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September 27, 2010

City of Milwaukie/2163
Oregon Public Employees Retirement System

Subject:
12/31/2009 Actuarial Valuation Report

Dear Sir or Madam:

Attached is your December 31, 2009 actuarial valuation report. This report is intended to provide you with employer-specific contribution rates that will become effective July 1, 2011, as well as summary information as of December 31, 2009, for the Tier 1/Tier 2 SLGRP, OPSRP, the Retiree Health Insurance Account (RHIA), and the Retiree Health Insurance Premium Account (RHIPA). Information is also provided to assist you in preparing the required disclosures under Statements 27 and 45 of the Government Accounting Standards Board.

The full development of the valuation results for the SLGRP, OPSRP, RHIA, and RHIPA can be found in the separate system-wide valuation report. IAP benefits are not included in this or the system-wide report.

If you have any questions about this report, please contact Dale Orr, Actuarial Analysis Coordinator at Oregon PERS, at 503 603 7704 or Dale.S.Orr@state.or.us.

Contents of Report

The executive summary provides the basic information you need including:

- Contribution rates for Tier 1/Tier 2, OPSRP general service, and OPSRP police and fire payroll,
- The impact of new employers joining the SLGRP as of January 1, 2010,
- Accounting information under GASB 27 and GASB 45, and
- A summary of principal valuation results.

The remainder of the report provides additional information including:

- Employer-specific weighted average Tier 1/Tier 2 normal cost rates,
- Transition liability or surplus balances and rate calculation,
- Side account balances, transactions and rate relief,
- A brief summary of methods and assumptions, and
- A brief summary of any changes in plan provisions.

Additional information is provided in the system-wide valuation report.

Sincerely,

Matthew R. Larrabee, FSA, EA

Scott D. Preppernau, FSA, EA

The information contained in this document (including any attachments) is not intended by Mercer to be used, and it cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code that may be imposed on the taxpayer.

September 27, 2010

Actuarial Valuation Report
December 31, 2009

Oregon Public Employees Retirement System

State and Local Government Rate Pool
City of Milwaukie -- #2163

Secondary Employers

2560 Wichita Water District

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Consulting. Outsourcing. Investments.

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Executive Summary

Mercer has prepared this report for City of Milwaukie to:

- Present employer-specific contribution rates effective July 1, 2011, through June 30, 2013,
- Provide summary December 31, 2009, valuation results for the Tier 1/Tier 2 State and Local Government Rate Pool (SLGRP), Oregon Public Service Retirement Plan (OPSRP), and Retiree Health Insurance programs (RHIA and RHIPA),
- Provide employer-specific information on side accounts and pre-SLGRP liabilities as of December 31, 2009, and
- Provide employer-specific reporting information for financial statements, government agencies and other interested parties, pursuant to GASB requirements.

This report summarizes the valuation results for the SLGRP, OPSRP, RHIA and RHIPA. The full development of these results can be found in the December 31, 2009, system-wide valuation report. This report develops employer-specific side account and pre-SLGRP rates and applies the results from the system-wide valuation to City of Milwaukie.

Executive Summary

Employer Contribution Rates

SLGRP employers have the option to elect separate Tier 1/Tier 2 rates to be applied to general service and police and fire payroll or to have the default blended rate apply to all Tier 1/Tier 2 payroll.

The following table summarizes the employer contribution rates effective July 1, 2011 through June 30, 2013 for each type of payroll and under each option for Tier 1/Tier 2. There are separate normal cost rates for each of the payrolls based on the benefit structure supported by that payroll. The other rates apply to all payrolls regardless of the benefit structure to which they are attributed.

