(\$2,318)	105.9%	\$74,353	-3.1%	6.3 years*
1-1-2008	\$44,705	\$41,138	(\$3,567)	108.7%	\$75,386	-4.7%	12.0 years*
1-1-2009	\$41,318	\$44,271	\$2,953	93.3%	\$79,727	3.7%	Infinite
1-1-2010	\$44,825	\$47,654	\$2,828	94.1%	\$81,662	3.5%	Infinite
1-1-2011**	\$44,288	\$52,195	\$7,907	84.9%	\$83,666	9.5%	Infinite
1-1-2012	\$43,158	\$55,009	\$11,851	78.5%	\$83,162	14.3%	25.3 years
1-1-2013	\$44,045	\$57,702	\$13,657	76.3%	\$84,495	16.2%	29.1 years
1-1-2014	\$47,689	\$60,458	\$12,769	78.9%	\$86,364	14.8%	27.2 years
1-1-2015	\$51,244	\$63,313	\$12,069	80.9%	\$89,180	13.5%	24.8 years
1-1-2016**	\$53,608	\$74,103	\$20,495	72.3%	\$92,986	22.0%	23.0 years
1-1-2017	\$56,606	\$78,401	\$21,795	72.2%	\$95,366	22.9%	26 years

Note: Dollar amounts in thousands.

*Plan was fully funded. Funding period shown is the number of years to reduce surplus to zero.

**Change in actuarial assumptions

SUMMARY OF FINANCIAL ACTIVITY

Type of Asset Value	December 31, 2016 Market Value	December 31, 2015 Market Value
(1)	(1)	(2)
1. Assets at Beginning of Year	\$ 50,538,106	\$ 50,860,858
2. Contributions		
a. Employer Contributions	2,067,639	1,390,021
b. Employee Contributions	2,448,428	2,334,190
c. Total Contributions	4,516,067	3,724,211
3. Net Investment Return*	1,103,719	(350,875)
4. Disbursements		
a. Refunds of Member	(278,721)	(569,389)
b. Lump Sums to Retirees	(954,692)	(667,557)
c. Retiree Annuity Payments	(2,500,411)	(2,335,363)
d. Administrative Expenses	(165,946)	(123,779)
e. Total Disbursements	(3,899,770)	(3,696,088)
5. Assets at End of Year	\$ 52,258,122	\$ 50,538,106

* Net of investment expenses

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

Item	Valuation as of January 1, 2017
(1)	(2)
1. Excess (shortfall) of investment income for current year and previous four years (see Table 9b):	
a. Current year	\$ (2,319,654)
b. Current year - 1	(4,031,947)
c. Current year - 2	(759,719)
d. Current year - 3	1,153,430
e. Current year - 4	751,141
2. Deferral of excess (shortfall) of investment income for:	
a. Current year (80% deferral)	\$ (1,855,723)
b. Current year - 1 (60% deferral)	(2,419,168)
c. Current year - 2 (40% deferral)	(303,888)
d. Current year - 3 (20% deferral)	230,686
e. Current year - 4 (0% deferral)	0
f. Total deferred for year	\$ (4,348,093)
3. Market value of plan assets, end of year	\$ 52,258,122
4. Preliminary actuarial value of plan assets, end of year (Item 3 - Item 2.f.)	\$ 56,606,215
5. Actuarial value of assets corridor	
a. 80% of market value of assets, end of year	\$ 41,806,498
b. 120% of market value of assets, end of year	\$ 62,709,746
6. Final actuarial value of plan assets, end of year (Item 4, but not less than Item 5.a., or greater than Item 5.b.)	\$ 56,606,215

