

APPENDIX 3

Pension Task Force Report

City of Atlanta



Report of the Pension Technical Advisory Committee

**Produced Pro Bono
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No Cost to the City of Atlanta**

**Report
of the
Pension Technical Advisory Committee**

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City of Atlanta



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REPORT OF THE PENSION TECHNICAL ADVISORY COMMITTEE

Introduction

The Pension Technical Advisory Committee (PTAC) appreciates and gratefully acknowledges the dedication and input of City of Atlanta employees. The PTAC expresses special thanks to the Chairman of the City's 2001 Pension Task Force who spoke to the PTAC during public forums and provided documents and an important perspective on the City's pension plans. In addition, we thank the members of the General Employees' Pension Plan, the Police Pension Plan and the Fire Fighters Pension Plan who also appeared before the committee providing valuable research and information.

Any omission of specific recommendations made to the PTAC should not be construed as being without merit but rather should be considered only after substantial review and with full knowledge of the accompanying financial impacts and only within that context.

The PTAC is comprised of management professionals with expertise in pension plan administration and risk management. We were humbled by the task set before us and have struggled to make meaningful and impactful recommendations. Our recommendations are submitted to you with the caveat that the process was not ideal. The PTAC understands the urgency of the City's need for a quick response. However, the PTAC's review suggests that in the past, certain pension plan decisions may have had

unintended consequences. Our concern, therefore, is greatly heightened because pension plan changes produce substantive and continuing financial impacts that are realized far into the future. Therefore, we urge the Administration and City Council to consider our recommendations within a greater context. Pension discussion should be part of an overall total compensation package. While an important factor, the pension plan is not a stand-alone factor in employment decisions. With consensus, we acknowledge that salary is the most important factor in the employment decision.

In addition, we urge the City to determine its goal in providing retirement income as a percent of salary for the retirement needs of its employees. (See Recommendation #2, Page 10) The PTAC urges the City to set a goal that identifies its targeted share of its retiree's retirement income. Retirement income is often viewed as a 3-legged stool with portions of the whole coming from the employer(s), government (Social Security) and, the employee. The policy is needed no matter what the targeted percent, i.e., 10%, 50%, 60%, 80%, 90%, etc. Without a stated policy or goal, the City's pension plan decisions determine its policy in an ad hoc and inconsistent manner. Without a stated goal employees, will continue to seek and the City will be encouraged to grant ever-increasing retirement benefits. At this time, the three defined benefit pension plans provide different percents of salary for different groups without benefit of knowing what target percent the City seeks to achieve.

Further, in reviewing our recommendations, please know that in the global community, pensions are noted as a looming crisis. As discussed in the cover story of *BusinessWeek* July 19, 2004, "The Benefits Trap",

"Defined benefit plans and retiree health insurance were once all but universal at large companies. Today experts can think of no major company that has instituted guaranteed pensions in the past decade...a well-matched 401(k) often

costs no more than 3% of payroll, a typical defined-benefit plan can cost 5% to 6% of payroll.”

Many government sponsored defined benefit plans are higher than the above. However, we note this information because the City of Atlanta’s pension contribution rates as of 2003 are general employees 20.18%, police 23.33%, fire fighters 24.3% and some of the rates are projected to increase by at least 50% in the near term.

A cover story in *Global Finance July/August 2004 “Pensions the Impending Crisis,”* states:

“Three facts are widely agreed upon. Most states (countries) will shortly be unable to afford to adequately provide for their workers’ retirement; individuals appear to be failing to make suitable plans to fund their own retirements; and it is not possible to rely on corporations to provide long-term pension schemes that they also administer...”

The Organization for Economic Cooperation and Development ...is urging its members to promote fundamental changes in behavior and attitudes in order to promote a longer working life. It is concerned that if working lives are not extended then living standards of retirees and workers alike will fall.”

As the ratio of retired people to working-age people continues to increase, there will be fewer people to support more retirees. In countries that still rely heavily on state-funded pension schemes, which are dependent upon taxation for their funding, this seemingly unsolvable equation is at the core of the looming pensions crisis.”

History

Since 1924, City of Atlanta pension plans have provided designated employee groups with retirement benefits. The initial pension plan provided a benefit that equaled $\frac{1}{2}$ the average monthly salary not to exceed \$150 per month and employees were eligible to retire as pensioners at age 65. The City's pension plans were enacted as Act(s) of the General Assembly of the State of Georgia at a time when the average male life expectancy was approximately 48 years. The early 20th century did not envision a society wherein the demographics would suggest retirees might exceed workers or where workers would live long enough to reap retirement benefits. If they became pensioners, the assumption was that the likely benefit payout period would be relatively short.

Over numerous decades, the defined benefit plans for general employees, police, and fire fighters, respectively, were amended and retirement benefit formulas changed. The amendments and changes were generally to enhance benefits for a respective employee group or for United States Internal Revenue Code compliance. In 2001, Atlanta closed its General Employees Pension Plan to new City hires and created a defined contribution plan for this employee group. These actions were to reduce future costs. Subsequently, however, the benefit formulas in the police and later fire fighters pension plans were changed thereby increasing costs.

The Charge

In early 2004, the City of Atlanta set out certain facts with respect to its retirement plans and their accompanying benefits, to wit:

“The City of Atlanta provides retirement benefits for its full-time, permanent employees through three defined benefit pension funds and a defined contribution plan.

- 1. The Firefighter’s Pension Fund provides retirement benefits for uniformed members of the Fire Department through a defined benefit plan.*
- 2. The Police Officers Pension Fund provides retirement for uniformed members of the Police Department through a defined benefit plan*
- 3. The General Employees Pension Fund provides retirement for all other employees of the City employed prior to July 1, 2001, through a defined benefit plan. Certain employees of the Atlanta Board of Education are also members of this fund.*
- 4. The Defined Contribution Plan covers general employees of the City (all other than uniformed police and fire) hired since July 1, 2001.*

Each of the four plans has different benefits and different qualification provisions. City employees do not participate in Social Security. Uniformed fire and police personnel are eligible to participate in state retirement funds, which supplement their City pensions.

A number of changes have been made to the retirement plans over time. Disparity between the benefits among the three defined benefit plans has increased. Employees and City leaders have raised a number of questions relative to the City’s pension offerings. Some of these questions include:

- Whether the City’s plans are competitive with other public sector plans in the metro region.*
- Whether retirement benefits under the City’s plans are adequate.*
- Whether differing benefits (i.e. different retirement ages, different credit for service, etc.) under the various plans are appropriate.*
- How the City should mix defined contribution and defined benefit plans.*
- What is the most cost effective method of funding the unfunded liability of the defined benefit plans.*

- *Are there new and/or innovative benefit approaches (i.e. "DROP" plans) the City should consider.*

The City is establishing the Pension Technical Advisory Committee to provide the City with an objective review of its retirement plans, and to make recommendations for improvements and other changes. The commission will be asked to help answer the above questions, as well to provide insight into the "state of the art: of retirement plan management in both the private and public sectors. It is anticipated that the commission will draw upon the expertise of its members, hear from City employees and employee groups, and, with assistance of City staff, gather data from other pension systems.

The commission will be appointed by the Mayor, and will be asked to report their conclusions jointly to the Mayor and the City Council within ninety days."

The Committee

The six-member Pension Technical Advisory Committee (PTAC) is comprised of pension, retirement, and risk management experts from both the private and public sectors. The members are listed below:

Ms. Cecelia Corbin Hunter, Chair
Past Director
Employees' Retirement System of Georgia

Mr. Scott Fremer
Vice President, Retirement Services
Wachovia Bank

Mr. Greg Marshall
Manager, Pension and Capital Accumulation Plan Administration
The Southern Company

Mr. Bruce Palmer, Ph.D.
Retired Chair, Department of Risk Management & Insurance
Robinson College of Business
Georgia State University

Mr. Mitch Paull
Chief Financial Officer
Aaron's Rents, Inc.

Mr. Bob Regus
City Administrator
City of Alpharetta

The Process

The Pension Technical Advisory Committee held its first meeting on April 21, 2004 and its final meeting on August 11, 2004. To meet the time requirements stipulated in the City's charge, a 10-week process was scheduled for reviewing Atlanta's pension plans. The process included access to and meetings with plan actuaries; plan participants; Mayor and Members of Council; Chief Financial Officer; Commissioner of Human Resources; leadership of police and fire, and other interested parties. Input has been received through public forums, which were scheduled and held at Atlanta City Hall; information was also received by the Department of Finance and forwarded to the committee. The PTAC further reviewed information, researched issues and deliberated certain critical pension issues.

Recommendations

The following represents the recommendations the Pension Technical Advisory Committee brings forth for consideration by the City of Atlanta against the charge outlined in the creation of the Pension Technical Advisory Committee. Our recommendations represent our consensus within the context of the process. In each instance, implementation of the recommendations is dependent on further review and analysis.

The PTAC identified and responded to nine issues related to the pension plans.

1) Process for Making Changes

The PTAC recommends adoption of a two-year process for instituting changes with a financial impact to the City's pension plans.

Proposed changes to existing pension and other retirement plans should be carefully studied prior to their actual adoption and implementation. Once an increase in the benefit schedule or the vesting schedule is implemented, for example, it is exceedingly difficult, if not impossible, to rescind the change at a later time. If the City's financial circumstances were to worsen, making it difficult to continue to properly fund any of its defined benefit plans, it would have limited acceptable alternatives. To allow for a deliberate process for making changes, it is recommended that the City adopt a process that parallels the approach that the state of Georgia uses with respect to proposed changes to its retirement plans. Specifically, retirement plan changes that have a financial impact must undergo a two-year process for introduction, review and adoption.

The PTAC believes it is imperative that the City analyze and understand the long-term implications of retirement benefit changes prior to their adoption. *See Exhibit A "Georgia Public Standards Act".*

2) Income Replacement Targets

The PTAC recommends that the City set a policy that determines its targeted percent of an employee's retirement income.

Research suggests that workers who retire at normal, full-retirement, age 65, on average need 70-80 percent of their pre-retirement income to maintain their standard of living during their initial year of retirement. The exact percentage of income needed by a specific worker will vary according to the levels of income (and other) taxes they pay, pre-retirement saving levels, whether they have employer- or government-provided medical coverage during their retirement years, along with other important factors.

As the City of Atlanta seeks to provide a pension benefit to retired employees, in that context, the City should determine the percent of a retired workers pre-retirement salary that it by policy determines it should contribute. At this time, for some employee groups, in retirement, their City benefit will equal 80% or more of their previous salary. Generally, an employer is responsible for providing a percent of the total retirement income required, other government programs provide a percent and the employee contributes a percent through voluntary savings.

Inasmuch as the City of Atlanta does not participate in Social Security, the potential coverage for a similar benefit could be provided by the City matching a voluntary contribution in the IRC 457 Deferred Compensation Program up to a designated percent. Since the state of Georgia provides supplemental retirement benefits for certain employee groups, i.e., police and fire fighters, when determining the City's target percent, the calculation should include those additional benefit options.

3) Parity

- a.) **To ensure comparability of benefit, the PTAC recommends the City review contribution levels of all employee groups.**
- b.) **The PTAC recommends that high priority be given to addressing pension-related issues for General Employees hired after July 1, 2001.**

Parity across the three plans (police, fire fighters, and general employees) is a critically important issue for many of the City's workers. The PTAC believes that, generally, pension plan parity across the City's entire workforce is a desirable goal. In examining the parity issue, it is recommended that retirement benefits from all sources (City of Atlanta, state of Georgia, federal government) be considered.

The PTAC also recognizes that differences in labor markets may constitute justification for separate plans with different benefit accrual and/or employee contribution rates. It is possible that, even if the degree of competition varies across labor markets, a single pension plan could be provided all City workers, with any tight labor conditions reflected solely through higher wages.

In addition, the physical requirements of certain jobs could potentially support different normal (and, possibly, early) retirement provisions across differing segments of the total workforce. The PTAC does not possess any hard data to support or refute either of these possibilities and, thus, offers no opinion on whether there is legitimate justification for maintaining different benefit accrual rates and/or different normal retirement ages as presently exist.

The employee contribution rate for all City of Atlanta pension plans is 6% or 7% depending on survivor benefit. However, the benefit multiplier is significantly higher for police and also fire fighters. Clearly, those groups are receiving a higher benefit for the same contribution. One consideration would be to lower the contribution rate for general employees with a strong recommendation that those funds be redirected with a match by the City to a defined contribution plan. *Please see attached model Exhibit B.*

The PTAC's most overriding concern and recommendation, relates to the pension coverage of general employees hired on or after July 1, 2001. The PTAC believes that their exclusion from the General Employees Defined Benefit plan with pension coverage provided under a contributory defined contribution plan is a wholly inadequate solution. Unlike their colleagues covered under the defined benefit plan, new general employee hires do not have any employer-provided disability coverage and the plan's survivors' (death) benefits, most likely, would be highly inadequate if death occurred within 5-10 years of initial employment when their account balances would be relatively small. The absence of disability benefits and low levels of survivors' benefits is a particularly glaring issue given that City workers do not participate in the federal Social Security program.

The Committee recommends the following for post July 1, 2001 hires:

(1) Enrollment in Social Security (OASDI) or the establishment of a comprehensive set of retirement, disability, and survivors' benefits that approximates, or replicates, the benefits provided under OASDI. Although there continues to be considerable debate about the future of Social Security, a primary advantage of enrolling this employee group in OASDI, as opposed to the creation of a OASDI-replicate plan, is that OASDI benefits are completely portable from one employer to another, with no loss of coverage or accrued benefits.

(2) Coverage under a noncontributory defined benefit plan with an annual benefit accrual rate somewhat smaller than the 2.0 percent accrual rate in the existing plan covering pre-2001 General Employee hires. An appropriate accrual rate might be in the range of 1 percent to 1 and ¼ percent (or higher) per year, although a specific rate is not recommended at this time. Rather, the actual rate selected should be a function of (a) the overall target income replacement ratios that are established, (b) income replacement rates provided through Social Security retirement benefits, (c) the retirement income benefits that might be derived from the defined contribution plan described in (3) below using conservative investment return and longevity assumptions, and (d) possibly other factors.

(3) Coverage under a contributory defined contribution plan that encourages employee savings for retirement and supports the notion of employees taking individual responsibility for meeting a portion of their retirement income needs. Depending on circumstances, this plan could specify mandatory participation of all eligible employees with required employee contributions as well as fixed employer contributions (i.e., a traditional "money purchase" defined contribution plan), or the plan could be of the IRC 401(k) variety where employee participation is voluntary but with a significant employer "match" as an inducement for employees to participate in the tax-deferred retirement plan.

While a strong argument could be made that new hires (including post-2001 General Employee hires currently on the payroll) should be simply added into the existing defined benefit plan covering pre-2001 General Employee hires, the "combination plan" approach recommended above is preferred as it provides more equitable treatment between long-service employees who ultimately retire from the City of Atlanta and those employees who leave the City prior to vesting or "cash in" their vested defined benefits at termination of employment (thereby forfeiting all employer-

funded benefits. Other advantages of the recommended approach include employees taking individual responsibility (via the defined contribution plan) for meeting a portion of their retirement income needs and the opportunity for significant “wealth creation,” on a tax-favored basis, through participation in the defined contribution plan.

To this point, the above recommendation has been limited to general employees hired on or after July 1, 2001 due to the urgency and high priority that should be given to addressing retirement plan coverage for these workers. In addition, however, it is recommended that this combination plan arrangement also be established for new police and firefighters hired after some future date yet to be determined and that an option be given to current police and fire fighters of switching from the current defined benefit plan to the new “combination plan.” As such, the “combination plan” arrangement as the “plan of choice” will, after an extended period of time, ultimately cover all eligible City of Atlanta employees, achieving parity across job classifications which currently does not exist in the current structure of three distinctly different defined benefit plans.

4) Amortization of Unfunded Liabilities

- a.) The PTAC recommends that the City of Atlanta consider other methods of funding its unfunded liability.**
- b.) A funding approach be a stand-alone decision and not necessarily a means to fund new benefits.**

The City’s current method for funding its unfunded liability is the most conservative method allowed under Georgia law. While the PTAC believes it is

important that the City put in measures to mitigate the growth in its contribution requirements, it further recommends that a funding approach be a stand-alone decision and not necessarily a means to fund new benefits. **The PTAC sees no rationale for maintaining the City's current 40-year terminal amortization of funding. See Exhibit C Southern Actuary Report dated February 20, 2003.**

5) Pension Plan Governance

It is recommended that a review of pension board governance be made so as to identify best practices as they relate to administration and disability approval.

Time did not permit an in-depth analysis of this issue. However, a cursory review suggests that the City should consider combining the three boards to create greater efficiencies and economies.

6) Employee Education/Counseling

The PTAC recommends that the City of Atlanta increase employee education with respect to pension administration and short and long-term benefits.

The City of Atlanta should provide a formalized substantial counseling and education program with measurable goals. The education program should be an annual reviewable process accomplished using various media to reach diverse employee groups. The information should be consistent and emphasize personal financial planning and

responsibility for retirement goals. It is important that employees understand their pension benefits both leading up to and applying for retirement benefits.

7) Vesting

The PTAC recommends that the City reduce the vesting schedule on its defined benefit plans.

The period of time required for full vesting in the three (3) defined benefit plans is 15 years. This is a somewhat slow vesting pattern in comparison to the vesting schedules utilized in many of the surrounding jurisdictions. The additional cost to the City of adopting a faster vesting schedule could be reasonably estimated through an actuarial cost projection. The cost would depend on existing turnover patterns and the extent to which turnover rates might change after adoption and implementation of a faster vesting schedule. Faster vesting likely would be attractive to all employees; however, any additional "real" benefit would accrue only to vested employees who terminate their employment prior to normal or early retirement age and who do not forfeit the City's portion of the benefit through a "cash out" of their employee contributions. Currently, many terminating City employees choose to cash in their defined benefit plan, receiving a return of employee contributions (with interest), and thereby forfeiting the employer-provided portion of the vested accrued defined benefit. It should also be noted that while conceptually important, the actuarial (or "present value") of a vested accrued benefit is typically rather small when employment termination occurs at younger ages.

In summary, providing for faster vesting within the City's defined benefit plans increases the value of the plan to terminating employees potentially at a relatively small cost. Faster vesting provides no additional economic value (or benefit) to employees who remain with the City until retirement.

8) Best in Class

The PTAC recommends that the City examine its salary structure and increase salaries where appropriate as part of a "total compensation approach" to establishing both salaries and benefit programs.

The City of Atlanta espouses a philosophy to be a first choice employer and/or best in class. The PTAC concludes that a pension benefit is one part of a matrix that can lead to the desired designation. "Best in Class" by definition would require being above average. The PTAC believes that the key to being a preferred employer is couched in the context of "total compensation", which is defined to include both direct pay (wages) and various employee benefit programs including pensions, medical, disability and life insurance benefits, vacation and sick leave programs, etc. The PTAC concurs that to achieve the designation of Best in Class or Employer of Choice would require that the City's salary structure be higher than others in the class while also offering a benefits package that is perceived to be at or above the average in the class. Salaries should be commensurate with the work required.

Other important components to be evaluated in a comprehensive review include:

- training,
- career development,
- promotional opportunities,
- job satisfaction, and others.

The City of Atlanta has a very low, 6%-7%, attrition rate, which is primarily attributed to retirements. Only 2% - 3% of its employees seek other jobs. The committee concludes that in many categories, the City is ahead of or in the median of the market with municipalities in the metropolitan region.

A defined benefit plan alone does not represent a best in class pension plan. The defined benefit plan rewards primarily long-term employees who retire from the City after meeting the plan's normal (or early) retirement age. The PTAC is concerned about the City's ability to pay for a 3% annual benefit accrual for all future police and fire fighters. One option for consideration would be to have a more equitable plan for all employees, which provides for greater portability of benefits.

See earlier discussion on Parity for full description of recommended plan.

9) Drop Plans

The City's charge to the PTAC asked whether other benefit approaches, i.e., "Drop" plans should be considered. The committee had limited discussion on this issue. **The PTAC does not recommend consideration of a Drop Plan.** Further, we believe before any action is considered with respect to Drop Plans, the City should review and research the information contained in a recent *The New York Times*, nytimes.com article. The May 5, 2004, article "*Some Cities Struggling to Keep Pension Promises*" by Mary Williams Walsh provides an in-depth discussion of the difficulties certain major cities are experiencing as a result of adopting a Drop plan.

A copy of the article is attached. *See Exhibit D.*

Submittal

The recommendations in this report represent the PTAC's collective best thinking with respect to the pension plans offered by the City of Atlanta for its employee groups. The report is respectfully submitted to The Honorable Shirley Franklin, Mayor and The Honorable Members, Atlanta City Council.

August 17, 2004

Cecelia Corbin Hunter, Chair

Scott Framer

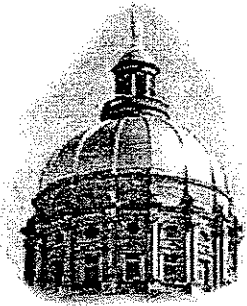
Greg Marshall

Bruce Palmer

Mitch Paull

Bob Regus

EXHIBIT A



Georgia General Assembly

Unannotated Georgia Code

47-20-1.

This chapter shall be known and may be cited as the 'Public Retirement Systems Standards Law.'

47-20-2.

It is the purpose of this chapter to comply with the provisions of Article III, Section X, Paragraph V of the Constitution of Georgia requiring the General Assembly to enact legislation to define funding standards to assure the actuarial soundness of any retirement or pension system supported wholly or partially from public funds and to control legislative procedures so that no bill or resolution creating or amending any such retirement or pension system shall be passed by the General Assembly without concurrent provisions for funding in accordance with the defined funding standards.

47-20-3.

As used in this chapter, the term:

(1) 'Accumulated retirement system benefits' means benefits that are attributable under the provisions of a retirement system to employees' service rendered to a specific valuation date.

(2) 'Actuarial accrued liability' means that portion, as determined by a particular actuarial cost method, of the actuarial present value of retirement system benefits and expenses which is not provided for by future normal costs.