Employer Rates Effective July 1, 2011 for City of Milwaukie

	Payroll				
	Tier 1/Tier 2			OPSRP	
	Default	Optional Separate Rates			
	All T1/T2 Payroll	General Service	Police & Fire	General Service	Police & Fire
Pension					
Normal cost rate	10.56%	7.68%	15.41%	6.13%	8.84%
Tier 1/Tier 2 UAL rate	6.10%	6.10%	6.10%	6.10%	6.10%
OPSRP UAL rate	0.08%	0.08%	0.08%	0.08%	0.08%
Pre-SLGRP pooled liability rate	(1.70%)	(1.70%)	(1.70%)	(1.70%)	(1.70%)
Transition liability/(surplus) rate[1]	(0.76%)	(0.76%)	(0.76%)	(0.76%)	(0.76%)
Side account rate relief [1]	(3.12%)	(3.12%)	(3.12%)	(3.12%)	(3.12%)
Net pension contribution rate	**11.16%**	**8.28%**	**16.01%**	**6.73%**	**9.44%**
Retiree Healthcare					
Normal cost rate	0.09%	0.09%	0.09%	0.00%	0.00%
UAL rate	0.50%	0.50%	0.50%	0.50%	0.50%
Net retiree healthcare rate	**0.59%**	**0.59%**	**0.59%**	**0.50%**	**0.50%**
Total net employer contribution rate	**11.75%**	**8.87%**	**16.60%**	**7.23%**	**9.94%**

In this report, the payroll of Tier 1 and Tier 2 members is referred to as Tier 1/Tier 2 valuation payroll. Combined valuation payroll refers to the payroll for Tier 1/Tier 2 members, OPSRP general service members and OPSRP police and fire members.

[1] *The transition liability/(surplus) rate and side account rate relief shown may be reduced for each individual payroll such that the net pension contribution rate for that payroll does not go below 0.00%.*

Executive Summary

Employer Contribution Rates (continued)

Range of Potential Tier 1/Tier 2 Employer Pension Contribution Rates for the July 2013 to June 2015 Biennium

The rate collar limits changes in contribution rates for the rate pool, but does not limit changes in rates for individual employers related to pre-SLGRP liabilities or side accounts. In addition, changes in an individual employer's workforce between Tier 1 and Tier 2 or between general service and police and fire can impact that employer's normal cost rate in a way that is not limited by the collar. The table below shows the possible minimum and maximum rates first effective as of July 1, 2013, for the SLGRP rate pool, which will depend on its funded status as of December 31, 2011. If the SLGRP's funded status excluding side accounts is less than 70 percent or greater than 130 percent, the rate collar doubles in size. If the SLGRP's funded status excluding side accounts is between 70 and 80 percent or between 120 and 130 percent, the size of the rate collar is increased on a graded scale. The rates shown are before any adjustment for side account rate offsets or pre-SLGRP liabilities.

For comparison, the SLGRP funded status as of December 31, 2009 is 77%.

Funded Status as of December 31, 2011	80% to 120%	Under 70% or Over 130%
July 1, 2011 Normal Cost and Tier 1/Tier 2 UAL Rate	15.05%	15.05%
Minimum July 1, 2013 Rate	12.04%	9.03%
Maximum July 1, 2013 Rate	18.06%	21.07%

For individual employers in the SLGRP, these rates are adjusted to reflect the individual employer's normal cost rate, pre-SLGRP pooled liability rate, transition liability rate, and side account rate offsets.

Executive Summary

Employers Joining the SLGRP

Effective January 1, 2010, 8 previously independent employers joined the SLGRP. All liabilities and assets shown in this report include the assets and liabilities of the employers joining the SLGRP on January 1, 2010. The table below shows the assets and liabilities transferred to the SLGRP and illustrates that the transfer had no impact on the SLGRP pooled UAL rate.

(in millions)	State and Local Government Rate Pool		
Tier 1/Tier 2 Pension	December 31, 2009	Employers Joining Pool	January 1, 2010
Actuarial accrued liability	$28,896.5	$132.6	$29,029.1
Market value of assets	22,382.7	93.3	22,476.0
Unfunded accrued liability	6,513.8	39.3	6,553.1
Combined valuation payroll	4,820.9	29.1	4,850.1
UAL as % of combined payroll	**135.1%**	**135.1%**	**135.1%**
Net outstanding pre-SLGRP liabilities	($441.6)	($16.1)	($457.7)

Executive Summary

Accounting Information

Mercer is not an accounting firm and cannot provide accounting advice. The information provided in this section is intended to assist the employer in completing its financial statements, but any accounting determination should be reviewed by your auditor.