CALCULATION OF EXCESS INVESTMENT INCOME FOR ACTUARIAL VALUE OF ASSETS

Item	Plan Year Ending December 31,				
	2016	2015	2014	2013	2012
(1)	(2)	(3)	(4)	(5)	(6)
1. Net Investment Income (Table 8 Item 3)*	1,103,719	(474,654)	2,592,522	4,183,353	3,502,626
2. Market value of assets, beginning of year	50,538,106	50,860,858	47,733,993	43,233,178	39,051,052
3. Contributions during year	4,516,067	3,724,211	3,620,621	3,495,421	3,342,519
4. Monthly benefits paid during year	(2,500,411)	(2,335,363)	(2,144,440)	(2,086,861)	(2,012,832)
5. Refunds and lump sums paid during year	(1,233,413)	(1,236,946)	(941,838)	(1,091,098)	(650,187)
6. Administrative expenses paid during year	(165,946)	N/A	N/A	N/A	N/A
7. Expected net investment income at 6.75%					
a. Market value of assets, beginning	3,411,322	3,560,260	3,341,380	3,026,322	2,733,574
b. Contributions	149,929	128,143	124,578	120,271	116,988
c. Benefits	(91,421)	(88,549)	(81,310)	(79,127)	(76,320)
d. Refunds	(40,948)	(42,561)	(32,407)	(37,543)	(22,757)
e. Expenses	(5,509)	N/A	N/A	N/A	N/A
e. Total	3,423,373	3,557,293	3,352,241	3,029,923	2,751,485
8. Excess investment income for year (Item 1 - Item 7.e.)	\$ (2,319,654)	\$ (4,031,947)	\$ (759,719)	\$ 1,153,430	\$ 751,141

* Beginning in 2016 Net Investment Income is net of investment expenses only

GAIN/(LOSS) ON ACTUARIAL VALUE OF ASSETS

Item (1)	Plan Year Ending	
	December 31, 2016 (2)	December 31, 2015 (2)
1. Actuarial assets, beginning of year	\$ 53,607,895	\$ 51,244,222
2. Contributions during year	\$ 4,516,067	\$ 3,724,211
3. Annuity benefits paid during year	\$ (2,500,411)	\$ (2,335,363)
4. Refunds and lump sums paid during year	\$ (1,233,413)	\$ (1,236,946)
5. Administrative expenses paid during year	\$ (165,946)	N/A
6. Assumed net investment income at	6.75%	7.00%
a. Beginning of year assets	\$ 3,618,533	\$ 3,587,096
b. Contributions	149,929	128,143
c. Annuity benefits	(91,421)	(88,549)
d. Refunds and lump sums	(40,948)	(42,561)
e. Administrative expenses	<u>(5,509)</u>	<u>N/A</u>
f. Total	\$ 3,630,584	\$ 3,584,129
7. Expected actuarial assets, end of year (Sum of Items 1 through 6)	\$ 57,854,776	\$ 54,980,253
8. Actuarial assets, end of year	\$ 56,606,215	\$ 53,607,895
9. Asset gain/(loss) (Item 8 - Item 7)	\$ (1,248,561)	\$ (1,372,358)

* Beginning in 2016 Net Investment Income is net of investment expenses only

ESTIMATE OF YIELDS ON ASSETS

	Period Ending December 31, 2016	
	<u>Market Value</u>	<u>Actuarial Value</u>
	(1)	(2)
1. Assets in plan at beginning of year (A)	\$ 50,538,106	\$ 53,607,895
2. Employer contributions	\$ 2,067,639	\$ 2,067,639
3. Employee contributions	\$ 2,448,428	\$ 2,448,428
4. Annuity benefit payments made	\$ (2,500,411)	\$ (2,500,411)
5. Refunds of contributions and lump sums	\$ (1,233,413)	\$ (1,233,413)
6. Administrative expenses paid from trust	\$ (165,946)	\$ (165,946)
7. Investment return net of investment expenses	\$ 1,103,719	\$ 2,382,023
8. Other	<u>0</u>	<u>0</u>
9. Assets in plan at end of year (B) (1 + 2 + 3 + 4 + 5 + 6 + 7 + 8)	\$ 52,258,122	\$ 56,606,215
10. Approximate rate of return on average invested assets		
a. Net investment income (I)*	\$ 1,103,719	\$ 2,382,023
b. Estimated yield based on $(2I)/(A + B - I)$	2.17%	4.42%

