CITY OF ATLANTA

Retirement Review – Phases II & III
Plan Design and Financial Impact

December 8, 2009

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December 8, 2009

Jim Glass
Chief Finance Officer
City of Atlanta
68 Mitchell Street, S.W.
Suite 4900
Atlanta, GA 30303-3531

Dear Jim:

We are pleased to present this report on our analysis of the City's retirement programs. The second and third phases of the retirement review evaluate alternative plan designs and the financial impact of these alternatives.

This study was performed under the supervision of Mr. Leon "Rocky" Joyner, with the assistance of Mr. Eric Atwater and other Segal staff members.

To the best of our knowledge, this report is complete and accurate and the calculations were performed in accordance with generally accepted actuarial principles and practices. The signing actuaries are members of the Society of Actuaries, the American Academy of Actuaries, and other professional actuarial organizations and collectively meet their "General Qualification Standards for Prescribed Statements of Actuarial Opinions" to render the actuarial opinion contained herein.

Sincerely,

Eric J. Atwater, FSA, MAAA, EA
Consulting Actuary

Leon F. (Rocky) Joyner, FCA, ASA, MAAA, EA
Vice President and Actuary

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I. Executive Summary

A. Introduction and Purpose

In August 2009, the Segal Company ("Segal") was retained by the City of Atlanta to conduct a comprehensive review of all three of the City's Pension Funds. The first phase ("Phase I") of this review benchmarked the City's current benefits against its retirement philosophy and compared the competitiveness of the City's retirement benefits to its peers. The next two phases ("Phase II" and "Phase III") focus on aligning the City's retirement plans with its philosophy and financial constraints.

Segal worked with the City's Chief Financial Officer, Chief Operating Officer and other members of the current administration in Phase I to articulate the City's philosophy toward retirement benefits. We then compared the benefits the City currently provides against the articulated philosophy and the City's peers. At the completion of Phase I, we met with members of the City to review the results of the study and obtain guidance for retirement plan alternatives. As a result of information provided by the City and knowledge gleaned from Phase I, we have separated the retirement plan design alternatives into the following groupings:

- General Employees covered by one of the Defined Benefit Plans
- General Employees covered by the 401(a) Defined Contribution Plan
- Future Hires

The purpose of this report is to:

- Evaluate the impact of slight and moderate changes to the current benefit structure
- Review the pros and cons of each alternative
- Model the impact on retirement income replacement ratios for each alternative
- Identify the potential impact of changes in the retiree medical plan to the retirement plans
- Evaluate the financial impact of the alternatives under the City's current funding policy through multi-year projections of the Annual Required Contribution (ARC) and Unfunded Actuarial Accrued Liability (UAAL) under each alternative
- Recommend a funding policy including desired funding ratios and amortization periods
- Identify current or future GASB constraints that may impact plan funding.

B. Background

Retirement Philosophy

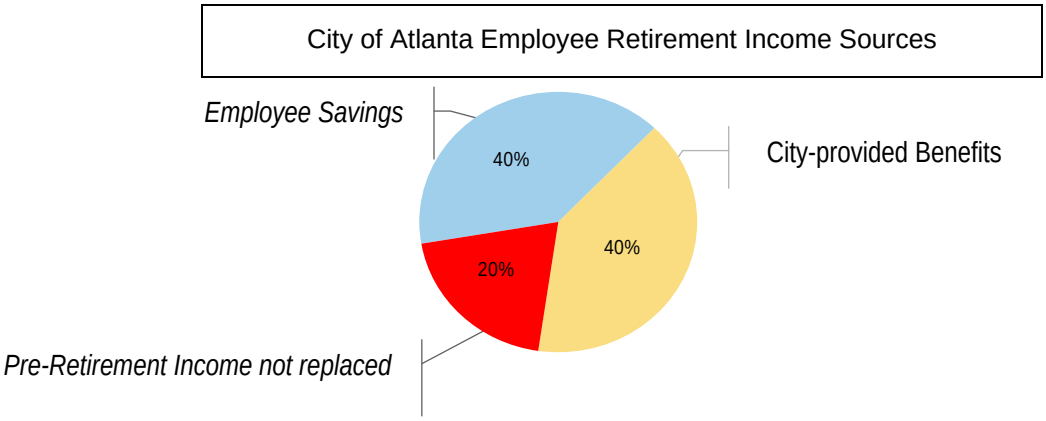
A common approach used to analyze and compare retirement programs is to measure the relative income provided by the retirement plan as a percentage of the employee's final salary prior to retirement. The measure of annual income provided at retirement to the employee's final salary is known as the retirement income replacement ratio ("replacement ratio").

Generally, retirement income is available from three sources:

- Government-provided plan or Social Security
- Employer-provided plans which include defined benefit plans and defined contribution plans such as 401(a), 401(k), 403(b), and 457 plans
- Personal savings

The replacement ratio can be viewed as the percentage of pre-retirement income that is replaced by income from retirement benefits. This approach allows an "apples-to-apples" comparison of retirement benefits since the benefits provided by employers vary. A replacement ratio normalizes Defined Benefit ("DB") and Defined Contribution ("DC") plans by converting DC account balances to a stream of lifetime income.

Given the City's philosophy on its share of an employee's retirement income and an 80% target replacement ratio for employees (including income from all sources), the City's retirement benefit programs should provide a replacement ratio between 40 – 55% for each employee after a full career.



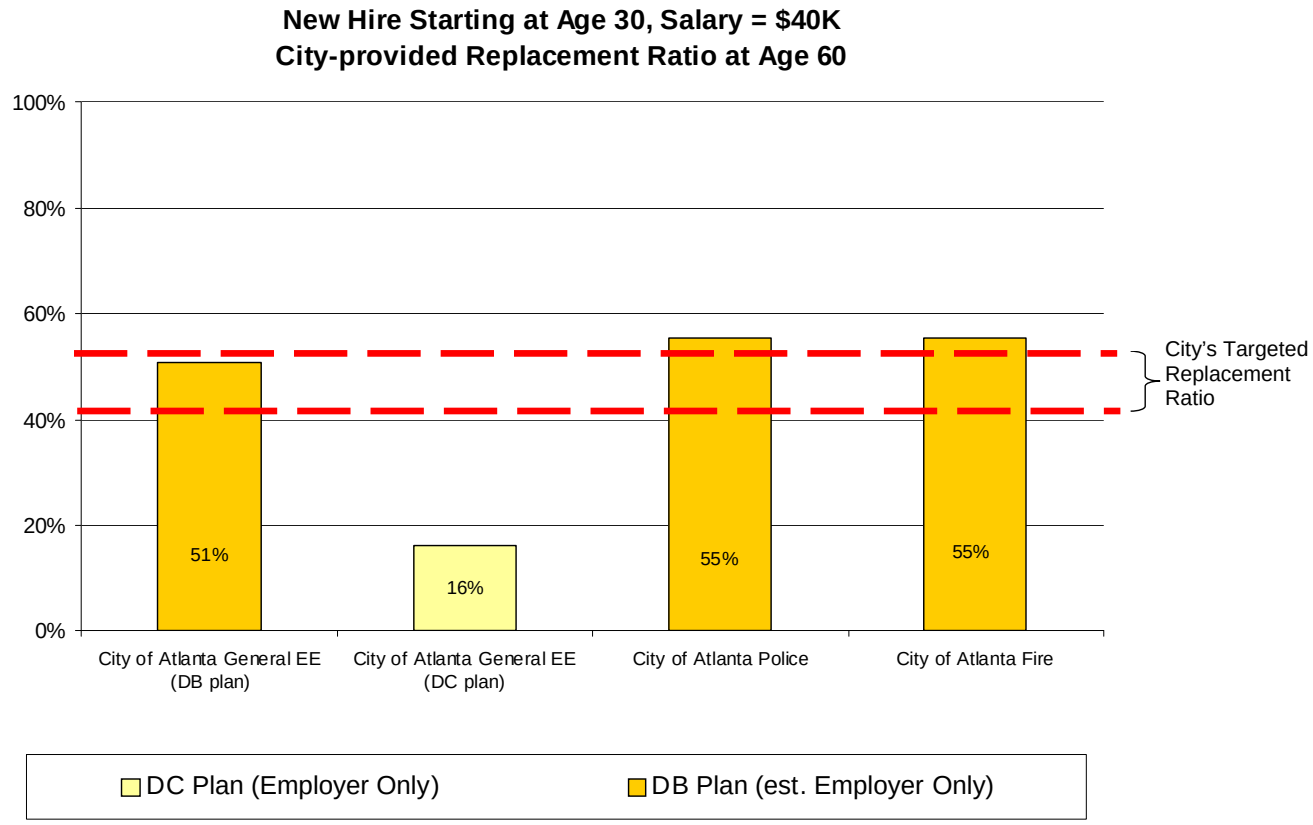
For instance, the City-provided retirement benefits should replace 40% (i.e., 80% target replacement ratio multiplied by the City's share of 50%) of an employee's pre-retirement income if the City provides the minimum benefits according to its philosophy. If the City seeks to replace all of Social Security benefits then it would target a retirement benefit program that replaces about 55% (i.e, 80% total target replacement ratio multiplied by the City's share of 67%) of an employee's pre-retirement income.

The City considers a full career as 25 or 30 years of service, depending on the nature of the job and the position. For instance, the City views 25 years as a full career for public safety positions (i.e., Fire and Police) and 30 years for all other employees. For a General employee hired at age 30 the City's goal is to provide a retirement income replacement ratio of 40-55% at age 60 (age 55 for Fire and Police).

C. Summary

Rationale of plan alternatives

The City's retirement benefits were benchmarked against its philosophy of providing a 40 – 55% replacement ratio for employees after a full career and revealed a large disparity between the groups of employees. Specifically, current General employees not in the Defined Benefit plan are provided with a benefit that is substantially less than the other groups of employees as illustrated below:

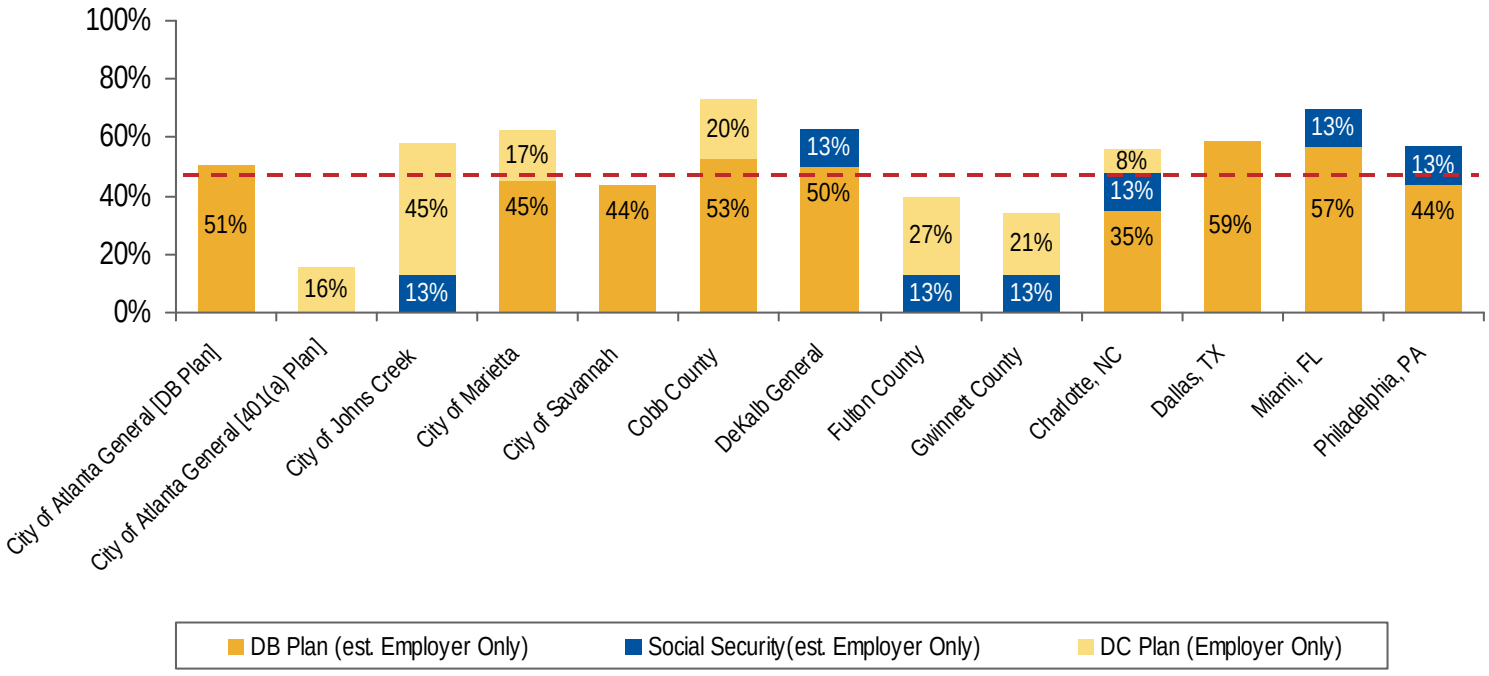


The City is interested in plan alternatives that will aid in recruiting and retaining key personnel. Most of the City's management level employees have a job grade above 19 and are not in the Defined Benefit plan. This group of employees is vital to maintaining institutional knowledge and continuity at the City. The practice has been to hire seasoned professionals from other cities, municipalities, or counties to fill key management level positions. Thus, it is imperative that the City provide retirement benefits that not only aid in recruiting, but also help retain key employees.

For current employees, the City is concerned about losing employees to early retirement. Thus the City is interested in programs such as a Deferred Retirement Option Plan ("DROP") or modification to its retiree medical plan that will encourage employees to defer retirement.