(3) 'Actuarial assumptions' means assumptions as to the occurrence of future events affecting retirement system costs such as: mortality, withdrawal, disability, and retirement; changes in compensation and national pension benefits; rates of investment earnings and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; and other relevant items.

(4) 'Actuarial cost method' means a procedure for determining the actuarial present value of retirement system benefits and expenses and for developing an actuarially equivalent allocation of such value to time periods, usually in the form of a normal cost and an actuarial accrued liability. Acceptable actuarial cost methods are the aggregate, attained age, entry age, frozen attained age, frozen entry age, and unit credit methods.

(5) 'Actuarial present value' means the value of an amount or series of amounts payable or receivable at various times from a retirement system, determined as of a given date by the application of a particular set of actuarial assumptions.

(6) 'Actuarial present value of accumulated retirement system benefits' means the amount as of a valuation date that results from applying actuarial assumptions to the accumulated retirement system benefits, with the actuarial assumptions being used to adjust those benefits to reflect the time value of money, through discounts for interest, and the

probability of payment, by means of decrements such as for death, disability, withdrawal, or retirement, between the valuation date and the expected date of payments.

(7) 'Actuarial valuation' means the determination, as of a valuation date, of the normal cost, actuarial accrued liability, actuarial value of assets, and related actuarial present values for a retirement system.

(8) 'Actuarial value of assets' means the value of cash, investments, and other property belonging to a retirement system, as used by the actuary for the purpose of an actuarial valuation.

(9) 'Actuary' means an actuary who is enrolled under Subtitle C of Title III of the federal Employee Retirement Income Security Act of 1974, P.L. 93-406.

(10) 'Amortization contribution' means the excess in total employer and employee contributions over normal cost.

(10.1) 'Annual required contribution' means the annual required contribution determined in accordance with the requirements of Governmental Accounting Standards Board Statements No. 25 and No. 27 or any subsequent applicable Governmental Accounting Standards Board statements.

(11) 'Beneficiary' means a person receiving or entitled to receive a benefit pursuant to a retirement system.

(12) 'Benefit' means any benefit, including disability benefits, which is paid or payable to a beneficiary under a retirement system.

(13) 'Benefit increase' means a change in or amendment to a retirement system which results or will result in an increase in the benefits being paid or which will be paid to a beneficiary or potential beneficiary under a retirement system and includes any change in a retirement system which decreases the requirements for becoming eligible to receive a benefit and any change which grants or authorizes a member or members of a retirement system to obtain additional creditable service under the retirement system for service rendered in a capacity other than as a member of the retirement system.

(14) 'Employee' means officials and employees of the state or of any department, board, bureau, commission, authority, or other agency thereof and the officials and employees of a political subdivision or any agency thereof who are or who become members of a retirement system.

(15) 'Employee contribution' means that part of the compensation of an employee which is paid by or on behalf of an employee as a contribution to a retirement system.

(16) 'Employer' means the State of Georgia for any retirement system financially supported in whole or in part by appropriations made by the General Assembly, by the proceeds of a tax levied by law enacted by the General Assembly, or by fines and forfeitures or portions of fines and designated by law as a source of funding for a retirement system; and, for any retirement system supported in whole or in part by the funds of a political subdivision, 'employer' means the local governing authority authorizing or providing for the local retirement system.

(17) 'Employer contribution' means:

(A) Funds paid by an employer to support financially a retirement system;

(B) Public funds, whether by taxes, fines and forfeitures, or other sources, devoted to the financial support of a retirement system; and

(C) Any other funds, other than employee contributions, used to support financially a retirement system.

(18) 'Legislatively controlled retirement system' means a retirement system in existence

on January 1, 1984, which was created by an Act of the General Assembly and which may be amended only by an Act of the General Assembly.

(19) 'Local governing authority' means the council, board of aldermen, board of commissioners, commissioner, local board of education, or other person or body of persons entrusted by law with the administration, management, and control of the fiscal affairs of a political subdivision.

(19.1) 'Negative unfunded actuarial accrued liability' means for any actuarial valuation the excess of actuarial value of assets over the actual accrued liability of a retirement system under an actuarial cost method utilized by the retirement system for funding purposes.

(20) 'Normal cost' means that portion of the actuarial present value of a retirement system benefits and expenses which is allocated to a valuation year by the actuarial cost method used for the retirement system.

(21) 'Political subdivision' means any county, municipality, or local school district of this state or any authority created for or on behalf of any such political subdivision or created for or on behalf of any combination of such political subdivisions.

(22) 'Retirement bill' means any bill or resolution introduced into the General Assembly which creates or affects a retirement system.

(23) 'Retirement system' means any retirement or pension plan or any other plan or program which exists on January 1, 1984, or which is created or established on or after that date, and which is maintained by an employer or maintained pursuant to law or other authority of an employer for the purpose of paying benefits to employees or their beneficiaries after employees cease active employment by retirement, disability, death, or other termination. The term 'retirement system' shall include any plan or program which creates a retired position, commonly referred to as 'emeritus,' and provides a salary for the retired position in lieu of a retirement benefit. The term 'retirement system' shall not include an individual retirement account or other plan which provides for an individual account for each participant and for benefits based solely upon the amount contributed to the participant's account and any income, expenses, gains, and losses and any forfeitures of accounts of other participants which may be allocated to a participant's account.

(24) 'Retirement system administrator' means the board of trustees or other body or individual having responsibility, either by law or by other authority of an employer, for the management and administration of a retirement system.

(25) 'Unfunded actuarial accrued liability' means for any actuarial valuation the excess of the actuarial accrued liability over the actuarial value of the assets of a retirement system under an actuarial cost method utilized by the retirement system for funding purposes.
47-20-4.

Any other provision of law to the contrary notwithstanding, any public retirement system or pension fund supported wholly or partially by public funds shall be subject to the provisions of this chapter. This Code section applies, without limitation, to the Georgia Municipal Employees Benefit System created by Chapter 5 of this title and to any association of like political subdivisions which contracts with its members for the pooling of assets. This Code section shall not apply to any defined contribution retirement system.

47-20-10.

(a) In order to assure the actuarial soundness of each retirement system, the minimum annual employer contribution for each retirement system, unless excepted by Code

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Section 47-20-13, shall be the sum of the amounts determined under paragraphs (1), (2), and (3) of this subsection minus the amount determined under paragraph (4) of this subsection; provided, however, that under no circumstances shall the minimum annual employer contribution be less than zero or result in a contribution credit for a subsequent year, as follows:

(1) The normal cost of the retirement system for the year; plus

(2) The amounts necessary to amortize:

(A) The unfunded actuarial accrued liability over a period of 40 years in the case of a retirement system in existence on January 1, 1983, based on the first actuarial valuation of the retirement system which is made on or after January 1, 1984; or

(B) The unfunded actuarial accrued liability over a period of 30 years in the case of a retirement system which is created or established after January 1, 1983, based on the first actuarial valuation of the retirement system; plus

(C) The increase, if any, in unfunded actuarial accrued liability over a period of 20 years for any such increase which occurs after January 1, 1984, during any year as a result of changes made in the provisions of the retirement system affecting active employees; plus

(D) The increase, if any, in unfunded actuarial accrued liability over a period of 15 years for any such increase which occurs from experience under the actuarial assumptions applicable to the retirement system; plus

(E) The increase, if any, in unfunded actuarial accrued liability over a period of 30 years for any such increase resulting from changes in actuarial assumptions applicable to the retirement system; plus

(3) If not otherwise included in the calculations under paragraph (1) or (2) or paragraphs (1) and (2) of this subsection:

(A) The amount necessary to amortize over a period of ten years in equal annual installments the increase, if any, in unfunded actuarial accrued liability resulting from benefit increases granted during the year to beneficiaries under the retirement system; or

(B) The amount necessary to pay the amount of increase in benefits granted during the year to beneficiaries under the retirement system on a current disbursement or pay-as-you-go basis; minus

(4) The amount:

(A) Necessary to amortize the decrease, if any, in unfunded actuarial accrued liability over a period of 20 years for any such decrease which occurs after January 1, 1984, during any year as a result of changes made in the provisions of the retirement system; plus

(B) Necessary to amortize the decrease in unfunded actuarial accrued liability, if any, over a period of 15 years for any such decrease which occurs from experience under the actuarial assumptions applicable to the retirement system; plus

(C) Necessary to amortize the decrease in unfunded actuarial accrued liability, if any, over a period of 30 years for any such decrease resulting from changes in the actuarial assumptions applicable to the retirement system; plus

(D) In excess of the minimum annual employer contribution required by this Code section which accumulates after January 1, 1984; plus

(E) Employee contributions for the year.

(b) In the case of a retirement system which uses a formula related to the compensation of the members of the retirement system as a basis for the calculation of benefits under the retirement system, the amortization amounts required by subsection (a) of this Code

section, except for the amount determined under paragraph (3) of subsection (a) of this Code section, may be determined as a level percentage of future compensation. If such level percentage amortization is used, the actuarial assumption for future annual payroll growth shall not exceed the actuarial assumed valuation interest rate of the retirement system less 2 1/2 percent. The minimum standards provided by subsection (a) of this Code section are deemed to have been met if such level percentage amortization is used and the employer contribution is equal to the annual required contribution as is determined in accordance with the provisions of Governmental Accounting Standards Board Statements No. 25 and No. 27.

(c) In the case of a retirement system which does not use a formula related to the compensation of the members of such retirement system as a basis for the calculation of benefits under such retirement system, the minimum funding standards provided for in subsection (a) of this Code section shall be deemed to have been met if the employer contribution is equal to or greater than the annual contribution as determined in accordance with the provisions of Governmental Accounting Standards Board Statements No. 25 and No. 27.

(d)(1) The minimum funding standards provided for in subsection (a) of this Code section shall be deemed to have been met if as of the latest actuarial valuation a retirement system has a negative unfunded actuarial accrued liability and the employer contribution is equal to or greater than the annual required contribution as determined in accordance with the provisions of Governmental Accounting Standards Board Statements No. 25 and No. 27; provided, however, that in no case shall the negative unfunded actuarial accrued liability be amortized over a period of less than ten years. If a retirement system has such a negative unfunded actuarial accrued liability, the amounts necessary to amortize under paragraphs (2), (3), and (4) of subsection (a) of this Code section established prior to the current actuarial valuation date will be considered to be fully amortized under the minimum funding standards provided by subsection (a) of this Code section.

(2) In any actuarial valuation subsequent to the valuation in which a retirement system is found to have complied with the provisions of paragraph (1) of this subsection, if the retirement system still has a negative unfunded actuarial accrued liability, the only amortization required under such minimum funding standards will be an amortization of the negative unfunded actuarial accrued liability over a period of not less than ten years of the actuarial accrued liability. For any such subsequent actuarial valuations, whenever the retirement system again has an unfunded actuarial accrued liability, the minimum standards provided by subsection (a) of this Code section shall apply with new amounts necessary to amortize the newly created unfunded actuarial accrued liability.

(e) In determining the minimum annual employer contribution under subsection (a) of this Code section:

(1) All benefits which it is reasonable to anticipate will be paid from the retirement system because of the current active members and payments to beneficiaries shall be taken into account; and

(2) All costs, liabilities, and other factors under the retirement system shall be determined by an actuary on the basis of an actuarial cost method and actuarial assumptions which, in the aggregate, are reasonable, considering the experience of the retirement system and reasonable expectations, and which, in combination, offer the actuary's best estimate of anticipated experience under the retirement system.

(f) Upon completion of the first actuarial investigation of a retirement system after

January 1, 1984, and for each subsequent actuarial investigation, the minimum annual employer contribution required by this Code section shall be increased by an amount equivalent to the interest earned on such minimum annual employer contribution, based on the actuarial assumed valuation interest rate applicable to the retirement system, from the date of such actuarial investigation until the date the minimum annual employer contribution is made to the retirement system. This subsection shall not apply to a retirement system to which annual employer contributions are being made in excess of the minimum annual employer contribution required by this Code section.

(g) In no event will employee contributions of active members of a retirement system be used to pay benefits to beneficiaries under the retirement system.

(h) The minimum funding requirements of this Code section shall not apply to prefunding, in whole or in part, of anticipated future costs of providing health care benefits and related expenses including, without limitation, provision of all or part of the cost of health insurance coverage and health maintenance organization participation costs for retired employees of a political subdivision including those presently retired and those anticipated to retire in the future. Such prefunding may be maintained as part of the same investment pool as the fund receiving employer and employee contributions to pay the cost of providing retirement benefits under any retirement system maintained by the political subdivision for its employees so long as such funds are separately accounted for and separate records are maintained with respect to each fund. Funds maintained by a political subdivision for the purpose of prefunding health care benefits for retired employees may be invested and reinvested in accordance with the provisions of Code Section 47-1-12, and, for the purposes of that Code section and the home rule provisions of the laws and the Constitution of the State of Georgia, such funds shall be considered retirement funds.

47-20-11.

In the case of a retirement system of a political subdivision, if the minimum funding standards provided by Code Section 47-20-10 would cause a severe financial hardship to the political subdivision if implemented on January 1, 1984, such minimum funding standard may be phased in over a period of four years beginning on January 1, 1984, for funding the normal cost and over a period of seven years beginning on January 1, 1984, for funding the total required minimum employer contribution. The provisions of this Code section shall not apply to any retirement system of a political subdivision which is created or established on or after January 1, 1983.

47-20-12.

(a) The retirement system administrator of each legislatively controlled retirement system, based on the findings and conclusions of the actuary of the retirement system, shall submit a certification to the Governor and to each member of the General Assembly by not later than July 1, 1984, stating whether or not the retirement system is currently being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10.

(b) Based on the certification provided for by subsection (a) of this Code section, any legislatively controlled retirement system which is not being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 shall not be amended or changed in any manner to grant any benefit increase until such time as the retirement system administrator, based on the findings and conclusions of the actuary of the retirement system, issues a new certification to the Governor and to each member of the

General Assembly stating that the retirement system is being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10.

(c) Based on the certification provided for by subsection (a) of this Code section, the retirement system administrator of any legislatively controlled retirement system which is not being funded in conformity with the minimum funding standards set forth in Code Section 47-20-10 shall not take any action to grant a benefit increase until such time as a new certification provided for by subsection (b) of this Code section is issued by the retirement system administrator. The provisions of any law relating to a legislatively controlled retirement system which authorizes the retirement system administrator to grant benefit increases from time to time is amended to conform with the requirements of this subsection.

(d) Any retirement bill introduced into the General Assembly in violation of subsection (b) of this Code section shall not be considered by the House or Senate or by any committee of the House or Senate. Any retirement bill in violation of subsection (b) of this Code section which is enacted by the General Assembly, whether or not the bill is approved by the Governor, shall not become law and shall be null, void, and of no force and effect and shall stand repealed in its entirety on the first day of July immediately following its enactment.

47-20-13.

The minimum funding standards specified by Code Section 47-20-10 shall not apply to a retirement system which holds actuarial assets in excess of 150 percent of the actuarial present value of the accumulated retirement system benefits.

47-20-20.

(a) In the case of a retirement system of a political subdivision, unless excepted by Code Section 47-20-13, neither the local governing authority by ordinance or resolution or other action nor the retirement system administrator shall take any action on or after January 1, 1984, to grant a benefit increase under any retirement system of the political subdivision until annual employer contributions to each retirement system of the political subdivision are in conformity with the minimum funding standards specified by Code Section 47-20-10. The local governing authority of a political subdivision shall not take any action after January 1, 1984, to create or establish any new retirement system until all existing retirement systems of that political subdivision are being funded in conformity with the minimum funding standards specified by Code Section 47-20-10. This limitation shall not prohibit a local governing authority from creating or establishing a new retirement system as a successor to the existing retirement system or systems of the political subdivision if the resulting new system and the remaining obligations under the previously existing system or systems are funded in accordance with the minimum funding standards specified by Code Section 47-20-10. The membership of such a successor retirement system need not be confined to the membership of the previously existing retirement system or systems.

(b) Unless excepted by Code Section 47-20-13 and subject to the provisions of Code Section 47-20-11, after January 1, 1984, the annual employer contribution to each retirement system of a political subdivision shall be in an amount equal to or greater than the minimum annual employer contribution required by Code Section 47-20-10.

47-20-21.

(a) The retirement system administrator of each retirement system of a political subdivision shall comply fully with the requirements of Code Section 47-1-3 requiring

the employment of an actuary and the completion of actuarial investigations once every three years. In addition to the other requirements specified by Code Section 47-1-3 for such actuarial investigations, each such investigation shall express the actuary's opinion, which shall be supported by such analysis as the actuary determines necessary, of the status of the retirement system with regard to the minimum funding standards specified in Code Section 47-20-10. Each such actuarial investigation shall also include an analysis of each change in or amendment to the retirement system since the previous investigation and shall identify any change or amendment which granted a benefit increase.

(b) If an actuarial investigation or a financial report which is submitted to the state auditor under Code Section 47-1-3 shows that an amendment or change was made in a retirement system of a political subdivision granting a benefit increase in violation of subsection (a) of Code Section 47-20-20 or shows that a retirement system of a political subdivision is not in conformity with the requirements of subsection (b) of Code Section 47-20-20, it shall be the duty of the state auditor to notify the director of the Office of Treasury and Fiscal Services; and it shall be the duty of the director to withhold any state funds payable to the applicable political subdivision until the actuary of the applicable retirement system certifies to the state auditor and to the director that employer contributions to each retirement system of the political subdivision are in conformity with the minimum funding standards specified in Code Section 47-20-10.

(c) The report on the condition of local retirement systems submitted to the Governor and to members of the General Assembly pursuant to Code Section 47-1-4 shall include a separate list of each retirement system of each political subdivision which is not in conformity with the minimum funding standards specified by Code Section 47-20-10 and a separate attachment giving a full explanation of any action taken pursuant to subsection (b) of this Code section.
47-20-30.

As used in this article, the term:

(1) 'Amendment' means any amendment, including a substitute bill, made to a retirement bill by any committee of the House or Senate or by the House or Senate.

(2) 'LC number' means that number preceded by the letters 'LC' assigned to a bill by the Office of Legislative Counsel when that office prepares a bill for a member of the General Assembly.

(3) 'Nonfiscal amendment' means an amendment to a retirement bill having a fiscal impact, which amendment does not change any factor of an actuarial investigation specified in subsection (a) of Code Section 47-20-36.

(4) 'Nonfiscal retirement bill' means a retirement bill which does not affect the cost or funding factors of a retirement system or a retirement bill which affects such factors only in a manner which does not:

(A) Grant a benefit increase under the retirement system affected by the bill;

(B) Create an actuarial accrued liability for or increase the actuarial accrued liability of the retirement system affected by the bill; or

(C) Increase the normal cost of the retirement system affected by the bill.

(4.1) 'Nonfiscal retirement bill' also means a retirement bill which removes or increases a mandatory retirement age of a retirement system or which removes or modifies provisions of a retirement system requiring forfeiture of benefits upon failure to retire upon reaching a mandatory retirement age or which provides for any combination of the foregoing.

(5) 'Reduction in cost amendment' means an amendment to a retirement bill having a fiscal impact which reduces the cost of the bill as such cost is determined by the actuarial investigation for the bill prepared pursuant to Code Section 47-20-36.

(6) 'Retirement bill having a fiscal impact' means any retirement bill creating or establishing a retirement system and any other retirement bill other than a nonfiscal retirement bill.

47-20-31.

No retirement bill may be introduced by any member of the General Assembly unless, at the time of its introduction, the bill has printed thereon in the upper right portion of each page of the bill an LC number. Once a retirement bill is presented by the Office of Legislative Counsel to a member of the General Assembly, neither the Office of Legislative Counsel nor any person shall make any change in the retirement bill prior to its introduction into the General Assembly unless the bill is returned to the Office of Legislative Counsel and that office assigns a new LC number to the bill.

47-20-32.

As a condition precedent to the introduction of any retirement bill, the member of the General Assembly who intends to be the primary sponsor of the bill must present an exact copy of the proposed bill, which must bear an LC number, to the state auditor. The state auditor shall determine whether the proposed bill is a retirement bill having a fiscal impact or a nonfiscal retirement bill and provide a written certification of that determination to the member of the General Assembly who intends to be the primary sponsor of the bill. Such certification shall specifically identify the proposed bill by reference to the LC number. If the proposed bill is introduced into the General Assembly, it shall have attached thereto the original of the certification of the state auditor. If the LC number on the bill as offered for introduction is different from the LC number shown on the state auditor's certification or if the bill as offered for introduction does not bear an LC number on each page of the bill, the bill may not be accepted for introduction by the Secretary of the Senate or the Clerk of the House of Representatives, and the bill may not be considered by any committee of the House or Senate or by the House or Senate. If the bill is certified as a retirement bill having a fiscal impact, its introduction shall also be limited by the provisions of subsection (a) of Code Section 47-20-34.

47-20-33.

(a) A nonfiscal retirement bill may be introduced at any time during the first 20 days of any regular session of the General Assembly. After its introduction into the General Assembly, a nonfiscal retirement bill may not be amended in any manner to cause the bill to become a retirement bill having a fiscal impact. Any amendment to such a bill shall be submitted to the state auditor by the chairman of the committee, if a committee amendment, or by the presiding officer of the Senate or House if the amendment was made by the Senate or House. If the state auditor certifies in writing that the amendment does not cause the bill to become a retirement bill having a fiscal impact, the bill, as amended, may continue in the legislative process as any other bill. If the state auditor will not issue such a certification for the amendment, the bill's progress in the legislative process will end, and the bill shall not be considered further by either the House or the Senate, and, if passed by the General Assembly, the bill shall not become law and shall stand repealed in its entirety on the first day of July immediately following its enactment.

(b) An amendment to a nonfiscal retirement bill which is prohibited by subsection (a) of this Code section may be withdrawn by the committee which made the amendment, if a

committee amendment, or by the Senate, if that body made the amendment, or by the House, if that body made the amendment. If the amendment is withdrawn, the bill may continue in the legislative process as any other bill, unless it is subsequently amended, and, in that event, this Code section shall apply to the subsequent amendment.

(c) A nonfiscal retirement bill which is not amended during the legislative process may be considered as any other bill.

47-20-34.