* Beginning in 2016, Net investment income is net of investment expenses only

HISTORICAL INVESTMENT RETURNS

<u>Calendar Year</u>	<u>On Market Value</u>	<u>On Actuarial Value</u>
1997	10.12%	8.30%
1998	6.85%	7.68%
1999	6.85%	8.64%
2000	0.23%	5.61%
2001	2.91%	5.01%
2002	-6.77%	1.68%
2003	11.57%	2.13%
2004	12.44%	3.86%
2005	5.23%	4.88%
2006	10.14%	6.63%
2007	5.46%	8.71%
2008	-22.23%	-3.27%
2009	13.94%	9.31%
2010	9.70%	1.94%
2011	-2.47%	0.03%
2012	8.89%	0.48%
2013	9.64%	7.53%
2014	5.40%	6.30%
2015	-0.93%	4.31%
2016	2.17%	4.42%
Five-year Average Return	4.96%	4.58%
Ten-year Average Return	2.45%	3.90%
Fifteen-year Average Return	3.71%	3.87%
Twenty-year Average Return	4.34%	4.90%

AGE AND SERVICE DISTRIBUTION
Distribution of Active Members by Age Groups and Service Groups as of January 1, 2016

Age Group	Completed Years of Service												Total	
	0	1	2	3	4	5-9	10-14	15-19	20-24	25-29	30-34	35 & Over		
	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.	No. & Avg. Comp.		
Under 25	23	20	10	1		2								56
	\$ 37,215	\$ 38,489	\$ 44,741	\$ 43,682										\$ 39,473
25 – 29	39	23	16	14	10	15								117
	\$ 44,105	\$ 44,146	\$ 56,276	\$ 53,839	\$ 50,335	\$ 54,165								\$ 48,764
30 – 34	14	22	22	21	11	56	18	1						165
	\$ 53,242	\$ 52,011	\$ 53,362	\$ 51,655	\$ 64,748	\$ 75,258	\$ 69,020	\$ 51,673						\$ 62,843
35 – 39	9	14	10	10	8	40	53	26						170
	\$ 53,256	\$ 53,127	\$ 53,290	\$ 67,668	\$ 72,326	\$ 67,964	\$ 77,714	\$ 65,278						\$ 67,917
40 – 44	12	11	12	5	5	35	43		17	2				180
	\$ 42,040	\$ 49,491	\$ 48,198	\$ 59,089	\$ 69,967	\$ 69,790	\$ 71,566	\$ 77,777	\$ 73,867	\$ 109,290				\$ 67,902
45 – 49	13	10	9	6	3	29	37	62	35	17	2			223
	\$ 50,367	\$ 53,189	\$ 72,428	\$ 71,950	\$ 59,196	\$ 60,806	\$ 67,645	\$ 73,598	\$ 83,435	\$ 91,719	\$ 121,286			\$ 71,745
50 – 54	5	10	4	7	2	16	25	53	25	48	25			220
	\$ 39,478	\$ 79,915	\$ 74,579	\$ 52,437	\$ 74,497	\$ 62,493	\$ 57,942	\$ 72,507	\$ 86,659	\$ 90,846	\$ 84,828			\$ 76,136
55 – 59	5	9	5	5	8	20	23	31	18	29	25	4		182
	\$ 48,829	\$ 63,888	\$ 98,632	\$ 58,753	\$ 58,968	\$ 55,567	\$ 72,987	\$ 63,853	\$ 78,079	\$ 79,823	\$ 84,026	\$ 82,974		\$ 71,429
60 – 64		3	1	2	4	12	14	11	18	7	6	1		79
		\$ 44,588	\$ 46,044	\$ 122,188	\$ 71,365	\$ 87,743	\$ 52,315	\$ 64,183	\$ 73,624	\$ 70,000	\$ 89,797	\$ 54,338		\$ 71,004
65 & Up						4	7	8	2	5	1			27
						\$ 83,932	\$ 59,446	\$ 61,143	\$ 56,463	\$ 88,025	\$ 159,950			\$ 72,370
Total	120	122	89	71	51	229	220	230	115	108	59	5		1,419
	\$ 45,012	\$ 51,290	\$ 57,555	\$ 59,031	\$ 63,290	\$ 67,882	\$ 69,169	\$ 70,804	\$ 79,879	\$ 86,883	\$ 87,503	\$ 77,247		\$ 67,206
	Average:	Age	44.15		Number of	Fully vested		966		Males	973			
		Service	11.97			Non-vested		453		Females	446			