Pension

We understand that employers participating in the SLGRP and OPSRP are considered to be participating in a cost-sharing plan under Statement No. 27 of the Governmental Accounting Standards Board (GASB 27). Cost-sharing employers recognize annual pension expense equal to the contractually required contributions to the plan. The contractually required contribution for pension liabilities for July 1, 2011 through June 30, 2013 is calculated as a part of this valuation, and is expressed as contribution rates that are applied to the appropriate payroll. The rates and appropriate payroll are shown in the table below.

For periods prior to an employer's participation in the SLGRP, accounting information developed as an independent employer should be used, not the information from this exhibit.

Contractually Required Contribution Rate

	Payroll				
	Tier 1/Tier 2			OPSRP	
	Default	General Service	Police & Fire	General Service	Police & Fire
July 1, 2009 to June 30, 2011	5.21%	2.20%	10.31%	3.07%	5.78%
July 1, 2011 to June 30, 2013	11.16%	8.28%	16.01%	6.73%	9.44%

If a side account is established after December 31, 2007 and prior to December 31, 2009, the July 1, 2009 to June 30, 2011 contractually required contribution rate should be adjusted to reflect the change in required contribution rate for the period the new side account provides rate relief.

If a side account is established after December 31, 2009, both the July 1, 2009 to June 30, 2011 and the July 1, 2011 to June 30, 2013 contractually required contribution rates should be adjusted to reflect the change in required contribution rate for the period the new side account provides rate relief.

Executive Summary

Accounting Information (continued)

Retiree Healthcare

The Retiree Health Insurance Account (RHIA) and the Retiree Health Insurance Premium Account (RHIPA) are cost-sharing pools under Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). The contractually required contribution for retiree healthcare liabilities for the period July 1, 2011 through June 30, 2013 is calculated as a part this valuation, and is expressed as contribution rates that are applied to the appropriate payroll. The rates and appropriate payroll are shown in the table below.

Contractually Required Contribution Rate

	Payroll		
		OPSRP	
	Tier 1/Tier 2	General Service	Police & Fire
RHIA July 1, 2009 to June 30, 2011	0.29%	0.19%	0.19%
RHIPA July 1, 2009 to June 30, 2011	0.00%	0.00%	0.00%
RHIA July 1, 2011 to June 30, 2013	0.59%	0.50%	0.50%
RHIPA July 1, 2011 to June 30, 2013	0.00%	0.00%	0.00%

Executive Summary

Principal Valuation Results

A summary of principal valuation results from the current valuation and the prior valuation follows. Any changes in actuarial assumptions, methods or plan provisions between the two valuations are described later in this report. More detailed information can be found in the system-wide report.

City of Milwaukie

	Actuarial Valuation as of	
	December 31, 2009	December 31, 2008
Allocated pooled SLGRP T1/T2 UAL	$11,406,069	$13,121,143
Allocated pre-SLGRP pooled liability/(surplus)	(1,809,709)	(1,749,651)
Transition liability/(surplus)	(812,943)	(827,771)
Allocated pooled OPSRP UAL	89,353	62,856
Side account	3,328,959	3,173,530
Net unfunded pension actuarial accrued liability	5,543,811	7,433,047
Combined valuation payroll	8,441,787	7,711,734
Net pension UAL as a percentage of payroll	66%	96%
Pre-SLGRP pooled rate	(1.70%)	(1.73%)
Transition rate	(0.76%)	(0.82%)
Side account rate relief	(3.12%)	(3.14%)
Allocated pooled RHIA UAL	$294,600	$294,236
Allocated pooled RHIPA UAL	$0	$0

UAL amounts for the various pools (SLGRP Tier 1/Tier 2 Pension, OPSRP, RHIA, and RHIPA) are allocated pro-rata based on the ratio of an employer's combined valuation payroll to that of the applicable pool.