The graph below compares the retirement benefits provided by the City with benefits provided by its peers for a new General Employee at age 60:

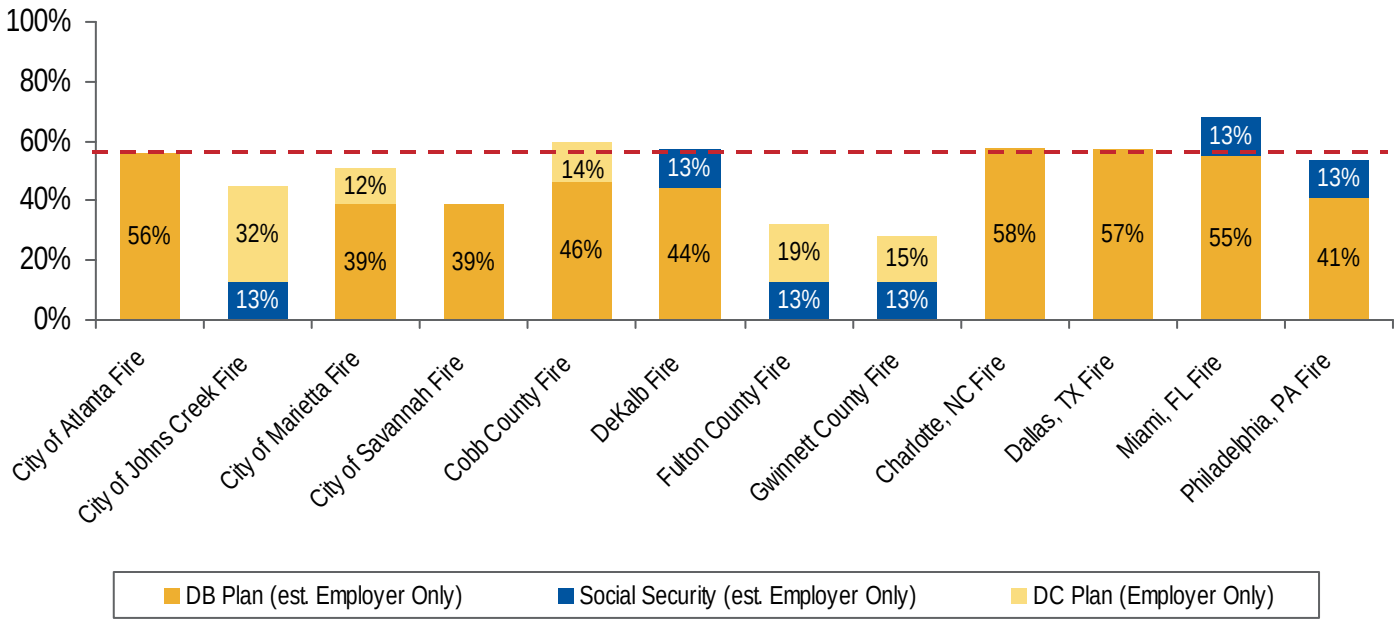
NEW HIRE (General) STARTING AT AGE 30
Salary = $40K; Employer-Provided Replacement Ratio at Age 60



- Overall, the City-provided benefits for a new General Employee are less than competitive with the City's peers.
- For new hires, the City-provided benefits trail all of its peers except for the City of Savannah, Fulton and Gwinnett counties.
- The City-provided benefits for General Employees rank at the bottom in comparison to Atlanta's national peers.
- The benefit provided by the City's General Employees' DB plan is competitive with its peer DB plans. However, many of the City's peers also provide their employees with Social Security and/or a DC contribution. Contrarily, the City provides its General employees with either a DB plan or 6% DC contribution.

The graph below compares the retirement benefits provided by the City with benefits provided by its peers for a new Fire and Police Employee at age 55:

NEW HIRE (Fire & Police) STARTING AT AGE 30
Salary = $40K; Employer-Provided Replacement Ratio at Age 55



- Overall, the City's Fire and Police benefits are more than competitive with its peers after 25 years of service.
- The City-provided Fire and Police benefits are competitive with those provided by its national peers and rank at the top of the range of its local peers.
- The benefit provided by the City's Fire and Police DB plan is more than competitive with its national peers and more than competitive with its local peers. Many of the City's peers also provide their employees with Social Security and/or a DC contribution.

Plan Alternatives

Given the issues mentioned previously and disparity in retirement benefits provided by the City to the various groups of employees, the City is exploring plan alternatives that provide balance among employee groups and fit within the City's financial constraints.

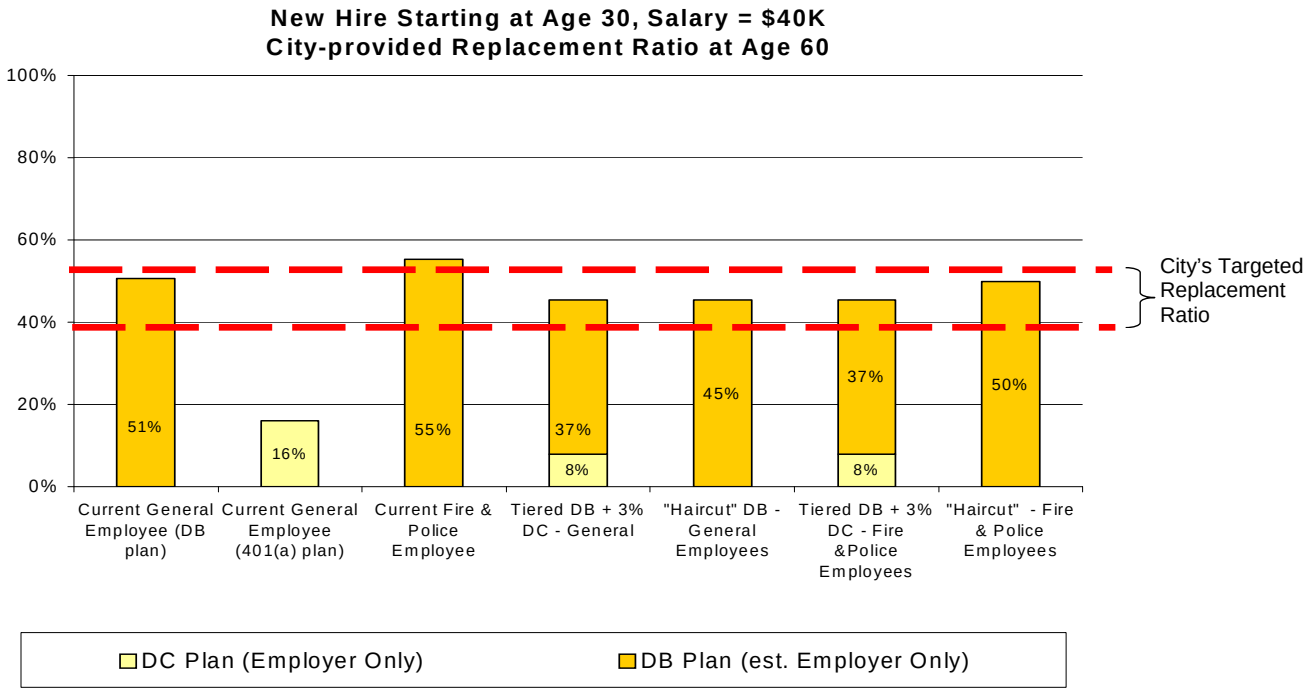
A primary decision in designing a retirement program is determining how the benefits will be delivered. The City has a Defined Benefit plan for Fire, Police and General employees in job grades in or below 18 and a Defined Contribution plan for General employees above job grade 18. The merits of a Defined Benefit and Defined Contribution plan can be debated (see Section II for advantages and disadvantages of DB and DC plans) with both having valid usage. Therefore, we have considered an alternative that maintains the current Defined Benefit structure and an alternative that combines a Defined Benefit and Defined Contribution plan.

The first alternative, referred to as the "Haircut", would require all future hires to participate in a Defined Benefit plan similar to the current plan but with slight modifications to retirement eligibility. The second alternative provides a Defined Benefit plan with a multiplier that increases based on years of service and a Defined Contribution plan that matches 100% of an employee's pay up to 3%. A summary of the alternatives are shown below:

Provision	Current Plans	"Haircut" to Current Defined Benefit Plan	Tiered Defined Benefit Plan + Matching Defined Contribution Plan
Defined Benefit (DB) Plan Multiplier	2.5% (3.0% for Fire/Police)	2.5% (3.0% for Fire/Police)	1.5% for years 0-10 + 2.0% for years 10-20 + 2.5% for 20+ years
Final Average Earnings	3 years	5 years	5 years
Normal Retirement Age	60/15 (55/10 for Fire/Police)	65/10 (60/10 for Fire/Police)	65/10 (60/10 for Fire/Police)
Early Retirement Age	15 years of service (10 for	55/20 (50/20 for Fire/Police)	55/20 (50/20 for Fire/Police)
Unreduced Retirement Age (URA)	30 years of service	90 Points* or 35 years of service (80 points for Fire/Police)	90 Points (80 points for Fire/Police)
Early Retirement Reduction	6% for first 5 years below age 60 (55 for Fire/Police); 3%	7% per year from URA	7% per year from URA
Employee Contribs to DB Plan	7% single; 8% married	8%	6%
City Contributions to DC [ie. 401(a)] Plan	6% for General EEs not in DB	N/A	100% match up to 3%

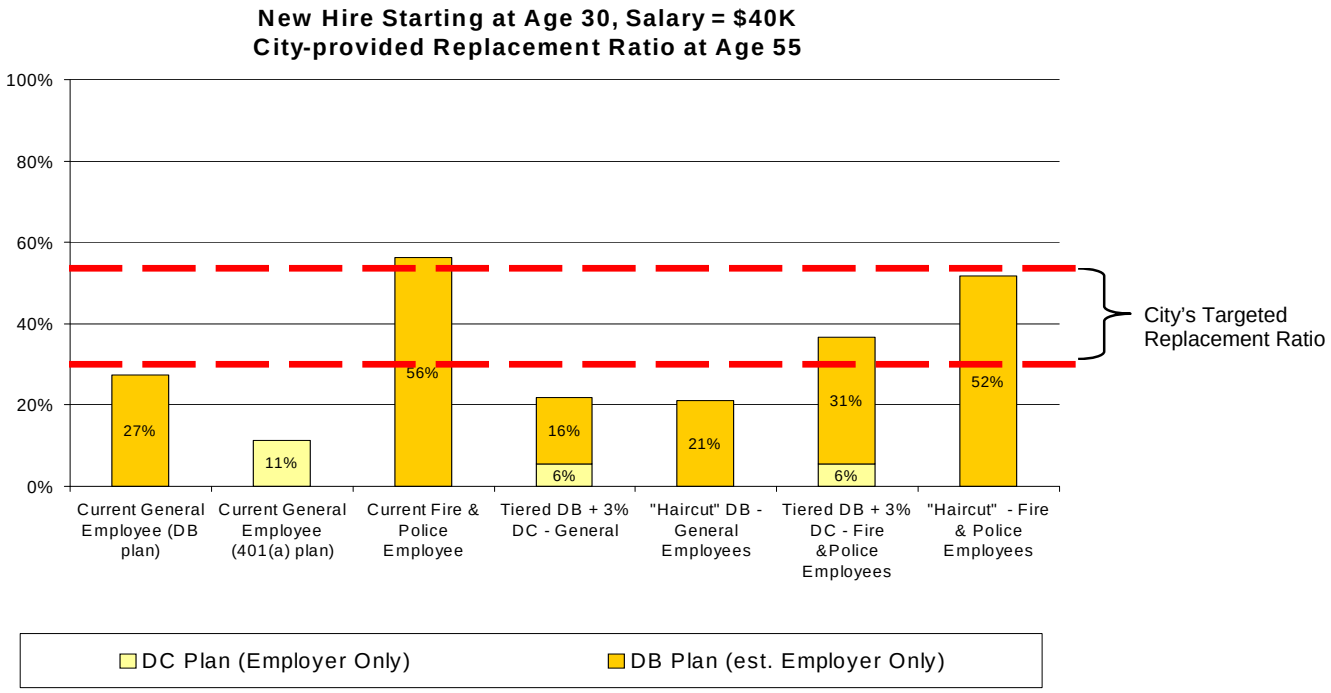
* Points = Age + Service

The graph below compares the benefit provided under the current plans and alternatives at age 60 (i.e., current Normal Retirement Age for General Employees) with 30 years of service for a sample new hire:



- Note that the sample General employee is not considered a normal retirement under the alternative plans since he/she is not age 65. However, the sample employee is able to retire without a penalty since they have 90 points at age 60 (i.e., age + service = 90).
- The alternative plans are based on 5-year final average earnings (FAE), instead of the 3-year final average earnings for the current plan. Changing from a 3-year final average earnings to a 5-year final average earnings will lower the employee's replacement ratio about 4%, all other factors being equal.
- The "Haircut" plan City-provided replacement ratio is less than the current plan, even though the benefit multiplier is the same, due to the benefit form and employee contributions. The current plans have a normal form of benefit of a 75% Joint-and-Survivor while the alternative plans have a normal form of benefit of a single life annuity. Also, the current plans require employee contributions of 7% for a single employee (i.e., Single Life annuity) but the alternatives require 8% employee contributions.
- The current Defined Benefit plans provide a replacement ratio that is near the top of the City's targeted range for the sample employee shown. The alternative plans would provide a replacement ratio that is near the low end of the targeted range of 40-55%.
- The combination Tiered Defined Benefit Plan plus Defined Contribution alternative and the "Haircut" alternative deliver about the same level of benefit for the sample employee. The benefit under the "haircut" alternative is all derived from the Defined Benefit plan while the combination delivers the majority of the benefit through the Defined Benefit plan but also a portion through the Defined Contribution plan.

The graph below compares the City-provided replacement ratio for the current plans and alternatives at age 55 (i.e., Early Retirement Age for General Employees) with 25 years of service for a sample new hire:



- Due to differences in normal retirement eligibilities and accrual rates, the Fire and Police will receive a replacement ratio that is about twice that of General Employees under both the current plan and the alternatives.

- The Fire and Police normal retirement age is age 55 under the current plan for the sample new hire. The normal retirement age for Fire and Police under the alternatives is age 60 but the sample shown is eligible for unreduced retirement at age 55 since he/she will have 80 points at age 55 (i.e., age + service = 80).

- Note that the sample General employee is considered an early retiree under both the current and alternative plans. Therefore, the General employee's benefit is reduced for early retirement.

- The General Employee's normal retirement age is 60 under the current plan (age 65 under the alternatives). Under the current plan, the sample employee's benefit is reduced 30% for early retirement. However, the alternative plans have more stringent early retirement penalties and the sample employee's benefit is reduced 35% for early retirement.

- City's targeted range of 40-55% has been prorated for General Employees based on the sample employee's service (i.e., 25/30). Therefore, the City's targeted range for the sample General employee at age 55 is 33-45%. The range for Fire and Police is not prorated since the City considers 25 years of service a full career.