(a) Any retirement bill having a fiscal impact may be introduced in the General Assembly only during the regular session which is held during the first year of the term of office of members of the General Assembly. Any such retirement bill may be passed by the General Assembly only during the regular session which is held during the second year of the term of office of members of the General Assembly.

(b) When a retirement bill having a fiscal impact is introduced, it shall be assigned by the presiding officer of the Senate or the House, as the case may be, to the respective Senate or House standing committee on retirement. If a majority of the total membership of the respective committee is opposed to the bill on its merits, no actuarial investigation provided for in Code Section 47-20-36 shall be necessary, and the bill shall not be reported out by the committee and shall not be adopted or considered by the House or Senate. If a majority of the committee wishes to consider the bill further and votes in favor of an actuarial investigation of the bill, an actuarial investigation shall be required as provided in Code Section 47-20-36. Except as otherwise provided by subsection (c) of this Code section, no retirement bill having a fiscal impact may be reported out of the committee to which it is assigned or may be considered or adopted by the House or Senate unless an actuarial investigation of the bill is made.

(c) The committee to which a retirement bill having a fiscal impact is assigned following its introduction may at any time amend the bill to become a nonfiscal retirement bill. If the bill is so amended, an exact copy of the amended version shall be submitted by the chairman of the committee to the state auditor. If the state auditor issues a written certification that the committee amendment has converted the status of the bill to a nonfiscal retirement bill, the bill shall be a nonfiscal retirement bill for all purposes under this chapter as of the date of the state auditor's certification. Only the committee to which a retirement bill having a fiscal impact is originally assigned following its introduction may convert the bill to a nonfiscal retirement bill as authorized in this subsection.

47-20-35.

(a) A retirement bill having a fiscal impact which the committee wishes to consider shall first be perfected, if necessary, by the committee. The committee may delay further consideration of the bill until after the close of the regular session during which the bill was introduced, but the committee shall complete its consideration of the bill for submission to the state auditor under Code Section 47-20-36 by not later than July 15 immediately following the close of the legislative session. The committee shall be authorized to meet for not more than five days, unless additional days are authorized by the President of the Senate for the Senate committee or by the Speaker of the House for the House committee, during the period beginning with the day following the close of the session and ending on July 1 immediately following the close of the session for the purpose of considering and perfecting the bill. If the bill originated in the Senate, the House Committee on Retirement shall be authorized to meet with the Senate Committee on Retirement to consider and perfect a bill during the period following the close of a

regular session, and, if the bill originated in the House, the Senate Committee on Retirement shall have the same authority. The committees may adopt such procedures as they find appropriate for conducting meetings at which both committees are present as authorized by this subsection. For attending meetings of their respective committees as authorized by this subsection, the members of the Senate and House committees on retirement shall receive the expenses and allowances provided by law for members of legislative interim committees. If a retirement bill having a fiscal impact is changed by the committee to which it is assigned, such change shall be accomplished only by a substitute bill, and no committee amendment to the bill, except by substitute, shall be authorized.

(b) Immediately after a retirement bill having a fiscal impact has been considered and perfected as provided in subsection (a) of this Code section, the chairman of the committee to which the bill was assigned shall transmit an exact copy of the bill, as perfected by the committee, when applicable, to the state auditor. The copy submitted to the state auditor shall bear an LC number. The submission of the bill to the state auditor shall have attached thereto a letter signed by the chairman of the committee requesting the state auditor to make or cause to be made an actuarial investigation on the bill.

47-20-36.

(a) If an actuarial investigation of a retirement bill having a fiscal impact is requested under Code Section 47-20-35, it shall be the duty of the state auditor to complete or cause to be completed such actuarial investigation by not later than November 1 of the same year during which the request for the actuarial investigation was made. The actuarial investigation shall include, but shall not be limited to, findings on the following factors as such factors are relevant to the retirement bill under consideration:

(1) The dollar amount of the unfunded actuarial accrued liability which will result from the bill for the retirement system affected by the bill;

(2) The dollar amount of the annual normal cost which will result from the bill for the retirement system affected by the bill;

(3) A statement of the employer contribution rate currently in effect for the retirement system affected by the bill;

(4) A statement of the employer contribution rate, which must be in conformity with the minimum funding standards specified by Code Section 47-20-10, recommended for the retirement system affected by the bill; and

(5) A statement of the dollar amount of the increase in the annual employer contribution, if an existing retirement system is affected by the bill, or a statement of the total annual employer contribution, if a new retirement system is established by the bill, which will be necessary to maintain the retirement system affected or established by the bill in an actuarially sound condition.

(b) By not later than November 1 of the same year that the request for an actuarial investigation was made, the completed actuarial investigation shall be submitted by the state auditor to the chairman of the committee who requested it along with a summary of the actuarial investigation which shall include the relevant findings specified in subsection (a) of this Code section.

(c) The chairman of the committee, upon receipt of the information provided for under subsection (b) of this Code section, shall cause the summary of the actuarial investigation to be printed by the Secretary of the Senate or the Clerk of the House of Representatives, depending on whether the bill is a Senate bill or House bill, in sufficient quantity to

attach a copy thereof to all printed copies of the bill. The original summary of the actuarial investigation shall be attached by the Secretary of the Senate or Clerk of the House of Representatives to the original version of the substitute bill, as perfected by the committee under Code Section 47-20-35, if applicable, or to the original version of the bill as introduced if the bill was not changed by the committee prior to its submission to the state auditor for an actuarial investigation.

47-20-37.

(a) When a retirement bill having a fiscal impact has had an actuarial investigation pursuant to Code Section 47-20-36, the bill may be considered at the next regular session of the General Assembly. If the bill as originally introduced was not changed by the committee and the original version was submitted to the state auditor for an actuarial investigation, then the original version of the bill is the only one, except as otherwise provided by subsection (b) of this Code section, which may be considered by any committee or by the House or Senate. If the original bill was substituted by the committee and the substitute version was the one submitted to the state auditor, then that substitute bill is the only one, except as otherwise provided by subsection (b) of this Code section, which may be considered by any committee or by the House or Senate.

(b) After completion of an actuarial investigation, any amendment to a retirement bill having a fiscal impact shall be out of order and shall not be allowed either by a committee or by the House or Senate, except for a nonfiscal or a reduction in cost amendment. Any amendment to a retirement bill having a fiscal impact shall be submitted to the state auditor by the chairperson of the committee, if a committee amendment, or by the presiding officer of the Senate or House if the amendment was made by the Senate or House. If the state auditor certifies in writing that the amendment is a nonfiscal amendment or if the amendment results in a reduction in cost and the state auditor provides an actuarial investigation as required in subsection (a) of Code Section 47-20-36, then the bill as amended, with the state auditor's certification or actuarial investigation attached to the original of the amendment, may continue in the legislative process. If the state auditor will not issue such a certification for the amendment or if there is no actuarial study showing the reduced cost of the amendment, the bill's progress in the legislative process will end, and the bill shall not be considered further by either the House or Senate and, if passed by the General Assembly, the bill shall not become law and shall stand repealed in its entirety on the first day of July immediately following its enactment.

(c) An amendment to a retirement bill having a fiscal impact which is prohibited by subsection (b) of this Code section may be withdrawn by the committee which made the amendment, if a committee amendment, or by the Senate, if that body made the amendment, or by the House, if that body made the amendment. If the amendment is withdrawn, the bill may continue in the legislative process as any other bill, unless it is subsequently amended, and, in that event, this Code section shall apply to the subsequent amendment.

47-20-50.

(a) Any retirement bill having a fiscal impact which is enacted by the General Assembly and which is approved by the Governor or which otherwise becomes law shall become effective on the first day of July immediately following the regular session during which it was enacted, but only if the enacted bill is concurrently funded as provided by this Code section. If an enacted bill, including one approved by the Governor, is not

concurrently funded as required by this Code section, then such bill may not become effective as law and shall be null, void, and of no force and effect and shall stand repealed in its entirety on the first day of July immediately following its enactment.

(b) When a retirement bill having a fiscal impact amends a retirement system having employer contributions funded from appropriations by the General Assembly, then appropriations for the first fiscal year of effectiveness of the bill, after it becomes law, must include funds to pay the amount determined by the actuarial investigation under paragraph (5) of subsection (a) of Code Section 47-20-36 or subsection (b) of Code Section 47-20-37, and future appropriations for subsequent fiscal years must include an amount necessary to maintain the actuarial soundness of the retirement system in accordance with the findings of the actuarial investigation. Any limitation on the rate of employer contributions that may be included in a law which is the source of authority for a retirement system affected by this subsection shall be amended to the extent necessary to comply with the requirements of this subsection.

(c) When a retirement bill having a fiscal impact amends a retirement system having employer contributions funded from portions of fines and forfeitures, then, if necessary to produce funds to pay the amount determined by actuarial investigation under paragraph (5) of subsection (a) of Code Section 47-20-36, either:

(1) The retirement bill having a fiscal impact or parallel legislation, which must become effective concurrently with the retirement bill, must revise the portion of fines and forfeitures designated for employer contributions to pay the amount determined under paragraph (5) of subsection (a) of Code Section 47-20-36; or

(2) The General Assembly by direct appropriations must supplement employer contributions from fines and forfeitures to the extent necessary to pay the amount determined under paragraph (5) of subsection (a) of Code Section 47-20-36.

(d) When a retirement bill having a fiscal impact amends a retirement system having employer contributions funded from the designation of the proceeds of a tax imposed by law, then either:

(1) The retirement bill having a fiscal impact or parallel legislation, which must become effective concurrently with the retirement bill, must revise the tax as necessary to pay the amount determined under paragraph (5) of subsection (a) of Code Section 47-20-36; or

(2) The General Assembly by direct appropriation must supplement employer contributions from the tax to the extent necessary to pay the amount determined under paragraph (5) of subsection (a) of Code Section 47-20-36.

(e) When a retirement bill having a fiscal impact amends a retirement system having employer contributions funded wholly or partially from the funds of a political subdivision, that political subdivision shall have a duty to produce funds as necessary to pay all or its proportionate share of the amount determined by actuarial investigation under paragraph (5) of subsection (a) of Code Section 47-20-36.

(f) When a retirement bill having a fiscal impact creates a new retirement system, then employer contributions in conformity with the minimum funding standards of Code Section 47-20-10 and in conformity with paragraph (5) of subsection (a) of Code Section 47-20-36 must be made to the retirement system either by direct appropriations by the General Assembly or by another source of employer contributions specifically provided for in the bill creating the new retirement system.

47-20-50.1.

(a) Following the close of each regular legislative session during which retirement bills

having a fiscal impact may be enacted, the state auditor shall make a determination for each such bill enacted during such session, which is not vetoed by the Governor, of whether or not provision has been made for the concurrent funding of the bill in conformity with the applicable requirements of Code Section 47-20-50.

(b) The director of the Office of Planning and Budget, the legislative budget analyst, retirement system administrators, and employers shall provide such information and assistance as may be necessary for the state auditor to make the determinations required by subsection (a) of this Code section.

(c) The state auditor shall make the determinations required by subsection (a) of this Code section by not later than the fifteenth day immediately following the last day on which the Governor is authorized to veto bills following the close of each regular legislative session. The state auditor's findings shall be made in a report to the Secretary of State showing the determination for each retirement bill by reference to the respective Senate or House number for the bill. The report shall be submitted to the Secretary of State by not later than the last day on which the state auditor is required to make the determinations. The Secretary of State shall cause the state auditor's report to be printed in the annual session laws of the State of Georgia.

47-20-51.

No provision of this chapter generally and no provision of Code Section 47-20-50 in particular shall:

(1) Create or be construed to create a contractual right to a retirement benefit or a contractual right in the provisions of a retirement system law which does not exist independently of the provisions of this chapter; and

(2) Impair, alter, or diminish or be construed to impair, alter, or diminish a contractual right to a retirement benefit or a contractual right in the provisions of a retirement system law which exists independently of the provisions of this chapter.

47-20-60.

(a) The state auditor shall be authorized to employ or contract with actuaries and other personnel to carry out the duties assigned to that officer by this chapter. Upon their approval by the Legislative Services Committee, expenses incurred by the state auditor in carrying out such duties shall be paid from funds appropriated or available to the legislative branch of the state government. When authorized to do so by the Legislative Services Committee, and such authorization may be on a continuing basis by direction of the Legislative Services Committee entered upon its minutes, the legislative fiscal officer, upon certification by the state auditor of expenses incurred to carry out the duties assigned to that officer by this chapter, is authorized to expend legislative funds to pay such expenses.

(b) Retirement system administrators, state officials and employees, and officials and employees of political subdivisions are authorized and directed to cooperate with and assist the state auditor in carrying out the duties assigned to that officer by this chapter.

47-20-61.

The enrolled Act resulting from a bill which is subject to the legislative procedures provided by this chapter shall have attached thereto the original or a true and correct copy of all certificates and summaries of actuarial investigations submitted by the state auditor pursuant to the requirements of this chapter.

47-20-62.

This chapter shall become effective on January 1, 1984. Only nonfiscal retirement bills

may be introduced at the 1984 regular session of the General Assembly. Retirement bills having a fiscal impact which were introduced at the 1983 regular session and which are still pending at the 1984 regular session shall be subject to the requirements of Code Section 47-20-50, except that the amount determined by actuarial investigation under paragraph (10) of subsection (a) of Code Section 47-20-36 shall be determined by the director of the Office of Planning and Budget and the state auditor pursuant to Code Sections 28-5-42 and 28-5-43, relating to fiscal notes.

47-20-63.

Repealed.

47-20-64.

Repealed.

47-20-80.

This article shall be known and may be cited as the 'Public Retirement Systems Investment Authority Law.'

47-20-81.

(a) As used in this article, the term 'fund' means the investment fund of any public retirement system or pension system supported wholly or partially from public funds. Such term shall include any pool of such funds for investment purposes.

(b) The provisions of this article shall not apply to political subdivisions which contract with an association of like political subdivisions for the pooling of assets; provided, however, that the provisions of this article shall apply to such association.

47-20-82.

(a) Funds shall invest in or lend their assets on the security of, and shall hold as invested assets, only eligible investments as prescribed in this article.

(b) Eligibility of an investment shall be determined as of the date of its making or acquisition.

(c) Any investment limitation based upon the amount of the fund's assets shall relate to such assets on the basis of the assets' aggregate historical cost.

47-20-83.

(a) Subject to limitations stated in this article, funds may invest in the following in certificated or uncertificated form:

(1) Corporations or obligations of corporations organized under the laws of this state or any other state or under the laws of Canada, but only if the corporation has a market capitalization equivalent to \$100 million; provided, however, that except as provided in Code Section 47-20-84, no fund shall invest in corporations or in obligations of corporations organized in a country other than the United States or Canada; provided, further, that such obligation shall be listed as investment grade by a nationally recognized rating agency;

(2) Repurchase and reverse repurchase agreements for direct obligations of the United States government and for obligations unconditionally guaranteed by agencies of the United States government and for investments eligible under paragraph (1) of this subsection;

(3) Cash assets or deposits in checking or savings accounts under certificates of deposit or in other form in banks and trust companies and in savings accounts, certificates of deposit, or similar certificates or evidences of deposits in savings and loan associations and building and loan associations which have qualified for the insurance protection afforded by the Federal Deposit Insurance Corporation;

- (4) Bonds, notes, warrants, and other evidence of indebtedness which are direct obligations of the government of the United States of America or for which the full faith and credit of the government of the United States of America is pledged for the payment of principal and interest;
- (5) Loans guaranteed as to principal and interest by the government of the United States of America, or by any agency or instrumentality of the government of the United States of America, to the extent of such guaranty;
- (6) Taxable bonds, notes, warrants, and other securities not in default which are the direct obligations of any state of the United States or of the District of Columbia, or of the government of Canada or any province of Canada, or for which the full faith and credit of such state, district, government, or province has been pledged for the payment of principal and interest;
- (7) Bonds, notes, warrants, and other securities not in default which are the direct obligations of the government of any foreign country which the International Monetary Fund lists as an industrialized country and for which the full faith and credit of such government has been pledged for the payment of principal and interest, provided such securities are listed as investment grade by a nationally recognized rating agency;
- (8) Bonds, debentures, or other securities issued or insured or guaranteed by any agency, authority, unit, or corporate body created by the government of the United States of America whether or not such obligations are guaranteed by the United States;
- (9) Collateralized mortgage obligations that are listed as investment grade by a nationally recognized rating agency;
- (10) Obligations issued, assumed, or guaranteed by the International Bank for Reconstruction and Development or the International Financial Corporation;
- (11) In addition to those investments eligible under paragraph (1) of this subsection, bonds, debentures, notes, and other evidences of indebtedness issued, assumed, or guaranteed by any solvent institution existing under the laws of the United States of America or of Canada, or any state or province thereof, which are not in default as to principal or interest and which are secured by collateral worth at least 50 percent more than the par value of the entire issue of such obligations, but only if not more than one-third of the total value of the required collateral consists of common stocks;
- (12) In addition to those investments eligible under paragraph (1) of this subsection, secured and unsecured obligations of issuers described in paragraph (11) of this subsection other than the obligations described in paragraph (11) of this subsection, bearing interest at a fixed rate, with mandatory principal and interest due at specified times, if the net earnings of the issuing, assuming, or guaranteeing institution available for its fixed charges for a period of five fiscal years next preceding the date of acquisition by the fund have averaged per year not less than one and one-half times its average annual fixed charges applicable to such period and if during either of the last two years of the period of such net earnings have been not less than one and one-half times its fixed charges for the year; provided, however, that any such obligation shall be listed as investment grade by a nationally recognized rating agency;
- (13) In addition to those investments eligible under paragraph (1) of this subsection, equipment trust obligations or certificates adequately secured and evidencing an interest in transportation equipment, wholly or in part within the United States of America, and the right to receive determinated portions of rental, purchase, or other fixed obligatory payments for the use or purchase of the transportation equipment;

- (14) Loans that are secured by pledge or securities eligible for investment under this article;
- (15) Purchase money mortgages or like securities received upon the sale or exchange of real property acquired;
- (16) In addition to those investments eligible under paragraph (1) of this subsection, a mortgage or a mortgage participation, pass-through, conventional pass-through, trust certificate, or other similar security which represents an undivided, beneficial interest in a pool of loans secured by first mortgages, deeds of trust, or deeds to secure debt upon fee simple, unencumbered, improved, or income-producing real property located in the United States or Canada, which is improved with a residential building or condominium unit or buildings designed for occupancy by not more than four families, including leasehold estates in such real estate if such first mortgages, deeds of trust, or deeds to secure debt are fully guaranteed or insured by the Federal Housing Administration, the United States Department of Veterans Affairs, the Farmers Home Administration, the Federal Home Loan Mortgage Corporation, the Government National Mortgage Association, the Federal National Mortgage Association, or any similar governmental entity or instrumentality;
- (17) Land and buildings on such land used or acquired for use as a fund's office for the convenient transaction of its own business; provided, however, that portions of such buildings not used for its own business may be rented by the fund to others; provided, further, that the amount invested by a fund in office property shall not exceed 10 percent of the retirement system assets;
- (18) Real property acquired in satisfaction in whole or in part of loans, mortgages, liens, judgments, decrees, or debts previously owing to the fund in the course of its business;
- (19) Real property acquired in part payment of the consideration on the sale of other real property owned by the fund if such transaction effects a net reduction in the fund's investment in real estate;
- (20) Real property acquired by gift or devise, or through merger or consolidation with another fund; and
- (21) Additional real property and equipment incident to real property if necessary or convenient for the enhancement of the marketability or sale value of real property previously acquired or held by the fund under paragraphs (18), (19), and (20) of this subsection.

(b) Notwithstanding the provisions of subsection (a) of this Code section, the Georgia Municipal Employees Benefit System and any association of like political subdivisions which contracts with its members for the pooling of assets may invest up to 5 percent of the total assets of its fund in real estate; provided, however, that in the event the fund's assets decrease in value, the association shall be entitled to retain all real estate investments if owned prior to the reduction in value of assets; provided, further, that any such association shall be entitled to retain all real estate assets it owned on July 1, 1999, without regard to the limitation imposed by this subsection.

47-20-84.

(a) As used in this Code section, the term 'large retirement system' means:

- (1) Any retirement system created by this title which has an accumulated unfunded actuarial accrued liability not greater than 25 percent of the total of its assets;
- (2) The Georgia Municipal Employees Benefit System created by Chapter 5 of this title;
- (3) Any association of like political subdivisions which, on, before, or after July 1, 1999,

contracts with its members for the pooling of assets; and

(4) Any public retirement system other than a retirement system defined in paragraphs (1), (2), and (3) of this subsection which meets the following criteria:

(A) The retirement system assets are in excess of \$50 million;

(B) The retirement system provides a defined benefit plan;

(C) The retirement system investments are managed by one or more independent professional investment managers recognized by the National Association of Securities Dealers and the United States Securities and Exchange Commission and which adhere to the code of ethical standards and conduct of the Association for Investment Management and Research;

(D) The retirement system investments are limited to those equities of investment grade quality or better, provided that leverage techniques, option techniques, futures, commodities, private placements, and direct participation plans may not be used in making equity investments; and

(E) Has an accumulated unfunded actuarial liability not greater than 25 percent of the total of its assets.

(b) A large retirement system may not invest more than 10 percent of the retirement system assets in corporations or in obligations of corporations organized in a country other than the United States or Canada subject to the provisions of paragraph (1) of subsection (a) of Code Section 47-20-83.

(c) A fund shall not invest more than 55 percent of retirement system assets in equities; provided, however, that a large retirement system shall invest not more than 60 percent of its assets in equities. Any fund which is not in compliance with the limitations imposed by this subsection shall be granted a two-year period to come into compliance; provided, however, that during such two-year period, the fund shall not increase the percentage of its assets invested in equities.

(d) In the event the value of a fund's assets decreases so as to render such fund ineligible to invest in foreign equities as provided in subsection (b) of this Code section and to invest in excess of 55 percent of its assets in total equities as provided in subsection (c) of this Code section, such fund shall have 12 months from the date of such event to come into compliance with the investment authority provided by this article; provided, however, that during such period such fund shall not increase its holdings in foreign equities and shall not increase its total holdings in equities.

47-20-85.

