Segal Consulting

Sacramento County Employees' Retirement System

Governmental Accounting Standards Board Statement 67 (GASBS 67) Actuarial Valuation as of June 30, 2014

This report has been prepared at the request of the Board of Retirement to assist in administering the Fund. This valuation report may not otherwise be copied or reproduced in any form without the consent of the Board of Retirement and may only be provided to other parties in its entirety. The measurements shown in this actuarial valuation may not be applicable for other purposes.

THE SEGAL GROUP
Founded in 1939

Segal Consulting
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

November 24, 2014

Board of Retirement
Sacramento County Employees' Retirement System
980 9th Street, Suite 1900
Sacramento, CA 95814

Dear Board Members:

We are pleased to submit this Governmental Accounting Standards Board Statement 67 (GASBS 67) Actuarial Valuation as of June 30, 2014. It contains various information that will need to be disclosed in order to comply with GASBS 67.

This report was prepared in accordance with generally accepted actuarial principles and practices at the request of the Board to assist in administering the Retirement System. The census and financial information on which our calculations were based was provided by the Retirement System. That assistance is gratefully acknowledged.

The measurements shown in this actuarial valuation may not be applicable for other purposes. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period); and changes in plan provisions or applicable law.

The actuarial calculations were completed under the supervision of Andy Yeung, ASA, MAAA, Enrolled Actuary. We are members of the American Academy of Actuaries and we meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion herein. To the best of our knowledge, the information supplied in the actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board are reasonably related to the experience of and expectations for the Retirement System.

We look forward to reviewing this report with you and to answering any questions.

Sincerely,

Segal Consulting, a Member of The Segal Group, Inc.

By:

Paul Angelo, FSA, EA, MAAA, FCA	*Andy Yeung, ASA, EA, MAAA, FCA*
Senior Vice President and Actuary	*Vice President and Associate Actuary*

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SECTION 1

VALUATION SUMMARY

SECTION 2

GASBS 67 INFORMATION

Purpose

This report has been prepared by Segal Consulting to present certain disclosure information required by Governmental Accounting Standards Board Statement 67 (GASBS 67) as of June 30, 2014. This valuation is based on:

- The benefit provisions of the Retirement System, as administered by the Board;
- The characteristics of covered active members, terminated vested members, and retired members and beneficiaries as of June 30, 2014, provided by the Retirement System;
- The assets of the Plan as of June 30, 2014, provided by the Retirement System;
- Economic assumptions regarding future salary increases and investment earnings; and
- Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Significant Issues in Valuation Year

The following key findings were the result of this actuarial valuation:

- The Governmental Accounting Standards Board (GASB) approved two new Statements affecting the reporting of pension liabilities for accounting purposes. Statement 67 replaces Statement 25 and is for plan reporting. Statement 68 replaces Statement 27 and is for employer reporting. Statement 67 is effective with the fiscal year ending June 30, 2014 for Plan reporting and Statement 68 is effective with the fiscal year ending June 30, 2015 for employer reporting. The information contained in this valuation is intended to be used (along with other information) in order to comply with Statement 67.
- It is important to note that the new GASB rules only redefine pension liability and expense for financial reporting purposes, and do not apply to contribution amounts for pension funding purposes. Employers and plans can still develop and adopt funding policies under current practices.
- When measuring pension liability GASB uses the same actuarial cost method (Entry Age method) and the same type of discount rate (expected return on assets) as SCERS uses for funding. This means that the Total Pension Liability (TPL) measure for financial reporting shown in this report is determined on the same basis as SCERS' Actuarial Accrued Liability (AAL) measure for funding. We note that the same is generally true for the Normal Cost component of the annual plan cost for funding and financial reporting.