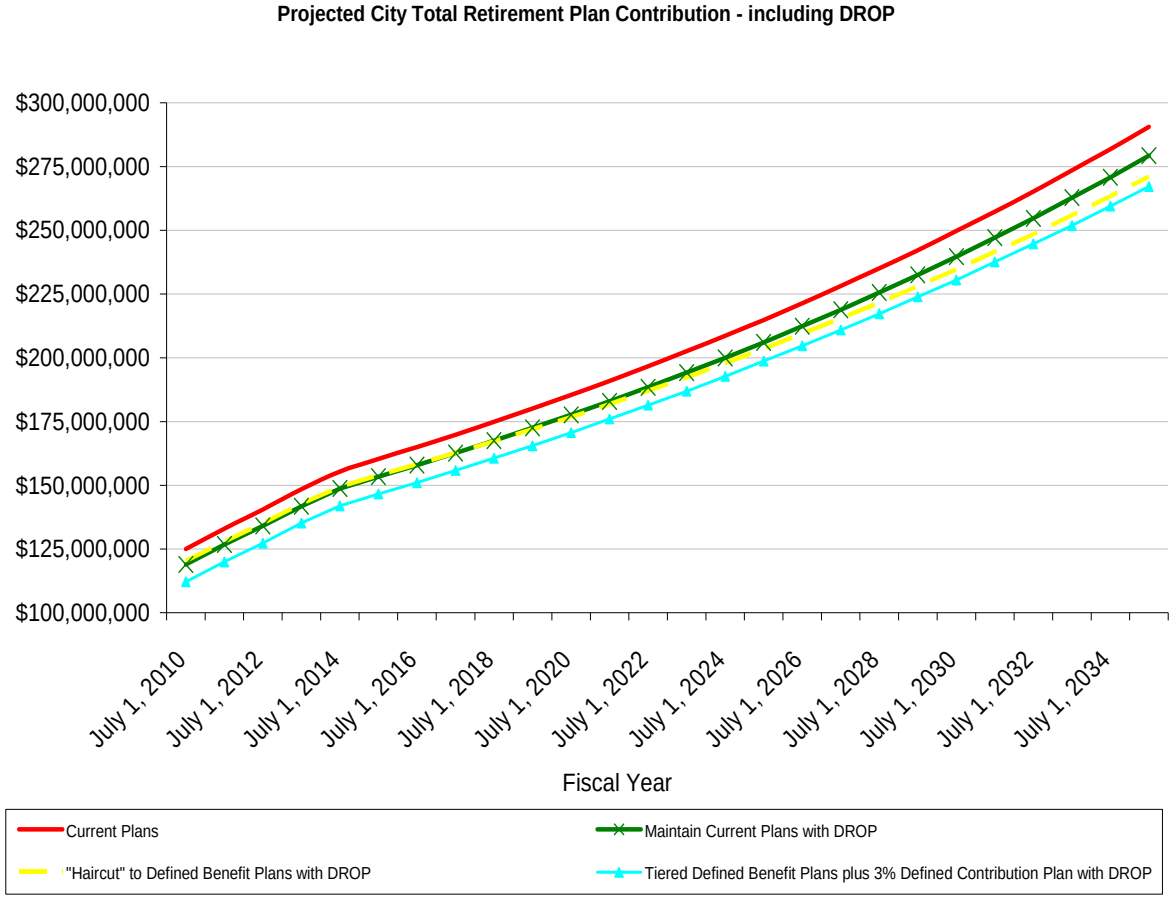
Financial Impact

The Segal Company's "replacement life" Entry Age Normal ("EAN") actuarial cost method is used to determine the projected cost. Under this method, a normal cost is calculated for each employee which is the level annual contribution as a percent of pay required to be made from the employee's date of hire for as long as he/she remains active so that sufficient assets will be accumulated to provide his/her benefit. The normal cost reflects plan changes while the actuarial accrued liability is a balancing item between the present value of future benefits and the present value of future normal cost.

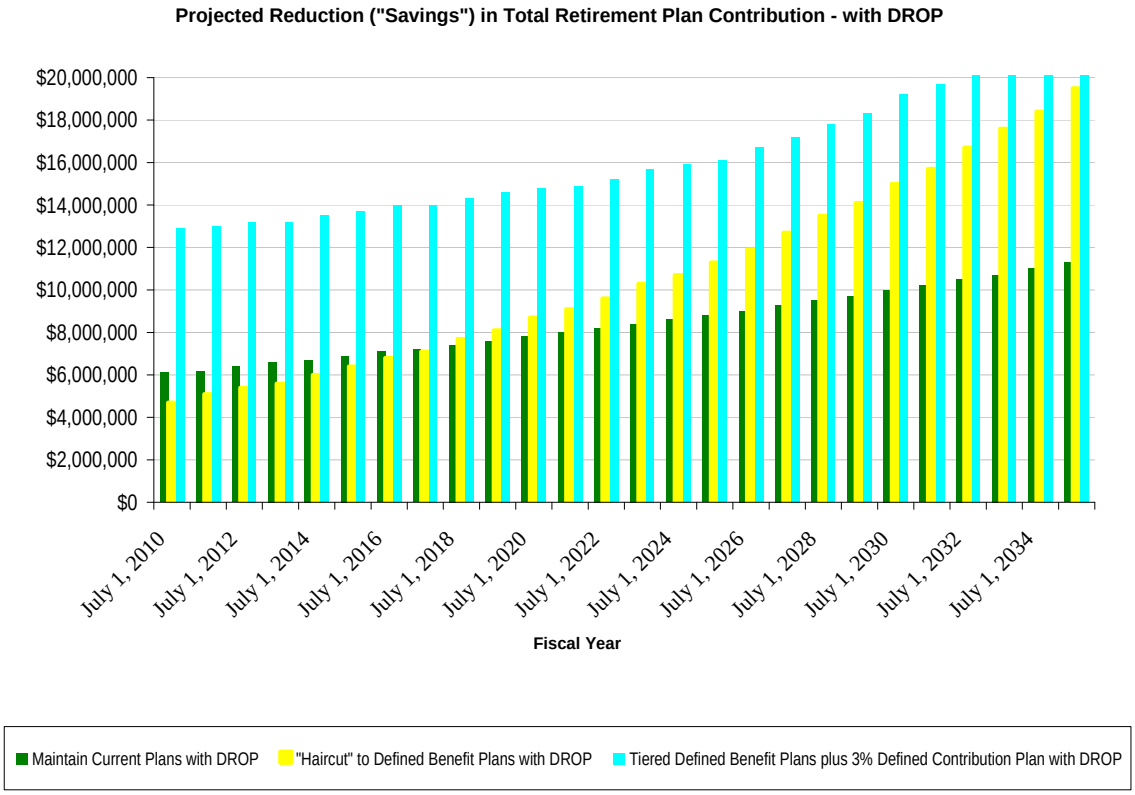
The following graph shows the total projected costs to the City of maintaining its current retirement plans and changing to the alternative plans. The projected costs are determined as the normal cost plus a 30-year open amortization of the unfunded actuarial accrued liability.

The current General employees in the Defined Contribution plan are assumed to participate in the alternatives with credit for current service in exchange for transferring their entire 401(a) account balance (approximately $36.7 million as of July 2009). The projected cost estimates also reflect the impact of a DROP-type arrangement for current employees in a Defined Benefit plan. The details of the calculations for each group are shown in Sections III, IV and V.

The estimated costs for Fire and Police have been estimated based on the methodology described in Section VII. Before the City adopts any of these options, detailed impact studies should be performed by the Fire and Police's actuary.

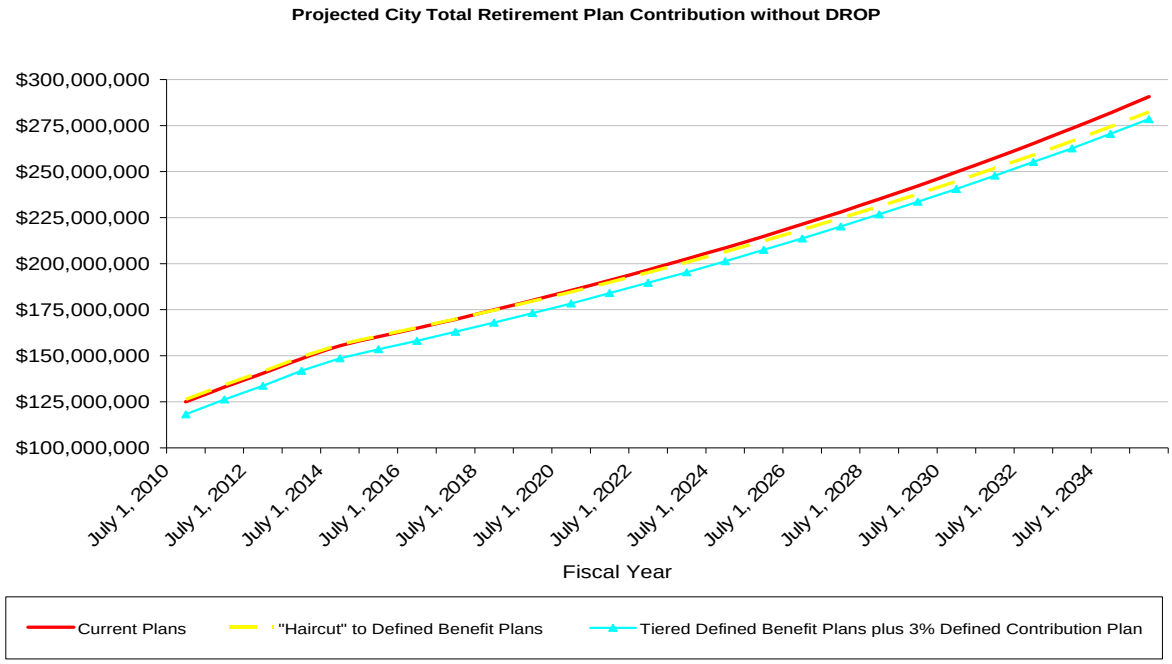


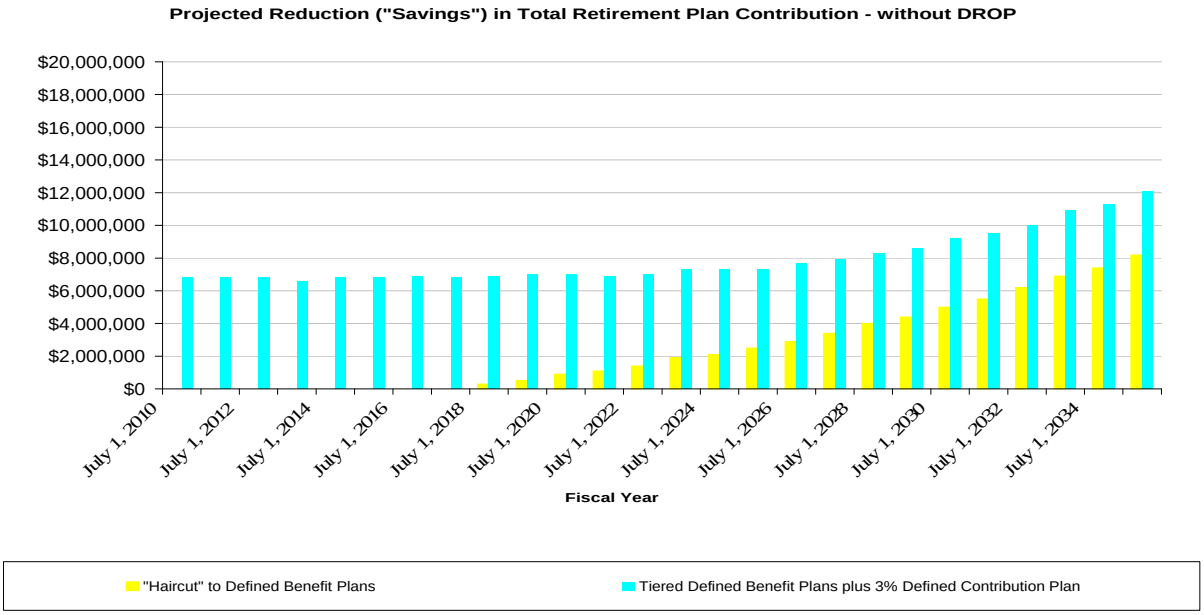
The following graph shows the total projected savings of the alternative plans.



- The projected savings for all the alternatives reflect a Deferred Retirement Option Plan ("DROP"). The DROP savings are primarily due to changes in employee retirement behavior for those covered by a Defined Benefit plan, rather than changes in the structure of the retirement plans (see Section III for details).
- It should be noted that the projected savings for maintaining the current plan are derived strictly from implementing a DROP. These savings reflect the City's current plan structure (i.e., DB plans for select General Employees, Fire and Police; 401(a) Defined Contribution plan for other General Employees) and do not reflect any changes in coverage.
- The alternative plans reflect projected savings from implementing a DROP, as well as the projected costs for allowing current participants in the 401(a) Defined Contribution plan to participate in the alternatives.
- The savings for the Defined Benefit "Haircut" plan reflect savings for the DROP that offset the initial increase in cost for allowing the General employees not in a Defined Benefit plan to participate. Over time, the costs resulting from changes in retirement eligibility for future hires exceed the costs of participants in the 401(a) Defined Contribution plan participating in a Defined Benefit plan.
- The combination tiered Defined Benefit plan and Defined Contribution plan allows for more immediate savings as the lower Defined Benefit accrual is reflected in the Annual Required Contribution ("ARC"), thus allowing a lower contribution to the Defined Benefit plan. The Defined Contribution component of the combination plan will be lower initially as futures hires enter the plan and replace existing employees. Overall, the tiered Defined Benefit plan will result in greater savings than the "Haircut" plan due to the reduction in benefits for Fire and Police.

The graphs below show the projected total contribution and savings without the DROP.





- The tiered Defined Benefit plan plus the Defined Contribution plan allows for enough immediate savings to offset the cost of allowing the participants covered by the 401(a) Defined Contribution plan to participate in the alternative. This is mainly due to the lower benefit for Fire and Police.

- The "haircut" plan does not allow for enough savings immediately to offset the cost of allowing participants in the Defined Contribution plan to participate since the reduction for Fire and Police are not enough to offset the cost (see Section V for details).

Other Impact

The alternatives not only have a financial impact on the City but may also influence employee behavior. Though the benefit accrual under the "Haircut" alternative is the same as the current plan, future employees are penalized more than the current plan for retiring early. As a result, the "Haircut" is likely to influence retirement patterns. The tiered Defined Benefit plan also has a built in retention mechanism since the benefit multiplier increases with service. Therefore, employees are motivated to stay with the City for a longer period. The tiered Defined Benefit plan has the same early retirement penalties as the "Haircut" plan, so employees are again encouraged to defer retirement. The actual impact of employee behavior depends on several factors and has not been modeled in this report for the two alternatives. Therefore, there have not been any changes in current retirement rates for the two alternatives.

