

**Fresno County Employees'  
Retirement Association**

**ACTUARIAL EXPERIENCE STUDY**

**Analysis of Actuarial Experience  
During the Period  
July 1, 2006 through June 30, 2009**

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May 24, 2010

Board of Retirement  
Fresno County Employees' Retirement Association  
1111 H Street  
Fresno, CA 93721

**Re: Review of Non-Economic Actuarial Assumptions for the June 30, 2010  
Actuarial Valuation**

Dear Members of the Board:

We are pleased to submit this report of our review of the actuarial experience of the Fresno County Employees' Retirement Association. This study utilizes the census data for the period July 1, 2006 to June 30, 2009 and provides the proposed actuarial assumptions to be used in the June 30, 2010 valuation.

Please note that we have also reviewed the economic assumptions. The economic actuarial assumption recommendations for the June 30, 2010 valuation are provided in a separate report.

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.

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

Sincerely,

A handwritten signature in cursive script that reads "Paul Angelo".

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Paul Angelo, FSA, MAAA, FCA, EA  
Senior Vice President and Actuary

A handwritten signature in cursive script that reads "Andy Yeung".

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Andy Yeung, ASA, MAAA, EA  
Vice President and Associate Actuary

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## I. INTRODUCTION, SUMMARY, AND RECOMMENDATIONS

To project the cost and liabilities of the Pension Fund, assumptions are made about all future events that could affect the amount and timing of the benefits to be paid and the assets to be accumulated. Each year actual experience is compared against the assumptions, and to the extent there are differences, the future contribution requirement is adjusted.

If assumptions are changed, contribution requirements are adjusted to take into account a change in the projected experience in all future years. There is a great difference in both philosophy and cost impact between recognizing the actuarial deviations as they occur annually and changing the actuarial assumptions. Taking into account one year's gains or losses without making a change in the assumptions means that that year's experience was temporary and that, over the long run, experience will return to what was originally assumed. Changing assumptions reflects a basic change in thinking about the future, and it has a much greater effect on the current contribution requirements than recognizing gains or losses as they occur.

The use of realistic actuarial assumptions is important in maintaining adequate funding, while paying promised benefit amounts to participants already retired and to those near retirement. The actuarial assumptions used do not determine the "actual cost" of the plan. The actual cost is determined solely by the benefits and administrative expenses paid out, offset by investment income received. However, it is desirable to estimate as closely as possible what the actual cost will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

This study was undertaken in order to review the demographic actuarial assumptions and to compare the actual experience with that expected under the current assumptions during the three year experience period from July 1, 2006 through June 30, 2009. The study was performed in accordance with Actuarial Standard of Practice (ASOP) No. 35, "Selection of Demographic and Other Non-economic Assumptions for Measuring Pension Obligations" and, as appropriate, ASOP No. 27 "Selection of Economic Assumptions for Measuring Pension Obligations." These Standards of Practice put forth guidelines for the selection of the various actuarial assumptions utilized in a pension plan actuarial valuation. Based on the study's results and expected near-term experience, we are recommending various changes in the current actuarial assumptions.

We are recommending changes in the assumptions for retirement from active employment, reciprocity, pre-retirement mortality, healthy life post-retirement mortality, disabled life post-retirement mortality, termination, disability (ordinary and duty), salary increases, and annual leave conversion.

Our recommendations for the major actuarial assumption categories are as follows:

**Retirement Rates** - The probability of retirement at each age at which participants are eligible to retire.

*Recommendation: We recommend adjusting the retirement rates to those developed in Section III (B) for General Tier I Male, General Tier I Female and Safety member to anticipate later retirement. We also recommend increasing the reciprocity assumption for Safety members.*

**Mortality Rates** - The probability of dying at each age. Mortality rates are used to project life expectancies.

*Recommendation: For members who retire from service, we recommend adjusting the rates as developed in Section III (C) to include about a two-year improvement in mortality for General members and all beneficiaries and about a one-year improvement in mortality for Safety members. The disabled member mortality rates for General and Safety members have also been decreased as developed in Section III (D).*

*The recommended pre-retirement mortality assumptions for General and Safety members are consistent with the tables used for post-service retirement mortality. In addition, we recommend that all pre-retirement deaths be assumed as ordinary deaths.*

**Termination Rates** - The probability of leaving employment at each age and receiving either a refund of member contributions or a deferred vested retirement benefit.

