

November 10, 2011

City of Rockville

Pension Plan

Plan year beginning April 1, 2011
and ending March 31, 2012

HayGroup®



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1. Executive Summary

Current Plan Year Costs (Fiscal Year 2012)

This report presents the results of our actuarial valuation of the City of Rockville Retirement Plan as of April 1, 2011, including the contribution required.

The Annual Required Contribution (ARC) for the City of Rockville Retirement Plan for fiscal year 2012 is \$3,563,104. The ARC is in addition to employee contributions and represents a minimum deposit level equaling the employer share of the normal cost plus the amortization of the unfunded liabilities as of March 31, 2012 over a twenty-year period.

Deposit Information

A summary of the results of the actuarial valuation is as follows:

Total normal cost plus expense	\$ 2,135,176
Employee normal cost (expected employee contributions)	631,253
Employer normal cost	1,503,923
Total normal cost as a percentage of total member compensation	6.08 %
ARC	3,563,104
ARC as a percentage of total member compensation	10.14 %

Analysis

The ARC for the City of Rockville Defined Benefit Pension Plan increased in the 2011 plan year (fiscal 2012) to approximately \$3.56 million. The ARC decreased due the recognition of prior assets losses that were mostly offset by the positive investment return in FY 2011 and the much lower than expected pay increases from 2010 to 2011. The actuarial value of assets increased slightly from last year due to the recognition of significant deferred losses from 2007 and 2008 and modest deferred gains from 2009 and 2010. (See page 16 for a full development of the actuarial value of assets.) Overall, the funded status of the plan increased from 75.1% to 75.6%.

Similar to plan reports in previous years, we have included a projection of the annual required contributions of the plan; however, this year the table has been expanded to show 5 projection years. This may be found beginning on page 5.

Changes from Prior Valuation

There have been no significant changes in plan provisions, methods, and assumptions since the prior valuation. When replicating the prior actuarial results, our liabilities were less than 1 percent lower in total than what Principal valued on March 31, 2010.

Funding Method

The Entry-Age Normal Cost Method was used to determine liabilities and costs related to retirement, termination, disability and pre-retirement death benefits. The normal cost is calculated as a level annual funding cost from entry age to the expected decrement date.

The entry age normal cost method is used for this valuation. This method estimates the total cost of all projected plan benefits based on the assumptions shown in this report and the participant data supplied to us.

Costs are spread evenly from a member's date of hire to assumed retirement age. This annual cost is spread as a level percentage of compensation. The sum of each member's annual cost is the normal cost of the plan.

The value of calculated costs for past years is the actuarial accrued liability (AAL). Each year the unfunded actuarial liability (UAAL) is the AAL less the actuarial value of assets. A value less than zero represents a surplus.

The annual required contribution is equal to the normal cost of the plan, plus a 20-year amortization of the plan's UAAL.

Supplemental Employee Contributions

As of April, 2011, if the City contribution to the defined benefit plan on behalf of Administrative, Union and Police employees exceeds 6.5% of the earnings of those employees, the City may, at its discretion, impose a "Supplemental Employee Contribution" for the following year.

The amount of the Supplemental Employee Contributions is limited to no more than 50% of the excess of the city contribution over 6.5% of the earnings of the Administrative, Union, and Police employees. See page 6 for the calculation of the Supplement Employee Contribution.

2. Funding Calculations

Deposit Information

Normal Cost		
	Fiscal 2012 April 1, 2011	Fiscal 2011 April 1, 2010
Total normal cost	\$2,135,176	\$2,015,449
Employee normal cost (expected contributions from employees not yet eligible for normal retirement)	631,253	617,346
Employer normal cost	1,503,923	1,398,103
Total member compensation	35,144,886	33,863,526
Total normal cost as a percentage of member compensation	6.08%	5.95%
Annual Required Contributions		
Employer normal cost	\$ 1,503,923	\$ 1,398,103
Amortization amounts	1,802,902	1,829,964
Valuation interest to the end of the plan year	256,279	250,175
Annual Required Contribution (ARC)	\$ 3,563,104	\$ 3,478,242
ARC as percentage of total member compensation	10.14%	10.27 %

The ARC represents the employer contribution to the plan and is in addition to employee contributions. The member compensation includes expected salary growth during the fiscal year.

Development of Normal Cost

The normal cost is the portion of cost assigned to each year. Under the entry age normal cost method used in this valuation, each member's annual cost is calculated as described in the Assumptions and Methods section. The sum of the annual costs for all members plus an estimate of plan expenses to be paid from the fund is the total normal cost for each year.

a) Normal cost for Administrative Personnel and Union	\$ 1,520,858
b) Normal cost for Police	522,739
c) Estimated expenses	<u>91,579</u>
d) Total normal cost (a+b+c)	\$ 2,135,176

Unfunded Actuarial Accrued Liability

a) Unfunded actuarial liability (as of 4/01/2010)	\$ 19,724,813
b) Changes made during the plan year	0
c) Employer normal cost (as of 4/01/2010)	1,398,103
d) Interest on the above items	1,637,026
e) Total (a+b+c+d)	\$ 22,759,942
f) Employer contributions*	-
g) Interest on employer contribution	-
h) Total (f+g)	-
i) Expected unfunded actuarial accrued liability (as of 4/01/2011) (e-h)	\$ 22,759,942
j) Actuarial accrued liability	\$ 79,794,044
k) Actuarial value of assets	60,360,919
l) Actual unfunded actuarial accrued liability (as of 4/01/2011)	\$ 19,433,125
m) Actuarial (gain) or loss (actual less expected unfunded actuarial accrued liability) (l-i)	\$(3,326,817)

**The employer contribution was made after the end of the plan year.*

Schedule of Amortization Bases

The City's cost method allocates a portion of plan funding to be amortized in equal annual installments, in addition to the normal cost. The period over which the bases can be amortized is described in the laws and/or regulations.