II. Defined Benefit vs Defined Contribution Plans

A. Key Features

Under a **Defined Contribution** plan, it is the *contribution* made on behalf of each employee that is stipulated or defined. There is no separate benefit formula. The retirement benefit is nothing more or less than what the accumulated contributions, plus investment yield and perhaps an adjustment for operating expenses, will buy or support for the individual employee. In effect, this type of plan is a collection of individual savings accounts for retirement, wherein the individual employee is typically responsible for investment decisions and assumes all the investment risk. If an employee becomes disabled or dies before retirement, the balance in the account may be paid directly to the employee or to their surviving spouse or beneficiary.

By contrast, a **Defined Benefit** plan contains a specific formula for determining the benefit amount. The benefit formula is based on such factors as age, salary and years of service of the employee. Additionally, benefit increases may be granted for prior, as well as future, service. Such retroactive benefit increases are generally not possible under a Defined Contribution plan. Under a Defined Benefit plan, the employer (or Pension Board of Trustees) makes all the investment decisions and assumes all the investment risk.

In a Defined Benefit plan, the aggregate current value of the benefits earned to a given date by all participants may be greater than the assets on hand. This funding shortfall (or unfunded liability) will be funded over a period of years by the employer. With a Defined Contribution plan, the plan cannot pay out benefits greater than the current account balance, so there is nothing to guarantee and, therefore, no liability beyond an employer's agreed-upon contributions.

The table on the following page summarizes the main features of each type of plan.

Key Features	
Defined Benefit (DB)	**Defined Contribution (DC)**
• Plan's formula determines the amount of the benefit, with benefits typically based on the employee's final average salary, service credits and the plan benefit accrual rate	• Employer makes a fixed contribution to each employee's account. The ultimate benefit is based on the actual employer and employee contributions and the investment earnings of those contributions
• May be used as mechanism to shape workforce due to ability to encourage or deter early retirement	• Capital accumulation generally encourages employees to delay retirement
• Employee contributions offset employer cost	• Employee contributions may be permitted to increase the amount of benefits
• Employer (or Pension Board) makes all investment decisions	• Employee assumes all investment risk and typically has choice of investment options
• Benefit at retirement generally is only available in an annuity form	• Benefit at retirement may typically be paid as lump sum although annuities can be made available
• Allow credit for prior service	• Limited mechanism for recognizing past service
• Longer vesting period (typically 5 to 10 years for public plans)	• Shorter vesting schedule (typically 2 to 5 years)
• Benefits generally funded over lifetime, creating unfunded liability	• Benefits funded annually; no unfunded liability
• Benefits for disability or survivors	• Individual employee investment accounts are established
• Plan may provide for cost-of-living adjustments (COLAs)	

B. Advantages and Disadvantages

The advantage or disadvantage of a particular type of plan depends on one's perspective. Perceived advantages of employees may not necessarily be perceived as advantages for employers. Often, the advantages for employees and employer conflict. Generally, a Defined Contribution plan has greater appeal for younger workers due to its portability. The following tables compare the key advantages and disadvantages to the employee for each type of plan. The key advantages and disadvantages to the School Board are discussed on the following page.

Key Employee Advantages	
Defined Benefit Plan	**Defined Contribution Plan**
• Employee can't outlive benefits • Employer assumes investment risk • Benefits are predictable, allowing for easier retirement planning • Final average pay plans are responsive to pay increases • Employees rewarded for long service • Allows for early retirement and survivor benefits	• Benefits are more portable • Borrowing feature • Simplicity of plan • Employee control over investments • Provides capital accumulation • Ability to receive lump sum payment (use of money for non-retirement purposes)

Key Employee Disadvantages	
Defined Benefit Plan	**Defined Contribution Plan**
• Limited portability • May be difficult to understand • No individual accounts or cash accumulation provided • Lack of postretirement inflation protection if COLA not provided • Lack of participation in market during good years	• More difficult to retire early • Employee assumes all investment risk • May not choose appropriate investment mix to receive high enough benefits • Low investment returns may produce inadequate benefits • Older workers may receive inadequate benefits • Minimal death and disability protection

The following tables compare the advantages and disadvantages to the City (or employer) for each type of plan.

Key Employer Advantages	
Defined Benefit Plan	**Defined Contribution Plan**
• Favorable investment performance reduces costs • Funding flexibility • Design versatility • Career engineering • Ability to influence behavior • Helpful in recruiting experienced mid-career employees	• No investment risk • Predictable budgeting • Appreciation and understanding by workforce • Lower administrative cost / complexity

Key Employer Disadvantages	
Defined Benefit Plan	**Defined Contribution Plan**
• Disclosure of unfunded liabilities • Contribution requirement volatility • Investment risk and uncertain future costs • Administrative cost/complexity - requires more professionals to administer	• Employee dissatisfaction if benefits are not adequate • Lack of retirement steering • Limited funding flexibility • Hidden additional costs that are usually passed on to the employee • Providing increased benefits requires a large influx of cash into the plan at once

III. Alternatives for Current Employees in Defined Benefit Plans

A. Plan Alternatives

We understand from the City's Legal Department that the City cannot reduce the future benefit for current employees without their approval. Therefore, the alternatives for current employees in the Defined Benefit plan do not involve changing the retirement plan provisions.

The City expressed concern that employees are retiring early and leaving a "knowledge" gap. Thus the City is interested in alternatives that allow the City to retain this institutional knowledge by encouraging employees to defer retirement. The alternatives we have modeled include:

- Deferred Retirement Option Plan (DROP) type arrangement
- Changes in the retiree medical plan

The DROP allows employees between normal retirement age and age 65 to elect to defer retirement in exchange for a lump sum and monthly annuity at retirement. Current employees would be allowed to elect to "retire" under the DROP but keep working for two years (i.e., DROP period). Employees would be considered "retired' only for purposes of their pension benefit. Therefore, they would still receive salary and benefits from the City during the DROP period. At the conclusion of the DROP period the employee will receive a lump sum plus their monthly annuity. The lump sum payment represents the payments the employee would have received if they had actually retired instead of electing the DROP (i.e., 24 x monthly benefit). At actual retirement, the employee will receive their monthly annuity amount plus the lump sum payment. Actual DROP features will be modified as appropriate for the City.

Of course, implementing a DROP will influence retirement patterns. Therefore, we have assumed the following changes in retirement rates to model the impact of a DROP plan. The rates shown have the impact of employees delaying retirement about 1 year (i.e., changing the expected average retirement age for General employees from 60.3 to 61.2).

	Less than 30 Years of Service		More than 30 Years of Service	
Age	Current Rate	Revised Rate	Current Rate	Revised Rate
50 - 54	2%	1%	10%	5%
55	15%	8%	23%	15%
56 - 59	10%	5%	15%	10%
60	40%	30%	40%	35%
61	20%	20%	20%	20%
62	20%	30%	20%	25%
63	20%	35%	20%	30%
64	20%	35%	20%	35%
65 - 69	30%	40%	30%	40%
70	100%	100%	100%	100%

Retiree Medical

Given health care inflation has outpaced regular inflation, the impact of any changes in the retiree medical plan will impact employee behavior. Changes that reduce the amount of retiree medical benefit the City provides (i.e., increase retiree cost) will have a direct impact on retirement patterns. The decision to change or amend the retiree medical plan is beyond the scope of this study and must be cleared with the City's Legal Department. Since there are not any specific retiree medical changes proposed, we have estimated the impact of a **hypothetical** change in retiree medical by assuming employees defer retirement according to the patterns shown below. The rates shown have the impact of employees delaying retirement about 1.5 years (i.e., changing the expected average retirement age for General employees from 60.3 to 61.8).

	Less than 30 Years of Service		More than 30 Years of Service	
Age	Current Rate	Revised Rate	Current Rate	Revised Rate
50 - 54	2%	1%	10%	5%
55	15%	8%	23%	15%
56 - 59	10%	5%	15%	10%
60	40%	30%	40%	35%
61	20%	15%	20%	15%
62	20%	15%	20%	15%
63	20%	15%	20%	15%
64	20%	15%	20%	15%
65 - 69	30%	30%	30%	30%
70	100%	100%	100%	100%

B. Financial Impact

DROP type arrangement

The total projected retirement contributions for all of the City's plans are shown below with and without implementation of a 2-year DROP. The projections assume the revised retirement rates shown previously continue into future years. The revised retirement rates have the impact of participants delaying retirement by about a year. If the actual retirement patterns delay retirement by more (less) than 1 year then the cost shown will be less (more).

		Maintain Current Plans		Implement DROP		
		Current Defined Benefit Plan (DB) + 6% Defined Contribution Plan for General EEs not in DB Plan		Current Defined Benefit Plan (DB) + 6% Defined Contribution Plan for General EEs not in DB Plan		
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution as % of Projected Payroll	Projected City Total Contribution	Projected City Total Contribution as % of Projected Payroll	Change from Current
July 1, 2010	$403,400,000	**$125,000,000**	31%	**$118,900,000**	29%	($6,100,000)
July 1, 2011	$420,600,000	**$133,000,000**	32%	**$126,800,000**	30%	($6,200,000)
July 1, 2012	$438,400,000	**$140,500,000**	32%	**$134,100,000**	31%	($6,400,000)
July 1, 2013	$457,000,000	**$148,400,000**	32%	**$141,800,000**	31%	($6,600,000)
July 1, 2014	$476,400,000	**$155,400,000**	33%	**$148,700,000**	31%	($6,700,000)
July 1, 2015	$496,600,000	**$160,300,000**	32%	**$153,400,000**	31%	($6,900,000)
July 1, 2016	$517,700,000	**$165,000,000**	32%	**$157,900,000**	31%	($7,100,000)
July 1, 2017	$539,700,000	**$169,800,000**	31%	**$162,600,000**	30%	($7,200,000)
July 1, 2018	$562,600,000	**$174,900,000**	31%	**$167,500,000**	30%	($7,400,000)
July 1, 2019	$586,500,000	**$180,100,000**	31%	**$172,500,000**	29%	($7,600,000)
July 1, 2020	$611,400,000	**$185,400,000**	30%	**$177,600,000**	29%	($7,800,000)
July 1, 2021	$637,400,000	**$190,900,000**	30%	**$182,900,000**	29%	($8,000,000)
July 1, 2022	$664,500,000	**$196,600,000**	30%	**$188,400,000**	28%	($8,200,000)
July 1, 2023	$692,700,000	**$202,600,000**	29%	**$194,200,000**	28%	($8,400,000)
July 1, 2024	$722,200,000	**$208,600,000**	29%	**$200,000,000**	28%	($8,600,000)
July 1, 2025	$752,900,000	**$214,800,000**	29%	**$206,000,000**	27%	($8,800,000)
July 1, 2026	$784,800,000	**$221,400,000**	28%	**$212,400,000**	27%	($9,000,000)
July 1, 2027	$818,200,000	**$228,100,000**	28%	**$218,800,000**	27%	($9,300,000)
July 1, 2028	$853,000,000	**$235,100,000**	28%	**$225,600,000**	26%	($9,500,000)
July 1, 2029	$889,200,000	**$242,200,000**	27%	**$232,500,000**	26%	($9,700,000)
July 1, 2030	$927,000,000	**$249,700,000**	27%	**$239,700,000**	26%	($10,000,000)
July 1, 2031	$966,500,000	**$257,300,000**	27%	**$247,100,000**	26%	($10,200,000)
July 1, 2032	$1,007,600,000	**$265,200,000**	26%	**$254,700,000**	25%	($10,500,000)
July 1, 2033	$1,050,500,000	**$273,500,000**	26%	**$262,800,000**	25%	($10,700,000)
July 1, 2034	$1,095,400,000	**$281,800,000**	26%	**$270,800,000**	25%	($11,000,000)
July 1, 2035	$1,141,900,000	**$290,600,000**	25%	**$279,300,000**	24%	($11,300,000)
Total	**$18,514,100,000**	**$5,296,200,000**	**29%**	**$5,077,000,000**	**27%**	**($219,200,000)**

The estimated savings shown above include the impact on all of the City's plans. The General employees currently in the Defined Benefit plan account for about half of the savings and the Fire/Police account for the remainder.

Retiree Medical

To illustrate the financial impact of a **hypothetical** change in retiree medical benefits we have assumed employees retire based on the revised patterns shown previously. The projections assume a permanent change in employee retirement patterns that continues into the future. The revised retirement rates have the impact of participants delaying retirement by about 1.5 years. If the actual retirement patterns delay retirement by more (less) than 1.5 years then the cost shown will be less (more).