*Recommendation: We recommend adjusting the termination rates to those developed in Section III (E) to reflect higher incidence of termination. In addition, a slightly higher proportion of members is expected to elect a refund of member contributions instead of a deferred vested benefit during the first five years of employment under the recommended assumptions.*

**Disability Incidence Rates** - The probability of becoming disabled at each age.

*Recommendation: We recommend adjusting the disability rates to those developed in Section III (F) to reflect slightly lower incidence of disability for General Male and Safety members and slightly higher incidences of disability for General Females.*

**Individual Salary Increases** - Increases in the salary of a member between the date of the valuation to the date of separation from active service.

*Recommendation: We recommend increasing the merit and promotional rates of salary increase to those developed in Section III (H) to reflect past experience.*

**Annual Leave Conversion** – Additional service that is expected to be received when the member retires due to conversion of unused annual leave.

*Recommendation: We recommend adjusting the current assumptions to reflect an increase in accumulated annual leave for members in the Annual Leave Plan II.*

Section II provides some background on basic principles and the methodology used for the experience study and the review of the demographic actuarial assumptions. A detailed discussion of each assumption and reasons for the proposed changes is found in Section III.

## II. BACKGROUND AND METHODOLOGY

In this report, we analyzed the “demographic” or “non-economic” assumptions only. Our analysis of the “economic” assumptions for the June 30, 2010 valuation is provided in a separate report. Demographic assumptions include the probabilities of certain events occurring in the population of members, referred to as “decrements,” e.g., termination from service, disability retirement, service retirement, and death after retirement. We also reviewed the individual salary increases in excess of general salary increases (i.e., the merit and promotional assumptions) in this report.

### *Demographic Assumptions*

In order to determine the probability of an event occurring, we examine the “decrements” and “exposures” of that event. For example, taking termination from service, we compare the number of employees who actually terminate in a certain age and/or service category (i.e., the number of “decrements”) with those who could have terminated (i.e., the number of “exposures”). For example, if there were 500 active employees in the 20-24 age group at the beginning of the year and 50 of them terminate during the year, we would say the probability of termination in that age group is  $50 \div 500$  or 10%.

The reliability of the resulting probability is highly dependent on both the number of decrements and the number of exposures. For example, if there are only a few people in a high age category at the beginning of the year (number of exposures), we would not lend as much credence to the probability of termination developed for that age category, especially if it is out of line with the pattern shown for the other age groups. Similarly, if we are considering the death decrement, there may be a large number of exposures in, say, the age 20-24 category, but very few decrements (actual deaths); therefore, we would not be able to rely heavily on the probability developed for that category.

One reason we use several years of experience for such a study is to have more exposures and decrements, and therefore more statistical reliability. Another reason for using several years of data is to smooth out fluctuations that may occur from one year to the next. However, we also calculate the rates on a year-to-year basis to check for any trend that may be developing in the later years.

### **III. ACTUARIAL ASSUMPTIONS**

#### **A. ECONOMIC ASSUMPTIONS**

The economic assumptions are reviewed in a separate report titled “Review of Economic Actuarial Assumptions for the June 30, 2010 Actuarial Valuation.”

#### **B. RETIREMENT RATES**

The age at which a member retires from service (i.e., who did not retire on a disability pension) will affect both the amount of the benefits that will be paid to that member as well as the period over which funding must take place.

The retirement experience during the current three-year period indicated that there were fewer actual retirements than expected from General Tier 1 Male and Female and Safety.

For General Tiers 2 and 3, we are not recommending a change in the retirement assumptions because there is not sufficient data available to support a change. Similarly, we recommend the continuation of the current practice of applying the Safety Tier 1 retirement rates for Safety Tier 2.

In this study, we have adjusted the retirement probabilities to reflect the current three-year experience, as well as prior experience as represented by the current retirement assumptions.