Notwithstanding any provision of the federal Secondary Mortgage Market Enhancement Act, 15 U.S.C. Section 77r-1, to the contrary, any fund subject to the provisions of this article shall comply with all provisions, restrictions, and limitations concerning investments provided in this article.

47-20-86.

This article shall be enforced as provided in Article 3 of this chapter.

EXHIBIT B

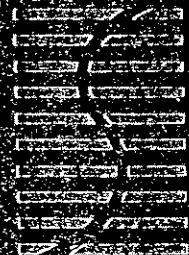
EXAMPLES OF POSSIBLE PENSION CHANGES			
	POLICE	FIREFIGHTERS	GENERAL EMPLOYEES
FORMULA FACTOR	3.0% x all service	3.0% x all post-02/01 service 2.0% for pre-03/01 service	2.35% x all service
EMPLOYEE CONTRIBUTION RATE	7.0% plus 1.0% for spouse benefit	(1) <i>(hired > 02/01)</i> : 7.0% plus 1.0% for spouse benefit (2) <i>(hired < 03/01)</i> : 6.0% plus plus 1.0% for spouse benefit	5.5% plus 1.0% for spouse benefit
FORMULA FACTOR	3.0% x all service	(1) <i>(hired > 02/01)</i> : 3.0% x all post-02/01 service (2) <i>(hired < 03/01)</i> : 3.0% x all post-02/01 service (hired < 03/01) and sliding factor (not less than 2.0%) for pre-03/01 service such that total benefit factor is equivalent to at least 2.35% x all years of service <i>[if such approach is allowable]</i>	2.35% x all service
EMPLOYEE CONTRIBUTION RATE	7.0% plus 1.0% for spouse benefit	(1) <i>(hired > 02/01)</i> : 7.0% plus 1.0% for spouse benefit (2) <i>(hired < 03/01)</i> : 5.5% plus 1.0% for spouse benefit	5.5% plus 1.0% for spouse benefit
FORMULA FACTOR	3.0% x all service	(1) <i>(hired > 02/01)</i> : 3.0% x all post-02/01 (2) <i>(hired < 03/01)</i> : 3.0% x all post-02/01 service and sliding factor (not less than 2.0%) for pre-03/01 service such that total benefit factor is equivalent to at least 2.5% x all years of service <i>[if such approach is allowable]</i>	2.5% x all service
EMPLOYEE CONTRIBUTION RATE	7.0% plus 1.0% for spouse benefit	(1) <i>(hired > 02/01)</i> : 7.0% plus 1.0% for spouse benefit (2) <i>(hired < 03/01)</i> : 6.0% plus 1.0% for spouse benefit	6.0% plus 1.0% for spouse benefit

NOTE: Instead of raising Police and post-02/01 Firefighters to 7.0% contribution rate, could leave their rates at 6.0% and lower the contribution rate of pre-03/01 Firefighters and all General Employees to 4.7% for the 2.35% formula factor and 5.0% for the 2.5% formula factor scenarios, respectively.

EXHIBIT C

**City of Atlanta Police
Officers' Pension Fund**

**Interim Actuarial Valuation Report
as of
January 1, 2003**



**SOUTHERN
ACTUARIAL
SERVICES**

***City of Atlanta Police
Officers' Pension Fund***

**Interim Actuarial Valuation Report
as of
January 1, 2003**



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June 7, 2004

Board of Trustees
City of Atlanta Police Officers' Pension Fund

Ladies and Gentlemen:

This report presents the interim results of the actuarial valuation of the City of Atlanta Police Officers' Pension Fund as of January 1, 2003. The purpose of this interim report is to provide a summary of the funded status of the plan as of January 1, 2003 and to determine the annual required contribution and accounting disclosures pursuant to Governmental Accounting Standard Nos. 25 and 27 (GASB 25/27). In addition, this report summarizes recent changes in the law and regulations affecting the plan, provides a record of any plan amendments or other plan changes affecting the financial status of the plan, and discusses the impact of recent gains and losses.

Legislative and Regulatory Changes During the Prior Year

There were no significant legislative or regulatory changes enacted during the prior year.

Plan Changes Adopted During the Prior Year

There were no plan changes adopted since the prior valuation. All plan provisions adopted through January 1, 2003 have been reflected in this valuation.

Recommended Contribution

Currently, the plan receives contributions from the City of Atlanta and from employees. Employees contribute either 6% or 7% of base salary, depending on whether the employee has any beneficiaries who would be eligible for death benefits under the plan. The City contributes the amount that is actuarially determined as a level percentage of payroll, where the unfunded accrued liability is scheduled to be eliminated as of January 1, 2019 and payroll is assumed to increase at the rate of 5% per year. The contribution is based on the actuarial valuation results as of January 1 of the preceding plan year.

For the 2004 plan year, the minimum required contribution based on the January 1, 2002 actuarial valuation results is equal to 23.33% of payroll. If the interim valuation results were used to determine the 2004 contribution, the minimum required contribution would be 42.70% of payroll after taking into account expected employee contributions of 6.63% of payroll. This amount represents an increase of 19.37% of payroll from the required contribution for the 2003 plan year. We recommend that the City include the increased contribution rate in its budget for the 2005 plan year.

The increase in the contribution is partially due to poor investment performance. The market value of assets lost 6.42% during 2002 as compared with an assumed return of 8.00%. Rather than reflect the entire amount of the unrealized gains and losses immediately, the actuarial value of assets is based on a five-year phase-in of the unrealized appreciation. On this basis, the actuarial value of assets only lost 1.73% for the year, which was still well below the assumed 8.00% return.

Contents of the Report

A summary of the results of the valuation is presented in Table I, while Table II provides a historical record of the City's contribution percentage. A detailed breakdown of the liabilities of the plan by type of benefit is presented in Table III. Information for the auditors can be found in Tables IV and V. Tables VI through VIII provide information about the fund's assets. In particular, Table VI provides a breakdown of the fund assets by investment type, and Tables VII and VIII provide a historical record of the growth, expenditures, and annual yields of the fund. Tables IX through XII provide a variety of useful information concerning the participant population. Finally, Table XIII provides a summary of the assumptions and methods used to complete the valuation and Table XIV provides a summary of the plan provisions.

Certification

To the best of our knowledge, this report fairly and accurately represents the liabilities of the plan as of January 1, 2003 based on the participant data and asset information provided by the City of Atlanta and the plan provisions and actuarial assumptions set forth herein. We believe that these assumptions are reasonable in the aggregate and represent our best estimate of anticipated experience. All calculations set forth herein conform to generally accepted actuarial principles and practices and comply with our current understanding of the requirements of the Georgia Code and the Governmental Accounting Standards Board.

Respectfully submitted,



Harry S. Lutz
Consulting Actuary
Enrolled Actuary No. 02-01126



Charles T. Carr
Consulting Actuary
Enrolled Actuary No. 02-04927



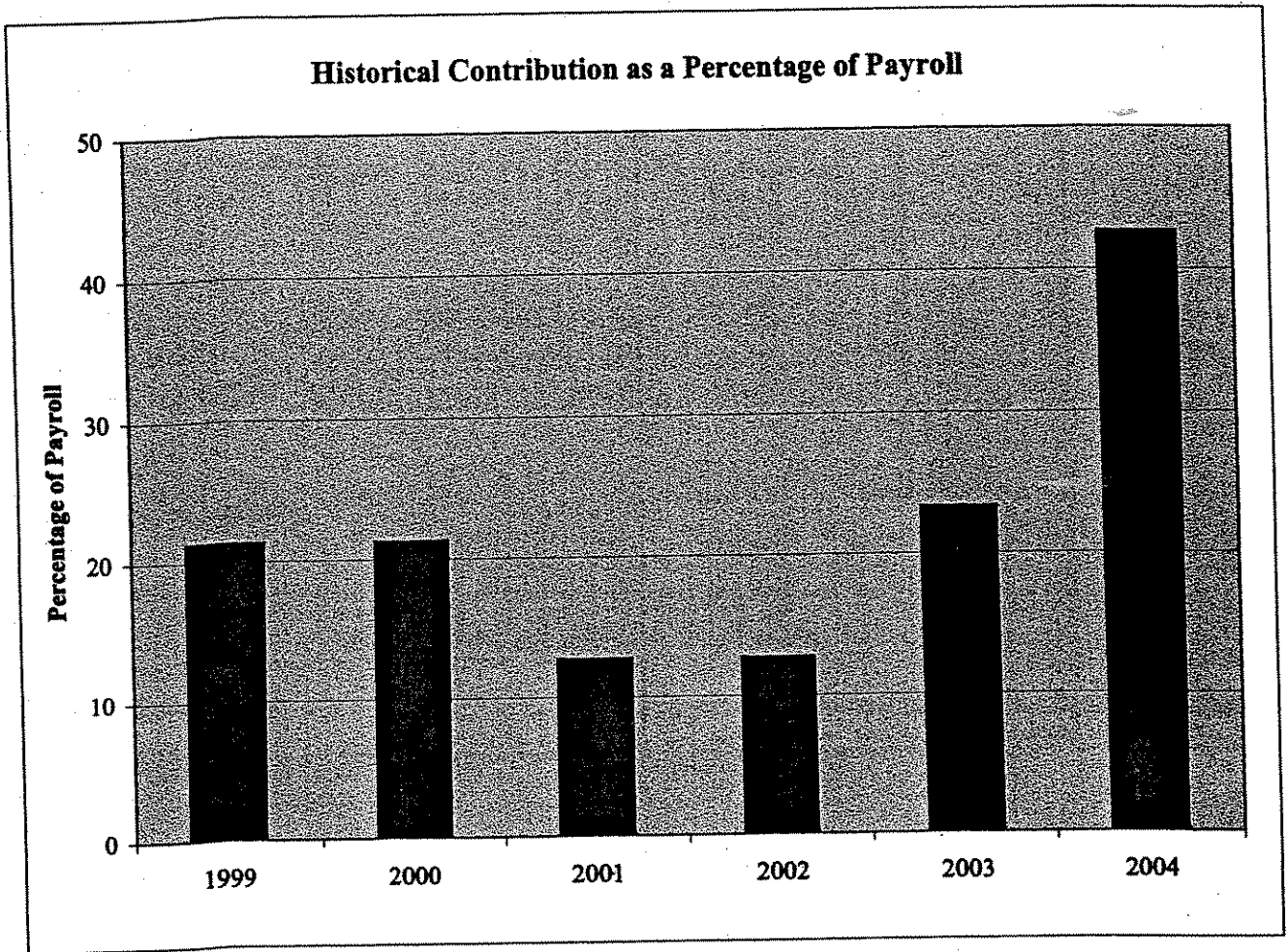
SUMMARY OF VALUATION RESULTS

TABLE I

	<u>As of January 1, 2002</u>	<u>As of January 1, 2003</u>
1. Number of Participants		
a. Active Participants		
i. Fully Vested	548	496
ii. Partially Vested	572	631
iii. Non-Vested	420	396
iv. Sub-total	<u>1,540</u>	<u>1,523</u>
b. Deferred Vested Participants	0	0
c. Retired Participants		
i. Service Retirement		643
ii. Disability Retirement		105
iii. Beneficiaries		222
iv. Sub-total	<u>953</u>	<u>970</u>
d. Total Participants	<u>2,493</u>	<u>2,493</u>
2. Expected Annual Compensation *	\$64,588	\$66,371
3. Development of Required Contribution *		
a. Actuarial Accrued Liability	\$541,209	\$592,428
b. Actuarial Value of Assets	(\$448,676)	(\$437,282)
c. Unfunded Actuarial Accrued Liability (UAAL)	<u>\$92,533</u>	<u>\$155,146</u>
d. Amortization Payment Towards UAAL		\$12,865
e. Normal Cost		<u>\$20,491</u>
f. Total Annual Cost		<u>\$33,356</u>

	<u>For the 2003 Plan Year</u>	<u>For the 2004 Plan Year</u>
4. Minimum Required Contribution		
a. Level Percent Amortization of UAAL	11.09 %	18.46 %
b. Normal Cost Percentage	<u>18.98 %</u>	<u>30.87 %</u>
c. Total Contribution Percentage	30.07 %	49.33 %
d. Effective Employee Contribution	<u>(6.74)%</u>	<u>(6.63)%</u>
e. Minimum Required Employer Contribution	<u>23.33 %</u>	<u>42.70 %</u>

* dollar amounts are shown in 000's



<u>Plan Year</u>	<u>Employer Contribution Percentage</u>	<u>Plan Year</u>	<u>Employer Contribution Percentage</u>	<u>Plan Year</u>	<u>Employer Contribution Percentage</u>
1999	21.31%	2001	12.77%	2003	23.33%
2000	21.31%	2002	12.77%	2004	42.70%

LIABILITIES AS OF January 1, 2003

TABLE III

	Retirement Benefits	Disability Benefits	Withdrawal Benefits	Pre-Ret. Death Benefits	Return of Employee Contributions	Total
1. Present Value of Future Benefits						
a. Active participants	\$464,087	\$16,019	\$4,067	\$13,910	\$480	\$498,563
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$221,076	\$35,404	\$0	\$0	\$0	\$256,480
Beneficiaries	\$33,605	\$0	\$0	\$0	\$0	\$33,605
d. Total	\$718,768	\$51,423	\$4,067	\$13,910	\$480	\$788,648
2. Entry Age Accrued Liability						
a. Active participants	\$280,931	\$9,614	\$2,465	\$9,060	\$273	\$302,343
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$221,076	\$35,404	\$0	\$0	\$0	\$256,480
Beneficiaries	\$33,605	\$0	\$0	\$0	\$0	\$33,605
d. Total	\$535,612	\$45,018	\$2,465	\$9,060	\$273	\$592,428
3. Entry Age Normal Cost						
	\$18,395	\$1,015	\$379	\$588	\$114	\$20,491
4. Present Value of Vested Benefits						
a. Active participants	\$149,331	\$8,594	\$13,297	\$5,915	\$715	\$177,852
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$221,076	\$35,404	\$0	\$0	\$0	\$256,480
Beneficiaries	\$33,605	\$0	\$0	\$0	\$0	\$33,605
d. Total	\$404,012	\$43,998	\$13,297	\$5,915	\$715	\$467,937
5. Present Value of Accrued Benefits						
a. Active participants	\$176,833	\$8,594	\$2,068	\$6,172	\$266	\$193,933
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$221,076	\$35,404	\$0	\$0	\$0	\$256,480
Beneficiaries	\$33,605	\$0	\$0	\$0	\$0	\$33,605
d. Total	\$431,514	\$43,998	\$2,068	\$6,172	\$266	\$484,018

** all amounts are shown in 000's*

	For the 2003 Plan Year	For the 2004 Plan Year
A. Number of Plan Participants as of Preceding January 1		
a. Retirees and beneficiaries receiving benefits	953	970
b. Terminated plan participants entitled to but not yet receiving benefits	0	0
c. Active plan participants	1,540	1,523
d. Total	<u>2,493</u>	<u>2,493</u>
B. Development of Annual Required Contribution (ARC) *		
a. Employer normal cost:		
i. Total normal cost (EOY)	\$13,605	\$23,234
ii. Expected employee contribution	(\$4,831)	(\$4,990)
iii. Employer normal cost	<u>\$8,774</u>	<u>\$18,244</u>
b. Amortization of UAAL:		
i. PV of future benefits	\$672,044	\$788,648
ii. PV of future employer normal costs	(\$82,369)	(\$136,270)
iii. PV of future employee contributions	(\$48,466)	(\$59,950)
iv. Actuarial accrued liability (AAL)	\$541,209	\$592,428
v. Actuarial value of assets	(\$448,676)	(\$437,282)
vi. Unfunded AAL (UAAL)	\$92,533	\$155,146
vii. Amortization of UAAL	\$6,288	\$12,865
c. Amortization of NPO	<u>\$0</u>	<u>\$0</u>
d. ARC	<u>\$15,062</u>	<u>\$31,109</u>
	(Item B.a.iii. plus item B.b.vii. plus item B.c.)	
C. Annual Pension Cost and Net Pension Obligation (NPO) *		
a. ARC	\$15,062	\$31,109
b. Interest on NPO	\$0	\$0
c. Adjustment to ARC	\$0	\$0
d. Annual Pension Cost	<u>\$15,062</u>	<u>\$31,109</u>
e. Contributions made (w/interest to EOY)	(\$15,062)	(\$31,109)
f. Increase(decrease) in NPO	\$0	\$0
g. NPO (beginning of year)	\$0	\$0
h. NPO (end of year)	<u>\$0</u>	<u>\$0</u>

* dollar amounts are shown in 000's

D. Schedule of Employer Contributions **

Year Ended December 31	Annual Pension Cost	Percentage Contributed
1999	\$11,966	100%
2000	\$13,816	100%
2001	\$14,200	100%
2002	\$15,068	100%
2003	\$15,062	100%
2004	\$31,109	100%

E. Schedule of Funding Progress **

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) ÷ (2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3) ÷ (5)
1/1/1998	\$296,516	\$384,074	\$87,558	77.2%	\$46,913	186.6%
1/1/2000	\$384,083	\$419,439	\$35,356	91.6%	\$56,966	62.1%
1/1/2002	\$448,676	\$541,209	\$92,533	82.9%	\$64,588	143.3%
1/1/2003	\$437,282	\$592,428	\$155,146	73.8%	\$66,371	233.8%

F. Additional Information

Valuation date	January 1, 2002	January 1, 2003
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percent closed	Level percent closed
Remaining amortization period	40 years from 1/1/1979	40 years from 1/1/1979
Asset valuation method	Five-year smoothed market	Five-year smoothed market
Actuarial assumptions:		
Investment rate of return *	8.00%	8.00%
Projected salary increases *	Ranges from 5% to 10%	Ranges from 5% to 10%
* Includes inflation at:	5.00%	5.00%
Cost-of-living adjustments	3.00%	3.00%

** dollar amounts are shown in 000's.

PRESENT VALUE OF ACCRUED BENEFITS**TABLE V****1. Actuarial Present Value of Accrued Benefits**

	<u>As of January 1, 2002</u>	<u>As of January 1, 2003</u>
a. Vested Benefits:		
i. Participants currently receiving benefits	\$269,509	\$290,085
ii. Other participants	\$148,105	\$177,852
iii. Sub-total	\$417,614	\$467,937
b. Non-Vested Benefits	\$40,667	\$16,081
c. Total Benefits	<u>\$458,281</u>	<u>\$484,018</u>
d. Market Value of Assets	\$402,836	\$373,446
e. Funded Ratio	87.90%	77.16%

2. Statement of Change in Actuarial Present Value of Accrued Benefits

a. Actuarial Present Value as of January 1, 2002	\$458,281
b. Increase (Decrease) During 2002 Plan Year Due to:	
i. Interest	\$36,662
ii. Benefits accumulated	\$11,238
iii. Benefits paid	(\$22,163)
iv. Plan amendments	\$0
v. Changes in actuarial assumptions or methods	\$0
vi. Net increase (decrease)	<u>\$25,737</u>
c. Actuarial Present Value as of January 1, 2003	\$484,018

3. Items Affecting Calculation of Actuarial Present Value of Accrued Benefits

- a. Plan provisions reflected in the accrued benefits (see Table XIV on page 18)
- b. Actuarial assumptions and methods used to determine present values (see Table XIII on page 16)

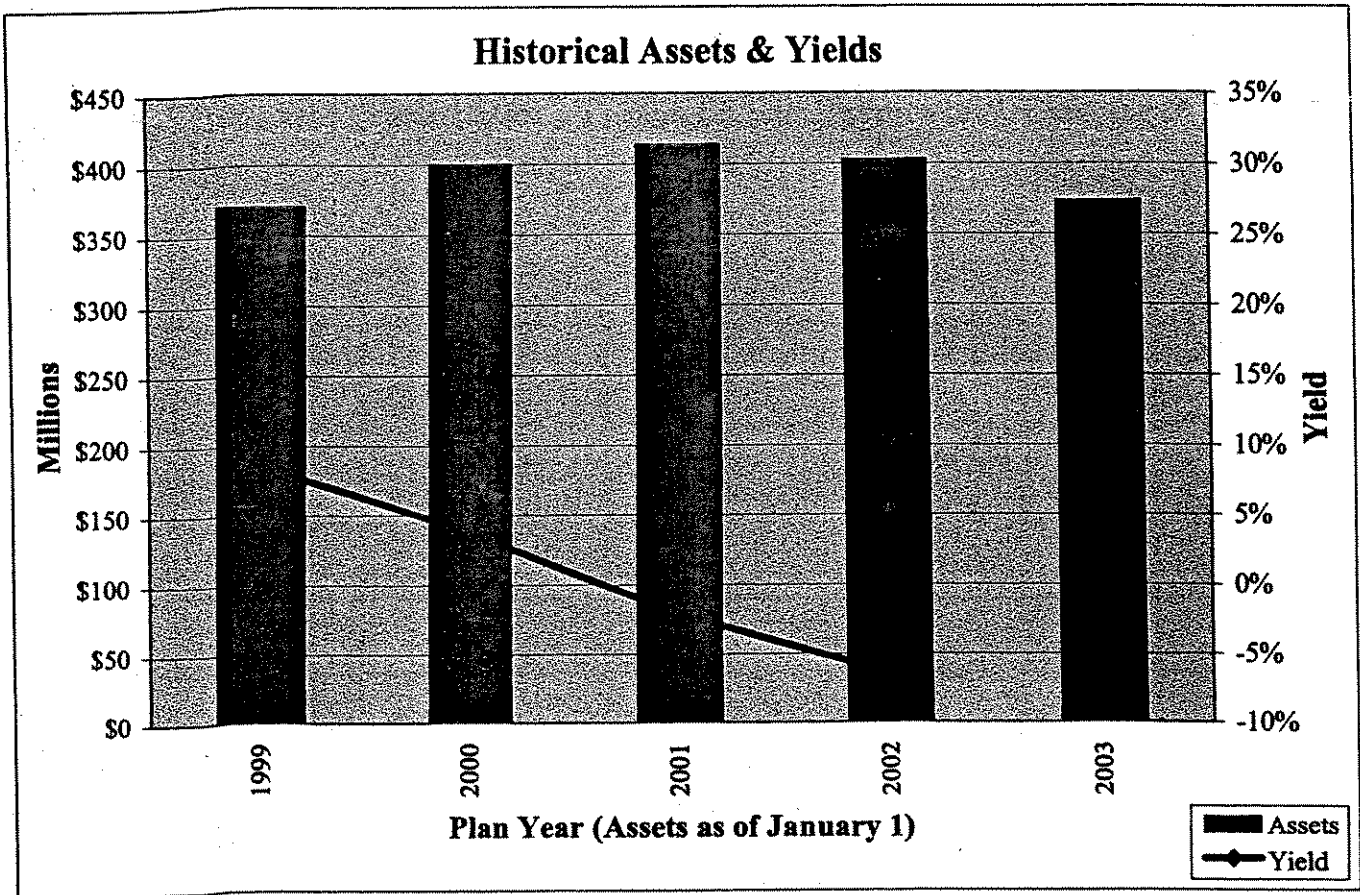
SUMMARY OF ASSETS

TABLE VI

	<u>As of</u> <u>January 1, 2002</u>	<u>As of</u> <u>January 1, 2003</u>
1. Market Value of Assets (in 000's)		
a. Cash and cash equivalents (5%)	\$3,657	\$19,504
b. Government bonds & notes (13%)	\$53,118	\$48,139
c. Corporate bonds (26%)	\$44,883	\$98,138
d. Equities (43%)	\$202,993	\$161,353
e. Repurchase agreements (0%)	\$10,062	\$0
f. Real estate (0%)	\$0	\$0
g. Mortgages (15%)	\$89,274	\$55,191
h. Accrued income receivable (0%)	\$0	\$1,479
i. Contributions receivable (0%)	\$9	\$157
j. Other receivables (1%)	\$0	\$3,150
k. Benefits and accounts payable (-2%)	(\$258)	(\$7,064)
l. Other payables (-2%)	(\$902)	(\$6,601)
m. Market value of assets	\$402,836	\$373,446
2. Actuarial Value of Assets (in 000's)		
a. Market value of assets	\$402,836	\$373,446
b. Five-year phase-in of unrealized investment appreciation:		
i. 1998	\$65 x 20% =	\$13
ii. 1999	(\$6,197) x 40% =	(\$2,479) x 20% =
iii. 2000	\$37,436 x 60% =	\$22,462 x 40% =
iv. 2001	\$32,305 x 80% =	\$25,844 x 60% =
v. 2002	\$38,397	\$30,718 x 80% =
vi. Total unrecognized losses(gains)	\$45,840	\$63,836
c. Actuarial Value of Assets	\$448,676	\$437,282
(Item a. plus item b., but within an 80-120% corridor of item a.)		