Executive Summary

Principal Valuation Results (continued)

SLGRP

(in millions)	Actuarial Valuation as of December 31, 2009	Actuarial Valuation as of December 31, 2008
Normal cost	$307.9	$279.5
Tier 1/Tier 2 valuation payroll	3,465.1	3,452.7
Normal cost rate	8.89%	8.10%
Actuarial accrued liability	$29,029.1	$27,551.8
Actuarial asset value	22,476.0	19,859.0
Unfunded actuarial accrued liability	6,553.1	7,692.8
Funded status	77%	72%
Combined valuation payroll	$4,850.1	$4,521.3
UAL as a percentage of payroll	135%	170%
UAL rate[1]	6.10%	8.99%
State and Community College Pre-SLGRP Pooled Liability	$619.5	$630.8
LGRP Pooled Liability	(256.6)	(259.6)
Total Transition Liability	(820.6)	(821.3)
Tier 1/Tier 2 Active Members		
▪ Count	57,247	59,490
▪ Average Age	50.0	49.3
▪ Average Service	14.8	14.1
▪ Average Valuation Payroll	$60,528	$58,038
Tier 1/Tier 2 Dormant Members		
▪ Count	24,081	26,282
▪ Average Age	52.3	50.6
▪ Average Monthly Benefit	$1,252	$1,104
Tier 1/Tier 2 Retirees and Beneficiaries		
▪ Count	63,208	60,915
▪ Average Age	69.5	69.3
▪ Average Monthly Benefit	$1,784	$1,720

[1] *The December 31, 2009 UAL rate shown for the SLGRP includes 0.12% for Multnomah Fire District #10 (0.11% at December 31, 2008). The City of Portland pays an additional 0.92% and the cities of Fairview, Gresham, Troutdale, and Wood Village pay an additional 0.12% (0.86% and 0.11% respectively at December 31, 2008).*

Executive Summary

Principal Valuation Results (continued)

OPSRP

	Actuarial Valuation as of	
(in millions)	December 31, 2009	December 31, 2008
General service normal cost	$132.0	$101.8
OPSRP general service valuation payroll	2,153.0	1,724.6
General service normal cost rate	6.13%	5.90%
Police and fire normal cost	$20.9	$15.5
OPSRP police and fire valuation payroll	235.8	179.8
Police and fire normal cost rate	8.84%	8.61%
Actuarial accrued liability	$535.5	$336.8
Actuarial asset value	445.4	270.5
Unfunded actuarial accrued liability	90.1	66.3
Funded status	83%	80%
Combined valuation payroll	$8,512.2	$8,130.1
UAL as a percentage of payroll	1%	1%
UAL rate	0.08%	0.07%

Executive Summary

Principal Valuation Results (continued)

Retiree Healthcare

(in millions)	Actuarial Valuation as of	
RHIA	December 31, 2009	December 31, 2008
Normal cost	$5.5	$5.6
Tier 1 / Tier 2 valuation payroll	6,123.4	6,225.8
Normal cost rate	0.09%	0.09%
Actuarial accrued liability	$511.2	$494.0
Actuarial asset value	214.1	183.8
Unfunded actuarial accrued liability	297.1	310.2
Funded status	42%	37%
Combined valuation payroll	$8,512.2	$8,130.1
UAL as a percentage of payroll	3%	4%
UAL rate	0.50%	0.50%

(in millions)	Actuarial Valuation as of	
RHIPA	December 31, 2009	December 31, 2008
Normal cost	$0.8	$0.8
Tier 1 / Tier 2 valuation payroll	1,705.1	1,708.5
Normal cost rate	0.05%	0.05%
Actuarial accrued liability	$24.5	$21.3
Actuarial asset value	6.4	5.7
Unfunded actuarial accrued liability	18.2	15.6
Funded status	26%	27%
Combined valuation payroll	$2,371.8	$2,217.9
UAL as a percentage of payroll	1%	1%
UAL rate	0.11%	0.10%

RHIPA liabilities are allocated to State Agencies and the State Judiciary, the only employers participating in the RHIPA program.

Certification

Mercer has prepared this report exclusively for the Oregon Public Employees Retirement System and City of Milwaukie.

This report has been prepared for the following purposes:

- Present summary results of a valuation of the Oregon Public Employees Retirement System relevant to members of the State and Local Government Rate Pool as of December 31, 2009,
- Provide information on employer-specific contribution rates for the period beginning July 1, 2011, and
- Provide reporting and disclosure information for financial statements for governmental agencies and pursuant to GASB Statements Number 27 and 45.

This valuation report may not be relied upon for any other purpose or by any party other than the Oregon Public Employees Retirement System, the employer named above, or its auditors solely for the purpose of completing an audit related to the matters herein. Mercer is not responsible for the consequences of any unauthorized use.