Date Created	Reason	Remaining Period (Years)	Current Unfunded Balance	Minimum Annual Amortization
4/01/2011	Unfunded Actuarial Accrued Liability	20	\$ 19,433,125	\$ 1,802,902

Benefits Index Option

As of April 1, 2011, there is a group of 83 retirees and beneficiaries under the Benefits Index Option with Principal. The City of Rockville is required to maintain a minimum level of assets with Principal; otherwise these employees will be annuitized at current market costs. The benefits due to these retirees are paid from the Principal accounts.

If the Benefit Index Option retirees had been converted to annuities on March 31, 2011, the liability would increase from \$9.68 million to \$12.72 million. The increase is mainly due to the low interest rate environment in the annuity market.

Principal requires that the funds exceed the annuitized value of the retiree benefits. They determine the amount needed to cover the Benefits Index retirees through a two step formula. First, they increase the annuitized liability by 10% as part of a threshold test. Next they take into consideration the volatility of the assets classes and come up with a weighted volatility factor that is used to increase the amount of funds needed to cover the retiree payments.

On March 31, 2011, the funds with Principal were invested in the following manner and with the following assumed volatility factors:

<u>Principal Fund Name</u>	<u>Balance</u>	<u>Volatility Factor</u>
Bond and Mtg SA-I2	\$13,972,335	0.95
LargeCap S&P 500 Index SA-R6	\$15,667,351	0.75
Diversified Intl Sep Acct-R6	\$11,613,087	0.60
Total	\$41,252,773	0.7755

The weighted average volatility factor is divided into the increased annuitized liability to derive the Benefit Index as of a particular date. As of March 31, 2011, the Benefits Index equaled approximately \$18.04 million (i.e., $\$12.72 \times 1.1 / 0.7755$). With over \$40 million invested with Principal, the Benefit Index is easily covered.

It is important to note that the volatility factors have a significant impact on the high level of assets required to be held by Principal. If all of the Principal funds were invested in the Bond fund, which has the least volatility, then the Benefit Index would decrease from \$18.04 million required to \$14.73 million required.

3. Funding Projections

Annual Required Contribution Projections

As part of the actuarial valuation, we have projected contribution estimates for 5 years into the future based on the current year results. These estimates utilize the same assumptions and the census data as of 04/01/2011. Additionally, asset returns are assumed to be 7.75% for all future years.

Any deviation in assumption, census demographics, or asset performance would impact these approximations.

	Fiscal 2012 April 1, 2011	FY 2013 (\$ in millions)	FY 2014 (\$ in millions)	FY 2015 (\$ in millions)	FY 2016 (\$ in millions)	FY 2017 (\$ in millions)
Interest Rate	7.75 %	7.75 %	7.75 %	7.75 %	7.75 %	7.75 %
Return on Market Assets		7.75 %	7.75 %	7.75 %	7.75 %	7.75 %
Actuarial Accrued Liability	\$79,794,044	\$83.91	\$88.34	\$94.12	\$100.29	\$106.89
Actuarial Value of Assets	60,360,919	63.00	71.71	80.77	88.22	95.23
Unfunded Liability	19,433,125	20.91	16.63	13.35	12.07	11.66
Funded Ratio	75.6 %	75.1 %	81.2 %	85.8 %	88.0 %	89.1 %
Amortization of Unfunded	1,802,902	1.94	1.54	1.24	1.12	1.08
Employer Normal Cost	1,503,923	1.56	1.62	1.73	1.85	1.98
Interest	256,279	0.27	0.24	0.23	0.23	0.24
ARC	\$ 3,563,104	\$ 3.77	\$ 3.40	\$ 3.20	\$ 3.20	\$ 3.30

Supplemental Employee Contribution Projections

As documented in the provisions of the plan, the City of Rockville maintains the right to enforce a Supplemental Employee Contribution as it pertains to the defined benefit portion of the pension plan. Specifically, as of any April 1, if the City contribution to the Defined Benefit Option of the plan made on behalf of employees exceeds 6.50% of the earnings of the employees, then the City reserves the right to impose a Supplemental Employee Contribution for the following calendar year.

This Supplemental Employee Contribution can be no more than 50% of the excess of the City contribution over 6.50% of earnings for employees. Such a contribution would be treated as a contribution to the Defined Benefit Option. The following table represents the calculation of the current Supplement Employee Contribution plus 5 projection years.

Administrative and Union Employees

	Fiscal 2012 April 1, 2011	FY 2013 (\$ in millions)	FY 2014 (\$ in millions)	FY 2015 (\$ in millions)	FY 2016 (\$ in millions)	FY 2017 (\$ in millions)
Admin compensation	\$26,275,739	\$27.59	\$28.97	\$31.00	\$33.17	\$35.49
Union compensation	4,428,528	4.65	4.88	5.22	5.59	5.98
Total subgroup compensation	\$30,704,267	32.24	\$33.85	\$36.22	\$38.76	\$41.47
Total ARC	\$ 3,563,104	\$3.77	\$3.40	\$3.20	\$3.20	\$3.30
Admin and Union ARC	3,061,989	\$3.24	2.92	2.75	2.75	2.84
ARC as a % of compensation	9.97 %	10.05 %	8.63 %	7.59 %	7.09 %	6.85 %
Excess over 6.5%	3.47 %	3.55 %	2.13 %	1.09 %	0.59 %	0.35 %
50% of excess	1.74 %	1.77 %	1.06 %	0.55 %	0.30 %	0.17 %
Maximum Supplemental Employee Contribution	\$ 534,254	\$0.57	\$0.36	\$0.20	\$0.12	\$0.07