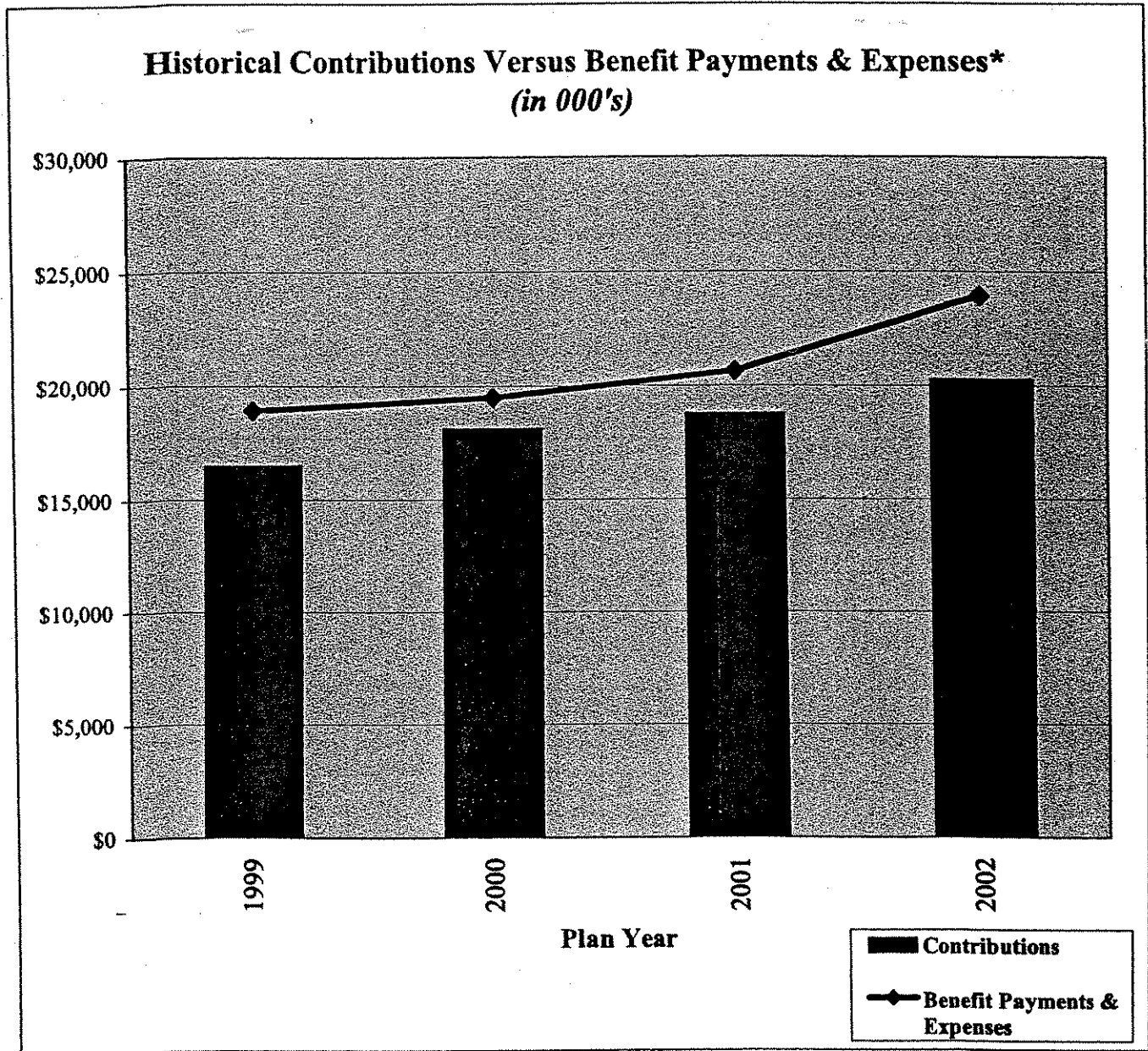
Note:

The percentages in parentheses indicate the proportion of assets committed to each type of investment as of January 1, 2003.



Plan Year	Market Value as of January 1	Actuarial Value as of January 1	Benefit Payments	Expenses	Contributions	Market Value Yield	Actuarial Value Yield
1999	\$370,953		\$18,555	\$359	\$16,471	8.49%	
2000	\$399,889	\$384,083	\$18,986	\$496	\$18,108	3.78%	8.51%
2001	\$413,593		\$20,020	\$611	\$18,750	-2.15%	8.51%
2002	\$402,836	\$448,676	\$22,163	\$1,769	\$20,279	-6.42%	-1.73%
2003	\$373,446	\$437,282					

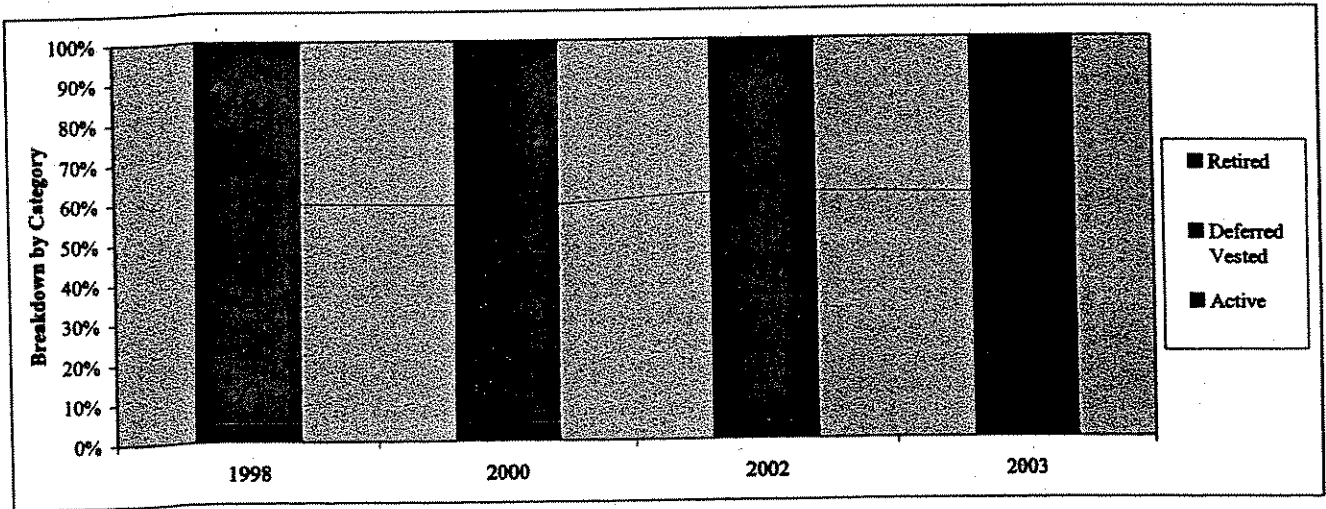
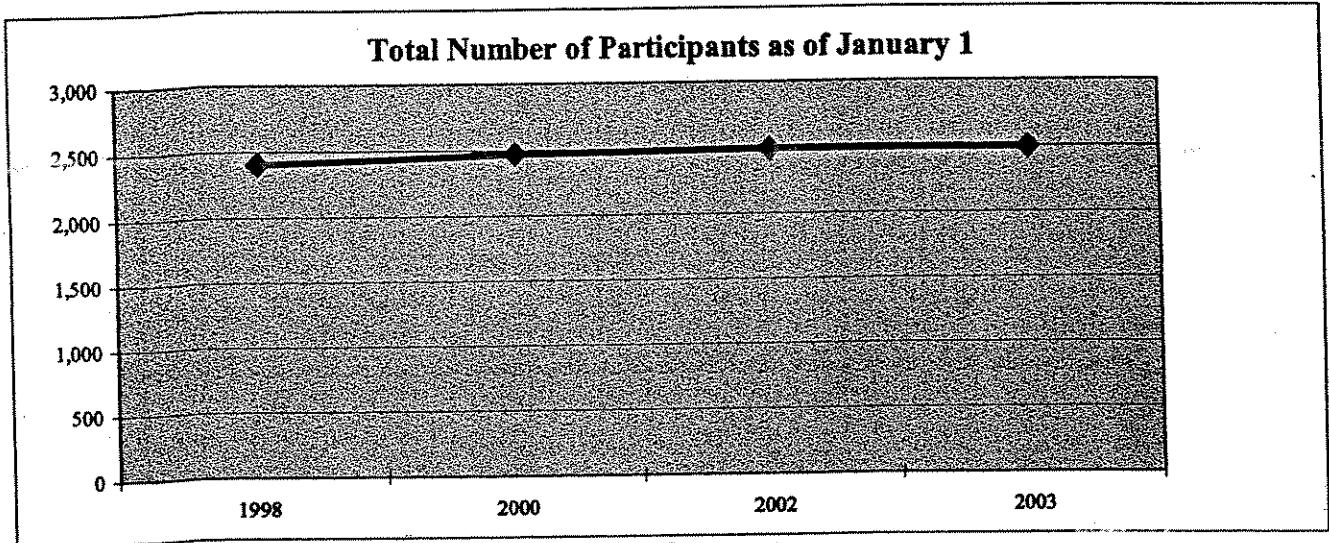
* all dollar amounts are shown in 000's



* Please reference Table VII on page 10 for the historical benefit payments, expenses, and contributions.

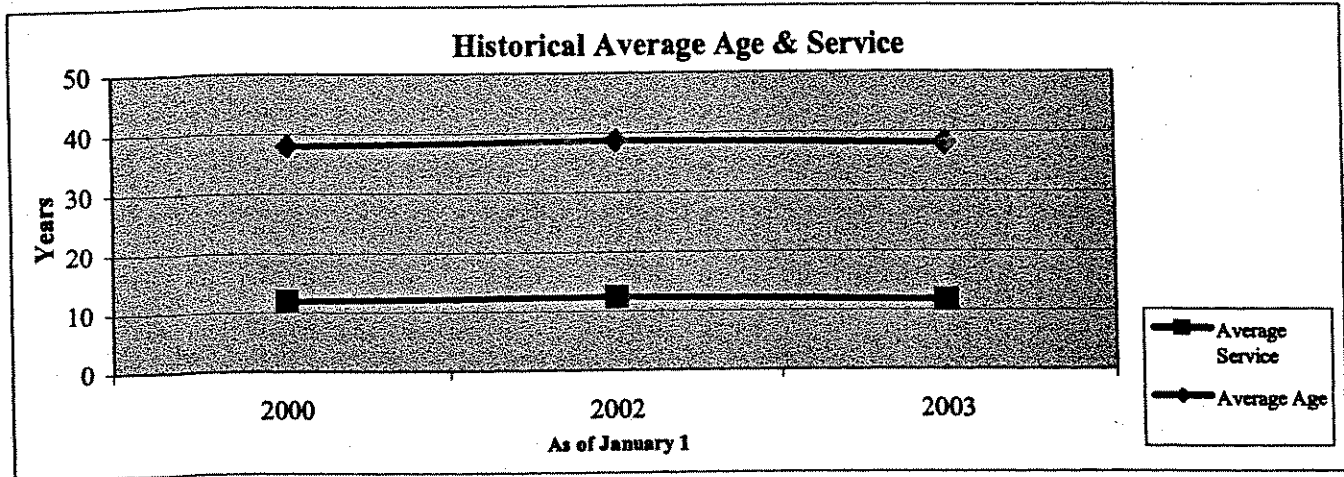
SUMMARY OF PARTICIPANT DATA

TABLE IX

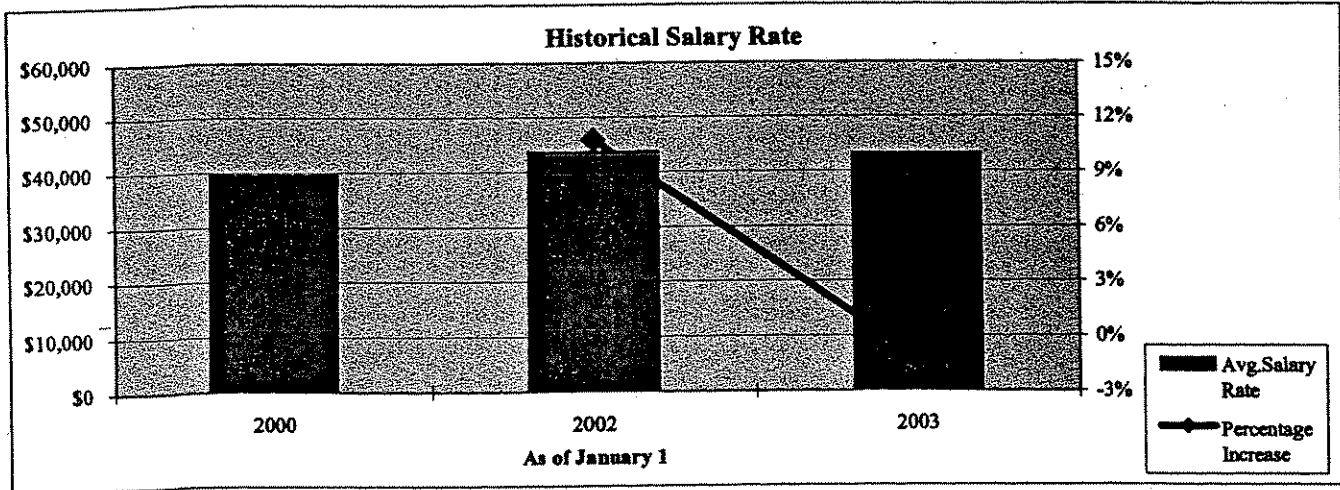


	<u>As of January 1, 2002</u>	<u>As of January 1, 2003</u>
1. Active Participants		
a. Fully Vested	548	496
b. Partially Vested	572	631
c. Non-Vested	420	396
d. Sub-total	<u>1,540</u>	<u>1,523</u>
2. Deferred Vested Participants	0	0
3. Retired Participants		
a. Service Retirement	*	643
b. Disability Retirement	*	105
c. Beneficiaries	*	222
d. Sub-total	<u>953</u>	<u>970</u>
4. Total Participants	<u>2,493</u>	<u>2,493</u>

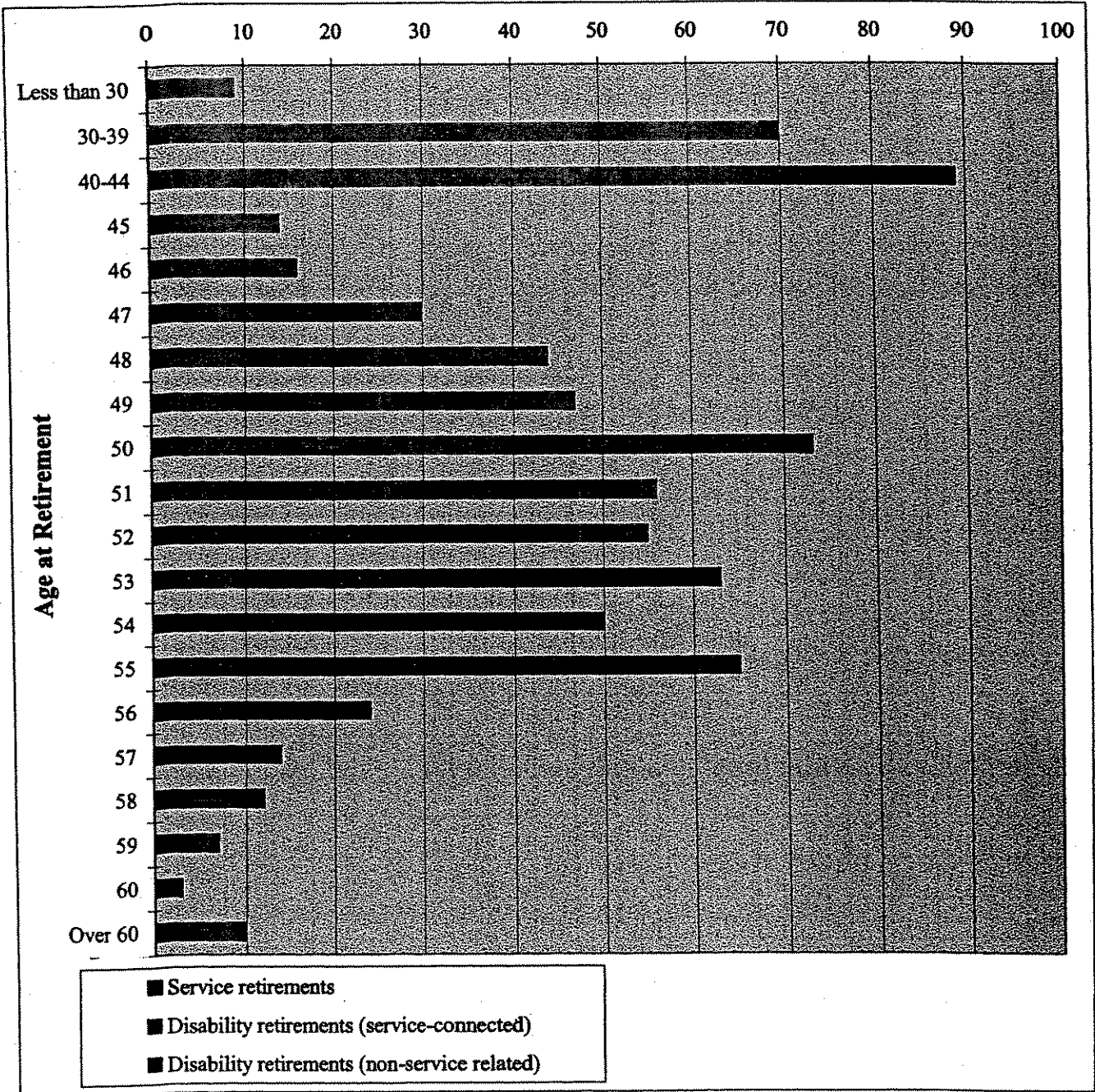
* not provided by the prior actuary



Date	Average Service Earned	Average Attained Age	Date	Average Service Earned	Average Attained Age
1/1/2000	11.9	38.0	1/1/2003	11.7	38.1
1/1/2002	12.4	38.7			



Date	Average Salary Rate	Increase from Prior Year	Date	Average Salary Rate	Increase from Prior Year
1/1/2000	\$39,478		1/1/2003	\$43,203	-1.20%
1/1/2002	\$43,729	10.77%			



Note: Results are based on retiree data as of January 1, 2003.

Average benefit being paid to members on service retirement is \$2,286.03 per month.

Average benefit being paid to members on disability retirement is \$2,031.84 per month.

Average benefit being paid to beneficiaries is \$1,017.51 per month.