A valuation report is a snapshot of a plan's estimated financial condition at a particular point in time; it does not predict a plan's future financial condition or its ability to pay benefits in the future.

Over time, a plan's total cost will depend on a number of factors, including the amount of benefits the plan pays, the number of people paid benefits, plan expenses and the amount earned on any assets invested to pay the benefits. These amounts and other variables are uncertain and unknowable at the valuation date, but are predicted to fall within a reasonable range of possibilities.

To prepare this report, Actuarial Assumptions, as summarized in this report and fully described in the system-wide report (http://www.oregon.gov/PERS/section/financial_reports/financials.shtml), are used to select a single scenario from a range of possibilities. The results of that single scenario are included in this report. However, the future is uncertain and the plan's actual experience will differ from those assumptions; these differences may be significant or material. In addition, different assumptions or scenarios may also be within the reasonable range and results based on those assumptions would be different. Actuarial assumptions may also be changed from one valuation to the next because of changes in mandated requirements, plan experience, changes in expectations about the future and other factors. Due to the limited scope of our assignment, we did not perform, nor do we present, an analysis of the potential range of future possibilities and scenarios.

Because actual plan experience will differ from the assumptions, decisions about benefit changes, investment policy, funding amounts, benefit security and/or benefit-related issues should be made only after careful consideration of alternative future financial conditions and scenarios, and not solely on the basis of a valuation report or reports.

Data and Plan Provisions

To prepare this report, Mercer has used and relied on member and financial data submitted by the Oregon Public Employees Retirement System. We have reviewed the financial and member data for internal consistency and general reasonableness, but we have not verified or audited any of the data or information provided. We have also used and relied on the plan provisions described in Oregon Revised Statutes Sections 238 and 238A and legislative amendments supplied by the Oregon Public Employees Retirement System. A summary of plan changes since the December 31, 2008 valuation is presented in this report and a complete summary of the plan provisions valued is presented in our system-wide report. The Oregon Public Employees Retirement System is solely responsible for the accuracy, validity and comprehensiveness of this information. If the data or plan provisions supplied are not accurate and complete the valuation results may differ significantly from the results that would be obtained with accurate and complete information; this may require a later revision of this

report. We understand that the market values of private equity and some real estate investments are reported on a 3-month lag. We have made no adjustment to the reported market value of assets to account for this lag. A very brief discussion of this issue is provided in the Executive Summary of the system-wide report.

Actuarial Calculations, Methods and Assumptions

To the best of our knowledge and belief, this report is complete and accurate and all costs, liabilities and other factors under the plan were determined in accordance with generally accepted actuarial principles and procedures in accordance with applicable statutes, using an actuarial cost method approved by the Board. Assumptions used are based on the last experience study, as adopted by the Board on July 16, 2009. This valuation is based on assumptions, plan provisions, methods and other parameters as summarized in this report. If this information is inaccurate or incomplete or does not reflect current statutes, regulations or Board directives, the reader of this report should not rely on the valuation results and should notify Mercer promptly. In our opinion, this report fully and fairly discloses the actuarial position of the plan on an ongoing basis.

Professional Qualifications

We are available to answer any questions on the material contained in the report, or to provide explanations or further details as may be appropriate. The undersigned credentialed actuaries meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. The actuarial certification of healthcare cost assumptions related to the RHIPA program is covered in the December 31, 2009, system-wide valuation report, and is incorporated herein by reference. We are not aware of any direct or material indirect financial interest or relationship, including investments or other services that could create a conflict-of-interest that would impair the objectivity of our work.

	September 27, 2010
Matthew R. Larrabee, FSA, EA, MAAA	**Date**
	September 27, 2010
Scott D. Preppernau, FSA, EA, MAAA	**Date**

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Weighted Average Tier 1/Tier 2 Normal Cost

Pension

The normal cost represents the value of benefits assigned to the next year of service by the actuarial cost method. If all actuarial assumptions are met, the normal cost represents the amount that would need to be contributed each year to fund the benefits.

Members of the State and Local Government Rate Pool pay a payroll-weighted average normal cost rate using the normal cost rates developed for the pool for each tier and member classification. The table below shows the calculation of the individual employer's Tier 1/Tier 2 normal cost rate by member classification and in aggregate. The employer can elect to pay the member classification rates or the aggregate rate. For purposes of this calculation, all Community Colleges are treated as a single employer.