Police Employees

	Fiscal 2012 April 1, 2011	FY 2013 (\$ in millions)	FY 2014 (\$ in millions)	FY 2015 (\$ in millions)	FY 2016 (\$ in millions)	FY 2017 (\$ in millions)
Police compensation	\$4,440,618	\$4.66	\$4.89	\$5.23	\$5.60	\$5.99
Total ARC	\$3,563,104	\$3.77	\$3.40	\$3.20	\$3.20	\$3.30
Police ARC	501,115	\$0.53	0.48	0.45	0.45	0.46
ARC as a % of compensation	11.28 %	11.37 %	9.82 %	8.60 %	8.04 %	7.68 %
Excess over 6.5%	4.78 %	4.87 %	3.32 %	2.10 %	1.54 %	1.18 %
50% of excess	2.39 %	2.44 %	1.66 %	1.05 %	0.77 %	0.59 %
Maximum Supplemental Employee Contribution	\$106,131	\$0.11	\$0.08	\$0.05	\$0.04	\$0.04

Employer Thrift Plan Matching Contributions Projections

For both Union and Administrative Personnel enrolled in the Thrift Plan, employees can contribute 1%, 2%, 3%, 4%, or 5% of earnings to the Thrift Plan. For each \$1.00 contributed by a member, the City of Rockville contributes \$0.50 to the plan.

While this valuation only reflects the Defined Benefit Plan portion of liabilities, we are able to estimate the cash outlay of the City's matching contribution to the Thrift Plan based on current census data, pay information, salary scale assumptions, and employee contribution percentages.

	Fiscal 2012 April 1, 2011	Fiscal 2013 April 1, 2012	Fiscal 2014 April 1, 2013
Total Thrift Plan Pay Only	\$ 27,460,000	\$ 28,560,000	\$ 29,770,000
Employee Contribution to Thrift Plan	1,180,000	1,228,000	1,280,000
City Matching Contribution to Thrift Plan	\$ 590,000	\$ 614,000	\$ 640,000

Allocation of 2011 Plan Year Contribution (Fiscal 2012)

	Admin and Union	Police	Total
2011 employer normal cost	\$ 1,292,417	\$ 211,506	\$ 1,503,923
Allocation percentage	85.936 %	14.064 %	100.000 %
Allocated Annual Required Contribution	\$ 3,061,989	\$ 501,115	\$ 3,563,104
Total annual member compensation	\$ 30,704,267	\$ 4,440,618	\$ 35,144,885
Allocated ARC as a percentage of compensation	9.97 %	11.28 %	10.14%
Discretionary Supplemental Contribution for next year	\$ 534,254	\$ 106,131	\$ 640,385

4. Asset Information

Plan Assets are measured at the beginning of each plan year. Contributions you may have already made for the 2011 plan year (fiscal 2012) are not included.

Both market value and actuarial value for the 2011 plan year (fiscal 2012) are shown below. Actuarial value is used for all funding calculations. You see the derivation of the Actuarial Value on the following page and can identify the reason for any difference between Market Value and Actuarial Value in the Methods Selected by Plan Sponsor section of Assumptions and Methods.

Market Value of Plan Assets	
Investments held by Principal Financial Group	\$ 42,217,909
Investments held by Prudential Financial Inc.	18,102,055
Total Value	\$60,319,964

The actuarial value of plan assets is **\$ 60,450,434** for the current year. The actuarial value includes a contribution made after the end of the plan year in the amount of \$3,478,242. Without this contribution included, the Actuarial Value of Assets is \$3,347,772 below the Market Value of Assets.

The actuarial value of assets smoothes investment gains and losses over five years at 20 percent per year. The asset valuation method changed two years ago and is not fully phased in. For this purpose, a gain or loss is the difference between the actual return and the expected long-term investment return (currently 7.75 percent). Any future gains or losses are also recognized over five years. After the method is in place in its fifth year, the asset value recognizes 20 percent of the current year's gain or loss and 20 percent of each of the prior four years of gains and losses. By combining five years of gains and losses, the asset fluctuations are dampened from experiencing drastic upward and downward swings in value. 80% of the 2011 gains, 60% of the 2010 gains, 50% of the 2009 losses and 25% of the 2008 losses are deferred to future years. As a result, the actuarial value of assets for 2011 is still slightly above market value. A full development of this value can be found on the following page.

Development of Actuarial Value of Assets

(1)	Actuarial value of assets as of 4/01/10	\$ 59,550,874
(2)	Contributions	
(a)	Employer contributions	0
(b)	Employee contributions	887,275
(3)	Benefit payments & expenses	(3,158,046)
(4)	Interest on (1), (2a), (2b), and (3) at 7.75%	<u>4,527,200</u>
(5)	Expected actuarial value of assets as of 4/01/11	\$ 61,807,303
(6)	Market value of assets as of 4/01/11	\$ 60,319,964
(7)	Development of amount of difference to be amortized	
(a)	Unrecognized amount from 4/01/08 25% x 2008 Total (see chart below)	(1,762,680)
(b)	Unrecognized amount from 4/01/09 50% x 2009 Total (see chart below)	(11,725,745)
(c)	Unrecognized amount from 4/01/10 80% x 2010 Total (see chart below)	<u>7,804,494</u>
(d)	Difference between expected actuarial value and market value 4/01/11 (6) – (5) – (7a) – (7b) – (7c)	\$4,196,592
(8)	Unrecognized market value 4/01/11 (see chart below)	\$3,347,772
(9)	Actuarial Value of assets 4/01/11 (6) – (8)	\$56,972,192
(10)	Employer contributions receivable after 4/01/11	\$3,478,242
(11)	Adjusted Actuarial value of assets as of 4/01/11 (9) + (10)	\$ 60,450,434