AGE-SERVICE-SALARY TABLE

TABLE XII

Attained Age	Completed Years of Service										Total
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up	
Under 25	34	52	0	0	0	0	0	0	0	0	86
Avg. Pay	29,344	32,112	0	0	0	0	0	0	0	0	31,018
25 to 29	36	115	42	0	0	0	0	0	0	0	193
Avg. Pay	29,627	34,339	38,256	0	0	0	0	0	0	0	34,312
30 to 34	24	80	166	58	0	0	0	0	0	0	328
Avg. Pay	29,650	34,962	40,104	44,606	0	0	0	0	0	0	38,881
35 to 39	12	22	65	157	62	1	0	0	0	0	319
Avg. Pay	32,198	35,359	39,384	46,409	49,085	44,262	0	0	0	0	44,194
40 to 44	5	8	26	62	85	51	1	0	0	0	238
Avg. Pay	29,402	39,405	39,470	45,831	49,939	54,468	48,306	0	0	0	47,903
45 to 49	1	4	9	26	31	95	30	0	0	0	196
Avg. Pay	99,727	35,028	40,647	47,137	49,465	51,032	53,515	0	0	0	50,092
50 to 54	0	2	5	12	11	39	49	13	0	0	131
Avg. Pay	0	34,089	42,529	45,924	46,181	48,556	53,607	63,241	0	0	51,011
55 to 59	1	0	0	3	6	10	7	3	0	0	30
Avg. Pay	157,026	0	0	48,323	49,985	49,773	57,459	51,692	0	0	55,231
60 to 64	0	0	0	0	1	1	0	0	0	0	2
Avg. Pay	0	0	0	0	54,371	44,262	0	0	0	0	49,317
65 to 69	0	0	0	0	0	0	0	0	0	0	0
Avg. Pay	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0
Avg. Pay	0	0	0	0	0	0	0	0	0	0	0
Total	113	283	313	318	196	197	87	16	0	0	1,523
Avg. Pay	31,558	34,336	39,708	46,027	49,407	51,299	53,824	61,076	0	0	43,203

1. Actuarial Cost Method

Individual Entry Age Normal Cost Method

2. Decrements

• Mortality

Sex-distinct mortality rates set forth in the 1971 Group Annuity Mortality Table, set back three years

• Disability

50% of the sex-distinct disability rates derived from the 1974 study of disability experience under the Social Security system; 75% of disabilities are assumed to be service-connected. A sample of disability rates is set forth in the following tables:

Male Rates

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	0.0600%	30	0.095%	40	0.198%	50	0.522%
25	0.0745%	35	0.132%	45	0.308%	55	0.909%

Female Rates

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	0.0300%	30	0.077%	40	0.191%	50	0.457%
25	0.0445%	35	0.131%	45	0.290%	55	0.766%

• Permanent Withdrawal from Active Status

Withdrawal rates were derived from a study of actual plan experience covering the period 1982 through 1986. A sample of withdrawal rates is set forth in the following table:

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	15.0%	30	7.8%	40	2.30%	50	0.956%
25	11.4%	35	4.9%	45	1.35%	55	0.000%

• Retirement

Retirement is assumed to occur in accordance with the rates set forth in the following table:

Age	Rate	Age	Rate	Age	Rate	Age	Rate
45	2%	49	2%	53	10%	57	20%
46	2%	50	2%	54	15%	58	20%
47	2%	51	5%	55	50%	59	20%
48	2%	52	5%	56	50%	60	100%

3. Interest Rate

- Used for Calculating All Liabilities (including GASB 25/27 liabilities)
8.00% per annum

4. Cost-of-Living Adjustment for Retirement Benefits

For purposes of determining the annual cost-of-living adjustment for retirees, the Consumer Price Index is assumed to increase at the rate of 3.00% per year.

5. Salary Increases

Assumed rates of salary increase were developed from past experience and include an adjustment for expected future inflation. A sample of salary increase rates is set forth in the following table:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	10.000%	30	9.167%	40	7.500%	50	5.833%
25	10.000%	35	8.333%	45	6.667%	55	5.000%

6. Payroll Increase

Total payroll has been assumed to grow at the rate of 5.00% per year for purposes of amortizing the unfunded actuarial accrued liability as a level percentage of payroll.

7. Surviving Beneficiaries

Those active participants who are making the additional 1% employee contribution to provide a survivor benefit to their eligible beneficiaries are assumed to have only one surviving beneficiary of the opposite sex of the employee. Males are assumed to be three years older than females for this purpose.

8. Expenses

All costs and liabilities have been loaded by 1.00% to cover anticipated administrative expenses. In addition, the interest rate set forth in item 3. above is assumed to be net of investment expenses and commissions.

9. Assets

The actuarial value of assets is equal to the market value of assets adjusted to reflect a five-year phase-in of the net investment appreciation (or depreciation).

1. **Monthly Accrued Benefit**

3% of Average Monthly Earnings multiplied by up to 26 $\frac{2}{3}$ years of Creditable Service

2. **Normal Retirement Age and Benefit**

- **Age**
Age 55 with at least 15 years of Creditable Service
- **Amount**
Monthly Accrued Benefit
- **Form of Payment**
Life annuity (for those participants without a beneficiary); or
75% joint and contingent annuity (for those participants with a beneficiary)

Note: All annuity forms of payment include an automatic cost-of-living adjustment effective each January 1 based on the increase in the Consumer Price Index as of the preceding November 1 and limited to 3%, and include a minimum payout equal to the employee's accumulated contributions.

3. **Early Retirement Age and Benefit**

- **Age**
At least 15 years of Creditable Service
- **Amount**
Monthly Accrued Benefit (payable at age 55); or
Monthly Accrued Benefit reduced by $\frac{1}{2}\%$ for each of the first 60 months and by $\frac{1}{4}\%$ for each additional month by which the participant's Early Retirement Age precedes age 55 (payable at Early Retirement Age)
- **Form of Payment**
Same as for Normal Retirement

4. **Delayed Retirement Age and Benefit**

- **Age**
After Normal Retirement Age
- **Amount**
Monthly Accrued Benefit
- **Form of Payment**
Same as for Normal Retirement

(continued)

5. Disability Retirement Eligibility and Benefit**• Eligibility**

All active participants are eligible if the disability is service-connected;
At least five years of Creditable Service is required otherwise.

• Condition

The participant must become "totally and permanently disabled" and must remain so disabled until age 55. "Totally and permanently disabled" means the participant is in a continuous state of incapacity due to illness or injury, is prevented from performing his regular assigned or comparable duties during the first months of his disability, and is thereafter prevented from engaging in any occupation for which he is or becomes reasonably qualified by education, training, or experience.

• Amount

Greater of 50% of Average Monthly Earnings at the time of disability or Monthly Accrued Benefit, offset by worker's compensation payments such that the combination of payments does not exceed 75% of the participant's salary at the time of disability (payable until the earlier of recovery from disability or age 55); and
Monthly Accrued Benefit based on Average Monthly Earnings at the time of disability and Creditable Service including the period during which the participant was disabled (payable at age 55)

• Form of Payment

Same as for Normal Retirement

6. Deferred Vested Benefit**• Age**

Any age with at least five years of Creditable Service

• Amount

Monthly Accrued Benefit multiplied by the participant's Vested Percentage and payable at age 60

• Form of Payment

Same as for Normal Retirement

7. Pre-Retirement Death Benefit

In the case of the death of an active or deferred vested participant (or disabled participant prior to age 55), his beneficiary(ies) will receive 75% of the monthly benefit to which the participant would have been entitled had he retired on the day before his death (or 75% of the amount the disabled participant was receiving at the time of his death). The death benefit is payable for the remaining lifetime of the participant's eligible spouse (or to his minor children until age 18 or age 23 if unmarried and a full-time student). In the case of a disabled participant, the death benefit is limited to 60% of the participant's salary at the time of disability.

8. Vested Percentage

Retirement benefits become vested in accordance with the following schedule:

Years of Creditable Service	Vested Percentage
Less than five	0%
At least five, but less than six	25%
At least six, but less than seven	30%
At least seven, but less than eight	35%
At least eight, but less than nine	40%
At least nine, but less than 10	45%
At least 10, but less than 11	50%
At least 11, but less than 12	60%
At least 12, but less than 13	70%
At least 13, but less than 14	80%
At least 14, but less than 15	90%
At least 15	100%

9. Average Monthly Earnings

Average of the participant's monthly Salary for the highest three consecutive years during his period of Creditable Service

10. Salary

The employee's basic salary excluding overtime pay, but including accumulated vacation pay, sick leave bonus pay, and other similar compensation; pursuant to IRC section 401(a)(17), annual Salary is limited to \$200,000 as indexed.

11. Employee Contribution

All participating employees must make the required contribution to the plan. The required contribution is 7% of basic salary for those participants who have an eligible beneficiary for death benefits and 6% of basic salary for all other participants.

12. Creditable Service

Participants receive Creditable Service for all periods of employment with the City of Atlanta provided that the employee has made the required contribution for such period of service.

13. Participation Requirement

All full-time, sworn police officers employed by the City of Atlanta are eligible to participate in the plan.

14. Plan Effective Date

April 1, 1978

***City of Atlanta
Firefighters' Pension Fund***

**Interim Actuarial Valuation Report
as of
January 1, 2003**

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February 20, 2004

Board of Trustees
City of Atlanta Firefighters' Pension Fund

Ladies and Gentlemen:

This report presents the interim results of the actuarial valuation of the City of Atlanta Firefighters' Pension Fund as of January 1, 2003. The purpose of this interim report is to provide a summary of the funded status of the plan as of January 1, 2003 and to determine the annual required contribution and accounting disclosures pursuant to Governmental Accounting Standard Nos. 25 and 27 (GASB 25/27). In addition, this report summarizes recent changes in the law and regulations affecting the plan, provides a record of any plan amendments or other plan changes affecting the financial status of the plan, and discusses the impact of recent gains and losses.

Legislative and Regulatory Changes During the Prior Year

There were no significant legislative or regulatory changes enacted during the prior year.

Plan Changes Adopted During the Prior Year

There were no plan changes adopted since the prior valuation. All plan provisions adopted through January 1, 2003 have been reflected in this valuation.

Recommended Contribution

Currently, the plan receives contributions from the City of Atlanta and from employees. Employees contribute either 6% or 7% of base salary, depending on whether the employee has any beneficiaries who would be eligible for death benefits under the plan. The City contributes the amount that is actuarially determined as a level percentage of payroll, where the unfunded accrued liability is scheduled to be eliminated as of January 1, 2019 and payroll is assumed to increase at the rate of 5% per year. The contribution is based on the actuarial valuation results as of January 1 of the preceding plan year.

For the 2004 plan year, the minimum required contribution based on the January 1, 2002 actuarial valuation results is equal to 24.30% of payroll. If the interim valuation results were used to determine the 2004 contribution, the minimum required contribution would be 41.77% of payroll after taking into account expected employee contributions of 6.77% of payroll. This amount represents an increase of 17.47% of payroll from the required contribution for the 2003 plan year. We recommend that the City include the increased contribution rate in its budget for the 2005 plan year.

The increase in the contribution is partially due to poor investment performance. The market value of assets lost 5.88% during 2002 as compared with an assumed return of 8.00%. Rather than reflect the entire amount of the unrealized gains and losses immediately, the actuarial value of assets is based on a five-year phase-in of the unrealized appreciation. On this basis, the actuarial value of assets only lost 0.04% for the year, which was still well below the assumed 8.00% return.

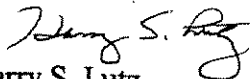
Contents of the Report

A summary of the results of the valuation is presented in Table I, while Table II provides a historical record of the City's contribution percentage. A detailed breakdown of the liabilities of the plan by type of benefit is presented in Table III. Information for the auditors can be found in Tables IV and V. Tables VI through VIII provide information about the fund's assets. In particular, Table VI provides a breakdown of the fund assets by investment type, and Tables VII and VIII provide a historical record of the growth, expenditures, and annual yields of the fund. Tables IX through XII provide a variety of useful information concerning the participant population. Finally, Table XIII provides a summary of the assumptions and methods used to complete the valuation and Table XIV provides a summary of the plan provisions.

Certification

To the best of our knowledge, this report fairly and accurately represents the liabilities of the plan as of January 1, 2003 based on the participant data and asset information provided by the City of Atlanta and the plan provisions and actuarial assumptions set forth herein. We believe that these assumptions are reasonable in the aggregate and represent our best estimate of anticipated experience. All calculations set forth herein conform to generally accepted actuarial principles and practices and comply with our current understanding of the requirements of the Georgia Code and the Governmental Accounting Standards Board.

Respectfully submitted,



Harry S. Lutz
Consulting Actuary
Enrolled Actuary No. 02-01126



Charles T. Carr
Consulting Actuary
Enrolled Actuary No. 02-04927



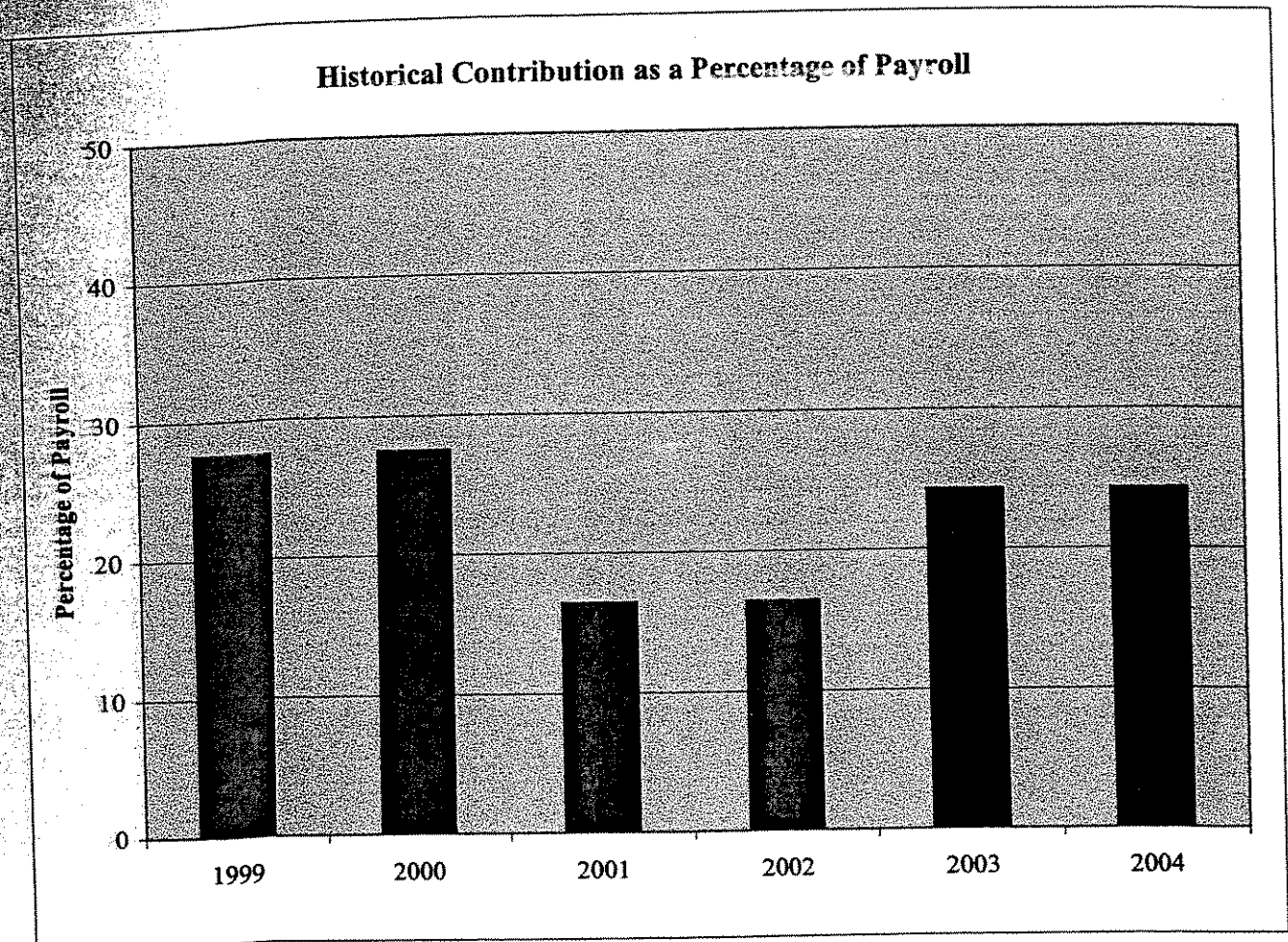
SUMMARY OF VALUATION RESULTS

TABLE I

	As of January 1, 2002	As of January 1, 2003
1. Number of Participants		
a. Active Participants		
i. Fully Vested	459	458
ii. Partially Vested	283	246
iii. Non-Vested	136	149
iv. Sub-total	<u>878</u>	<u>853</u>
b. Deferred Vested Participants	0	0
c. Retired Participants		
i. Service Retirement		382
ii. Disability Retirement		157
iii. Beneficiaries		201
iv. Sub-total	<u>742</u>	<u>740</u>
d. Total Participants	<u>1,620</u>	<u>1,593</u>
2. Expected Annual Compensation *	\$36,803	\$38,335
3. Development of Required Contribution *		
a. Actuarial Accrued Liability	\$370,291	\$413,191
b. Actuarial Value of Assets	(\$326,620)	(\$320,193)
c. Unfunded Actuarial Accrued Liability (UAAL)	\$43,671	\$92,998
d. Amortization Payment Towards UAAL		\$7,792
e. Normal Cost		<u>\$11,186</u>
f. Total Annual Cost		<u>\$18,978</u>

	For the 2003 Plan Year	For the 2004 Plan Year
4. Minimum Required Contribution		
a. Level Percent Amortization of UAAL	9.10 %	19.36 %
b. Normal Cost Percentage	<u>22.07 %</u>	<u>29.18 %</u>
c. Total Contribution Percentage	31.17 %	48.54 %
d. Effective Employee Contribution	<u>(6.87)%</u>	<u>(6.77)%</u>
e. Minimum Required Employer Contribution	<u>24.30 %</u>	<u>41.77 %</u>

* dollar amounts are shown in 000's



<u>Plan Year</u>	<u>Employer Contribution Percentage</u>	<u>Plan Year</u>	<u>Employer Contribution Percentage</u>	<u>Plan Year</u>	<u>Employer Contribution Percentage</u>
1999	27.53%	2001	16.50%	2003	24.30%
2000	27.53%	2002	16.50%	2004	24.30%

LIABILITIES AS OF January 1, 2003

TABLE III

	Retirement Benefits	Disability Benefits	Withdrawal Benefits	Pre-Ret. Death Benefits	Return of Employee Contributions	Total
1. Present Value of Future Benefits						
a. Active participants	\$280,889	\$7,667	\$1,051	\$8,104	\$78	\$297,789
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$129,486	\$55,074	\$0	\$0	\$0	\$184,560
Beneficiaries	\$27,784	\$0	\$0	\$0	\$0	\$27,784
d. Total	\$438,159	\$62,741	\$1,051	\$8,104	\$78	\$510,133
2. Entry Age Accrued Liability						
a. Active participants	\$189,726	\$4,872	\$607	\$5,595	\$47	\$200,847
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$129,486	\$55,074	\$0	\$0	\$0	\$184,560
Beneficiaries	\$27,784	\$0	\$0	\$0	\$0	\$27,784
d. Total	\$346,996	\$59,946	\$607	\$5,595	\$47	\$413,191
3. Entry Age Normal Cost	\$10,330	\$426	\$90	\$324	\$16	\$11,186
4. Present Value of Vested Benefits						
a. Active participants	\$103,798	\$4,473	\$4,337	\$3,267	\$220	\$116,095
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$129,486	\$55,074	\$0	\$0	\$0	\$184,560
Beneficiaries	\$27,784	\$0	\$0	\$0	\$0	\$27,784
d. Total	\$261,068	\$59,547	\$4,337	\$3,267	\$220	\$328,439
5. Present Value of Accrued Benefits						
a. Active participants	\$113,622	\$4,473	\$504	\$3,752	\$45	\$122,396
b. Def. vested participants	\$0	\$0	\$0	\$0	\$0	\$0
c. Retired participants:						
Retirees	\$129,486	\$55,074	\$0	\$0	\$0	\$184,560
Beneficiaries	\$27,784	\$0	\$0	\$0	\$0	\$27,784
d. Total	\$270,892	\$59,547	\$504	\$3,752	\$45	\$334,740

* all amounts are shown in 000's

ACCOUNTING DISCLOSURES (GASB 25/27)

TABLE IV

	For the 2003 Plan Year	For the 2004 Plan Year
A. Number of Plan Participants as of Preceding January 1		
a. Retirees and beneficiaries receiving benefits	742	740
b. Terminated plan participants entitled to but not yet receiving benefits	0	0
c. Active plan participants	878	853
d. Total	1,620	1,593
B. Development of Annual Required Contribution (ARC) *		
a. Employer normal cost:		
i. Total normal cost (EOY)	\$9,137	\$12,685
ii. Expected employee contribution	(\$2,844)	(\$2,943)
iii. Employer normal cost	\$6,293	\$9,742
b. Amortization of UAAL:		
i. PV of future benefits	\$448,459	\$510,133
ii. PV of future employer normal costs	(\$50,627)	(\$72,437)
iii. PV of future employee contributions	(\$27,541)	(\$24,505)
iv. Actuarial accrued liability (AAL)	\$370,291	\$413,191
v. Actuarial value of assets	(\$326,620)	(\$320,193)
vi. Unfunded AAL (UAAL)	\$43,671	\$92,998
vii. Amortization of UAAL	\$3,388	\$7,731
c. Amortization of NPO	\$0	\$0
d. ARC	\$9,681	\$17,473
(Item B.a.iii. plus item B.b.vii. plus item B.c.)		
C. Annual Pension Cost and Net Pension Obligation (NPO) *		
a. ARC	\$9,681	\$17,473
b. Interest on NPO	\$0	\$0
c. Adjustment to ARC	\$0	\$0
d. Annual Pension Cost	\$9,681	\$17,473
e. Contributions made (w/interest to EOY)	(\$9,681)	(\$17,473)
f. Increase(decrease) in NPO	\$0	\$0
g. NPO (beginning of year)	\$0	\$0
h. NPO (end of year)	\$0	\$0

* dollar amounts are shown in 000's

D. Schedule of Employer Contributions **

Year Ended December 31	Annual Pension Cost	Percentage Contributed
1999	\$9,066	100%
2000	\$10,616	100%
2001	\$9,438	100%
2002	\$8,943	100%
2003	\$9,681	100%
2004	\$17,473	100%

E. Schedule of Funding Progress **

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded AAL (UAAL) (2) - (1)	(4) Funded Ratio (1) ÷ (2)	(5) Covered Payroll	(6) UAAL as % of Covered Payroll (3) ÷ (5)
1/1/1998	\$223,575	\$297,349	\$73,774	75.2%	\$27,552	267.8%
1/1/2000	\$289,054	\$322,370	\$33,316	89.7%	\$35,367	94.2%
1/1/2002	\$326,620	\$370,291	\$43,671	88.2%	\$36,803	118.7%
1/1/2003	\$320,193	\$413,191	\$92,998	77.5%	\$38,335	242.6%