The following tables show the current, observed and proposed rates for General Tier 1 Male, General Tier 1 Female, and Safety.

**Retirement Rates for General Tier 1 Male**

Rate (%)

<b>Age</b>	<b>Current</b>	<b>Observed</b>	<b>Proposed</b>
45-49	0.00	40.00	0.00
50	4.00	0.84	3.00
51	4.00	2.31	3.00
52	4.00	1.53	3.00
53	4.00	4.23	4.00
54	4.00	2.68	4.00
55	7.00	11.04	9.00
56	11.00	14.47	13.00
57	16.00	18.46	17.00
58	20.00	23.62	20.00
59	25.00	17.43	20.00
60	30.00	27.66	30.00
61	30.00	26.67	30.00
62	34.00	25.58	30.00
63	34.00	28.57	30.00
64	34.00	23.53	30.00
65	43.00	36.36	40.00
66	48.00	66.67	50.00
67	53.00	50.00	50.00
68	60.00	25.00	50.00
69	70.00	25.00	50.00
70	100.00	21.74	100.00

**Retirement Rates for General Tier 1 Female**

Rate (%)

<b>Age</b>	<b>Current</b>	<b>Observed</b>	<b>Proposed</b>
45-49	0.00	20.00	0.00
50	4.00	3.17	4.00
51	4.00	2.88	4.00
52	4.00	4.90	4.00
53	4.00	4.10	4.00
54	4.00	7.48	5.00
55	10.00	10.94	10.00
56	12.00	10.04	12.00
57	12.00	13.36	13.00
58	15.00	15.63	15.00
59	16.50	16.17	16.00
60	22.00	15.83	18.00
61	25.00	20.00	22.00
62	40.00	23.17	25.00
63	25.00	25.93	25.00
64	22.00	25.71	25.00
65	30.00	51.85	35.00
66	35.00	33.33	35.00
67	40.00	44.44	40.00
68	45.00	40.00	45.00
69	50.00	42.86	50.00
70	100.00	36.67	100.00

**Retirement Rates for Safety Tier 1**

Rate (%)

<b>Age</b>	<b>Current</b>	<b>Observed</b>	<b>Proposed</b>
0-44	0.00	10.53	0.00
45	1.00	10.00	1.00
46	1.00	0.00	1.00
47	1.00	0.00	1.00
48	1.00	0.00	1.00
49	3.00	2.86	3.00
50	5.00	7.02	5.00
51	6.00	0.00	5.00
52	9.00	7.27	8.00
53	14.00	18.97	15.00
54	25.00	27.08	25.00
55	45.00	21.43	35.00
56	35.00	22.22	25.00
57	25.00	0.00	25.00
58	30.00	18.75	25.00
59	40.00	14.29	30.00
60	100.00	37.21	100.00

Chart 1 compares actual experience with the current and the proposed rates of retirement for General Tier 1 Male members. Chart 2 has the same data for General Tier 1 Female members and Chart 3 has the same data for Safety Tier 1 members.

In prior valuations, deferred vested General and Safety members were assumed to retire at age 58 and 55, respectively. The average age at retirement over the prior three years was 58.0 and 54.5 for both General and Safety, respectively. We recommend maintaining the assumed retirement age for General and Safety deferred vested members.