Allocation of Deferred Gains and (Losses)

Allocation Year	Plan Year			
	2008	2009	2010	2011
2008	\$ (1,762,680)			
2009	(1,762,680)	\$ (5,862,872)		
2010	(1,762,680)	(5,862,872)	\$ 1,951, 123	
2011	(1,762,680)	(5,862,872)	1,951, 123	\$ 839,318
2012		(5,862,873)	1,951, 123	839,318
2013			1,951, 124	839,318
2014			1,951, 124	839,319
2015				839,319
Total	\$ (7,050,720)	\$ (23,451,489)	\$ 9,755,617	\$ 4,196,592
Deferred	\$ 0	\$ (5,862,873)	\$ 5,853,371	\$ 3,357,274
Unrecognized Market Value (sum of Deferred row above)				\$ 3,347,772

Historical Investment Returns

The following table represents the investment returns by calendar year since February 1, 2002. Also presented are the compounded returns for the last 1 through 9 years.

<i>Calendar Year Ended</i>	<i>Approximate Rate of Return</i>	<i>Level Compounded Annual Return Over Last "n" Years</i>	
	<i>Market Value</i>	<i>"n"</i>	<i>Market Value</i>
December 31, 2010	16.2%	1	16.2%
December 31, 2009	16.4%	2	16.3%
December 31, 2008	-31.8%	3	-2.7%
December 31, 2007	6.7%	4	-0.4%
December 31, 2006	13.7%	5	2.2%
December 31, 2005	6.8%	6	3.0%
December 31, 2004	10.4%	7	4.0%
December 31, 2003	17.5%	8	5.6%
December 31, 2002	-4.8%	9	4.4%

5. Data and Assumptions

Census Data

	4/01/2010	4/01/2011	Change
Number of Covered Participants			
Actives	541	531	-10
Terminated Vested	193	190	-3
Retirees	172	184	+12
Total	906	905	-1
Average Age			
Actives	45.1	45.5	+0.4
Terminated Vested	44.1	44.6	+0.5
Retirees	69.7	69.3	-0.4
All	49.5	50.2	+0.7
Average Years of Service			
Actives	10.8	10.7	-0.1
Monthly Accrued Benefits			
Terminated Vested	\$35,229	\$30,128	-14.5 %
Retirees	231,156	256,790	+11.1 %

Census Reconciliation

	Police	Admin DB	Admin TP	Union DB	Union TP	Total
Active Participants						
Count on 4/01/2010	56	36	342	3	104	541
New entrants	3		19		9	31
Plan to plan transfer				-2	2	0
Return to active status			2			2
Terminated, non-vested					-8	-8
Terminated, vested	-1		-19		-1	-21
Retired with annuity	-1	-3	-10			-14
Death						0
Count on 4/01/2011	57	33	334	1	106	531
Inactive Participants						
Count on 4/01/2010	11	6	161	1	14	193
New and inactive						0
Return to active status			-2			-2
Retired with annuity			-2			-2
Terminated, lump sum		-1	-17		-1	-19
Terminated, vested			19		1	20
Death						0
Count on 4/01/2011	11	5	159	1	14	190
Retired Participants						
Count on 4/01/2010	6	89	48	25	4	172
New retired	1	3	12			16
Death/Fixed Period Ends		-2	-4	-2		-8
Beneficiary			4			4
Count on 4/01/2011	7	90	60	23	4	184

Profiles of Active Population

Distribution of the Active Male Population by Age and Service Groups

<i>Age as of April 1, 2011</i>	<i>Credited Years of Service as of April 1, 2011</i>							<i>Total</i>
	<i>0-4</i>	<i>5-9</i>	<i>10-14</i>	<i>15-19</i>	<i>20-24</i>	<i>25-29</i>	<i>30+</i>	
24 and under	4	0	0	0	0	0	0	4
25 – 29	16	5	1	0	0	0	0	22
30 – 34	22	13	4	0	0	0	0	39
35 – 39	18	14	12	4	0	0	0	48
40 – 44	16	12	8	7	0	0	0	43
45 – 49	15	13	15	9	18	1	0	71
50 – 54	11	10	12	7	9	10	1	60
55 – 59	3	6	7	5	9	4	4	38
60 – 64	2	3	5	3	3	4	5	25
65 & over	0	1	2	1	0	0	2	6
Totals	<u>107</u>	<u>77</u>	<u>66</u>	<u>36</u>	<u>39</u>	<u>19</u>	<u>12</u>	<u>356</u>

Average Age: 45.11

Average Past Service: 10.95

Distribution of the Active Female Population by Age and Service Groups

<i>Age as of April 1, 2011</i>	<i>Credited Years of Service as of April 1, 2011</i>							<i>Total</i>
	<i>0-4</i>	<i>5-9</i>	<i>10-14</i>	<i>15-19</i>	<i>20-24</i>	<i>25-29</i>	<i>30+</i>	
24 and under	2	0	0	0	0	0	0	2
25 – 29	13	2	0	0	0	0	0	15
30 – 34	12	5	3	0	0	0	0	20
35 – 39	9	1	3	0	0	0	0	13
40 – 44	15	6	2	1	0	0	0	24
45 – 49	8	2	8	1	6	1	0	26
50 – 54	3	9	6	1	8	4	1	32
55 – 59	4	3	5	3	5	0	4	24
60 – 64	0	2	4	2	1	1	2	12
65 & over	0	0	5	1	1	0	0	7
Totals	<u>66</u>	<u>30</u>	<u>36</u>	<u>9</u>	<u>21</u>	<u>6</u>	<u>7</u>	<u>175</u>