Development of Employer's Weighted Average Tier 1/Tier 2 Normal Cost Rate

	December 31, 2009			December 31, 2008		
	SLGRP Normal Cost Rate	Employer Tier 1/Tier 2 Valuation Payroll	Normal Cost	SLGRP Normal Cost Rate	Employer Tier 1/Tier 2 Valuation Payroll	Normal Cost
Tier 1 General Service	5.80%	$1,888,481	$109,532	4.89%	$2,113,951	$103,372
Tier 2 General Service	9.89%	1,602,891	158,526	9.45%	1,427,294	134,879
Total General Service		**3,491,372**	**268,058**		**3,541,245**	**238,251**
Tier 1 Police & Fire	15.78%	1,167,239	184,190	14.59%	1,187,094	173,197
Tier 2 Police & Fire	14.94%	901,535	134,689	14.32%	919,757	131,709
Total Police & Fire		**2,068,774**	**318,879**		**2,106,851**	**304,906**
Total		**$5,560,146**	**$586,937**		**$5,648,096**	**$543,157**
Employer normal cost rate						
General Service			**7.68%**			**6.73%**
Police & Fire			**15.41%**			**14.47%**
Aggregate (Default)			**10.56%**			**9.62%**

An SLGRP employer that has no Tier 1/Tier 2 active payroll will be assigned the weighted average normal cost of the SLGRP as calculated in the system-wide report.

Transition Liability Information

Outstanding Balance of Transition Liability/(Surplus)

Upon joining the SLGRP, a transition liability or surplus was calculated to ensure that each employer entered the pool on a comparable basis. The transition liability is maintained separately from the SLGRP, and is reduced by contributions and increased for interest charges at the assumed interest rate. The table below shows the reconciliation of the transition liability or surplus from the last valuation to the current valuation. Transition liability or surplus rates shown below are those paid on Tier 1/Tier 2 payroll for the indicated periods. For some surplus employers, this rate may differ from the rate paid on OPSRP general service or OPSRP police and fire payroll. In those cases, the payment to transition (surplus) shown below is the payment reflecting the rates on different payroll.

	Transition Liability
1. Transition liability/(surplus) as of December 31, 2008	($827,771)
2. January 1, 2009 through June 30, 2009	
A. Transition liability/(surplus) rate	(0.91%)
B. Actual employer payroll	4,092,850
C. Payment to transition liability/(surplus)	(37,245)
3. July 1, 2009 through December 31, 2009	
A. Transition liability/(surplus) rate	(0.85%)
B. Actual employer payroll	4,447,216
C. Payment to transition liability/(surplus)	(37,801)
4. Supplemental payment to transition liability	0
5. Interest	(60,218)
6. Transition liability/(surplus) as of December 31, 2009 ***(1. - 2C. - 3C. - 4. + 5.)***	**($812,943)**

Development of Transition Liability or Surplus Rate

It is anticipated that the PUC transition liability / (surplus), which was amortized on a rolling three-year basis commencing July 1, 2007, will be fully amortized by the conclusion of the biennium ending on June 30, 2011. As a result, only the "Regular transition liability / (surplus)" is used in the calculation of transition liability or surplus rates for the biennium commencing July 1, 2011.

	December 31, 2009	December 31, 2008
1. PUC transition liability/(surplus)	$0	$0
2. Regular transition liability/(surplus)	(812,943)	(827,771)
3. Total transition liability/(surplus) *(1.+ 2.)*	(812,943)	(827,771)
4. Combined valuation payroll	8,441,787	7,711,734
5. Regular amortization factor	12.622	13.091
6. Total transition liability/(surplus) rate ***(2. ÷ 4. ÷ 5.)***	**(0.76%)**	**(0.82%)**

Side Account Information

Reconciliation of Side Accounts

The following table reconciles the total side account from the beginning of the year to the end of the year. Side account transfers were calculated by PERS and made on a monthly basis. The amount of these transfers is shown in the table below.

All information in this table has been provided by PERS.