F. Additional Information

Valuation date	<u>January 1, 2002</u>	<u>January 1, 2003</u>
Actuarial cost method	Individual entry age	Individual entry age
Amortization method	Level percent closed	Level percent closed
Remaining amortization period	40 years from 1/1/1979	40 years from 1/1/1979
Asset valuation method	Five-year smoothed market	Five-year smoothed market
Actuarial assumptions:		
Investment rate of return *	8.00%	8.00%
Projected salary increases *	Ranges from 5.00% to 10.50%	Ranges from 5.00% to 10.50%
* Includes inflation at:	5.00%	5.00%
Cost-of-living adjustments	3.00%	3.00%

** dollar amounts are shown in 000's.

PRESENT VALUE OF ACCRUED BENEFITS

TABLE V

1. Actuarial Present Value of Accrued Benefits

	As of January 1, 2002	As of January 1, 2003
a. Vested Benefits:		
i. Participants currently receiving benefits	\$210,903	\$212,344
ii. Other participants	\$81,296	\$116,095
iii. Sub-total	\$292,199	\$328,439
b. Non-Vested Benefits	\$18,008	\$6,301
c. Total Benefits	<u>\$310,207</u>	<u>\$334,740</u>
d. Market Value of Assets	\$307,689	\$283,481
e. Funded Ratio	99.19%	84.69%

2. Statement of Change in Actuarial Present Value of Accrued Benefits

a. Actuarial Present Value as of January 1, 2002	\$310,207
b. Increase (Decrease) During 2002 Plan Year Due to:	
i. Interest	\$24,817
ii. Benefits accumulated	\$17,234
iii. Benefits paid	(\$17,518)
iv. Plan amendments	\$0
v. Changes in actuarial assumptions or methods	\$0
vi. Net increase (decrease)	<u>\$24,533</u>
c. Actuarial Present Value as of January 1, 2003	\$334,740

3. Items Affecting Calculation of Actuarial Present Value of Accrued Benefits

- a. Plan provisions reflected in the accrued benefits (see Table XIV on page 18)
- b. Actuarial assumptions and methods used to determine present values (see Table XIII on page 16)

SUMMARY OF ASSETS

TABLE VI

	<u>As of January 1, 2002</u>	<u>As of January 1, 2003</u>
1. Market Value of Assets (in 000's)		
a. Cash and cash equivalents (11%)	\$5,564	\$30,293
b. Government bonds & notes (16%)	\$30,328	\$46,447
c. Corporate bonds (16%)	\$47,910	\$46,528
d. Equities (38%)	\$152,872	\$106,328
e. Repurchase agreements (0%)	\$17,490	\$0
f. Real estate (0%)	\$0	\$0
g. Mortgages (19%)	\$53,724	\$55,039
h. Accrued income receivable (1%)	\$0	\$1,491
i. Contributions receivable (0%)	\$62	\$121
j. Other assets (0%)	\$0	\$946
k. Benefits and accounts payable (-1%)	(\$170)	(\$3,591)
l. Other liabilities (0%)	(\$91)	(\$121)
m. Market value of assets	\$307,689	\$283,481

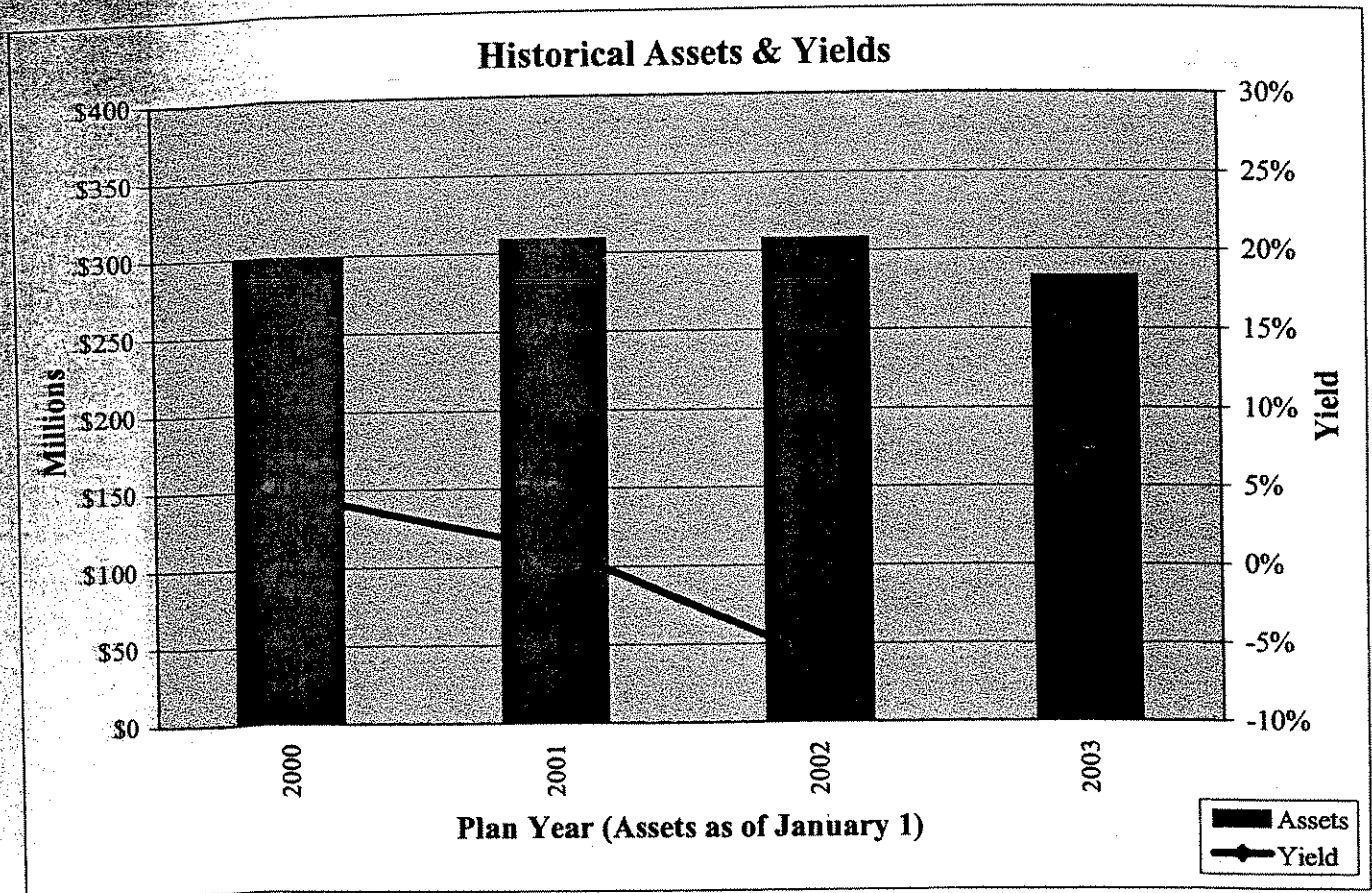
2. Actuarial Value of Assets (in 000's)

a. Market value of assets	\$307,689	\$283,481
b. Five-year phase-in of unrealized investment appreciation:		
i. 1998	*	x 20% =
ii. 1999	*	x 40% = (\$664)
iii. 2000	(\$470)	x 60% = (\$282)
iv. 2001	\$24,846	x 80% = \$19,877
v. 2002	\$27,490	x 80% = \$21,992
vi. Total unrecognized losses(gains)	\$18,931	\$36,712
c. Actuarial Value of Assets	\$326,620	\$320,193
(Item a. plus item b., but within an 80-120% corridor of item a.)		

* unavailable

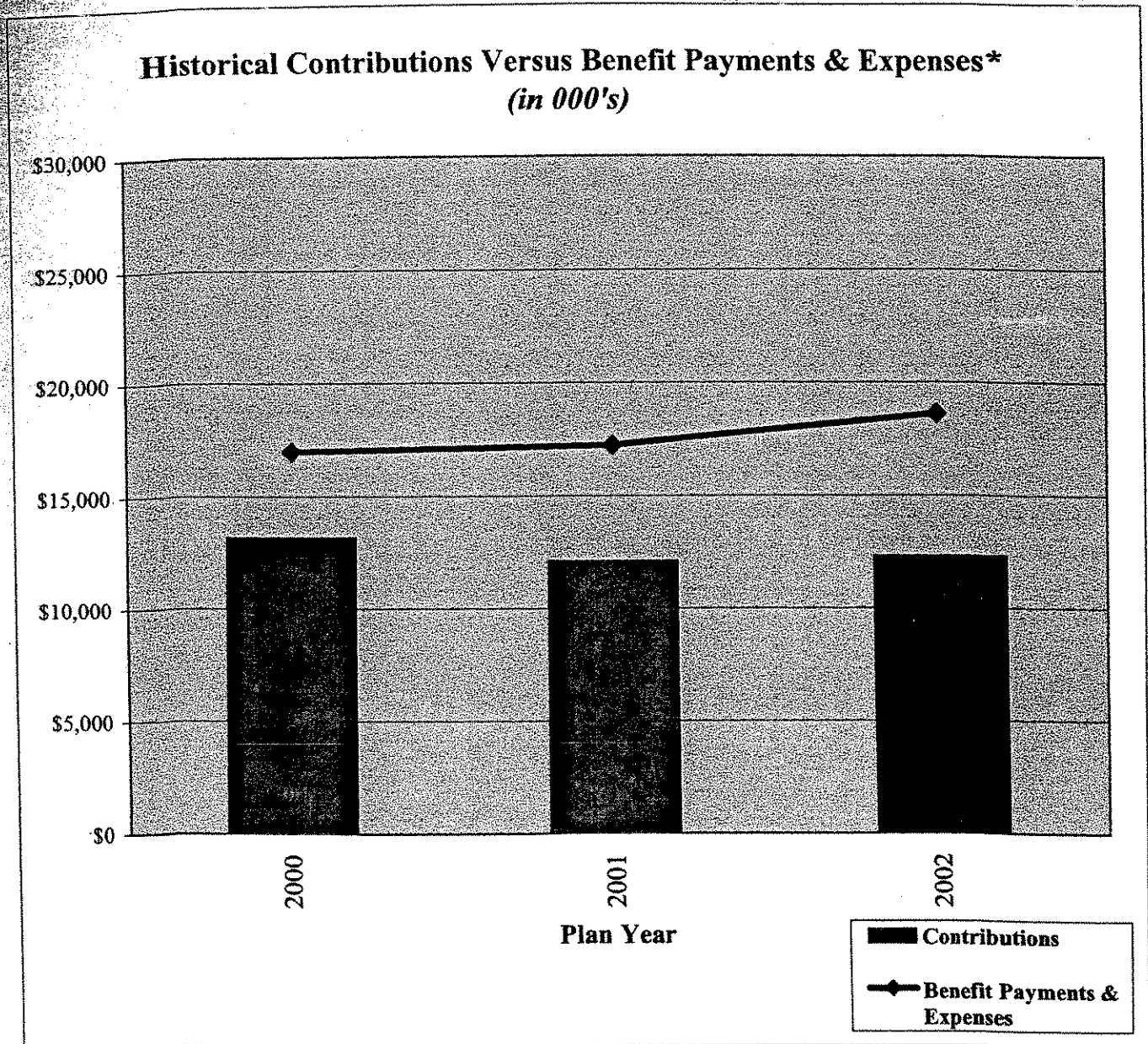
Note:

The percentages in parentheses indicate the proportion of assets committed to each type of investment as of January 1, 2003.



Plan Year	Market Value as of January 1	Actuarial Value as of January 1	Benefit Payments	Expenses	Contributions	Market Value Yield	Actuarial Value Yield
2000	\$298,815	\$289,054	\$16,432	\$523	\$13,157	4.74%	7.86%
2001	\$309,105		\$16,771	\$462	\$12,117	1.21%	7.86%
2002	\$307,689	\$326,620	\$17,518	\$1,088	\$12,314	-5.88%	-0.04%
2003	\$283,481	\$320,193					

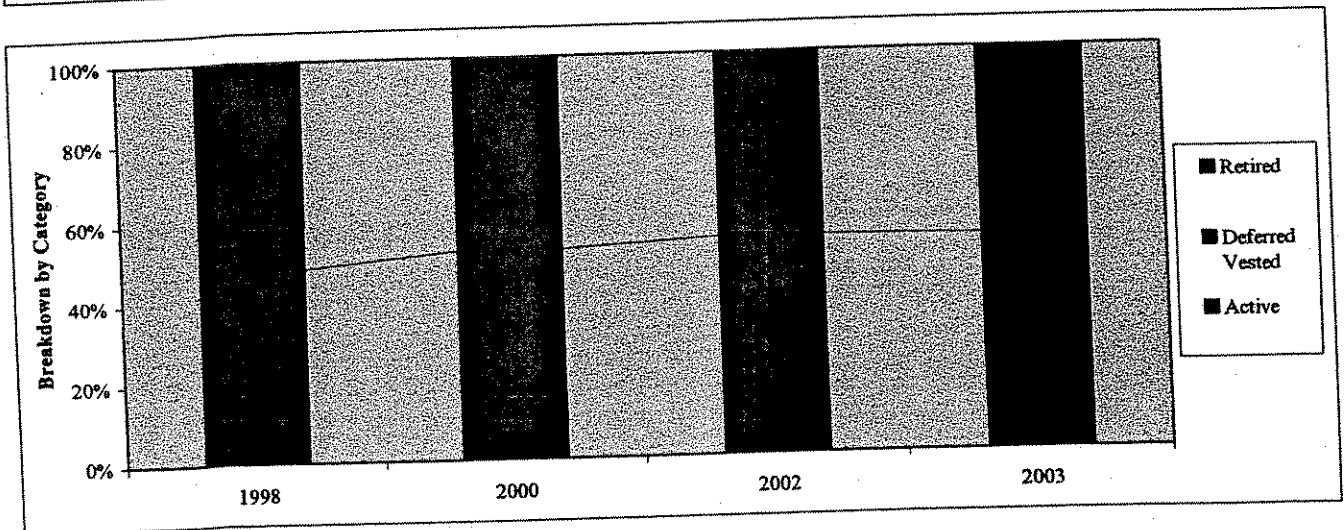
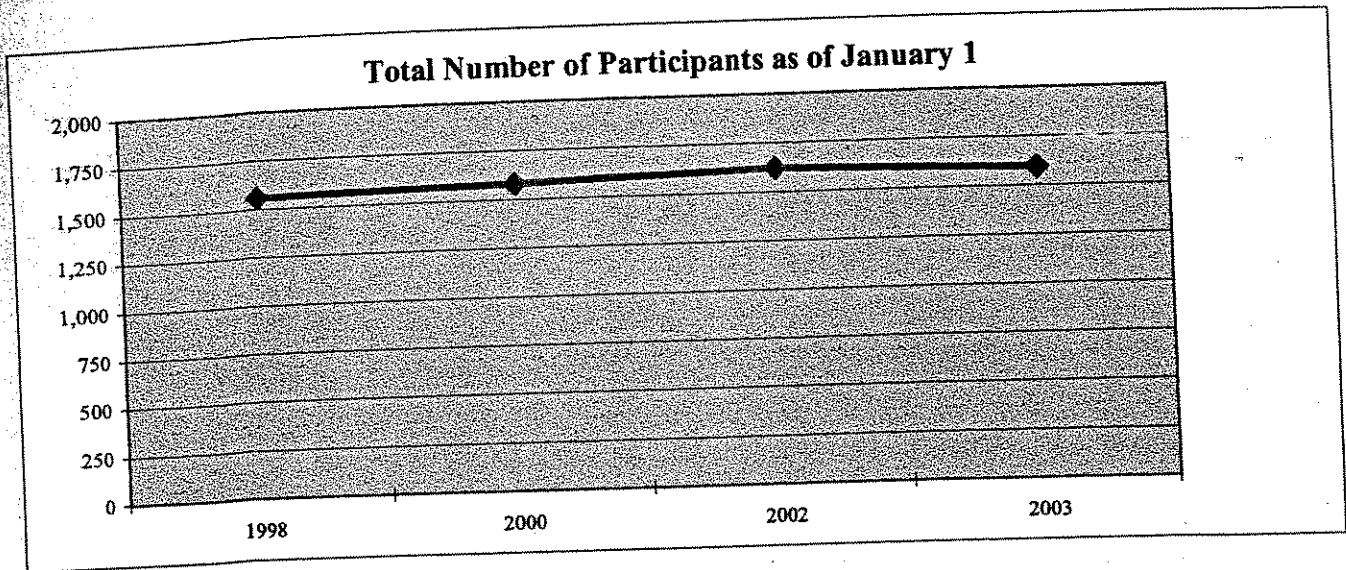
* all dollar amounts are shown in 000's



* Please reference Table VII on page 10 for the historical benefit payments, expenses, and contributions.

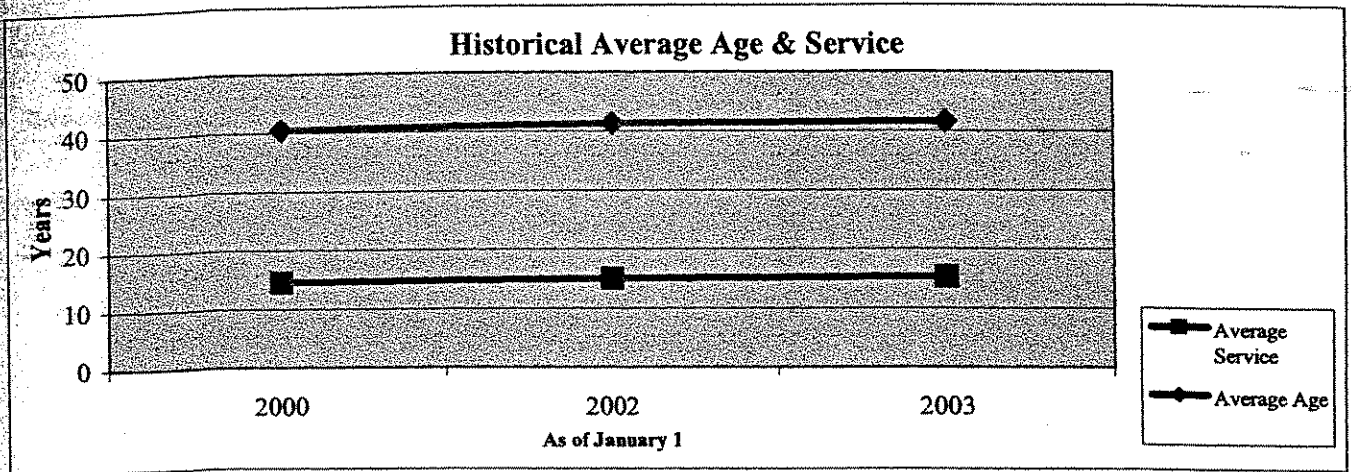
SUMMARY OF PARTICIPANT DATA

TABLE IX

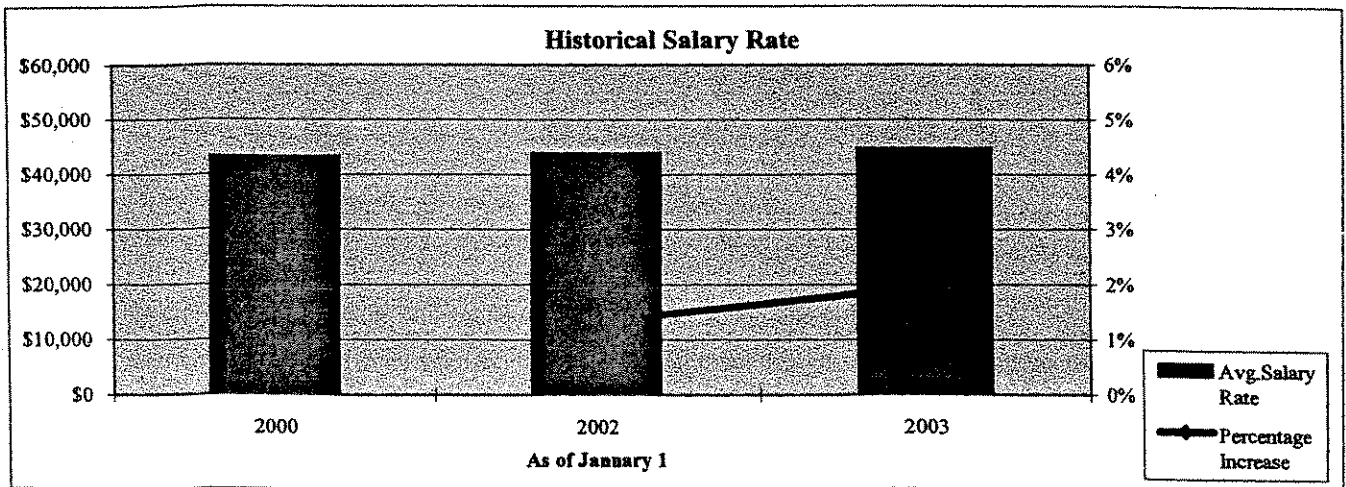


	As of January 1, 2002	As of January 1, 2003
1. Active Participants		
a. Fully Vested	459	458
b. Partially Vested	283	246
c. Non-Vested	136	149
d. Sub-total	878	853
	0	0
2. Deferred Vested Participants		
3. Retired Participants		
a. Service Retirement	*	382
b. Disability Retirement	*	157
c. Beneficiaries	*	201
d. Sub-total	742	740
4. Total Participants	1,620	1,593