STATEMENT OF ACTUARIAL ASSUMPTIONS AND METHODS
(Adopted Effective January 1, 2016)

I. Actuarial Assumptions

A. Assumed Rate of Investment Return – 6.75%, comprised of a 2.50% inflation rate and a 4.25% real return assumption (net of investment expenses).

B. Individual Salary Increases –

Salary increases are assumed to occur once a year, on January 1. Therefore, the pay used for the period year following the valuation date is equal to the reported pay for the prior year, increased by the salary increase assumption. Salaries are assumed to increase by the following graduated service-based scale.

<u>Years of Service</u>	<u>Rate (%)</u>
1	10.50%
2	7.50%
3	7.00%
4	6.50%
5	6.00%
6	5.50%
7	5.25%
8-10	4.75%
11	4.50%
12-13	4.25%
14-16	4.00%
17-24	3.75%
25 +	3.50%

C. Mortality:

Pre-Retirement - For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 54.5% and female rates multiplied by 51.5%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Post-Retirement (Healthy) - For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Post-Retirement (Disabled) - For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. In addition, a 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

D. Disability – Sample rates follow:

Age	Males & Females
20	0.000004
25	0.000025
30	0.000099
35	0.000259
40	0.000494
45	0.000804
50	0.001188
55	0.001647
60	0.002180
65	0.002787

E. Retirement – Sample rates follow:

Age	Male Entry Age Groups *			Female Entry Age Groups *		
	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over	Ages 32 & Under	Ages 33 - 47	Ages 48 & Over
40-49	0.06	-	-	0.06	-	-
50-52	0.08	-	-	0.08	-	-
53	0.08	0.10	-	0.08	0.10	-
54	0.08	0.10	-	0.11	0.10	-
55-59	0.14	0.10	-	0.11	0.10	-
60	0.20	0.15	0.10	0.14	0.15	0.10
61	0.25	0.30	0.20	0.28	0.26	0.20
62	0.32	0.25	0.12	0.28	0.17	0.12
63	0.32	0.23	0.12	0.28	0.17	0.12
64	0.32	0.35	0.20	0.28	0.22	0.20
65	0.32	0.32	0.20	0.28	0.27	0.20
66-69	0.22	0.22	0.17	0.22	0.22	0.17
70-74	0.20	0.22	0.25	0.22	0.22	0.25
75 and over	1.00	1.00	1.00	1.00	1.00	1.00

* Retirement rates prior to age 62 are reduced by 90%.

F. Termination Rates

- For the first 10 years of service, the base table rates vary by gender, entry age, and length of service. The base table is multiplied by a factor of 76.4% (based on the experience of the City). A further multiplier is applied depending on an employee's classification.