Average Age: 46.14

Average Past Service: 10.09

Profiles of Inactive Population

Distribution of Male Retirees and Beneficiaries

<i>Age as of April 1, 2011</i>	<i>Number</i>	<i>Average Annual Pension</i>	<i>Total Annual Pension</i>
50 – 54	3	29,271	87,814
55 – 59	11	22,178	243,958
60 – 64	21	24,762	520,009
65 – 69	21	20,045	420,936
70 – 74	26	20,098	522,537
75 – 79	16	15,094	241,502
80 – 84	8	21,459	171,675
85 +	<u>2</u>	<u>4,114</u>	<u>8,228</u>
	108	\$20,525	\$2,216,659
Average Age:		68.6	
Average Pension:		\$20,525	

Distribution of Female Retirees and Beneficiaries

<i>Age as of April 1, 2011</i>	<i>Number</i>	<i>Average Annual Pension</i>	<i>Total Annual Pension</i>
50 – 54	6	7,783	46,695
55 – 59	5	18,607	93,034
60 – 64	11	11,530	126,833
65 – 69	16	14,249	227,989
70 – 74	6	9,270	55,617
75 – 79	18	11,414	205,457
80 – 84	10	8,130	81,298
85 +	<u>4</u>	<u>6,974</u>	<u>27,895</u>
	76	\$11,379	\$864,818
Average Age:		70.4	
Average Pension:		\$11,379	

Plan Provisions

This report reflects the maximum benefit limits under Internal Revenue Code (IRC) Section 415 and maximum compensation limits under IRC Section 401 in effect on the first day of each plan year.

The following is a summary of plan provisions and does not alter the intent or meanings of the provisions contained in the contract or plan document. This report reflects the provisions of the plan effective through April 1, 2011.

Plan Eligibility		
	Defined Benefit Option	Thrift Plan Option
Administrative Personnel	Hired prior to 4/15/1986 and elected not to transfer to Thrift Plan	Hired prior to 4/15/1986 and elected to transfer from Defined Benefit Option or hired on or after 4/15/1986
Union Employees	Hired prior to 12/02/1986 and elected not to transfer to Thrift Plan	Hired prior to 12/02/1986 and elected to transfer from Defined Benefit Option or hired on or after 12/02/1986
Police Employees	All Police employees are eligible for the Defined Benefit Option only	N/A

Normal Retirement Benefit		
Form	All employees will receive a monthly annuity guaranteed for ten years and life thereafter. Optional forms may be elected in advance of retirement	
Age	Defined Benefit Option	Thrift Plan Option
Administrative Personnel and Union Employees	Attained at age 60	Attained at age 60
Police	Earlier of attained age 60 or 25 years of service	N/A

Normal Retirement Benefit		
Amount (accrued benefit)	Defined Benefit Option	Thrift Plan Option
Union Employees	1.8% of average earnings times credited service	<p>The sum of (i), (ii), and (iii)</p> <ul style="list-style-type: none"> i. 1.8 % of average earnings times credited service prior to 1/01/1987 ii. 1.0% of average earnings times credited service after 12/31/1986 iii. Actuarial equivalent of a lump sum payment of members Thrift Plan Option vested account balance. Member may elect a cash distribution or combination of cash and annuity
Administrative Personnel	<p>The sum of (i) and (ii)</p> <ul style="list-style-type: none"> i. 1.8 % of average earnings times credited service prior to 4/01/1996 ii. 2.0% of average earnings times credited service on or after 4/01/1996 	<p>The sum of (i), (ii), and (iii)</p> <ul style="list-style-type: none"> i. 1.8 % of average earnings times credited service prior to 4/01/1986 ii. 1.0% of average earnings times credited service after 4/01/1986 and prior to 4/01/1996 iii. 1.2% of average earnings times credited service on or after 4/01/1996 iv. Actuarial equivalent of a lump sum payment of members Thrift Plan Option vested account balance. Member may elect a cash distribution or combination of cash and annuity

Normal Retirement Benefit		
Amount (accrued benefit)	Defined Benefit Option	Thrift Plan Option
Police Employees	The lesser of (i) and (ii): <ul style="list-style-type: none"> i. 2.0% of average earnings times credited service up to 4/01/2004, plus 2.25% of average earnings times credited service on or after 4/01/2004 ii. 67.5% of average earnings 	

Early Retirement Benefit	
Age	Attained age 50
Service	Ten years of credited service
Form	Same as normal retirement benefit
Amount	Accrued benefit on early retirement date reduced to reflect that payments begin prior to normal retirement date
Reduction Factors:	
Administrative Personnel and Union Employees	1/4 of 1% for each month the benefit commences prior to normal retirement date
Police	6/10 of 1% for each month during the first sixty months and 3/10 of 1% for each month during the next sixty months the benefit commences prior to normal retirement date

Late Retirement Benefit	
Age	No maximum age
Form	Same as normal retirement benefit
Amount	Accrued benefit on late retirement date