		Maintain Current Plans		Hypothetical Change in Retiree Medical Plan		
		Current Defined Benefit Plan (DB) + 6% Defined Contribution Plan for General EEs not in DB Plan		Current Defined Benefit Plan (DB) + 6% Defined Contribution Plan for General EEs not in DB Plan		
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution as % of Projected Payroll	Projected City Total Contribution	Projected City Total Contribution as % of Projected Payroll	Change from Current
July 1, 2010	$403,400,000	$125,000,000	31%	$121,500,000	30%	($3,500,000)
July 1, 2011	$420,600,000	$133,000,000	32%	$129,400,000	31%	($3,600,000)
July 1, 2012	$438,400,000	$140,500,000	32%	$136,800,000	31%	($3,700,000)
July 1, 2013	$457,000,000	$148,400,000	32%	$144,600,000	32%	($3,800,000)
July 1, 2014	$476,400,000	$155,400,000	33%	$151,500,000	32%	($3,900,000)
July 1, 2015	$496,600,000	$160,300,000	32%	$156,300,000	31%	($4,000,000)
July 1, 2016	$517,700,000	$165,000,000	32%	$160,900,000	31%	($4,100,000)
July 1, 2017	$539,700,000	$169,800,000	31%	$165,600,000	31%	($4,200,000)
July 1, 2018	$562,600,000	$174,900,000	31%	$170,600,000	30%	($4,300,000)
July 1, 2019	$586,500,000	$180,100,000	31%	$175,700,000	30%	($4,400,000)
July 1, 2020	$611,400,000	$185,400,000	30%	$180,900,000	30%	($4,500,000)
July 1, 2021	$637,400,000	$190,900,000	30%	$186,300,000	29%	($4,600,000)
July 1, 2022	$664,500,000	$196,600,000	30%	$191,900,000	29%	($4,700,000)
July 1, 2023	$692,700,000	$202,600,000	29%	$197,800,000	29%	($4,800,000)
July 1, 2024	$722,200,000	$208,600,000	29%	$203,700,000	28%	($4,900,000)
July 1, 2025	$752,900,000	$214,800,000	29%	$209,700,000	28%	($5,100,000)
July 1, 2026	$784,800,000	$221,400,000	28%	$216,200,000	28%	($5,200,000)
July 1, 2027	$818,200,000	$228,100,000	28%	$222,800,000	27%	($5,300,000)
July 1, 2028	$853,000,000	$235,100,000	28%	$229,600,000	27%	($5,500,000)
July 1, 2029	$889,200,000	$242,200,000	27%	$236,600,000	27%	($5,600,000)
July 1, 2030	$927,000,000	$249,700,000	27%	$244,000,000	26%	($5,700,000)
July 1, 2031	$966,500,000	$257,300,000	27%	$251,400,000	26%	($5,900,000)
July 1, 2032	$1,007,600,000	$265,200,000	26%	$259,200,000	26%	($6,000,000)
July 1, 2033	$1,050,500,000	$273,500,000	26%	$267,300,000	25%	($6,200,000)
July 1, 2034	$1,095,400,000	$281,800,000	26%	$275,500,000	25%	($6,300,000)
July 1, 2035	$1,141,900,000	$290,600,000	25%	$284,300,000	25%	($6,300,000)
Total	$18,514,100,000	$5,296,200,000	29%	$5,170,100,000	28%	($126,100,000)

The estimated savings modeled for a **hypothetical** change in retiree medical are less than the DROP since the actual retirement benefits remains the same. The "savings" come from the fact that employees defer retirement about a year and therefore receive benefits for a shorter period of time than currently assumed.

IV. Alternatives for Current Employees in 401 (a) Defined Contribution Plan

A. Plan Alternatives

Initially, the following alternatives were analyzed for employees currently in the 401(a) Defined Contribution plan:

Provision	Current Defined Benefit Plan	"New" Defined Benefit Plan for New Hires	"Haircut" to Current Defined Benefit Plan	Tiered Defined Benefit Plan + 3% Defined Contribution Plan
DB Multiplier	2.5%	Varies (see Future Hire Options	2.5%	1.5% for 0-10 years of service + 2.0% for 10-20 years of service + 2.5% for 20+ years of service
Final Average Earnings (FAE)	3 years	5 years	5 years	5 years
Normal Retirement Age (NRA)	60/15	65/10	65/10	65/10
Early Retirement Age (ERA)	15 years of service	55/20	55/20	55/20
Unreduced Retirement Age (URA)	30 years of service	90 Points	90 Points or 35 years of service	90 Points
Early Retirement Reduction	6% for first 5 years below age 60; 3% thereafter	7% per year from URA	7% per year from URA	7% per year from URA
EE Contributions to DB Plan	7% (8% if married)	Varies (see Future Hire Options	8%	6%
City Contributions to DC Plan	N/A	Varies (see Future Hire Options	N/A	3%
Normal Form of Benefit	75% Joint-and-Survivor (J&S)	Single Life Annuity	Single Life Annuity	Single Life Annuity

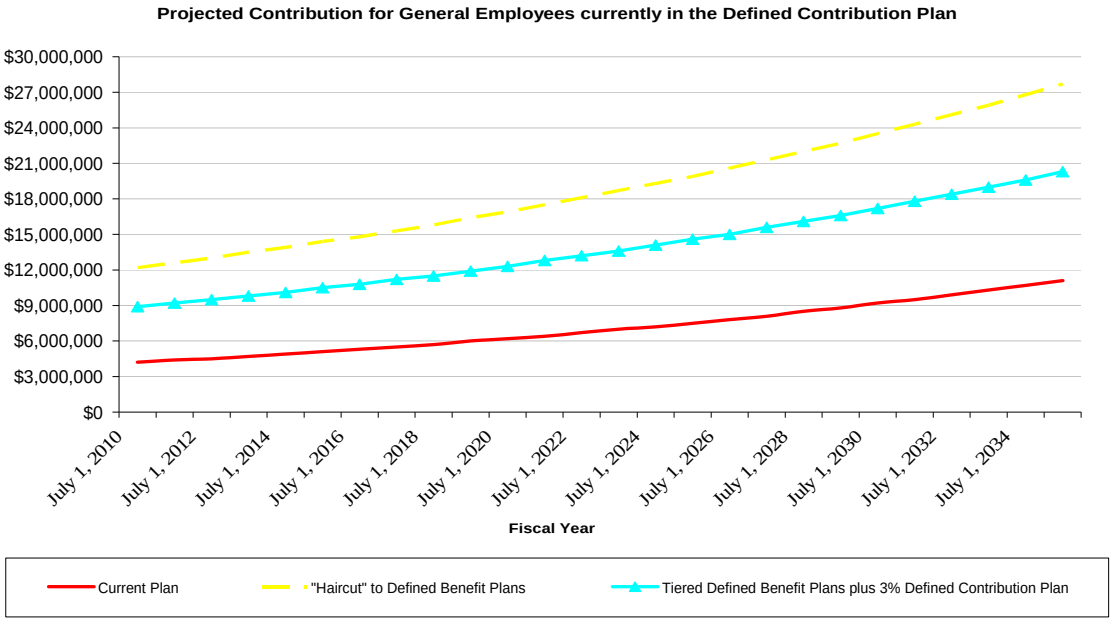
After meeting with the City to review the preliminary results of the alternatives above, the City decided to focus on the "Haircut" to current plan and the combination Defined Benefit/Defined Contribution plan . Additionally, the impact of increasing the current 6% Defined Contribution plan to bring the City-provided replacement ratios for this group within the targeted range are also modeled.

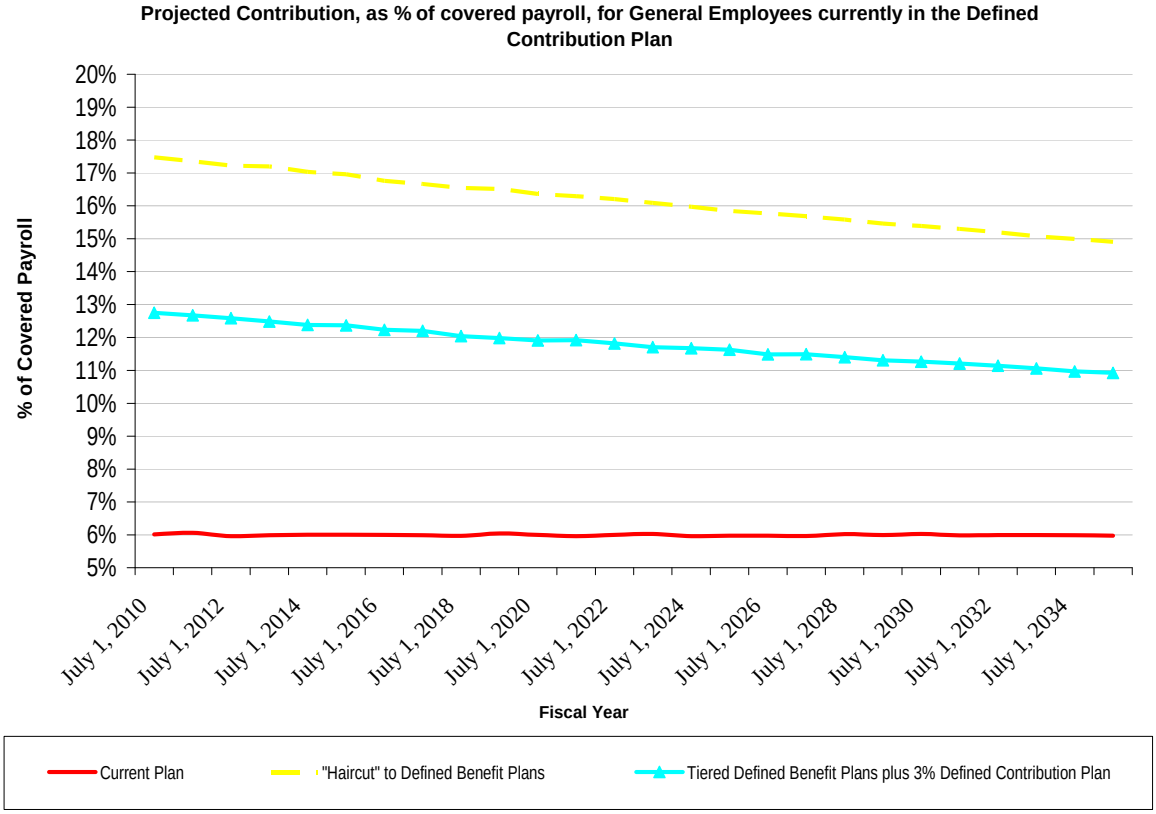
B. Financial Impact

The table below shows the projected cost to the City of allowing employees currently not in the Defined Benefit plans to participate in the alternative plans. These amounts are shown graphically as a percentage of projected payroll on the next page.

		Maintain Current Plans	"Haircut" to Defined Benefit Plans		Tiered Defined Benefit Plans plus 3% Defined Contribution Plan			
		6% Defined Contribution Plan	2.5% Defined Benefit Plan		Tiered Defined Benefit Plan (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) + Matching Defined Contribution Plan			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Contribution to Defined Benefit Plans	Projected City Contribution to Defined Contribution Plans	**Projected City Total Contribution**	Change from Current
July 1, 2010	$69,800,000	**$4,200,000**	**$12,200,000**	$8,000,000	$8,900,000	$2,100,000	**$11,000,000**	$6,800,000
July 1, 2011	$72,600,000	**$4,400,000**	**$12,600,000**	$8,200,000	$9,200,000	$2,200,000	**$11,400,000**	$7,000,000
July 1, 2012	$75,500,000	**$4,500,000**	**$13,000,000**	$8,500,000	$9,500,000	$2,300,000	**$11,800,000**	$7,300,000
July 1, 2013	$78,500,000	**$4,700,000**	**$13,500,000**	$8,800,000	$9,800,000	$2,400,000	**$12,200,000**	$7,500,000
July 1, 2014	$81,600,000	**$4,900,000**	**$13,900,000**	$9,000,000	$10,100,000	$2,400,000	**$12,500,000**	$7,600,000
July 1, 2015	$84,900,000	**$5,100,000**	**$14,400,000**	$9,300,000	$10,500,000	$2,500,000	**$13,000,000**	$7,900,000
July 1, 2016	$88,300,000	**$5,300,000**	**$14,800,000**	$9,500,000	$10,800,000	$2,600,000	**$13,400,000**	$8,100,000
July 1, 2017	$91,800,000	**$5,500,000**	**$15,300,000**	$9,800,000	$11,200,000	$2,800,000	**$14,000,000**	$8,500,000
July 1, 2018	$95,500,000	**$5,700,000**	**$15,800,000**	$10,100,000	$11,500,000	$2,900,000	**$14,400,000**	$8,700,000
July 1, 2019	$99,300,000	**$6,000,000**	**$16,400,000**	$10,400,000	$11,900,000	$3,000,000	**$14,900,000**	$8,900,000
July 1, 2020	$103,300,000	**$6,200,000**	**$16,900,000**	$10,700,000	$12,300,000	$3,100,000	**$15,400,000**	$9,200,000
July 1, 2021	$107,400,000	**$6,400,000**	**$17,500,000**	$11,100,000	$12,800,000	$3,200,000	**$16,000,000**	$9,600,000
July 1, 2022	$111,700,000	**$6,700,000**	**$18,100,000**	$11,400,000	$13,200,000	$3,400,000	**$16,600,000**	$9,900,000
July 1, 2023	$116,200,000	**$7,000,000**	**$18,700,000**	$11,700,000	$13,600,000	$3,500,000	**$17,100,000**	$10,100,000
July 1, 2024	$120,800,000	**$7,200,000**	**$19,300,000**	$12,100,000	$14,100,000	$3,600,000	**$17,700,000**	$10,500,000
July 1, 2025	$125,600,000	**$7,500,000**	**$19,900,000**	$12,400,000	$14,600,000	$3,800,000	**$18,400,000**	$10,900,000
July 1, 2026	$130,600,000	**$7,800,000**	**$20,600,000**	$12,800,000	$15,000,000	$3,900,000	**$18,900,000**	$11,100,000
July 1, 2027	$135,800,000	**$8,100,000**	**$21,300,000**	$13,200,000	$15,600,000	$4,100,000	**$19,700,000**	$11,600,000
July 1, 2028	$141,200,000	**$8,500,000**	**$22,000,000**	$13,500,000	$16,100,000	$4,200,000	**$20,300,000**	$11,800,000
July 1, 2029	$146,800,000	**$8,800,000**	**$22,700,000**	$13,900,000	$16,600,000	$4,400,000	**$21,000,000**	$12,200,000
July 1, 2030	$152,700,000	**$9,200,000**	**$23,500,000**	$14,300,000	$17,200,000	$4,600,000	**$21,800,000**	$12,600,000
July 1, 2031	$158,800,000	**$9,500,000**	**$24,300,000**	$14,800,000	$17,800,000	$4,800,000	**$22,600,000**	$13,100,000
July 1, 2032	$165,200,000	**$9,900,000**	**$25,100,000**	$15,200,000	$18,400,000	$5,000,000	**$23,400,000**	$13,500,000
July 1, 2033	$171,800,000	**$10,300,000**	**$25,900,000**	$15,600,000	$19,000,000	$5,200,000	**$24,200,000**	$13,900,000
July 1, 2034	$178,700,000	**$10,700,000**	**$26,800,000**	$16,100,000	$19,600,000	$5,400,000	**$25,000,000**	$14,300,000
July 1, 2035	$185,800,000	**$11,100,000**	**$27,700,000**	$16,600,000	$20,300,000	$5,600,000	**$25,900,000**	$14,800,000
Total	**$3,090,200,000**	**$185,200,000**	**$492,200,000**	**$307,000,000**	**$359,600,000**	**$97,000,000**	**$456,600,000**	**$267,400,000**

The graphs below compare the total projected cost, as dollar amount and percentage of covered payroll, to the City of maintaining its current 6% 401(a) Defined Contribution plan and changing to the alternative plans for General employees currently not covered by the Defined Benefit plan.