Category	Select Period	Ultimate Period
Police	88%	79%
General	108%	115%

A sample of the base rates follows:

Males

Age	SERVICE									
	0	1	2	3	4	5	6	7	8	9
20	0.2913	0.2617	0.2180	0.1927	0.1845	0.1669	0.1525	0.1240	0.1020	0.0814
25	0.2647	0.2263	0.1808	0.1550	0.1425	0.1264	0.1145	0.1003	0.0924	0.0755
30	0.2445	0.2047	0.1606	0.1319	0.1076	0.0995	0.0894	0.0773	0.0743	0.0620
35	0.2499	0.2065	0.1573	0.1262	0.1048	0.0991	0.0846	0.0717	0.0620	0.0565
40	0.2461	0.2055	0.1557	0.1210	0.1044	0.0941	0.0803	0.0708	0.0599	0.0575
45	0.2262	0.1930	0.1552	0.1217	0.1050	0.0924	0.0811	0.0709	0.0603	0.0574
50	0.2073	0.1726	0.1408	0.1146	0.1014	0.0885	0.0805	0.0714	0.0602	0.0576
55	0.1998	0.1664	0.1262	0.1071	0.0859	0.0861	0.0769	0.0680	0.0608	0.0559
60	0.1994	0.1539	0.1228	0.1058	0.0788	0.0865	0.0751	0.0682	0.0570	0.0547
65	0.1995	0.1459	0.1235	0.1060	0.0801	0.0865	0.0755	0.0698	0.0545	0.0549
70	0.1995	0.1473	0.1234	0.1060	0.0800	0.0865	0.0754	0.0695	0.0550	0.0549

Females

Age	SERVICE									
	0	1	2	3	4	5	6	7	8	9
20	0.3023	0.2783	0.2215	0.2092	0.1992	0.2016	0.1532	0.1535	0.1560	0.1570
25	0.2775	0.2403	0.2062	0.1957	0.1706	0.1659	0.1366	0.1349	0.1183	0.1122
30	0.2568	0.2182	0.1944	0.1758	0.1344	0.1344	0.1272	0.1123	0.0971	0.0802
35	0.2418	0.2113	0.1800	0.1435	0.1270	0.1235	0.1109	0.1082	0.0997	0.0767
40	0.2239	0.1988	0.1610	0.1339	0.1291	0.1094	0.1020	0.0922	0.0832	0.0731
45	0.2186	0.1849	0.1423	0.1334	0.1051	0.1015	0.0892	0.0782	0.0703	0.0723
50	0.2196	0.1789	0.1344	0.1226	0.0884	0.0879	0.0821	0.0722	0.0673	0.0616
55	0.2195	0.1733	0.1347	0.1196	0.0832	0.0804	0.0711	0.0703	0.0683	0.0549
60	0.2195	0.1519	0.1347	0.1169	0.0796	0.0840	0.0644	0.0637	0.0428	0.0378
65	0.2195	0.1427	0.1347	0.1147	0.0798	0.0855	0.0665	0.0591	0.0275	0.0280
70	0.2195	0.1444	0.1347	0.1151	0.0798	0.0852	0.0662	0.0599	0.0302	0.0297

2. After 10 years of service, base termination rates vary by gender and by the number of years remaining until first retirement eligibility. The base table is multiplied by 76.4%. A further multiplier is applied depending on an employee's classification as shown above.

Base rates:

Years from Retirement	Male	Female
1	1.81%	2.31%
2	2.41%	3.12%
3	2.85%	3.72%
4	3.21%	4.21%
5	3.52%	4.63%
6	3.80%	5.01%
7	4.05%	5.35%
8	4.28%	5.67%
9	4.49%	5.96%
10	4.69%	6.24%
11	4.88%	6.50%
12	5.06%	6.75%
13	5.23%	6.99%
14	5.39%	7.22%
15	5.55%	7.43%

G. Percent Married – 80%.

H. Payroll Growth Rate – 3.00%. Payroll is assumed to increase 2.50% due to inflation and 0.50% due to wage growth above inflation.

I. Administrative Expenses – The expected administrative expenses are added to the plan's normal cost. For the January 1, 2017 valuation, administrative expenses are assumed to be 0.14% of payroll.

II. Actuarial Cost Method – Entry Age Normal

An Actuarial Cost Method is a technique by which actuaries develop contribution rates for defined benefit retirement plans. There are a number of Actuarial Cost Methods in current use which would be appropriate for use with a plan such as the SBP.