Deferred Vested Benefit	
Eligibility	Termination of employment after ten years of credited service
Form	Same as normal retirement benefit with income deferred until normal retirement date
Amount	Accrued benefit as date of termination In lieu of receiving a retirement benefit, an employee may elect to receive a lump sum payment equal to that which the employee would have received under the Termination Benefit below

Termination Benefit																		
	Defined Benefit Option	Thrift Plan Option																
Eligibility	Termination of employment prior to early or normal retirement date and before completing ten years of credited service	Termination of employment prior to early or normal retirement date and before completing seven years of credited service																
Form	Lump sum payment	Lump sum payment																
Amount	<p>The sum of (i) and (ii):</p> <ul style="list-style-type: none"> i. Employee contributions plus interest ii. A portion of the City's contributions plus credited interest according to the following schedule: <table border="0" style="margin-left: 40px;"> <thead> <tr> <th style="text-align: center;"><u>Years of Credited Service</u></th> <th style="text-align: center;"><u>Percent of City Share Earned</u></th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Less than 5</td> <td style="text-align: center;">0%</td> </tr> <tr> <td style="text-align: center;">5</td> <td style="text-align: center;">50%</td> </tr> <tr> <td style="text-align: center;">6</td> <td style="text-align: center;">60%</td> </tr> <tr> <td style="text-align: center;">7</td> <td style="text-align: center;">70%</td> </tr> <tr> <td style="text-align: center;">8</td> <td style="text-align: center;">80%</td> </tr> <tr> <td style="text-align: center;">9</td> <td style="text-align: center;">90%</td> </tr> <tr> <td style="text-align: center;">10 and over</td> <td style="text-align: center;">100%</td> </tr> </tbody> </table> <p>City contributions are deemed to be 150% of the employee's contributions plus interest</p>	<u>Years of Credited Service</u>	<u>Percent of City Share Earned</u>	Less than 5	0%	5	50%	6	60%	7	70%	8	80%	9	90%	10 and over	100%	Vested account balance
<u>Years of Credited Service</u>	<u>Percent of City Share Earned</u>																	
Less than 5	0%																	
5	50%																	
6	60%																	
7	70%																	
8	80%																	
9	90%																	
10 and over	100%																	

Survivor Annuity Death Benefit	
Eligibility	Qualified married participant with ten years of credited service
Form	Monthly annuity payable to spouse, deferred to participant's earliest retirement date if later than the date of death
Amount	If death occurs, the amount paid to the surviving spouse is equal to the amount that would have been paid had the participant terminated employment on the date of death and survived to his/her earliest retirement age, retired with a qualified joint and 50% survivor annuity in effect, then died the next day

Lump Sum Death Benefit		
Eligibility	Not eligible for the Survivor Annuity Death Benefit described above	
Form	Lump sum payment to beneficiary	
Amount	Defined Benefit Option	Thrift Plan Option
	Employee contributions plus credited interest In lieu of any other death benefit, the deceased employees' beneficiary may elect to receive a lump sum payment equal to that which the employee would have received under the Termination Benefit described above	Vested account balance

Contributions		
	Defined Benefit Option	Thrift Plan Option
Union	4.2% of earnings plus 1/2 the excess (if any) of the City's contribution over 6.5% of earnings	1%, 2%, 3%, 4%, or 5% of earnings
Administrative Personnel	5.2% of earnings plus 1/2 the excess (if any) of the City's contribution over 6.5% of earnings	1.0% of earnings will be contributed to the Defined Benefit portion 1%, 2%, 3%, 4%, or 5% of earnings will be contributed to the Thrift Plan portion
Police	8.5% of earnings	N/A

Contributions		
	Defined Benefit Option	Thrift Plan Option
City	Remaining cost of plan	0.50% for each \$1.00 contributed by member. (Applies to Administrative Personnel and Union employees only.)
Interest on Employee Contributions	6.0% per year	In accordance with the terms of the investment contract

Vested Balance and Optional Forms																		
	Defined Benefit Option	Thrift Plan Option																
Vested Account Balance	<p>The sum of (i) and (ii):</p> <p>i. Employee contributions plus credited interest</p> <p>ii. The account balance attributable to City contributions with credited interest in accordance with the following:</p> <table border="1"> <thead> <tr> <th><u>Years of Credited Service</u></th> <th><u>Percent of City Share Earned</u></th> </tr> </thead> <tbody> <tr> <td>Less than 5</td> <td>0%</td> </tr> <tr> <td>5</td> <td>50%</td> </tr> <tr> <td>6</td> <td>60%</td> </tr> <tr> <td>7</td> <td>70%</td> </tr> <tr> <td>8</td> <td>80%</td> </tr> <tr> <td>9</td> <td>90%</td> </tr> <tr> <td>10 and over</td> <td>100%</td> </tr> </tbody> </table>		<u>Years of Credited Service</u>	<u>Percent of City Share Earned</u>	Less than 5	0%	5	50%	6	60%	7	70%	8	80%	9	90%	10 and over	100%
<u>Years of Credited Service</u>	<u>Percent of City Share Earned</u>																	
Less than 5	0%																	
5	50%																	
6	60%																	
7	70%																	
8	80%																	
9	90%																	
10 and over	100%																	
Optional Forms of Benefit Payments	<p>The optional forms of benefit payments are:</p> <ul style="list-style-type: none"> • Monthly annuity payable for life, 10 years certain and life • Monthly annuity payable as a survivorship life annuity with survivorship percentages of 50, 75, or 100 • Single sum payment equal to the present value of the vested accrued retirement benefit 																	

Cost of Living adjustment There is no cost-of-living increase for the April 1, 2011 valuation. Historically, there have been cost-of-living increases given to current retirees. There have been no cost-of-living increases since January 1, 2008.