The impact of maintaining the current Defined Contribution structure with various City contributions are shown below. For every 2% increase in Defined Contribution plan, the cost increases about $1.4 million. Beginning July 1, 2010 the $1.4 million will grow annually at the salary growth rate. Please note the at the City would need to provide a Defined Contribution plan of approximately 16% of pay to provide a replacement ratio within the City's targeted range.

		Maintain Current Plan	8% Defined Contribution Plan		12% Defined Contribution Plan		16% Defined Contribution Plan	
		6% Defined Contribution Plan	8% Defined Contribution Plan Contribution		12% Defined Contribution Plan Contribution		16% Defined Contribution Plan Contribution	
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Total Contribution	Change from Current	Projected City Total Contribution	Change from Current
July 1, 2010	$69,800,000	**$4,200,000**	**$5,600,000**	$1,400,000	**$8,400,000**	$4,200,000	**$11,200,000**	$7,000,000
July 1, 2011	$72,600,000	**$4,400,000**	**$5,800,000**	$1,400,000	**$8,700,000**	$4,300,000	**$11,600,000**	$7,200,000
July 1, 2012	$75,500,000	**$4,500,000**	**$6,000,000**	$1,500,000	**$9,100,000**	$4,600,000	**$12,100,000**	$7,600,000
July 1, 2013	$78,500,000	**$4,700,000**	**$6,300,000**	$1,600,000	**$9,400,000**	$4,700,000	**$12,600,000**	$7,900,000
July 1, 2014	$81,600,000	**$4,900,000**	**$6,500,000**	$1,600,000	**$9,800,000**	$4,900,000	**$13,100,000**	$8,200,000
July 1, 2015	$84,900,000	**$5,100,000**	**$6,800,000**	$1,700,000	**$10,200,000**	$5,100,000	**$13,600,000**	$8,500,000
July 1, 2016	$88,300,000	**$5,300,000**	**$7,100,000**	$1,800,000	**$10,600,000**	$5,300,000	**$14,100,000**	$8,800,000
July 1, 2017	$91,800,000	**$5,500,000**	**$7,300,000**	$1,800,000	**$11,000,000**	$5,500,000	**$14,700,000**	$9,200,000
July 1, 2018	$95,500,000	**$5,700,000**	**$7,600,000**	$1,900,000	**$11,500,000**	$5,800,000	**$15,300,000**	$9,600,000
July 1, 2019	$99,300,000	**$6,000,000**	**$7,900,000**	$1,900,000	**$11,900,000**	$5,900,000	**$15,900,000**	$9,900,000
July 1, 2020	$103,300,000	**$6,200,000**	**$8,300,000**	$2,100,000	**$12,400,000**	$6,200,000	**$16,500,000**	$10,300,000
July 1, 2021	$107,400,000	**$6,400,000**	**$8,600,000**	$2,200,000	**$12,900,000**	$6,500,000	**$17,200,000**	$10,800,000
July 1, 2022	$111,700,000	**$6,700,000**	**$8,900,000**	$2,200,000	**$13,400,000**	$6,700,000	**$17,900,000**	$11,200,000
July 1, 2023	$116,200,000	**$7,000,000**	**$9,300,000**	$2,300,000	**$13,900,000**	$6,900,000	**$18,600,000**	$11,600,000
July 1, 2024	$120,800,000	**$7,200,000**	**$9,700,000**	$2,500,000	**$14,500,000**	$7,300,000	**$19,300,000**	$12,100,000
July 1, 2025	$125,600,000	**$7,500,000**	**$10,000,000**	$2,500,000	**$15,100,000**	$7,600,000	**$20,100,000**	$12,600,000
July 1, 2026	$130,600,000	**$7,800,000**	**$10,400,000**	$2,600,000	**$15,700,000**	$7,900,000	**$20,900,000**	$13,100,000
July 1, 2027	$135,800,000	**$8,100,000**	**$10,900,000**	$2,800,000	**$16,300,000**	$8,200,000	**$21,700,000**	$13,600,000
July 1, 2028	$141,200,000	**$8,500,000**	**$11,300,000**	$2,800,000	**$16,900,000**	$8,400,000	**$22,600,000**	$14,100,000
July 1, 2029	$146,800,000	**$8,800,000**	**$11,700,000**	$2,900,000	**$17,600,000**	$8,800,000	**$23,500,000**	$14,700,000
July 1, 2030	$152,700,000	**$9,200,000**	**$12,200,000**	$3,000,000	**$18,300,000**	$9,100,000	**$24,400,000**	$15,200,000
July 1, 2031	$158,800,000	**$9,500,000**	**$12,700,000**	$3,200,000	**$19,100,000**	$9,600,000	**$25,400,000**	$15,900,000
July 1, 2032	$165,200,000	**$9,900,000**	**$13,200,000**	$3,300,000	**$19,800,000**	$9,900,000	**$26,400,000**	$16,500,000
July 1, 2033	$171,800,000	**$10,300,000**	**$13,700,000**	$3,400,000	**$20,600,000**	$10,300,000	**$27,500,000**	$17,200,000
July 1, 2034	$178,700,000	**$10,700,000**	**$14,300,000**	$3,600,000	**$21,400,000**	$10,700,000	**$28,600,000**	$17,900,000
July 1, 2035	$185,800,000	**$11,100,000**	**$14,900,000**	$3,800,000	**$22,300,000**	$11,200,000	**$29,700,000**	$18,600,000
Total	**$3,157,300,000**	**$189,200,000**	**$251,000,000**	**$61,800,000**	**$374,800,000**	**$185,600,000**	**$498,500,000**	**$309,300,000**

V. Alternatives for Future Hires

A. Plan Alternatives

Initially, the following alternatives were analyzed for future hires:

Provision	Current Plan	Slightly Lower Defined Benefit Plan	"Skinny" Defined Benefit Plan + Defined Contribution Plan	"Haircut" to Current Defined Benefit Plan	Tiered Defined Benefit Plan + Defined Contribution Plan
Defined Benefit Plan Multiplier	2.5%	2.125%	1.5%	2.5% (3% for Fire/Police)	1.5% 0-10 years + 2.0% for 10-20 years + 2.5% for 20+ years
Final Average Earnings	3 years	5 years	5 years	5 years	5 years
Normal Retirement Age (NRA)	60/15 (55/15 for Fire/Police)	65/10 (60/10 for Fire/Police)	65/10 (60/10 for Fire/Police)	65/10 (60/10 for Fire/Police)	65/10 (60/10 for Fire/Police)
Early Retirement Age (ERA)	15 years of service (10 for Fire/Police)	55/20 (50/20 for Fire/Police)	55/20 (50/20 for Fire/Police)	55/20 (50/20 for Fire/Police)	55/20 (50/20 for Fire/Police)
Unreduced Retirement Age (URA)	30 years of service	90 Points (80 points for Fire/Police)	90 Points (80 points for Fire/Police)	90 Points or 35 years of service (80 points for Fire/Police)	90 Points (80 points for Fire/Police)
Early Retirement Reduction	6% for first 5 years below age 60; 3% thereafter	7% per year from URA	7% per year from URA	7% per year from URA	7% per year from URA
Employee Contributions to Defined Benefit Plan	7% (8% if married)	8%	6%	8%	6%
City Contributions to DC Plan	N/A	N/A	100% match up to 3%	N/A	100% match up to 3%
Normal Form of Benefit	75% J&S	Single Life	Single Life	Single Life	Single Life

B. Financial Impact

After meeting with the City to review the preliminary results of the alternatives above, the City decided to focus on the "Haircut" to current plan and combination Tiered Defined Benefit plan and Defined Contribution plan for this group.

The table below compares the total projected cost to the City of maintaining its current Defined Benefit plan and changing to the alternative plans for all current and future hires. The impact for each group of employee is shown on the following pages.

		Maintain Current Plans	**"Haircut" to Defined Benefit Plans**		**Tiered Defined Benefit Plans plus 3% Defined Contribution Plan**			
		Current Plans	**New Defined Benefit Plan for all employees**		**Tiered Defined Benefit Plan** (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) **+ Matching Defined Contribution Plan**			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Contribution to Defined Benefit Plans	Projected City Contribution to Defined Contribution Plans	**Projected City Total Contribution**	Change from Current
July 1, 2010	$403,400,000	**$125,000,000**	**$126,400,000**	$1,400,000	$114,800,000	$3,400,000	**$118,200,000**	($6,800,000)
July 1, 2011	$420,600,000	**$133,000,000**	**$134,100,000**	$1,100,000	$122,000,000	$4,200,000	**$126,200,000**	($6,800,000)
July 1, 2012	$438,400,000	**$140,500,000**	**$141,500,000**	$1,000,000	$128,700,000	$5,000,000	**$133,700,000**	($6,800,000)
July 1, 2013	$457,000,000	**$148,400,000**	**$149,400,000**	$1,000,000	$135,900,000	$5,900,000	**$141,800,000**	($6,600,000)
July 1, 2014	$476,400,000	**$155,400,000**	**$156,100,000**	$700,000	$142,000,000	$6,600,000	**$148,600,000**	($6,800,000)
July 1, 2015	$496,600,000	**$160,300,000**	**$160,800,000**	$500,000	$146,100,000	$7,400,000	**$153,500,000**	($6,800,000)
July 1, 2016	$517,700,000	**$165,000,000**	**$165,300,000**	$300,000	$149,800,000	$8,300,000	**$158,100,000**	($6,900,000)
July 1, 2017	$539,700,000	**$169,800,000**	**$169,900,000**	$100,000	$153,700,000	$9,300,000	**$163,000,000**	($6,800,000)
July 1, 2018	$562,600,000	**$174,900,000**	**$174,600,000**	($300,000)	$157,600,000	$10,400,000	**$168,000,000**	($6,900,000)
July 1, 2019	$586,500,000	**$180,100,000**	**$179,600,000**	($500,000)	$161,700,000	$11,400,000	**$173,100,000**	($7,000,000)
July 1, 2020	$611,400,000	**$185,400,000**	**$184,500,000**	($900,000)	$166,000,000	$12,400,000	**$178,400,000**	($7,000,000)
July 1, 2021	$637,400,000	**$190,900,000**	**$189,800,000**	($1,100,000)	$170,400,000	$13,600,000	**$184,000,000**	($6,900,000)
July 1, 2022	$664,500,000	**$196,600,000**	**$195,200,000**	($1,400,000)	$174,800,000	$14,800,000	**$189,600,000**	($7,000,000)
July 1, 2023	$692,700,000	**$202,600,000**	**$200,700,000**	($1,900,000)	$179,400,000	$15,900,000	**$195,300,000**	($7,300,000)
July 1, 2024	$722,200,000	**$208,600,000**	**$206,500,000**	($2,100,000)	$184,100,000	$17,200,000	**$201,300,000**	($7,300,000)
July 1, 2025	$752,900,000	**$214,800,000**	**$212,300,000**	($2,500,000)	$188,900,000	$18,600,000	**$207,500,000**	($7,300,000)
July 1, 2026	$784,800,000	**$221,400,000**	**$218,500,000**	($2,900,000)	$193,800,000	$19,900,000	**$213,700,000**	($7,700,000)
July 1, 2027	$818,200,000	**$228,100,000**	**$224,700,000**	($3,400,000)	$199,000,000	$21,200,000	**$220,200,000**	($7,900,000)
July 1, 2028	$853,000,000	**$235,100,000**	**$231,100,000**	($4,000,000)	$204,300,000	$22,500,000	**$226,800,000**	($8,300,000)
July 1, 2029	$889,200,000	**$242,200,000**	**$237,800,000**	($4,400,000)	$209,600,000	$24,000,000	**$233,600,000**	($8,600,000)
July 1, 2030	$927,000,000	**$249,700,000**	**$244,700,000**	($5,000,000)	$215,200,000	$25,300,000	**$240,500,000**	($9,200,000)
July 1, 2031	$966,500,000	**$257,300,000**	**$251,800,000**	($5,500,000)	$221,000,000	$26,800,000	**$247,800,000**	($9,500,000)
July 1, 2032	$1,007,600,000	**$265,200,000**	**$259,000,000**	($6,200,000)	$226,800,000	$28,400,000	**$255,200,000**	($10,000,000)
July 1, 2033	$1,050,500,000	**$273,500,000**	**$266,600,000**	($6,900,000)	$232,800,000	$29,800,000	**$262,600,000**	($10,900,000)
July 1, 2034	$1,095,400,000	**$281,800,000**	**$274,400,000**	($7,400,000)	$239,000,000	$31,500,000	**$270,500,000**	($11,300,000)
July 1, 2035	$1,141,900,000	**$290,600,000**	**$282,400,000**	($8,200,000)	$245,500,000	$33,000,000	**$278,500,000**	($12,100,000)
Total	**$18,514,100,000**	**$5,296,200,000**	**$5,237,700,000**	($58,500,000)	**$4,662,900,000**	**$426,800,000**	**$5,144,300,000**	($214,500,000)

The table below compares the projected cost to the City of maintaining its current Defined Benefit plan and changing to the alternative plans for all future ***General employees in job grades 19 and above*** (i.e., employees who would be covered by the 401(a) Defined Contribution plan).