- The Net Pension Liability (NPL) is equal to the difference between the TPL and the Plan's Fiduciary Net Position. The Plan's Fiduciary Net Position is equal to the market value of assets and therefore, the NPL measure is very similar to an Unfunded Actuarial Accrued Liability (UAAL) on a market value basis. The NPL decreased from $1,423.0 million as of June 30, 2013 to $770.9 million as of June 30, 2014 primarily as a result of favorable investment results during 2013/2014 and actual individual salary increases less than expected by the actuarial assumptions. Changes in these values during the last two fiscal years ending June 30, 2013 and June 30, 2014 can be found in Exhibit 3.
- The NPL was measured as of June 30, 2014 and 2013 and determined based upon the results of the actuarial valuations as of June 30, 2014 and June 30, 2013, respectively.
- The discount rates used to determine the TPL and NPL as of June 30, 2014 and 2013 were 7.50% and 7.50%, respectively. However, there were changes in the other actuarial assumptions since the 2013 valuation and the financial impact of those changes has been reflected in the results for the 2014 valuation. The detailed calculations used in this derivation can be found in Exhibit 5 of Section 2. Various other information that is required to be disclosed can be found throughout Exhibits 1 through 4 in Section 2.
- The NPL includes a liability of $33.2 million that is attributable to members of the Library Authority, Air Quality and Florin Fire based on the latest estimates of the combined asset shortfall for these withdrawn employers.
- The Plan's Fiduciary Net Position includes $23.0 million that is available to offset a portion of the members' future COLA contribution rates. Since GASB does not allocate any of the NPL (in this case an asset of $23.0 million) to the employees, we have treated the amount as if it can be used to reduce the NPL of the employers. This treatment should be reviewed by SCERS with its auditors.

Summary of Key Valuation Results

	2014	2013
Disclosure elements for fiscal year ending June 30:		
Service cost	$192,701,338	$187,329,153
Total pension liability	8,580,928,000	8,210,980,000
Plan fiduciary net position	7,810,001,000	6,787,995,000
Net pension liability	770,927,000	1,422,985,000
Schedule of contributions for fiscal year ending June 30:		
Actuarially determined contributions	$210,503,324	$189,663,720
Actual contributions	$210,503,324	$189,663,720
Contribution deficiency (excess)	0	0
Demographic data for plan year ending June 30:		
Number of retired members and beneficiaries	10,049	9,634
Number of vested terminated members(1)	3,201	3,249
Number of active members	12,049	12,026
Key assumptions:		
Investment rate of return	7.50%	7.50%
Inflation rate	3.25%	3.25%
Projected salary increases(2)	4.50% - 11.50%, varying by service, including inflation	3.50% - 11.30%, varying by age, including inflation

(1) *Includes terminated members with member contributions on deposit.*

(2) *Includes inflation at 3.25% plus real across the board salary increase of 0.25% plus merit and promotional increases.*

EXHIBIT 1

General Information – "Financial Statements", Note Disclosures and Required Supplementary Information for a Cost-Sharing Pension Plan

Plan Description

Plan administration. The Sacramento County Employees' Retirement System (SCERS) was established by the County of Sacramento in 1941. SCERS is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.) SCERS is a cost-sharing multiple employer public employee retirement system whose main function is to provide service retirement, disability, death and survivor benefits to the Safety and Miscellaneous members employed by the County of Sacramento. SCERS also provides retirement benefits to the employee members of the Superior Court of California (County of Sacramento) and eleven Special Districts.

The management of SCERS is vested with the Sacramento County Board of Retirement. The Board consists of nine members and two alternates. The County Director of Finance is a member of the Board of Retirement by law. Four members are appointed by the Board of Supervisors, one of whom may be a County Supervisor. Two members are elected by the miscellaneous membership; one member and one alternate are elected by the safety membership, one member and one alternate are elected by the retired members of the System. All members of the Board of Retirement serve terms of three years except for the County Director of Finance whose term runs concurrent with her term as Director of Finance.

Plan membership. At June 30 2014, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	10,049
Vested terminated members entitled to but not yet receiving benefits	3,201
Active members	12,049
Total	25,299

Benefits provided. SCERS provides service retirement, disability, death and survivor benefits to eligible employees. All permanent full-time or part-time employees of the County of Sacramento or contracting district become members of SCERS upon employment. There are separate retirement plans for Safety and Miscellaneous member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain other classifications. There are four tiers applicable to Safety members. Those hired prior to January 1, 2012 are included in either Tier 1 or Tier 2 depending on date of hire and bargaining unit. Those hired after that date but prior to January 1, 2013 are included in Tier 3. Any new Safety member who becomes a member on or after January 1, 2013 is designated PEPRA Safety (Tier 4) and is subject to the provisions of California's Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197. All other employees are classified as Miscellaneous members. There are five tiers applicable to Miscellaneous members. Those hired prior to September 27, 1981 are included in Tier 1. Those hired after that date but prior to January 1, 2012 are included in Tier 2 or Tier 3 depending on date of hire and bargaining unit. County members hired after that date but prior to January 1, 2013 are included in Tier 4. New members hired on or after January 1, 2013 are designated as PEPRA Miscellaneous (Tier 5) and are subject to the provisions of California Government Code 7522 et seq. and AB 197.