	New	Continuing	Total
1. Side account as of December 31, 2008	**N/A**	**$3,173,530**	**$3,173,530**
2. Deposits during 2009		N/A	
3. Administrative expenses		(1,000)	(1,000)
4. Amount transferred to employer reserves during 2009		(391,030)	(391,030)
5. Side account earnings during 2009		547,459	547,459
6. Side account as of December 31, 2009 ***(1. + 2. + 3. + 4. + 5.)***		**$3,328,959**	**$3,328,959**

Side Account Information

Side Account Balances

	December 31, 2009	December 31, 2008
Side Account 1	$3,328,959	$3,173,530
Side Account 2	0	0
Side Account 3	0	0
Total	**$3,328,959**	**$3,173,530**

Development of Side Account Rate

The rate relief attributable to an employer's side account is determined by amortizing the side account balance on the valuation date over the period ending December 31, 2027, and expressing the result as a percentage of combined valuation payroll.

	December 31, 2009	December 31, 2008
1. Total side account	$3,328,959	$3,173,530
2. Combined valuation payroll	8,441,787	7,711,734
3. Amortization factor	12.622	13.091
4. Total side account rate (-1. ÷ 2. ÷ 3.) [1]	(3.12%)	(3.14%)

[1] *For employers with more than one side account, the Total Side Account Rate is determined by calculating the rate on each side account separately and adding the rates together.*

Brief Summary of Methods and Assumptions

A detailed summary of the actuarial methods and assumptions used to prepare the December 31, 2009, valuation can be found in the system-wide report.

Methods

A brief summary of the methods used in this valuation is shown below:

Actuarial cost method	Projected Unit Credit.
Tier 1/Tier 2 UAL and Retiree Healthcare UAL amortization	The Tier 1/Tier 2 regular UAL and Retiree Healthcare regular UAL as of December 31, 2007 are amortized as a level percentage of combined valuation payroll over a closed period. For the Tier 1/Tier 2 UAL, this period is 20 years; for Retiree Healthcare, it is 10 years. Gains and losses between subsequent odd-year valuations are amortized as a level percentage of combined valuation payroll over 20 years (10 for Retiree Healthcare) from the odd-year valuation in which they are first recognized.
OPSRP UAL Amortization	Gains and losses between odd-year valuations are amortized as a level percentage of combined valuation payroll over 16 years from the odd-year valuation in which they are first recognized.
Asset valuation method	Market value of assets.
Contribution rate stabilization method (rate collar)	Contribution rates for a rate pool (e.g. Tier 1/Tier 2 SLGRP, Tier 1/Tier 2 School Districts, OPSRP) are confined to a collar based on the rate pool's prior pension contribution rate (excluding side account rate offsets). The new contribution rate will not increase or decrease from the prior contribution rate by more than the greater of 3 percentage points or 20 percent of the current rate. If the funded percentage excluding side accounts drops below 70% or increases above 130%, the size of the collar doubles. If the funding percentage excluding side accounts is between 70% and 80% or between 120% and 130%, the size of the rate collar is increased on a graded scale.

Economic Assumptions

A brief summary of the key economic assumptions used in this valuation is shown below:

Investment return	8.0% compounded annually on system assets.
Interest crediting	8.0% compounded annually on members' regular account balances. 8.5% compounded annually on members' variable account balances.
Consumer price inflation	2.75% per year.
Future general wage inflation	3.75% per year.
Healthcare cost inflation	Graded from 7.0% in 2010 to 4.5% in 2029.
OPSRP Expenses	$6.6 million added to normal cost.

Brief Summary of Methods and Assumptions

Changes Since Last Valuation

Based on guidance from the PERS Board issued in January 2010, the implementation of the rate stabilization method (rate collar) has been revised to include a graded scale if the funding percentage is between 70% and 80% or between 120% and 130%. There were no other changes in methods or assumptions since the December 31, 2008, actuarial valuation. A complete summary of all assumptions used as part of the December 31, 2009, actuarial valuation is contained in the system-wide report.

Brief Summary of Changes in Plan Provisions

For Tier 2 and OPSRP members, the workers' compensation offset to the disability benefit has been eliminated. There were no other changes in plan provisions since the December 31, 2008 actuarial valuation. A complete summary of the Tier 1/Tier 2, OPSRP, RHIA, and RHIPA plan provisions valued is provided as part of the system-wide valuation report.