		Maintain Current Plans	**"Haircut" to Defined Benefit Plans**		**Tiered Defined Benefit Plans plus 3% Defined Contribution Plan**			
		6% Defined Contribution Plan	**2.5% Defined Benefit Plan**		**Tiered Defined Benefit Plan** (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) **+ Matching Defined Contribution Plan**			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Contribution to Defined Benefit Plans	Projected City Contribution to Defined Contribution Plans	**Projected City Total Contribution**	Change from Current
July 1, 2010	$69,800,000	**$4,200,000**	**$12,200,000**	$8,000,000	$8,900,000	$2,100,000	**$11,000,000**	$6,800,000
July 1, 2011	$72,600,000	**$4,400,000**	**$12,600,000**	$8,200,000	$9,200,000	$2,200,000	**$11,400,000**	$7,000,000
July 1, 2012	$75,500,000	**$4,500,000**	**$13,000,000**	$8,500,000	$9,500,000	$2,300,000	**$11,800,000**	$7,300,000
July 1, 2013	$78,500,000	**$4,700,000**	**$13,500,000**	$8,800,000	$9,800,000	$2,400,000	**$12,200,000**	$7,500,000
July 1, 2014	$81,600,000	**$4,900,000**	**$13,900,000**	$9,000,000	$10,100,000	$2,400,000	**$12,500,000**	$7,600,000
July 1, 2015	$84,900,000	**$5,100,000**	**$14,400,000**	$9,300,000	$10,500,000	$2,500,000	**$13,000,000**	$7,900,000
July 1, 2016	$88,300,000	**$5,300,000**	**$14,800,000**	$9,500,000	$10,800,000	$2,600,000	**$13,400,000**	$8,100,000
July 1, 2017	$91,800,000	**$5,500,000**	**$15,300,000**	$9,800,000	$11,200,000	$2,800,000	**$14,000,000**	$8,500,000
July 1, 2018	$95,500,000	**$5,700,000**	**$15,800,000**	$10,100,000	$11,500,000	$2,900,000	**$14,400,000**	$8,700,000
July 1, 2019	$99,300,000	**$6,000,000**	**$16,400,000**	$10,400,000	$11,900,000	$3,000,000	**$14,900,000**	$8,900,000
July 1, 2020	$103,300,000	**$6,200,000**	**$16,900,000**	$10,700,000	$12,300,000	$3,100,000	**$15,400,000**	$9,200,000
July 1, 2021	$107,400,000	**$6,400,000**	**$17,500,000**	$11,100,000	$12,800,000	$3,200,000	**$16,000,000**	$9,600,000
July 1, 2022	$111,700,000	**$6,700,000**	**$18,100,000**	$11,400,000	$13,200,000	$3,400,000	**$16,600,000**	$9,900,000
July 1, 2023	$116,200,000	**$7,000,000**	**$18,700,000**	$11,700,000	$13,600,000	$3,500,000	**$17,100,000**	$10,100,000
July 1, 2024	$120,800,000	**$7,200,000**	**$19,300,000**	$12,100,000	$14,100,000	$3,600,000	**$17,700,000**	$10,500,000
July 1, 2025	$125,600,000	**$7,500,000**	**$19,900,000**	$12,400,000	$14,600,000	$3,800,000	**$18,400,000**	$10,900,000
July 1, 2026	$130,600,000	**$7,800,000**	**$20,600,000**	$12,800,000	$15,000,000	$3,900,000	**$18,900,000**	$11,100,000
July 1, 2027	$135,800,000	**$8,100,000**	**$21,300,000**	$13,200,000	$15,600,000	$4,100,000	**$19,700,000**	$11,600,000
July 1, 2028	$141,200,000	**$8,500,000**	**$22,000,000**	$13,500,000	$16,100,000	$4,200,000	**$20,300,000**	$11,800,000
July 1, 2029	$146,800,000	**$8,800,000**	**$22,700,000**	$13,900,000	$16,600,000	$4,400,000	**$21,000,000**	$12,200,000
July 1, 2030	$152,700,000	**$9,200,000**	**$23,500,000**	$14,300,000	$17,200,000	$4,600,000	**$21,800,000**	$12,600,000
July 1, 2031	$158,800,000	**$9,500,000**	**$24,300,000**	$14,800,000	$17,800,000	$4,800,000	**$22,600,000**	$13,100,000
July 1, 2032	$165,200,000	**$9,900,000**	**$25,100,000**	$15,200,000	$18,400,000	$5,000,000	**$23,400,000**	$13,500,000
July 1, 2033	$171,800,000	**$10,300,000**	**$25,900,000**	$15,600,000	$19,000,000	$5,200,000	**$24,200,000**	$13,900,000
July 1, 2034	$178,700,000	**$10,700,000**	**$26,800,000**	$16,100,000	$19,600,000	$5,400,000	**$25,000,000**	$14,300,000
July 1, 2035	$185,800,000	**$11,100,000**	**$27,700,000**	$16,600,000	$20,300,000	$5,600,000	**$25,900,000**	$14,800,000
Total	**$3,090,200,000**	**$185,200,000**	**$492,200,000**	**$307,000,000**	**$359,600,000**	**$97,000,000**	**$456,600,000**	**$267,400,000**

The table below compares the projected cost to the City of maintaining its current Defined Benefit plan and changing to the alternative plans for all future ***General employees in job grade 18 and below*** (i.e., employees who would be covered by the Defined Benefit plan).

		Maintain Current Plans	"Haircut" to Defined Benefit Plans		Tiered Defined Benefit Plans plus 3% Defined Contribution Plan			
		2.5% Defined Benefit Plan	2.5% Defined Benefit Plan		Tiered Defined Benefit Plan (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) + Matching Defined Contribution Plan			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Contribution to Defined Benefit Plans	Projected City Contribution to Defined Contribution Plans	Projected City Total Contribution	Change from Current
July 1, 2010	$196,500,000	**$56,600,000**	**$53,600,000**	($3,000,000)	$50,200,000	$800,000	**$51,000,000**	($5,600,000)
July 1, 2011	$205,400,000	**$62,500,000**	**$59,300,000**	($3,200,000)	$55,700,000	$1,200,000	**$56,900,000**	($5,600,000)
July 1, 2012	$214,600,000	**$68,000,000**	**$64,500,000**	($3,500,000)	$60,600,000	$1,600,000	**$62,200,000**	($5,800,000)
July 1, 2013	$224,300,000	**$73,700,000**	**$70,100,000**	($3,600,000)	$66,000,000	$2,100,000	**$68,100,000**	($5,600,000)
July 1, 2014	$234,400,000	**$78,500,000**	**$74,600,000**	($3,900,000)	$70,200,000	$2,500,000	**$72,700,000**	($5,800,000)
July 1, 2015	$244,900,000	**$81,000,000**	**$76,900,000**	($4,100,000)	$72,300,000	$2,900,000	**$75,200,000**	($5,800,000)
July 1, 2016	$256,000,000	**$83,400,000**	**$79,000,000**	($4,400,000)	$74,100,000	$3,400,000	**$77,500,000**	($5,900,000)
July 1, 2017	$267,500,000	**$85,700,000**	**$81,100,000**	($4,600,000)	$75,900,000	$3,900,000	**$79,800,000**	($5,900,000)
July 1, 2018	$279,500,000	**$88,200,000**	**$83,200,000**	($5,000,000)	$77,700,000	$4,500,000	**$82,200,000**	($6,000,000)
July 1, 2019	$292,100,000	**$90,700,000**	**$85,500,000**	($5,200,000)	$79,600,000	$5,000,000	**$84,600,000**	($6,100,000)
July 1, 2020	$305,200,000	**$93,300,000**	**$87,700,000**	($5,600,000)	$81,600,000	$5,600,000	**$87,200,000**	($6,100,000)
July 1, 2021	$319,000,000	**$96,100,000**	**$90,100,000**	($6,000,000)	$83,600,000	$6,200,000	**$89,800,000**	($6,300,000)
July 1, 2022	$333,300,000	**$98,800,000**	**$92,500,000**	($6,300,000)	$85,700,000	$6,900,000	**$92,600,000**	($6,200,000)
July 1, 2023	$348,300,000	**$101,700,000**	**$95,000,000**	($6,700,000)	$87,800,000	$7,500,000	**$95,300,000**	($6,400,000)
July 1, 2024	$364,000,000	**$104,700,000**	**$97,600,000**	($7,100,000)	$89,900,000	$8,200,000	**$98,100,000**	($6,600,000)
July 1, 2025	$380,400,000	**$107,700,000**	**$100,200,000**	($7,500,000)	$92,100,000	$9,000,000	**$101,100,000**	($6,600,000)
July 1, 2026	$397,500,000	**$110,900,000**	**$103,000,000**	($7,900,000)	$94,400,000	$9,700,000	**$104,100,000**	($6,800,000)
July 1, 2027	$415,400,000	**$114,200,000**	**$105,800,000**	($8,400,000)	$96,700,000	$10,400,000	**$107,100,000**	($7,100,000)
July 1, 2028	$434,100,000	**$117,500,000**	**$108,600,000**	($8,900,000)	$99,100,000	$11,200,000	**$110,300,000**	($7,200,000)
July 1, 2029	$453,600,000	**$121,000,000**	**$111,600,000**	($9,400,000)	$101,500,000	$12,000,000	**$113,500,000**	($7,500,000)
July 1, 2030	$474,000,000	**$124,600,000**	**$114,700,000**	($9,900,000)	$104,000,000	$12,700,000	**$116,700,000**	($7,900,000)
July 1, 2031	$495,300,000	**$128,300,000**	**$117,800,000**	($10,500,000)	$106,600,000	$13,500,000	**$120,100,000**	($8,200,000)
July 1, 2032	$517,600,000	**$132,100,000**	**$121,000,000**	($11,100,000)	$109,200,000	$14,400,000	**$123,600,000**	($8,500,000)
July 1, 2033	$540,900,000	**$136,100,000**	**$124,400,000**	($11,700,000)	$111,900,000	$15,200,000	**$127,100,000**	($9,000,000)
July 1, 2034	$565,300,000	**$140,100,000**	**$127,800,000**	($12,300,000)	$114,600,000	$16,100,000	**$130,700,000**	($9,400,000)
July 1, 2035	$590,700,000	**$144,400,000**	**$131,300,000**	($13,100,000)	$117,500,000	$16,900,000	**$134,400,000**	($10,000,000)
Total	**$9,349,800,000**	**$2,639,800,000**	**$2,456,900,000**	**($182,900,000)**	**$2,258,500,000**	**$203,400,000**	**$2,461,900,000**	**($177,900,000)**

The table below compares the projected cost to the City of maintaining its current retirement plan and changing to the alternative plans for all future ***General employees***.

		Maintain Current Plans	"Haircut" to Defined Benefit Plans		Tiered Defined Benefit Plans plus 3% Defined Contribution Plan			
		2.5% Defined Benefit Plan	2.5% Defined Benefit Plan		Tiered Defined Benefit Plan (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) + Matching Defined Contribution Plan			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Contribution to Defined Benefit Plans	Contribution to Defined Contribution Plans	Projected City Total Contribution	Change from Current
July 1, 2010	$266,300,000	**$60,800,000**	**$65,800,000**	$5,000,000	$59,100,000	$2,900,000	**$62,000,000**	$1,200,000
July 1, 2011	$278,000,000	**$66,900,000**	**$71,900,000**	$5,000,000	$64,900,000	$3,400,000	**$68,300,000**	$1,400,000
July 1, 2012	$290,100,000	**$72,500,000**	**$77,500,000**	$5,000,000	$70,100,000	$3,900,000	**$74,000,000**	$1,500,000
July 1, 2013	$302,800,000	**$78,400,000**	**$83,600,000**	$5,200,000	$75,800,000	$4,500,000	**$80,300,000**	$1,900,000
July 1, 2014	$316,000,000	**$83,400,000**	**$88,500,000**	$5,100,000	$80,300,000	$4,900,000	**$85,200,000**	$1,800,000
July 1, 2015	$329,800,000	**$86,100,000**	**$91,300,000**	$5,200,000	$82,800,000	$5,400,000	**$88,200,000**	$2,100,000
July 1, 2016	$344,300,000	**$88,700,000**	**$93,800,000**	$5,100,000	$84,900,000	$6,000,000	**$90,900,000**	$2,200,000
July 1, 2017	$359,300,000	**$91,200,000**	**$96,400,000**	$5,200,000	$87,100,000	$6,700,000	**$93,800,000**	$2,600,000
July 1, 2018	$375,000,000	**$93,900,000**	**$99,000,000**	$5,100,000	$89,200,000	$7,400,000	**$96,600,000**	$2,700,000
July 1, 2019	$391,400,000	**$96,700,000**	**$101,900,000**	$5,200,000	$91,500,000	$8,000,000	**$99,500,000**	$2,800,000
July 1, 2020	$408,500,000	**$99,500,000**	**$104,600,000**	$5,100,000	$93,900,000	$8,700,000	**$102,600,000**	$3,100,000
July 1, 2021	$426,400,000	**$102,500,000**	**$107,600,000**	$5,100,000	$96,400,000	$9,400,000	**$105,800,000**	$3,300,000
July 1, 2022	$445,000,000	**$105,500,000**	**$110,600,000**	$5,100,000	$98,900,000	$10,300,000	**$109,200,000**	$3,700,000
July 1, 2023	$464,500,000	**$108,700,000**	**$113,700,000**	$5,000,000	$101,400,000	$11,000,000	**$112,400,000**	$3,700,000
July 1, 2024	$484,800,000	**$111,900,000**	**$116,900,000**	$5,000,000	$104,000,000	$11,800,000	**$115,800,000**	$3,900,000
July 1, 2025	$506,000,000	**$115,200,000**	**$120,100,000**	$4,900,000	$106,700,000	$12,800,000	**$119,500,000**	$4,300,000
July 1, 2026	$528,100,000	**$118,700,000**	**$123,600,000**	$4,900,000	$109,400,000	$13,600,000	**$123,000,000**	$4,300,000
July 1, 2027	$551,200,000	**$122,300,000**	**$127,100,000**	$4,800,000	$112,300,000	$14,500,000	**$126,800,000**	$4,500,000
July 1, 2028	$575,300,000	**$126,000,000**	**$130,600,000**	$4,600,000	$115,200,000	$15,400,000	**$130,600,000**	$4,600,000
July 1, 2029	$600,400,000	**$129,800,000**	**$134,300,000**	$4,500,000	$118,100,000	$16,400,000	**$134,500,000**	$4,700,000
July 1, 2030	$626,700,000	**$133,800,000**	**$138,200,000**	$4,400,000	$121,200,000	$17,300,000	**$138,500,000**	$4,700,000
July 1, 2031	$654,100,000	**$137,800,000**	**$142,100,000**	$4,300,000	$124,400,000	$18,300,000	**$142,700,000**	$4,900,000
July 1, 2032	$682,800,000	**$142,000,000**	**$146,100,000**	$4,100,000	$127,600,000	$19,400,000	**$147,000,000**	$5,000,000
July 1, 2033	$712,700,000	**$146,400,000**	**$150,300,000**	$3,900,000	$130,900,000	$20,400,000	**$151,300,000**	$4,900,000
July 1, 2034	$744,000,000	**$150,800,000**	**$154,600,000**	$3,800,000	$134,200,000	$21,500,000	**$155,700,000**	$4,900,000
July 1, 2035	$776,500,000	**$155,500,000**	**$159,000,000**	$3,500,000	$137,800,000	$22,500,000	**$160,300,000**	$4,800,000
Total	**$12,440,000,000**	**$2,825,000,000**	**$2,949,100,000**	**$124,100,000**	**$2,618,100,000**	**$296,400,000**	**$2,914,500,000**	**$89,500,000**

The table below compares the projected cost to the City of maintaining its current Defined Benefit plan and changing to the alternative plans for all future ***Fire and Police*** employees.