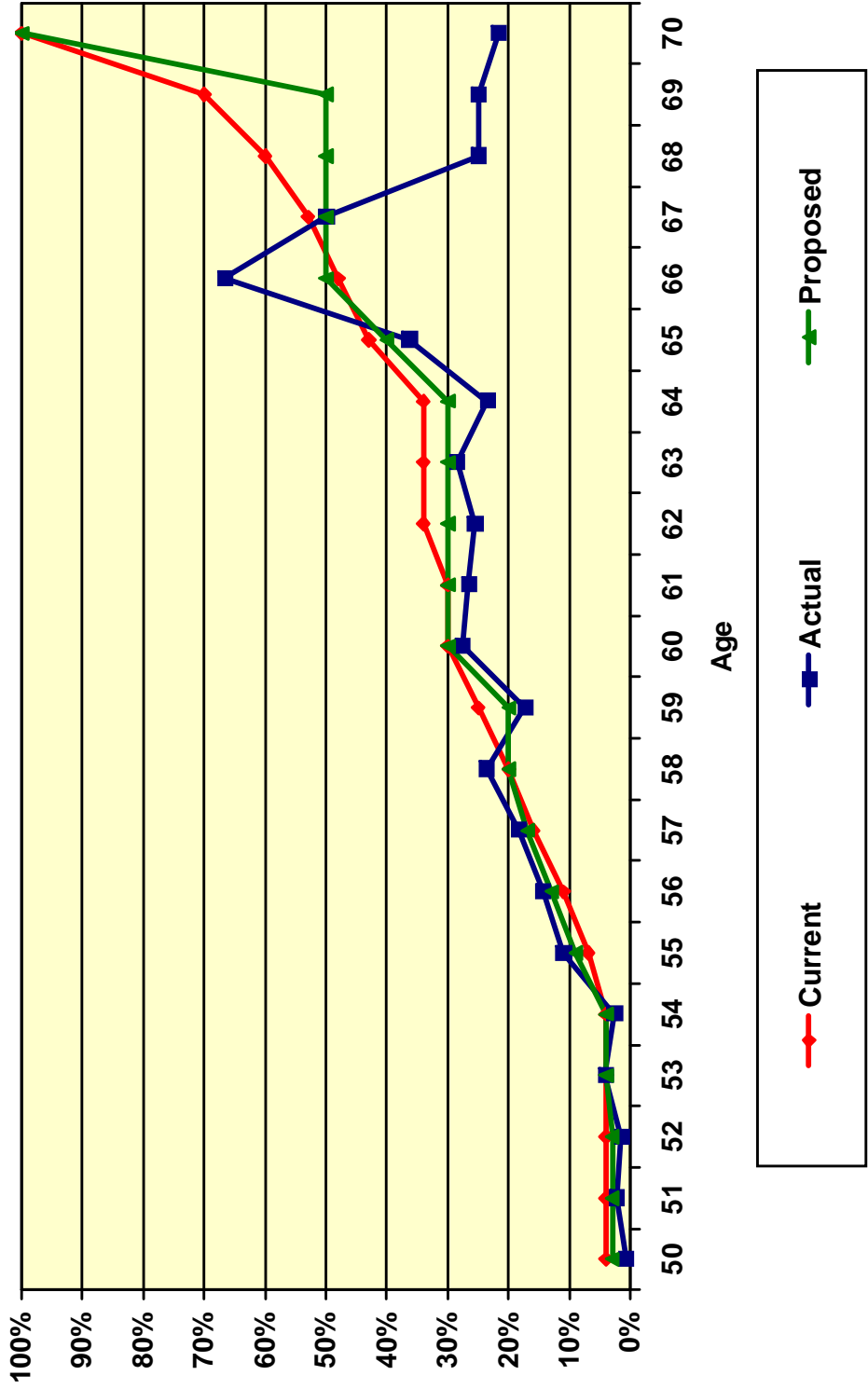
It was also assumed that 40% of future inactive General and 55% of future inactive Safety deferred vested participants would be covered under a reciprocal retirement system and receive 4.90% and 5.25% compensation increases for General and Safety members, respectively, from termination until their date of retirement. Based on the actual experience that 41% of General and 67% of Safety members went on to be covered by a reciprocal retirement system as reported in the data provided in the June 30, 2009 valuation, we recommend maintaining a 40% reciprocal assumption for General and changing to a 60% reciprocal assumption for Safety. Based on our average 1.00%

and 1.50% recommended merit and longevity salary increase assumptions, we propose a 5.00% and 5.50% salary increase assumption for General and Safety members, respectively, be utilized to anticipate salary increases from the date of termination from FCERA to the expected date of retirement for participants in a reciprocal retirement system.