Miscellaneous members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Miscellaneous members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

Safety members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 20 years of service is eligible to retire regardless of age. Safety members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 50, and have acquired five years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

Miscellaneous member benefits for Tier 1, Tier 2 and Tier 3 are calculated pursuant to the provisions of California Government Code Section 31676.14. Miscellaneous member benefits for Tier 4 are calculated pursuant to the provisions of California Government Code Section 31676.1. The monthly allowance is equal to 1/90th of the first $350 of final compensation, plus 1/60th of the excess final compensation times years of accrued retirement service credit times age factor from either Section 31676.14 (Tier 1, Tier 2 and Tier 3) or Section 31676.1 (Tier 4). Miscellaneous member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

Safety member benefits for Tier 1 and Tier 2 are calculated pursuant to the provisions of California Government Code Section 31664.1. Safety member benefits for Tier 3 are calculated pursuant to the provision of California Government Code Section 31664.2. The monthly allowance is equal to 2% of the first $350 of final compensation, plus 3% of the excess final compensation times years of accrued retirement service credit times age factor from either Section 31664.4 (Tier 1 and 2) or 31664.2 (Tier 3). Safety member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.25(d).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum for members with membership dates on or after January 1, 2013.

Final average compensation consists of the highest 12 consecutive months for a Tier 1 Safety or Tier 1 Miscellaneous member and the highest 36 consecutive months for a Tier 2, Tier 3, Tier 4 or Tier 5 member.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse. An eligible surviving spouse is one married to the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse or named beneficiary having an insurable interest in the life of the member.

SCERS provides an annual cost-of-living benefit to Safety Tier 1, Tier 2, Tier 3 and Tier 4 member retirees and Miscellaneous Tier 1, Tier 3, Tier 4 and Tier 5 member retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the San Francisco-Oakland-San Jose area, is capped at 4.0% for Tier 1 members and 2% for all other members eligible for a cost-of-living adjustment.

The County of Sacramento and contracting districts contribute to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from SCERS' actuary after the completion of the annual actuarial valuation. The average employer contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 25.00% of compensation.

All members are required to make contributions to SCERS regardless of the retirement plan or tier in which they are included. The average member contribution rate as of June 30, 2014 for 2013-2014 (based on the June 30, 2012 valuation) was 6.42% of compensation.

EXHIBIT 2

Net Pension Liability

The components of the net pension liability of the SCERS as follows:

	June 30, 2014	June 30, 2013
Total pension liability	$8,580,928,000	$8,210,980,000
Plan fiduciary net position	7,810,001,000	6,787,995,000
Association's net pension liability	$770,927,000	$1,422,985,000
Plan fiduciary net position as a percentage of the total pension liability	91.02%	82.67%

The net pension liability was measured as of June 30, 2014 and 2013 and determined based upon the total pension liability from actuarial valuations as of June 30, 2014 and 2013, respectively.

Actuarial assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	4.50% to 11.50%, varying by service, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation

Other assumptions. See analysis of actuarial experience study for the period July 1, 2010 through June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	22.50%	5.98%
International Equity	22.50%	7.23%
Fixed Income	20.00%	1.25%
Hedge Funds	10.00%	3.20%
Private Equity	10.00%	12.82%
Real Assets	15.00%	5.64%
Total	100.00%	

Discount rate: The discount rate used to measure the total pension liability was 7.50% as of June 30, 2014 and June 30, 2013, respectively. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate[1] and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2014 and June 30, 2013.