Under the Entry Age Normal Method, the contribution rate is sum of (i) the normal cost rate and (ii) a rate that will amortize the unfunded actuarial liability.

The Actuarial Accrued Liability (AAL) at a valuation date is the value of benefits attributable to service prior to that date. The Normal Cost is the value at the valuation date of the expected change in AAL over the year beginning on the valuation date. In other words, the Normal Cost is the actuarial present value of the portion of the total benefit expected to be paid which is attributed to this year.

The current contribution rate is appropriate if such rate results in a reasonable amortization period for the UAAL.

III. Actuarial Value of Assets

The actuarial value of assets is equal to the market value of assets less a five-year phase in of the Excess (Shortfall) between expected investment return and actual income with the resulting value not being less than 80% or more than 120% of the market value of assets.

IV. Change in Assumptions and Methods Since Prior Valuation

There have been no changes to the actuarial methods and assumptions since the previous valuation.

SUMMARY OF PRINCIPAL PROVISIONS OF THE PLAN

- I. Eligibility for Participation – All full time regular employees of the City who are eligible to participate in TMRS are eligible to participate in the Plan as of the later of the employee's date of hire and the date the employee becomes full-time and eligible to participate in TMRS. Fire Civil Services Employees are excluded.
- II. Participant Contributions – All participants make contributions of 2.5% of Annual Earnings.

- III. Earnings Recognized

Annual Earnings – Total cash remuneration as included on the employee's W-2 form for the year plus any reductions in salary under a plan described in the IRS Code.

Final Average Earnings – Average earnings in the three consecutive calendar years of service producing the highest such average.

- IV. Service Recognized

Service – 1/12 of a year of service for each month for which participant has been employed by the employer.

Benefit Service – 1/12 of a year of service for each month for which the participant has made a contribution to the Plan. In addition, beginning January 1, 1993, service for each month of employment prior to March 1, 1984 is included for benefit purposes.

- V. Normal Retirement

Eligibility – Retirement at or after attainment of age 65 and completion of 5 years of service.

Benefit – A monthly income equal to 1/12 of 0.6% of Final Average Earnings for each year of Benefit Service.

Forms of Benefit – Normal form is an income payable for the lifetime of the retiree. Options are available on an actuarial equivalent basis.

VI. Early Retirement

Eligibility – Retirement after satisfying any of the following:

- a. Attainment of age 60 and completion of 5 years of service,
- b. Completion of 20 years of service at any age.

Benefit – A monthly income calculated as described above under Normal Retirement, reduced by 1/180 for each of the first 60 months and 1/360 for each month in excess of 60 by which Early Retirement Date precedes the Normal Retirement Date.

Options – Same as for Normal Retirement.

VII. Disability

Eligibility – A participant is disabled under Section 8.01 of the Plan as defined below:

- a. For the first 18 months the participant must be unable to perform the duties of his/her occupation,
- b. For the next 24 months the participant must be unable to perform the duties of any occupation,
- c. For the period following the first 42 months, the participant must be unable to engage in any substantial gainful employment.

Benefit – A monthly income equal to 1/12 of 70% annualized pay rate at date of disablement, reduced by disability income from:

- a. TMRS,
- b. Social Security (including dependent benefits),
- c. Workers' compensation.

VIII. Survivor Benefits

Eligibility – Death from any cause while an employee.

Benefit

- a. Dependent Children – An eligible child shall receive a monthly benefit equal to all or a portion of 1/12 of 100% of the deceased employee's retirement benefit based on pay history to date of death and service projected to Normal Retirement Date. If there is only one eligible child, the child shall receive the entire benefit. If there is more than one eligible child, then the benefit shall be divided equally among all eligible children. The benefit is payable until attainment of age 25 or earlier death (minimum benefit duration - 30 months).
- b. Surviving Spouse – If a Dependent Children benefit is not payable and there is a surviving spouse, then a surviving spouse benefit will be payable. The benefit will be equal to a single sum benefit equal to the larger of 96 payments of 25% of the deceased employee's projected monthly Normal Retirement Benefit (as described above), and the total contributions made by the participant to the Plan (accumulated without interest). If the employee was eligible for retirement upon his or her death, then the surviving spouse shall have the option to elect to receive the annuity that would have been payable if the employee had retired the day before his or her death and had elected the Joint and 100% Contingent form of payment.