Definitions

Credited Service

For benefit accrual, an employee will receive Credited Service for each year of continuous service and a fraction of a year of service to the nearest full month, from the date he first enters the plan to the date he terminates or retires, whichever is earlier; provided he made the required contributions to the plan. An employee will not receive credited service during any period for which he is eligible to participate if he does not contribute to the plan.

Earnings

Salary of wage at an employee's basic rate of pay but excluding overtime payments, commissions, bonuses, and any other additional compensation but including longevity pay. After December 31, 2001, 401(a)(17) limits apply. No retroactive \$200,000 limit will apply for service on or after January 1, 2002.

Final Average Earnings

Administrative Personnel and Union Employees

Average annual earnings during the 36 consecutive months of the last 120 months of City employment (or, if shorter, the employee's actual period of employment) which produce the highest average.

Police

Average annual earnings during the final 60 months (or, if shorter, the employee's actual period of employment) of City employment.

Assumptions and Methods

There have been no changes in assumptions or plan provisions since the last valuation report, which was performed as of April 1, 2010 other than to reflect changes in maximum benefit limits under Intern Revenue Code (IRC) Section 415 and in maximum compensation limits under IRC Section 401.

Interest	7.75%
Mortality	RP-2000 Combined Mortality Table, male and female, projected to 2005 with scale AA. The table includes a margin for future improvement in life expectancy.
Asset Method	Gains and losses are spread over five years beginning 4/01/2010. This method is being applied prospectively, so gains and losses prior to 2010 will continue to be smoothed over four years until fully recognized.
Deposit After Plan Year Ends	The Actuarial Value of Assets includes contributions for that fiscal year they were intended even if they were made after the end of the fiscal year.
Annual Required Contribution	Normal cost plus 20-year amortization of unfunded actuarial accrued liability with interest to the end of the plan year
Retirement Age	Normal Retirement Age as defined in the Plan Provisions
Upcoming Year Salary Increase	The salary is increased based on a combination of the S-5 table from the Actuary's Pension Handbook plus increases specific to each benefit plan. Additional increases are 3.00% at each age for Thrift plan members, 2.50% at each age for Police members, and 2.00% at each age for Defined Benefit Plan members. Annual increases are shown below at sample ages:

Age	Increases		
	Thrift Plan	Police	DB Plan
20	8.10 %	7.60 %	7.10 %
25	7.18 %	6.68 %	6.18 %
30	6.57 %	6.07 %	5.57 %
35	6.11 %	5.61 %	5.11 %
40	5.72 %	5.22 %	4.72 %
45	5.39 %	4.89 %	4.39 %
50	5.12 %	4.62 %	4.12 %
55	4.88 %	4.38 %	3.88 %

Expenses	Deducted from the fund according to expenses in scales in Service Agreement. The Normal Cost includes an estimated expense charge.
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Disability	1987 Commissioner's Group Disability Table, six month elimination period, male and female
Marriage	75% married; husbands are 3 year older than wives
Actuarial Cost Method	Entry Age Normal
Cost of Living Increase	No explicit increase is assumed for future years
Withdrawal	The rates below represent the withdrawal assumption using a select and ultimate approach.

For employees with less than six year of service (excluding those in the Administrative and Union Defined Benefit Plans):

Service	Admin TP	Union TP	Police
0	.1200	.1200	.0880
1	.1120	.1120	.0720
2	.1040	.1040	.0640
3	.0960	.0960	.0480
4	.0880	.0880	.0400
5	.0880	.0880	.0320

For employees with six or more years of service, the V Select & Ultimate Table from August 1992 Pension Forum published by the Society of Actuaries, multiplied by 0.90 for Administrative and Union Thrift Plan members, 0.25 for Administrative Defined Benefit members, and 0.25 for Police members. Sample rates of withdrawal follow:

Service	Admin TP	Union TP	Police
20	.1674	.0465	.0465
25	.1224	.0340	.0340
30	.0909	.0253	.0253
35	.0711	.0198	.0198
40	.0585	.0163	.0163
45	.0495	.0138	.0138
50	.0405	.0113	.0113
55	.0000	.0000	.0000

No withdrawal is assumed for the Union Benefit Plan.

Retirees	Assets and liabilities for retirees whose benefits are not guaranteed by the Principal Insurance Company contract are included in the valuation.
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Description of Actuarial Cost Method: Entry Age Normal

Cost Methods

A cost method is a budgeting tool. It helps to ensure that your pension plan is adequately and systematically funded. Cost methods differ based on how they assign an annual cost to the current year and how they treat gains and losses.

Normal Cost

The portion of cost assigned to each year is called the normal cost. The normal cost may be shared by the employer and the employees based on plan provisions.

Entry Age Normal

The entry age normal cost method is used for valuation. This method estimates the total cost of all projected plan benefits based on the assumptions shown in this report and participant data you have supplied.

Costs are spread evenly from a member's date of hire to assumed retirement age. This annual cost spread as level percentage of compensation if benefits are salary related or as a level dollar amount if not salary related. The sum of each member's annual cost is the normal cost.

There are some accumulated costs for past years. The value of these past costs is the actuarial accrued liability (AAL). Each year the unfunded actuarial accrued liability (UAAL) is the AAL less the actuarial value of assets, but not less than zero. The UAAL is adjusted when there are plan or assumption changes (a liability base is created).