[1] *It is our understanding that based on new MOUs, some members will pay part of the normal cost contributions that we have assumed will be paid by the employer in the June 30, 2014 valuation. As this will only result in a shift in the total normal cost contribution between the employee and the employer, we do not believe that including such shift will result in a change in the projection of cash flow used in the development of the discount rate for GASB purposes.*

Sensitivity of the June 30, 2014 net pension liability to changes in the discount rate. The following presents the net pension liability of the SCERS as of June 30, 2014, calculated using the discount rate of 7.50%, as well as what the SCERS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCERS' net pension liability as of June 30, 2014	$1,920,085,000	$770,927,000	-$178,224,000

Sensitivity of the June 30, 2013 net pension liability to changes in the discount rate. The following presents the net pension liability of the SCERS as of June 30, 2013, calculated using the discount rate of 7.50%, as well as what the SCERS' net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
SCERS' net pension liability as of June 30, 2013	$2,529,384,000	$1,422,985,000	$507,863,000

EXHIBIT 3

Schedule of Changes in SCERS Net Pension Liability – Last Two Fiscal Years

	2014	2013
Total pension liability		
Service cost	$192,701,338	$187,329,153
Interest	617,240,350	589,782,649
Change of benefit terms	0	0
Differences between expected and actual experience	-108,154,688	-80,787,802
Changes of assumptions	15,781,000	0
Benefit payments, including refunds of employee contributions	-347,620,000	-323,567,000
Net change in total pension liability	$369,948,000	$372,757,000
Total pension liability – beginning	8,210,980,000	7,838,223,000
Total pension liability – ending (a)	$8,580,928,000	$8,210,980,000
Plan fiduciary net position		
Contributions – employer	$210,503,000	$189,664,000
Contributions – employee	57,635,000	68,242,000
Net investment income	1,107,153,000	785,449,000
Benefit payments, including refunds of employee contributions	-347,620,000	-323,567,000
Administrative expense	-5,665,000	-5,719,000
Other	0	0
Net change in plan fiduciary net position	$1,022,006,000	$714,069,000
Plan fiduciary net position – beginning	6,787,995,000	6,073,926,000
Plan fiduciary net position – ending (b)	$7,810,001,000	$6,787,995,000
Association's net pension liability – ending (a) – (b)	$770,927,000	$1,422,985,000
Plan fiduciary net position as a percentage of the total pension liability	91.02%	82.67%
Covered employee payroll	$858,343,000	$858,551,000
Plan net pension liability as percentage of covered employee payroll	89.82%	165.74%

Notes to Schedule:

Benefit changes: All members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (PEPRA).

EXHIBIT 4

Schedule of SCERS' Contributions – Last Ten Fiscal Years

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered-Employee Payroll[3]	Contributions as a Percentage of Covered Employee Payroll
2005	$529,618,069	$529,618,069[1]	$0	$786,921,000	13.93%
2006	154,052,000	132,708,000	21,344,000[2]	748,916,000	17.72%
2007	156,804,528	156,804,528	0	798,800,000	19.63%
2008	167,054,356	167,054,356	0	851,015,568	19.63%
2009	177,011,005	177,011,005	0	923,375,000	19.17%
2010	167,141,893	167,141,893	0	872,804,000	19.15%
2011	182,920,751	182,920,751	0	818,804,000	22.34%
2012	179,098,469	179,098,469	0	835,737,000	21.43%
2013	189,663,720	189,663,720	0	858,551,000	22.09%
2014	210,503,324	210,503,324	0	858,343,000	24.52%

See accompanying notes to this schedule on next page.

(1) *Includes proceeds from Pension Obligation Bonds.*

(2) *Caused by the phase-in of the employer rates adopted by the Board in the June 30, 2004 actuarial valuation.*

(3) *Payroll for the years ending 2005 through 2012 are calculated by dividing the contribution dollar amount by the contribution as a percentage of payroll.*