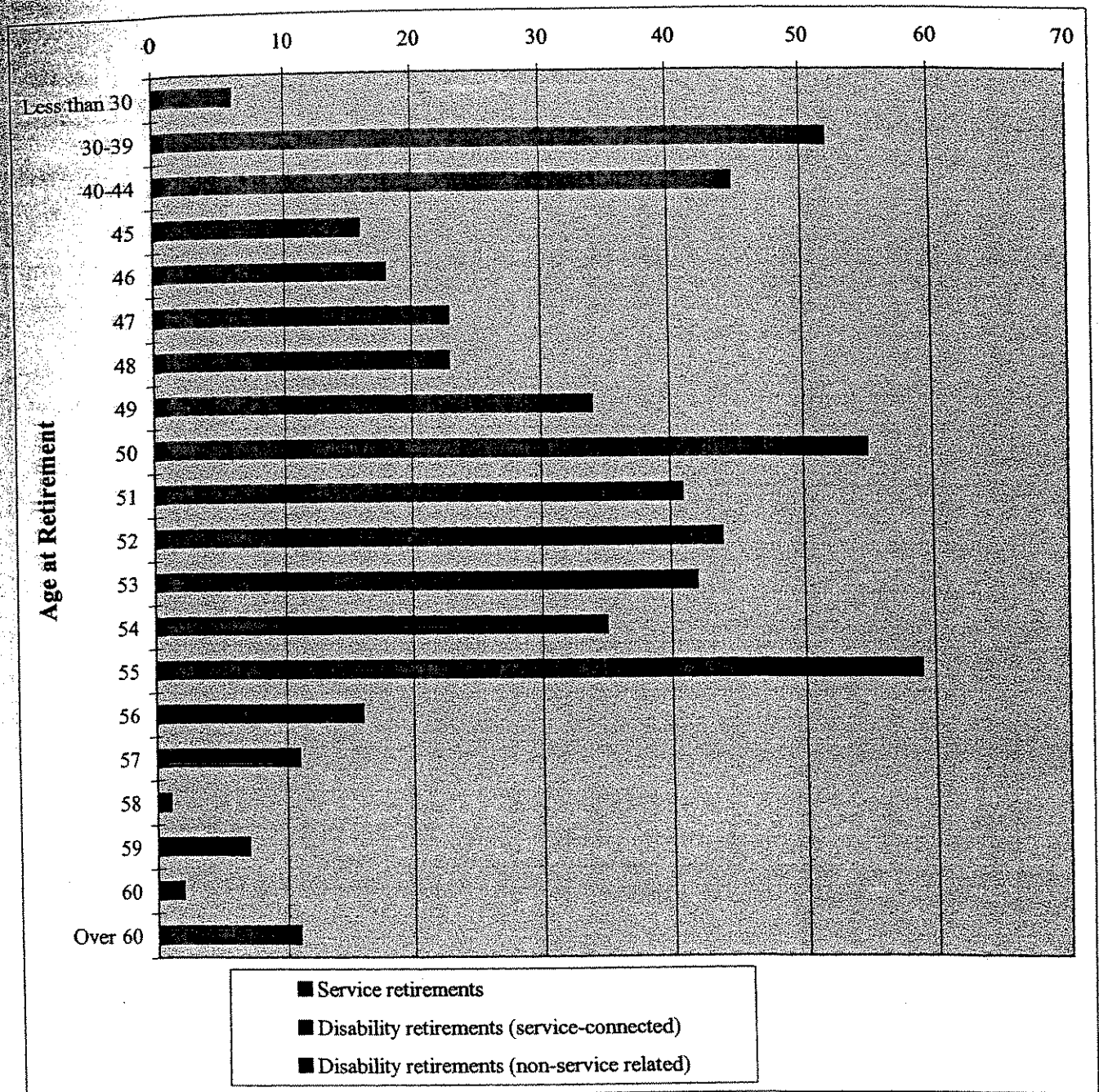
* not provided by the prior actuary



Date	Average Service Earned	Average Attained Age	Date	Average Service Earned	Average Attained Age
1/1/2000	14.5	40.5	1/1/2003	15.3	41.6
1/1/2002	15.0	41.3			



Date	Average Salary Rate	Increase from Prior Year	Date	Average Salary Rate	Increase from Prior Year
1/1/2000	\$43,395	-	1/1/2003	\$44,828	1.95%
1/1/2002	\$43,970	1.33%			



Note: Results are based on retiree data as of January 1, 2003.

Average benefit being paid to members on service retirement is \$2,488.68 per month.

Average benefit being paid to members on disability retirement is \$2,204.17 per month.

Average benefit being paid to beneficiaries is \$1,021.31 per month.

AGE-SERVICE-SALARY TABLE

TABLE XII

Attained Age	Completed Years of Service										Total	
	Under 1	1 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	35 to 39	40 & up		
Under 25	4	16	0	0	0	0	0	0	0	0	0	20
Avg. Pay	26,571	29,591	0	0	0	0	0	0	0	0	0	28,987
25 to 29	1	48	4	0	0	0	0	0	0	0	0	53
Avg. Pay	27,034	31,591	36,564	0	0	0	0	0	0	0	0	31,880
30 to 34	6	45	40	31	0	0	0	0	0	0	0	122
Avg. Pay	26,841	31,671	38,839	43,469	0	0	0	0	0	0	0	36,781
35 to 39	1	21	38	56	47	3	0	0	0	0	0	166
Avg. Pay	54,666	31,785	37,484	43,782	46,346	52,065	0	0	0	0	0	41,764
40 to 44	0	5	12	33	50	64	1	0	0	0	0	165
Avg. Pay	0	34,812	40,112	46,276	48,304	49,797	46,298	0	0	0	0	47,461
45 to 49	0	2	9	20	34	106	9	0	0	0	0	180
Avg. Pay	0	18,932	38,899	44,498	48,664	50,826	50,422	0	0	0	0	48,744
50 to 54	0	0	1	2	7	61	33	20	3	0	0	127
Avg. Pay	0	0	40,637	52,052	52,715	51,603	55,543	61,858	52,449	0	0	54,244
55 to 59	0	0	0	0	2	5	5	4	2	0	0	18
Avg. Pay	0	0	0	0	47,595	52,268	59,482	52,005	52,663	0	0	53,738
60 to 64	0	0	0	0	0	2	0	0	0	0	0	2
Avg. Pay	0	0	0	0	0	43,717	0	0	0	0	0	43,717
65 to 69	0	0	0	0	0	0	0	0	0	0	0	0
Avg. Pay	0	0	0	0	0	0	0	0	0	0	0	0
70 & up	0	0	0	0	0	0	0	0	0	0	0	0
Avg. Pay	0	0	0	0	0	0	0	0	0	0	0	0
Total	12	137	104	142	140	241	48	24	5	0	0	853
Avg. Pay	29,086	31,346	38,426	44,511	47,945	50,736	54,801	60,216	52,535	0	0	44,828

- 1. **Actuarial Cost Method**
Individual Entry Age Normal Cost Method

2. **Decrements**

- **Mortality**

Sex-distinct mortality rates set forth in the 1971 Group Annuity Mortality Table, set back three years

- **Disability**

Sex-distinct disability rates derived from the 1974 study of disability experience under the Social Security system; 67% of disabilities are assumed to be service-connected. A sample of disability rates is set forth in the following tables:

Male Rates

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	0.120%	30	0.190%	40	0.396%	50	1.044%
25	0.149%	35	0.264%	45	0.616%	55	1.818%

Female Rates

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	0.060%	30	0.154%	40	0.382%	50	0.914%
25	0.089%	35	0.262%	45	0.580%	55	1.532%

- **Permanent Withdrawal from Active Status**

Withdrawal rates were derived from a study of actual plan experience covering the period 1982 through 1986. A sample of withdrawal rates is set forth in the following table:

Age	Rate	Age	Rate	Age	Rate	Age	Rate
20	5.454%	30	3.615%	40	1.804%	50	1.210%
25	4.218%	35	2.866%	45	1.313%	55	0.000%

- **Retirement**

Retirement is assumed to occur in accordance with the rates set forth in the following table:

Age	Rate	Age	Rate	Age	Rate	Age	Rate
45	3%	49	3%	53	20%	57	10%
46	3%	50	3%	54	30%	58	10%
47	3%	51	10%	55	50%	59	10%
48	3%	52	15%	56	50%	60	100%

3. Interest Rate

- **Used for Calculating All Liabilities (including GASB 25/27 liabilities)**
8.00% per annum

4. Cost-of-Living Adjustment for Retirement Benefits

For purposes of determining the annual cost-of-living adjustment for retirees, the Consumer Price Index is assumed to increase at the rate of 3.00% per year.

5. Salary Increases

Assumed rates of salary increase were developed from past experience and include an adjustment for expected future inflation. A sample of salary increase rates is set forth in the following table:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	10.500%	30	9.583%	40	7.750%	50	5.917%
25	10.500%	35	8.667%	45	6.833%	55	5.000%

6. Payroll Increase

Total payroll has been assumed to grow at the rate of 5.00% per year for purposes of amortizing the unfunded actuarial accrued liability as a level percentage of payroll.

7. Surviving Beneficiaries

Those active participants who are making the additional 1% employee contribution to provide a survivor benefit to their eligible beneficiaries are assumed to have only one surviving beneficiary of the opposite sex of the employee. Males are assumed to be three years older than females for this purpose.

8. Expenses

All costs and liabilities have been loaded by 1.00% to cover anticipated administrative expenses. In addition, the interest rate set forth in item 3. above is assumed to be net of investment expenses and commissions.

9. Assets

The actuarial value of assets is equal to the market value of assets adjusted to reflect a five-year phase-in of the net investment appreciation (or depreciation).

1. Monthly Accrued Benefit

2% of Average Monthly Earnings multiplied by Creditable Service earned through February 28, 2001 plus 3% of Average Monthly Earnings multiplied by Creditable Service earned thereafter

2. Normal Retirement Age and Benefit

- **Age**
Age 55 with at least 15 years of Creditable Service
- **Amount**
Monthly Accrued Benefit
- **Form of Payment**
Life annuity (for those participants without a beneficiary); or
75% joint and contingent annuity (for those participants with a beneficiary)

Note: All annuity forms of payment include an automatic cost-of-living adjustment effective each January 1 based on the increase in the Consumer Price Index as of the preceding November 1 and limited to 3%, and include a minimum payout equal to the employee's accumulated contributions.

3. Early Retirement Age and Benefit

- **Age**
At least 15 years of Creditable Service
- **Amount**
Monthly Accrued Benefit (payable at age 55); or
Monthly Accrued Benefit reduced by ½% for each of the first 60 months and by ¼% for each additional month by which the participant's Early Retirement Age precedes age 55 (payable at Early Retirement Age)
- **Form of Payment**
Same as for Normal Retirement

4. Delayed Retirement Age and Benefit

- **Age**
After Normal Retirement Age
- **Amount**
Monthly Accrued Benefit
- **Form of Payment**
Same as for Normal Retirement

5. Disability Retirement Eligibility and Benefit

- **Eligibility**

All active participants are eligible if the disability is service-connected; At least five years of Creditable Service is required otherwise.

- **Condition**

The participant must become "totally and permanently disabled" and must remain so disabled until age 55. "Totally and permanently disabled" means the participant is in a continuous state of incapacity due to illness or injury, is prevented from performing his regular assigned or comparable duties during the first months of his disability, and is thereafter prevented from engaging in any occupation for which he is or becomes reasonably qualified by education, training, or experience.

- **Amount**

Greater of 50% of Average Monthly Earnings at the time of disability or Monthly Accrued Benefit, offset by worker's compensation payments such that the combination of payments does not exceed 75% of the participant's salary at the time of disability (payable until the earlier of recovery from disability or age 55); and

Monthly Accrued Benefit based on Average Monthly Earnings at the time of disability and Creditable Service including the period during which the participant was disabled (payable at age 55)

- **Form of Payment**

Same as for Normal Retirement

6. Deferred Vested Benefit

- **Age**

Any age with at least five years of Creditable Service

- **Amount**

Monthly Accrued Benefit multiplied by the participant's Vested Percentage and payable at age 60

- **Form of Payment**

Same as for Normal Retirement

7. Pre-Retirement Death Benefit

In the case of the death of an active or deferred vested participant (or disabled participant prior to age 55), his beneficiary(ies) will receive 75% of the monthly benefit to which the participant would have been entitled had he retired on the day before his death (or 75% of the amount the disabled participant was receiving at the time of his death). The death benefit is payable for the remaining lifetime of the participant's eligible spouse (or to his minor children until age 18). In the case of a disabled participant, the death benefit is limited to 60% of the participant's salary at the time of disability.

8. Vested Percentage

Retirement benefits become vested in accordance with the following schedule:

Years of Creditable Service	Vested Percentage
Less than five	0%
At least five, but less than six	25%
At least six, but less than seven	30%
At least seven, but less than eight	35%
At least eight, but less than nine	40%
At least nine, but less than 10	45%
At least 10, but less than 11	50%
At least 11, but less than 12	60%
At least 12, but less than 13	70%
At least 13, but less than 14	80%
At least 14, but less than 15	90%
At least 15	100%

9. Average Monthly Earnings

Average of the participant's monthly Salary for the highest three consecutive years during his period of Creditable Service

10. Salary

The employee's basic salary excluding overtime pay, but including accumulated vacation pay, sick leave bonus pay, and other similar compensation; pursuant to IRC section 401(a)(17), annual Salary is limited to \$200,000 as indexed.

11. Employee Contribution

All participating employees must make the required contribution to the plan. The required contribution is 7% of basic salary for those participants who have an eligible beneficiary for death benefits and 6% of basic salary for all other participants.

12. Creditable Service

Participants receive Creditable Service for all periods of employment with the City of Atlanta provided that the employee has made the required contribution for such period of service.

PLAN PROVISIONS

TABLE XI

(continued)

13. Participation Requirement

All full-time firefighters employed by the City of Atlanta are eligible to participate in the plan.

14. Plan Effective Date

April 1, 1978

EXHIBIT D

May 5, 2004

Some Cities Struggling to Keep Pension Promises

By MARY WILLIAMS WALSH

A few years ago, the city of Houston decided to sweeten its workers' retirement benefits. Along with their traditional pensions, city workers nearing retirement were offered special accounts, fed with money from the city pension fund. Although the accounts would pay generous returns, a study showed that the cost to the city would be modest.

What seemed a good idea then now looks ruinous. Hundreds of older workers will qualify for million-dollar payouts at retirement from these accounts. When their monthly pension checks start coming, some will actually have higher incomes than they did when they were working.

The city pension fund cannot support the payouts and has about \$1.5 billion less than the benefits it owes the work force. The district attorney is looking into possible wrongdoing. City voters will go to the polls on May 15 to decide whether Houston should opt out of a Texas constitutional requirement that all pension promises be kept.

The people of Houston may not know it, but they have plenty of company. Similar pension sweeteners have backfired in Philadelphia, San Diego and Milwaukee. Prosecutors have been investigating the pension plans in each of these cities, though charges have been brought only in Milwaukee, accusing one official of misrepresenting the cost. Still these benefits plans are being promoted to other city officials across the country.

At the heart of the matter is a type of pension benefit that has generally been shunned by corporations but embraced by state and local governments. Known as a DROP, for deferred retirement option program, the strategy has been hailed as a way to keep hard-to-replace teachers, engineers and other public workers on the job as they near retirement.

Advocates say the plans allow workers to get big one-time checks when they retire, at potentially no additional cost. In practical terms, though, DROP's have been abused again and again by naïve or self-interested officials, who have pumped up benefits well beyond what the rank and file expected or what the pension fund could pay. Records show that some of these officials set up rich programs to coincide with their own retirements.

"The administration thought this was a good way to reward the employees," said Houston's human resources director, Lonnie G. Vara, who did not design the sweeteners but now has the job of explaining them. Houston, like many cities, he said, offered big pensions to make up for paying its workers less than they could earn in the private sector. Mr. Vara, with 30 years' service, stands to get a \$1.5 million check from the program when he turns 60 in seven years. In addition, he will receive monthly pension checks totaling about \$110,000 a year, according to an actuary hired by Houston.

Two years ago, San Diego offered individual pension accounts, after promising a cost study that was never done, according to a trustee of the pension fund, Diann Shipione. Some people there, too, stand to earn more by retiring than by working, and the city pension fund has a \$1.1 billion shortfall.

Philadelphia tested the supplementary pension accounts in 1999, saying it would review the program after four years to see whether it was affordable. Last year, the mayor said the benefits were draining the pension fund and had to be abolished. But city pension trustees made them permanent.

In Milwaukee County, residents were so angry to learn that supplementary pension accounts would turn some officials into millionaires that they held a recall election and voted seven county supervisors out of office. The county executive and two of his aides resigned under fire, and another official was prosecuted for misrepresenting the benefits' costs. Other criminal charges may be in the works, and several civil lawsuits are pending.

"When I first saw a DROP I said, 'Oh my God, who came up with that?' " said Sean F. McShea, a managing director at Ryan Labs, an asset-management firm in New York that deals extensively with public pension plans. "Everyone believes it's a free lunch."

In 1982, a handful of police and firefighters in Baton Rouge, La., came up with the idea of tapping their pension fund before they retired, and using the money to create individual escrow accounts. Their pension plan, like most traditional plans, paid their benefits as a stream of monthly checks, called an annuity.

Working with an actuary, they figured out that if they turned down the longevity raises they were entitled to just before retirement, their pension fund could use that money to set up individual accounts. In other words, they could get two benefits for the price of one.

As the stock market boomed in the late 1990's, the idea caught fire, spreading from firefighters and police departments to teachers, judges and all sorts of public workers. The idea of giving up something in exchange faded away.

Today, the basic concept works this way: When an employee becomes eligible to retire, he instead opens an escrow account, and then keeps on working at normal pay. His pension benefit stops growing, just as if he had retired. The pension fund starts sending monthly checks to his escrow account. The escrow money earns interest, and when the employee finally does retire, he gets a lump sum. He also starts receiving his monthly pension checks, which are based on his benefits before the escrow accounts were created.

Pension specialists have created all sorts of variations on the DROP — the "drip," the "plop," the "backdrop," and so on, allowing workers to come in out of the plans, for example. Financial-services companies began teaching pension officials how to set up the programs at conferences.

In 2002, the money-management and record-keeping firms that sponsor Guns and Hoses, a yearly party for fire and police pension officials, urged delegates to send in the details of their escrow accounts, for compilation in a catalog. Every delegate got a copy to take home, for use in negotiating better benefits. The sponsors got the data.

Speakers at these pension conferences usually state that the accounts can be "cost neutral," but warn local officials not to sweeten the benefits too much.

But when stock prices were booming, that caveat did not always register. Many pension officials assumed they could pack their programs with extras, and if it all cost too much, investment returns would make up the difference. Only later, when markets soured, did the magnitude of what they had promised become apparent.

"In my experience, the majority of DROP's have not been cost-neutral," said Joseph Esuchanko, the actuary hired by Houston to help it cope with its pension morass. Most of the programs were made too rich, he said. "That's definitely true in Houston. They've got this fantastic benefits formula."

For example, Houston's pension trustees decided the escrow accounts should pay a guaranteed annual interest rate of 8.5 percent — even more in years when the pension fund's investments did very well. In today's low interest rate environment, this has turned out to be a bonanza for the workers. Houston offered other sweeteners as well.

Other cities have made their own mistakes. Milwaukee County's pension officials guaranteed 9 percent returns on their escrow accounts, and took other steps to enlarge both the lump sums and the monthly annuity checks. They placed no limits on how long the accounts could stay open, for example, allowing them to compound into jackpots.

In October 2001, milwaukeeworld.com, a local news site, described how elected officials were qualifying for million-dollar retirement payouts. Existing retirees, who were ineligible for the new benefits, were outraged. They feared the big payments would suck money out of the pension fund, putting their own, smaller benefits at risk.

County officials said they did not know how the big payouts came to be. But then state law enforcement agents seized documents from the office of the county personnel director, Gary Dobbert. They showed that he had traveled to at least six pension conferences, at Pebble Beach, Calif.; Lake Tahoe, Nev.; and other resorts, learning how to create supplementary pension accounts. His notes, included in court documents, show that the speakers stressed the need to design the programs frugally.

The court documents also show that back in Milwaukee, at least some officials were contemplating their own retirements as they put Mr. Dobbert's findings into practice. There were, for example, handwritten projections of how new benefit setups would affect the retirement of the county executive, F. Thomas Ament, depending on when he retired and other circumstances. One projection showed that if new benefits were put in place and Mr. Ament worked until 2008, he could receive an annual pension payout of about \$35,000 more than his yearly pay. He also stood to get a seven-figure one-time payout in some projections.

John D. Finerty, a lawyer for Mr. Ament, said that it was normal for public officials to check the effect of pension changes on their own benefits, and that Mr. Ament had not intended to withdraw the maximum. Mr. Ament stepped down in 2002 and did not earn the payout in any case.

Mr. Dobbert's lawyer, Craig W. Albee, said that Mr. Dobbert had designed large pension benefits because he anticipated a tough round of union negotiations and could not raise wages without overwhelming the county budget.

In March, Mr. Dobbert pleaded no contest to one felony count of misconduct in public office and two misdemeanor counts, stemming from stating in a memo to other county officials that the escrow accounts could be added onto the pension plan at no additional cost. A judge fined him \$11,000 and imposed a 60-day sentence, which he has already served, at a work-release center in downtown Milwaukee. He elected not to take his lump sum.

In Houston, it is not yet clear how the retirement account program came to be so generous. The City Council has asked the executive director of the pension fund, David L. Long, to appear and answer questions, but he has refused. Now the Council is trying to determine whether it can subpoena him.

Towers Perrin, the actuary for the pension fund, has issued a statement saying it is not to blame, even though it underestimated how many people would opt for the program. The statement pointed out that cost projections are often wide of the mark, "because those costs ultimately depend on a number of factors that cannot be predicted in advance." The statement also noted that even though the city had been informed that these were very optimistic projections, it went ahead anyway.

Charles A. Rosenthal Jr., the district attorney for surrounding Harris County, declined to discuss his inquiry, saying he was still gathering data and had not drawn any conclusions. But he noted that after the new benefits were approved, the pension fund's board was reconfigured to remove three trustees who had represented the city and its taxpayers.

"All the members of the board at this time stand to benefit from increases in the pension plan," he said.

In addition, the Legislature approved a constitutional amendment barring cities in Texas from reducing pensions. It was made law in 2003. The amendment includes a provision giving municipalities one chance to decide, in a referendum, whether to opt out. Houston will decide this at the polls on May 15.

Despite the uproar, Mr. Esuchanko said the DROP concept and its promise were still being promoted elsewhere. He went to an actuarial conference in March, he said, just as the scandal was breaking in Houston. The supplemental plans were discussed and the discussion of costs "probably took about five minutes," he said. No one mentioned the places where costs had exploded.