Actuarial Gains/Losses

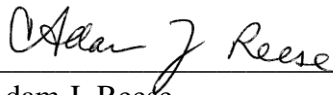
An actuarial gain or loss occurs when actuarial plan experience differs from what was assumed. The actuarial gain or loss is calculated separately but the total UAAL is amortized over 20 years each year in accordance with the City's funding policy.

Actuarial Certification

To the best of our knowledge, this report is complete and accurate and all costs and liabilities have been determined in conformance with generally accepted actuarial principles and on the basis of actuarial assumptions and methods which are reasonable (taking into account past experience under the Plan and reasonable expectations) and which in combination represent our best estimate of anticipated experience under the plan.

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

The actuaries certifying to this valuation are members of the Society of Actuaries or other professional actuarial organizations, and meet the General Qualification Standards of the American Academy of Actuaries for purposes of issuing Statements of Actuarial Opinion.

A handwritten signature in cursive script, reading "Adam J. Reese", is written over a horizontal line.

Adam J. Reese
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries
Fellow of the Conference of Consulting Actuaries
Enrolled Actuary No. 11-4303

A handwritten signature in cursive script, reading "Craig R. Graby", is written over a horizontal line.

Craig R. Graby
Member of the American Academy of Actuaries
Fellow of the Conference of Consulting Actuaries
Enrolled Actuary No. 11-7319

Hay Group
November 10, 2011

Estimated cost of 1% Cost of Living increase to current retirees

	04/01/2011 Valuation	04/01/2011 with 1% Cost of Living
Administrative and Union Group		
Accrued Liability		
Participants in pay status	\$ 24,006,245	\$ 24,246,307
Inactive participants	3,113,817	3,113,817
Active participants	37,672,342	37,672,342
Total	\$ 64,792,404	\$ 65,032,466
Change in Accrued Liability		\$240,062

Each 1% cost of living increase results in an additional \$240,062 of Accrued Liability for the Administrative and Union group.

	04/01/2011 Valuation	04/01/2011 with 1% Cost of Living
Police Group		
Accrued Liability		
Participants in pay status	\$ 2,798,371	\$ 2,826,355
Inactive participants	253,965	253,965
Active participants	11,949,304	11,949,304
Total	\$15,001,640	\$15,029,624
Change in Accrued Liability		\$27,984

Each 1% cost of living increase results in an additional \$27,984 of Accrued Liability for the Police group.

The above does not include the amount necessary to purchase a 1% cost of living increase for retirees at Hartford.

Accounting Information for SGAS 25/27

Carry-forward of Net Pension Obligation	
a) Annual required contribution for 2010 plan year	\$ 3,478,242
b) Interest on net pension obligation	(30,543)
c) Adjustment to annual required contribution	39,397
d) Annual pension cost for 2010 plan year (a+b+c)	3,487,096
e) Actual contributions made	3,478,242
f) Increase/(decrease) in net pension obligation	8,854
g) 2010 beginning of year net pension obligation	(394,107)
h) 2010 end of year net pension obligation	\$ (385,253)
Annual Pension Cost for 2011 Plan Year	
a) Normal cost with interest	\$ 1,620,477
b) Amortization with interest	1,942,627
c) Annual required contribution (a+b, not less than zero)	3,563,104
d) Interest on net pension obligation	(29,857)
e) Adjustment to annual required contribution	38,512
f) Annual pension cost (c+d+e)	\$ 3,571,759

Development of the Net Pension Obligation (NPO) (Asset)

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
Fiscal Year	Valuation Rate	Amortized Period	ARC	Interest On NPO	ARC Adjustment	Amortization Factor	ARC (d+e+f)	Actual Deposit	Loss/ (Gain) (d-i)	Change in NOP (h-i)	NPO Balance
2004	7.75 %	20	1,389,561	0	0	10.0035	1,389,561	1,389,561	0	0	0
2005	7.75 %	20	1,529,727	0	0	10.0035	1,529,727	1,529,727	0	0	0
2006	7.75 %	20	1,473,052	0	0	10.0035	1,473,052	1,473,052	0	0	0
2007	7.75 %	20	1,599,777	0	0	10.0035	1,599,777	1,599,777	0	0	0
2008	7.75 %	20	1,550,658	0	0	10.0035	1,550,658	1,550,658	0	0	0
2009	7.75 %	20	1,578,653	0	0	10.0035	1,578,653	1,981,817	(403,164)	(403,164)	(403,164)
2010	7.75 %	20	2,511,751	(31,245)	40,302	10.0035	2,520,808	2,511,751	0	9,057	(394,107)
2011	7.75 %	20	3,478,242	(30,543)	39,397	10.0035	3,487,096	3,478,242	0	8,854	(385,253)
2012	7.75 %	20	3,563,104	(29,857)	38,512	10.0035	3,571,759	TBD	TBD	TBD	TBD

Schedule of Funding Progress

	(a)	(b)	(a-b)	(a/b)	(c)	(a-b)/c
Actuarial Valuation Date April 1	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Funded (Unfunded) AAL	Funded Ratio	Covered Payroll	FAAL/ UAAL As a Percentage of Covered Payroll
2006	54,487,954	58,873,284	(4,385,330)	92.6%	26,243,676	-16.7%
2007	60,851,362	63,778,911	(2,927,549)	95.4%	25,923,304	-11.3%
2008	63,868,591	66,853,253	(2,984,662)	95.5%	26,221,689	-11.4%
2009	61,698,621	72,290,941	(10,592,320)	85.3%	31,708,344	-33.4%
2010	59,550,874	79,275,687	(19,724,813)	75.1%	33,863,526	-58.2%
2011	60,360,919	79,794,044	(19,433,125)	75.6%	33,384,756	-58.2%