Notes to Exhibit 4

Methods and assumptions used to establish "actuarially determined contribution" rates:	
Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll (3.50% payroll growth assumed)
Remaining amortization period	21 years (declining) as of June 30, 2014 for the outstanding balance of the June 30, 2012 UAAL. The UAAL established as a result of the Early Retirement Incentive Program for LEMA members is amortized over a 10-year period, beginning June 30, 2010. Effective June 30, 2013, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 20-year closed period effective with each valuation. Any change in UAAL that arises due to plan amendments will be amortized over its own declining 15-year period and any change in UAAL due to retirement incentive programs will be amortized over a declining period of up to 5 years.
Asset valuation method	The market value of assets less unrecognized returns in each of the last six years. Unrecognized return is equal to the difference between actual and expected returns on a market value basis and is recognized over a seven-year period. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 30% of the market value of assets.
Actuarial assumptions:	
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Inflation rate	3.25%
Projected salary increases	4.50% - 11.50%, varying by service, including inflation
Cost of living adjustments	3.25% of Miscellaneous and Safety Tier 1 retirement income, 2.00% of Miscellaneous Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4 retirement income, and 0.00% of Miscellaneous Tier 2 retirement income.
Other assumptions	Same as those used in the June 30, 2014 funding actuarial valuation.
Other information:	All members with membership dates on or after January 1, 2013 enter the new tiers created by the California Public Employees' Pension Reform Act of 2013 (PEPRA).

EXHIBIT 5

Calculation of Discount Rate as of June 30, 2014 – Projection of Contributions

Year Beginning July 1,	Projected Beginning Plan Fiduciary Net Position (a)	Projected Total Contributions (b)	Projected Benefit Payments (c)	Projected Administrative Expenses (d)	Projected Investment Earnings (e)	Projected Ending Plan Fiduciary Net Position (f) = (a) + (b) - (c) - (d) + (e)
2014	$7,810	$267	$392	$6	$581	$8,261
2015	8,261	254	424	6	613	8,697
2016	8,697	245	453	6	644	9,126
2017	9,126	235	484	7	675	9,546
2018	9,546	223	516	7	705	9,950
2019	9,950	213	550	7	733	10,340
2020	10,340	202	584	7	761	10,712
2021	10,712	198	620	7	787	11,069
2022	11,069	193	656	8	813	11,412
2023	11,412	189	693	8	837	11,736
2039	13,427	26	1,149	14	964	13,255
2040	13,255	22	1,156	14	951	13,058
2041	13,058	19	1,160	15	936	12,837
2042	12,837	16	1,161	15	919	12,596
2043	12,596	13	1,158	16	901	12,337
2088	22,177	0	13	75	1,660	23,750
2089	23,750	0	10	77	1,778	25,440
2090	25,440	0	8	80	1,905	27,257
2091	27,257	0	6	83	2,041	29,210
2092	29,210	0	5	86	2,187	31,307
2116	158,078	0	0 *	196	11,849	169,731
2117	169,731					
2117	Discounted Value: 99 **					

* Less than $1 million, when rounded.

** $169,731 million when discounted with interest at the rate of 7.50% per annum has a value of $99 million as of June 30, 2014.

EXHIBIT 5

Calculation of Discount Rate as of June 30, 2014 – Projection of Contributions (continued)

Notes:

(1) Amounts may not total exactly due to rounding.

(2) Years 2024-2038, 2044-2087, and 2093-2115 have been omitted from this table.

(3) Column (a): Except for the "discounted value" shown for 2117, none of the projected beginning plan fiduciary net position amounts shown have been adjusted for the time value of money.

(4) Column (b): Projected total contributions include employee and employer normal cost rates applied to closed group projected payroll (based on covered active members as of June 30, 2014), plus employer contributions to the unfunded actuarial accrued liability. Contributions are assumed to occur halfway through the year, on average.

(5) Column (c): Projected benefit payments have been determined in accordance with paragraph 39 of GASB Statement No. 67, and are based on the closed group of active, inactive vested, retired members, and beneficiaries as of June 30, 2014. The projected benefit payments reflect the cost of living increase assumptions used in the June 30, 2014 valuation report.

(6) Column (d): Projected administrative expenses are calculated assuming a 3.50% increase every year from the actual amount for 2013-14. Administrative expenses are assumed to occur halfway through the year, on average.

(7) Column (e): Projected investment earnings are based on the assumed investment rate of return of 7.50% per annum and reflect the assumed timing of benefit payments, which is the beginning of each month.

(8) As illustrated in this Exhibit, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current Plan members. In other words, there is no projected "cross-over date" when projected benefits are not covered by projected assets. Therefore, the long-term expected rate of return on Plan investments of 7.50% per annum was applied to all periods of projected benefit payments to determine the total pension liability as of June 30, 2014 shown earlier in this report, pursuant to paragraph 44 of GASB Statement No. 67.

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