		Maintain Current Plans	**"Haircut" to Defined Benefit Plans**		**Tiered Defined Benefit Plans plus 3% Defined Contribution Plan**			
		Current Defined Benefit Plan	**New Defined Benefit Plan for all employees**		**Tiered Defined Benefit Plan** (i.e., 1.5% for first 10 years + 2.0% for 10-20 years + 2.5% after 20 years) **+ Matching Defined Contribution Plan**			
Fiscal Year Beginning	Projected Payroll	Projected City Total Contribution	Projected City Total Contribution	Change from Current	Projected City Contribution to Defined Benefit Plans	Projected City Contribution to Defined Contribution Plans	Projected City Total Contribution	Change from Current
July 1, 2010	$137,100,000	**$64,200,000**	**$60,600,000**	($3,600,000)	$55,700,000	$500,000	**$56,200,000**	($8,000,000)
July 1, 2011	$142,600,000	**$66,100,000**	**$62,200,000**	($3,900,000)	$57,100,000	$800,000	**$57,900,000**	($8,200,000)
July 1, 2012	$148,300,000	**$68,000,000**	**$64,000,000**	($4,000,000)	$58,600,000	$1,100,000	**$59,700,000**	($8,300,000)
July 1, 2013	$154,200,000	**$70,000,000**	**$65,800,000**	($4,200,000)	$60,100,000	$1,400,000	**$61,500,000**	($8,500,000)
July 1, 2014	$160,400,000	**$72,000,000**	**$67,600,000**	($4,400,000)	$61,700,000	$1,700,000	**$63,400,000**	($8,600,000)
July 1, 2015	$166,800,000	**$74,200,000**	**$69,500,000**	($4,700,000)	$63,300,000	$2,000,000	**$65,300,000**	($8,900,000)
July 1, 2016	$173,400,000	**$76,300,000**	**$71,500,000**	($4,800,000)	$64,900,000	$2,300,000	**$67,200,000**	($9,100,000)
July 1, 2017	$180,400,000	**$78,600,000**	**$73,500,000**	($5,100,000)	$66,600,000	$2,600,000	**$69,200,000**	($9,400,000)
July 1, 2018	$187,600,000	**$81,000,000**	**$75,600,000**	($5,400,000)	$68,400,000	$3,000,000	**$71,400,000**	($9,600,000)
July 1, 2019	$195,100,000	**$83,400,000**	**$77,700,000**	($5,700,000)	$70,200,000	$3,400,000	**$73,600,000**	($9,800,000)
July 1, 2020	$202,900,000	**$85,900,000**	**$79,900,000**	($6,000,000)	$72,100,000	$3,700,000	**$75,800,000**	($10,100,000)
July 1, 2021	$211,000,000	**$88,400,000**	**$82,200,000**	($6,200,000)	$74,000,000	$4,200,000	**$78,200,000**	($10,200,000)
July 1, 2022	$219,500,000	**$91,100,000**	**$84,600,000**	($6,500,000)	$75,900,000	$4,500,000	**$80,400,000**	($10,700,000)
July 1, 2023	$228,200,000	**$93,900,000**	**$87,000,000**	($6,900,000)	$78,000,000	$4,900,000	**$82,900,000**	($11,000,000)
July 1, 2024	$237,400,000	**$96,700,000**	**$89,600,000**	($7,100,000)	$80,100,000	$5,400,000	**$85,500,000**	($11,200,000)
July 1, 2025	$246,900,000	**$99,600,000**	**$92,200,000**	($7,400,000)	$82,200,000	$5,800,000	**$88,000,000**	($11,600,000)
July 1, 2026	$256,700,000	**$102,700,000**	**$94,900,000**	($7,800,000)	$84,400,000	$6,300,000	**$90,700,000**	($12,000,000)
July 1, 2027	$267,000,000	**$105,800,000**	**$97,600,000**	($8,200,000)	$86,700,000	$6,700,000	**$93,400,000**	($12,400,000)
July 1, 2028	$277,700,000	**$109,100,000**	**$100,500,000**	($8,600,000)	$89,100,000	$7,100,000	**$96,200,000**	($12,900,000)
July 1, 2029	$288,800,000	**$112,400,000**	**$103,500,000**	($8,900,000)	$91,500,000	$7,600,000	**$99,100,000**	($13,300,000)
July 1, 2030	$300,300,000	**$115,900,000**	**$106,500,000**	($9,400,000)	$94,000,000	$8,000,000	**$102,000,000**	($13,900,000)
July 1, 2031	$312,400,000	**$119,500,000**	**$109,700,000**	($9,800,000)	$96,600,000	$8,500,000	**$105,100,000**	($14,400,000)
July 1, 2032	$324,800,000	**$123,200,000**	**$112,900,000**	($10,300,000)	$99,200,000	$9,000,000	**$108,200,000**	($15,000,000)
July 1, 2033	$337,800,000	**$127,100,000**	**$116,300,000**	($10,800,000)	$101,900,000	$9,400,000	**$111,300,000**	($15,800,000)
July 1, 2034	$351,400,000	**$131,000,000**	**$119,800,000**	($11,200,000)	$104,800,000	$10,000,000	**$114,800,000**	($16,200,000)
July 1, 2035	$365,400,000	**$135,100,000**	**$123,400,000**	($11,700,000)	$107,700,000	$10,500,000	**$118,200,000**	($16,900,000)
Total	**$6,074,100,000**	**$2,471,200,000**	**$2,288,600,000**	**($182,600,000)**	**$2,044,800,000**	**$130,400,000**	**$2,175,200,000**	**($296,000,000)**

VI. Funding Policy

A. Contribution Policy

The City's funding policy has been to contribute the Annual Required Contribution (ARC) under Governmental Accounting Standards (GASB). Prior to the Fiscal Year beginning July 1, 2009 (i.e. FY '10), the ARC had been determined based on fully funding the plan by January 1, 2025. The methodology for determining the ARC was changed with the FY '10 to an open 30-year amortization of the unfunded actuarial accrued liability (UAAL). An open amortization period is analogous to refinancing a mortgage every year, with the UAAL representing the mortgage. While this method is permitted under GASB, the City should be aware that it will never amortize the UAAL unless investment returns are higher than the assumed discount rate.

The City should continue to fund at least the GASB ARC. However, we recommend the City attempt to fund the plans as if the amortization period were closed. Therefore, the UAAL would decrease and lead to a lower contribution in the future. The total normal cost of the plans is about 15% of covered payroll. That would be the City's contribution if the UAAL were eliminated. The City should fund on a closed basis until the remaining amortization period is in line with the average future working lifetime of the employees covered (currently about 15 years). Funding based on a closed amortization period will lead to an increased contribution over the open period but will increase the Plan's funded percentage, all other factors being equal.

B. Amortization Periods

The City currently amortizes the full UAAL over a 30-year period that resets every year. We recommend the City fund the UAAL as of beginning of the FY '10 over a 30-year closed period. When the period is down to 15 years then the City can begin using a 15-year open period.

C. GASB Update

GASB is considering changes to public pension funding and accounting that mirror changes for corporate pension mandated by the Financial Accounting Standards Board (FASB). The changes include the "marked-to-market" concept for pension liabilities. Specifically, GASB is proposing that public pension determine the actuarial accrued liability (AAL) based on the annual yields of Treasuries. This has the impact of potentially creating an artificially high and volatile AAL and ARC regardless of the plan design.

VII. Assumptions and Methodology

A. Assumptions

Assumption	Description
Discount Rate:	8.0% (7.75% for Fire/Police)
Mortality, Disability, Turnover, Retirement Rates:	Same as most recent actuarial valuation
Annual Investment Return:	-15% from July 1, 2008 – June 30, 2009; 5.0% from July 1, 2009 – June 30, 2010; 8.0% thereafter for General (6.0% for determining employee's replacement ratio)
Inflation:	3.0%
Annual Salary Growth:	Same as most recent actuarial valuation (4.0% for determining employee's replacement ratios)
Annual Payroll Growth:	3.5%
Employee DB Contributions	Specified by alternative; assumed to continue
Employee DC Contributions	6.0% for determining employee's replacement ratios
Employer DC Contributions	Specified by alternative; assumed to continue
Defined Benefit Multiplier	Specified by alternative; assumed to continue
Early Retirement Factors	Specified by alternative; assumed to continue

B. Methodology

- All projected costs are based on an open 30-year amortization period for the UAAL

- Based on demographic data and/or valuation results as of the following dates:
  - July 1, 2008 for general employees in the DB plan
  - July 1, 2009 for general employees not in the DB plan
  - January 1, 2009 for Fire/Police

- Our estimates include an assumption that the number of employees covered by either the Defined Benefit plan or Defined Contribution plan will remain level. In other words, we assume participants who retire, terminate or die will be replaced by similar employees. Therefore, we assume the total projected payroll for the covered group will continue to increase.

  The projected cost for future hires under a Defined Contribution plan was estimated by multiplying the contribution percentage by the salary for new hires. A closed group (i.e, where employees are not replaced) forecast was run to determine the salary, etc. of the existing employees. The total salary was increased at the annual payroll growth rate. The difference between the projected salary at the payroll growth rate and the closed group salary determined the salary for the new hires.

- The Segal Company's "replacement life" Entry Age Normal (EAN) actuarial cost method is used to determine the normal cost and the actuarial accrued liability instead of the "traditional" EAN method. Under this method, a normal cost is calculated for each employee which is the level annual contribution as a percent of pay required to be made from the employee's date of hire for as long as he/she remains active so that sufficient assets will be accumulated to provide his/her benefit. The normal cost, and present value of future normal cost, reflect current plan changes while the actuarial accrued liability is a balancing item. The actuarial accrued liability is the difference between the present value of future benefits less the present value of future normal cost.

  The Segal "replacement life" EAN method allows for a lower normal cost since plan changes were made to reduce future benefits, while the actuarial accrued liability (a balancing item) is increased. Therefore, the Plan's funded status will be slightly lower under the Segal "replacement life" methodology compared to the "traditional" EAN methodology since the actuarial accrued liability is higher.

- To calculate the value of the Defined Benefit plans, we projected employee salaries and benefits to early retirement age, normal retirement age, unreduced retirement age, and ages 55, 60 and 65. We have included various age combinations to illustrate the sensitivity of this analysis to demographic differences. We studied two sample new hires starting employment at ages 25 and 30. We assumed the new hires would earn one year of service each plan year and would work until their assumed retirement dates. The Plan's actuarial valuation as of July 1, 2008 shows an average salary of about $35,000 for General Employees with less than one year of service. In the calculations, new hires' salaries are assumed to start at this average level, and then increase at the salary growth rate specified above.

- For the DC Plan calculations, we used assumptions similar to those used in the projection of the Defined Benefit amounts presented earlier. These assumptions include a salary projection and a retirement at the same ages as in the Defined Benefit plan examples. In addition, investment assumptions must be selected to project account balances. Studies have shown that due to the lack of professional investment advice and a general propensity to invest more conservatively in a Defined Contribution plan, investment returns in Defined Contribution plans average 1% and 2% lower than in a Defined Benefit plans. For illustrative purposes, we have assumed that the Defined Contribution plan balances will earn 6.0% per year.

- To allow for a comparison of various benefits, employee account balances at retirement are first converted into an annual annuity and then divided by the projected pre-retirement salary of the individual to determine the replacement ratio.

  We used the following assumptions for the purpose of converting the Defined Contribution balances and employee contributions in the Defined Benefit plan to an annuity. These assumptions are an estimate of the cost of an annuity purchase at retirement.

  Mortality Table: RP-2000 50/50 Male/Female

  Interest Rate: 2.91% (6.0% discount rate adjusted for inflation of 3.0%)

- Prior account balances were determined by multiplying current salary times years of service times the current contribution percentage (i.e., assume no interest). The effect of this assumption is that the replacement ratios may be slightly understated.

- The employee's share of Defined Benefit plans was determined by taking the ratio of employee contributions to total contributions.

- The estimates for the alternative plans for employees covered by the Defined Contribution plan assume all participants elect to participate in the new plan and transfer their entire 401(a) balance to the alternative plan in exchange for credit for prior service. The total 401(a) account balances total $36,759,742 as of July 1, 2009.

- The impact on Fire and Police was estimated by converting the most recent results to the Segal "replacement life" methodology. The following declines in the present value of future normal cost (PVNC) were assumed for the various alternatives.

  DROP alternative – 3.0%

  Retiree medical changes – 1.5%

  "Haircut" alternative – 15.0%

  Tiered Defined Benefit + Defined Contribution alternative - 30.0%

  The present value of the benefits (PVB) was provided by the Fire and Police actuary as of July 1, 2009. The actuarial accrued liability is a balancing item under the methodology. Also, the active PVB was assumed to decline by the same amount as the PVNC for the DROP. All other scenarios assume the PVB remains unchanged.

VIII. Appendices

A. Definition of Pension Terms

The following list defines certain technical terms:

Assumptions or Actuarial Assumptions: The estimates on which the cost of the Plan is calculated including:

(a) Investment return — the rate of investment yield that the Plan will earn over the long-term future;

(b) Mortality rates — the death rates of employees and pensioners; life expectancy is based on these rates;

(c) Retirement rates — the rate or probability of retirement at a given age;

(d) Turnover rates — the rates at which employees of various ages are expected to leave employment for reasons other than death, disability, or retirement.

Normal Cost: The amount of contributions required to fund the benefit allocated to the current year of service.

Actuarial Accrued Liability For Actives: The equivalent of the accumulated normal costs allocated to the years before the valuation date.

Actuarial Accrued Liability For Pensioners: The single sum value of lifetime benefits to existing pensioners. This sum takes account of life expectancies appropriate to the ages of the pensioners and the interest that the sum is expected to earn before it is entirely paid out in benefits.

Unfunded Actuarial Accrued Liability: The extent to which the actuarial accrued liability of the Plan exceeds the assets of the Plan. There is a wide range of approaches to paying off the unfunded actuarial accrued liability, from meeting the interest accrual only to amortizing it over a specific period of time.

Amortization of the Unfunded Actuarial Accrued Liability: Payments made over a period of years equal in value to the Plan's unfunded actuarial accrued liability.

Investment Return: The rate of earnings of the Plan from its investments, including interest, dividends and capital gain and loss adjustments, computed as a percentage of the average value of the fund. For actuarial purposes, the investment return often reflects a smoothing of the capital gains and losses to avoid significant swings in the value of assets from one year to the next.

B. Closed Group Forecast of Current General Employees