Arken and Robinson Litigation

We have made no adjustment in this valuation to reflect any interpretation of Judge Kantor's June 20, 2007, or May 27, 2008, rulings in the Arken and Robinson cases.

Glossary

Actuarial Accrued Liability. The portion of the present value of prospective benefits allocated to service before the valuation date in accordance with the actuarial cost method.

Actuarial Asset Value. The value of assets used in calculating the required contributions. The actuarial asset value may be equal to the fair market value of assets, or it may spread the recognition of certain investment gains or losses over a period of years in accordance with an asset valuation method.

Actuarial Assumptions. Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, disablement and retirement; rates of investment earnings and other relevant items.

Actuarial Cost Method. Sometimes called "funding method," a particular technique used by actuaries to establish the amount and incidence of the annual actuarial cost of pension plan benefits, or normal cost, and the related unfunded actuarial accrued liability. Ordinarily, the annual contribution to the plan comprises the normal cost and an amount for amortization of the unfunded actuarial accrued liability.

Actuarial Gain or (Loss). A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions, during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

Agent Multiple-Employer Plan (Agent Plan). An aggregation of single-employer plans, with pooled administrative and investment functions. Separate accounts are maintained for each employer so that the employer's contributions provide benefits only for the employees of that employer. A separate actuarial valuation is performed for each individual employer's plan to determine the employer's periodic contribution rate and other information for the individual plan.

Annual Pension Cost. A measure of the periodic cost of an employer's participation in a defined benefit pension plan.

Annual Required Contributions (ARC). The employer's periodic required contributions to a defined benefit pension plan, calculated in accordance with the parameters of GASB 27.

Combined Valuation payroll. Projected payroll for the calendar year following the valuation date for both Tier 1/Tier 2 and OPSRP active members. This payroll is used to calculate UAL rates.

Contribution Deficiencies (excess contributions). The difference between the annual required contributions of the employer(s) (ARC) and the employer's actual contributions in relation to the ARC.

Cost Sharing Multiple-Employer Plan. A single plan with pooling (cost-sharing) arrangements for the participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributed individually to employers. A single actuarial valuation covers all plan members and the same contribution rate(s) applies for each employer.

Employer's Contributions. Contributions made in relation to the annual required contributions of the employer (ARC).

Glossary

Funded Ratio. The actuarial value of assets expressed as a percentage of the actuarial accrued liability.

Net Pension Obligation (NPO). The cumulative difference since the effective date of GASB 27 between annual pension cost and the employer's contributions to the plan, including the pension liability (asset) at transition, and excluding (a) short-term differences and (b) unpaid contributions that have been converted to pension-related debt.

Normal Cost. The annual cost assigned to the current year, under the actuarial cost method in use.

Pre-SLGRP Liability. The sum of Pre-SLGRP Pooled Liabilities and Transition Liabilities.

Pre-SLGRP Pooled Liability. The difference between the total UAL and the UAL attributable to the SLGRP for a pool of employers that joined the SLGRP. There are currently two pre-SLGRP pools. One was created for State Agencies and Community Colleges when the SLGRP was formed. The other one was created when the Local Government Rate Pool joined the SLGRP.

Present Value. Sometimes called "actuarial present value," the current worth (on the valuation date) of an amount or series of amounts payable or receivable in the future. The present value is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Required Supplementary Information (RSI). Schedules, statistical data, and other information that are an essential part of financial reporting and should be presented with, but are not part of, the basic financial statements of a governmental entity.

Statement No. 27 of the Governmental Accounting Standards Board (GASB 27). The accounting standard governing a state or local governmental employer's accounting for pensions.

Statement No. 45 of the Governmental Accounting Standards Board (GASB 45). The accounting standard governing a state or local governmental employer's accounting for post-employment benefits other than pensions.

Tier 1/Tier 2 Valuation payroll. Projected payroll for the calendar year following the valuation date for Tier 1 and Tier 2 active members. This payroll is used to calculate the normal cost rate.

Transition Liability. The difference between the total UAL and the UAL attributable to the SLGRP for an individual employer that joined the SLGRP or the Local Government Rate Pool.

Unfunded Actuarial Accrued Liability. The excess of the Actuarial Accrued Liability over the Actuarial Value of Assets.

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