IX. Termination Benefit

Eligibility – Termination of employment for reasons other than retirement, disability or death.

Benefit

- a. With less than 5 years of service – Refund, in a lump-sum, of all contributions made by the participant to the Plan, without interest.
- b. With 5 or more years of service – Participant may select either a refund of his/her contributions (as described above) or a monthly income payable at age 65 equal to the retirement benefit earned to date of termination. If eligible, early commencement and optional forms are available.

X. Plan Amendments

- a. Effective January 1, 1993 – Benefit service includes service back to date of employment. Benefit service was previously limited to the later of March 1, 1984 and the date of employment.
- b. Effective January 1, 1993 – Members receiving a benefit shall receive an increase based on the greater of 1 and 2 below:
 - 1. Recalculation of their benefit using service back to date of employment.
 - 2. A compound cost of living adjustment of 70% of the CPI from their date of retirement to January 1, 1993.
- c. Effective January 1, 1997 – Members receiving a benefit shall receive an increase based on the greater of 1 and 2 below:
 - 1. A compound cost of living adjustment of 70% of the CPI from the later of their date of retirement or January 1, 1993 to January 1, 1997.
 - 2. A compound cost of living adjustment of 3.0%.
- d. Effective January 1, 1998 – The gross monthly disability benefit was increased to 70% of pay. The maximum monthly benefit cap of \$3,000 was eliminated.
- e. Effective January 1, 1999 – Members (not disabled) and beneficiaries receiving a benefit shall receive a 20% increase.
- f. Effective January 1, 1999 – The multiplier in the plan formula has been increased from 0.5% to 0.6%.
- g. Effective January 1, 1999 – The single sum value payable to the spouse of a deceased member is increased from 125% of the deceased employee’s projected monthly Normal Retirement Benefit to 200% of such amount.
- h. Effective January 1, 1999 – Retirees who retired prior to January 1, 1999, who elected a joint lives optional form of payment, and whose joint annuitant is still alive as of January 1, 1999 shall be treated as if they had elected a “pop-up” option.

- i. Effective January 1, 2001 – If an employee who is eligible for retirement dies while in active service and a surviving spouse benefit is payable, then the surviving spouse shall have the option to elect to receive an annuity equal to the amount that would have been payable if the employee had retired the day prior to his or her date of death and had elected the Joint and 100% Contingent optional form of payment.
- j. Effective January 1, 2001 – An optional form of payment has been added to permit a retiree to take an actuarially equivalent lump-sum payment.
- k. Effective January 1, 2003 – Members receiving a benefit who retired on or before January 1, 2002, shall receive an increase equal to 70% of the compound cost of living adjustment of the CPI from the later of 1) the members date of retirement or 2) January 1, 1997, to January 1, 2003.
- l. Effective January 1, 2006 – The service requirement for plan vesting changed from 10 years to 5 years of Credited Service. This also changes the eligibility for Early Retirement to a minimum age of 60 with 5 years of Credited Service. Similarly, the Early Retirement eligibility at 25 years of credited service at any age was changed to 20 years of credited service.
- m. Effective November 2, 2006 – Revised Article 8 on Disability Retirement to require that disability must be supported by Objective Medical Evidence; clarify the requirements for approval at the each of the three levels of disability retirement benefit; establish a deadline for submitting application; and set consequences for not submitting required documentation for ongoing review within a reasonable timeline. The revision also includes the requirement that disability retirement benefit shall be discontinued for noncompliance with attending physician's prescribed medical treatment or rehabilitative treatment.