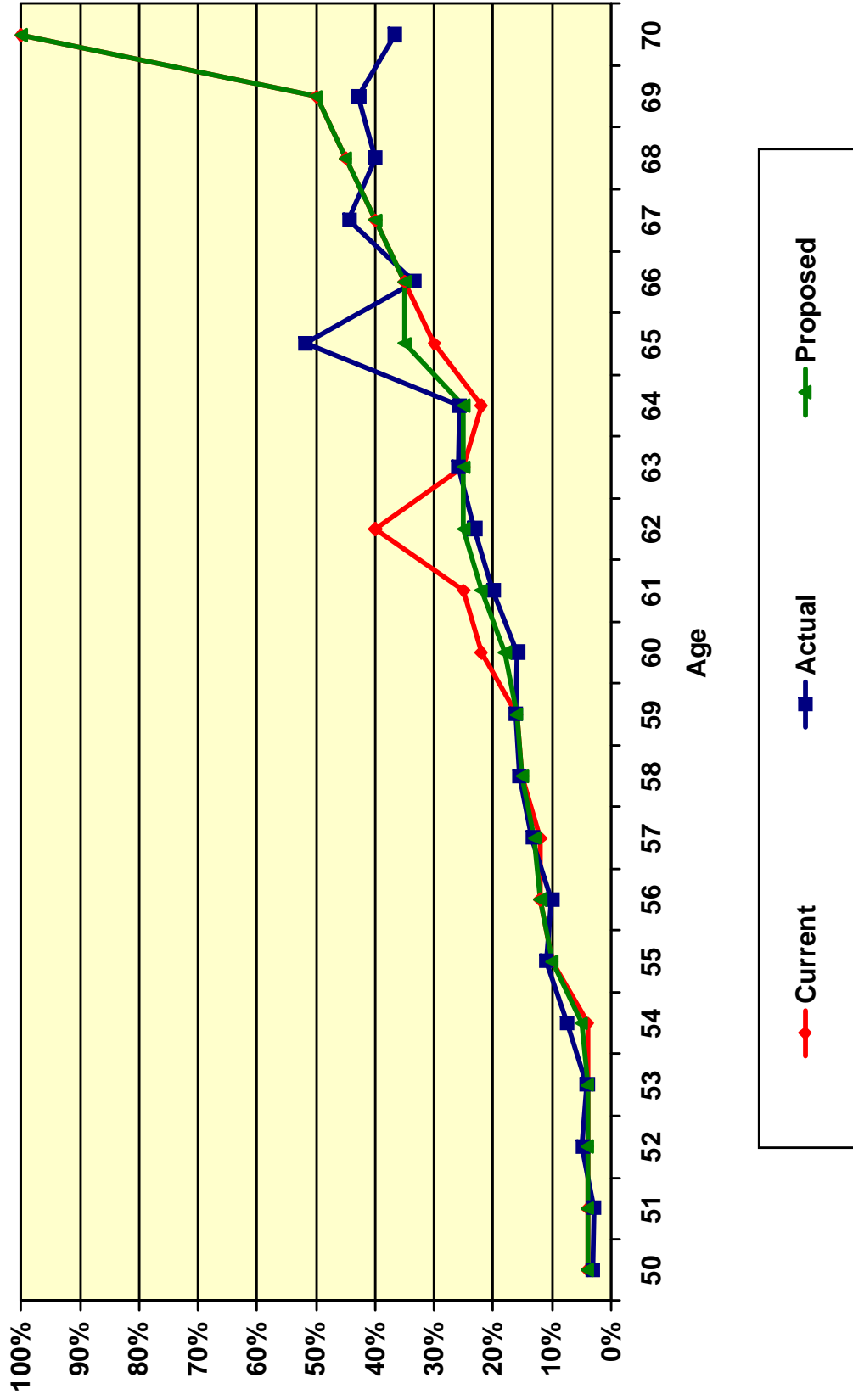
In prior valuations, it was assumed that 80% of all active male members and 55% of all active female members would be married or have an eligible domestic partner when they retired. According to the experience of members who retired recently, about 75% of all male members and 58% of all female members were married or had a domestic partner at retirement. We recommend maintaining the marriage assumption at 80% for male members and 55% for female members.

Based on observed experience from members who retired during the last three years, we also recommend maintaining the assumption that when active members retire, female spouses are assumed to be three years younger than their male spouses. Spouses will be assumed to be of the opposite sex to the member until we have more actual experience concerning domestic partners.

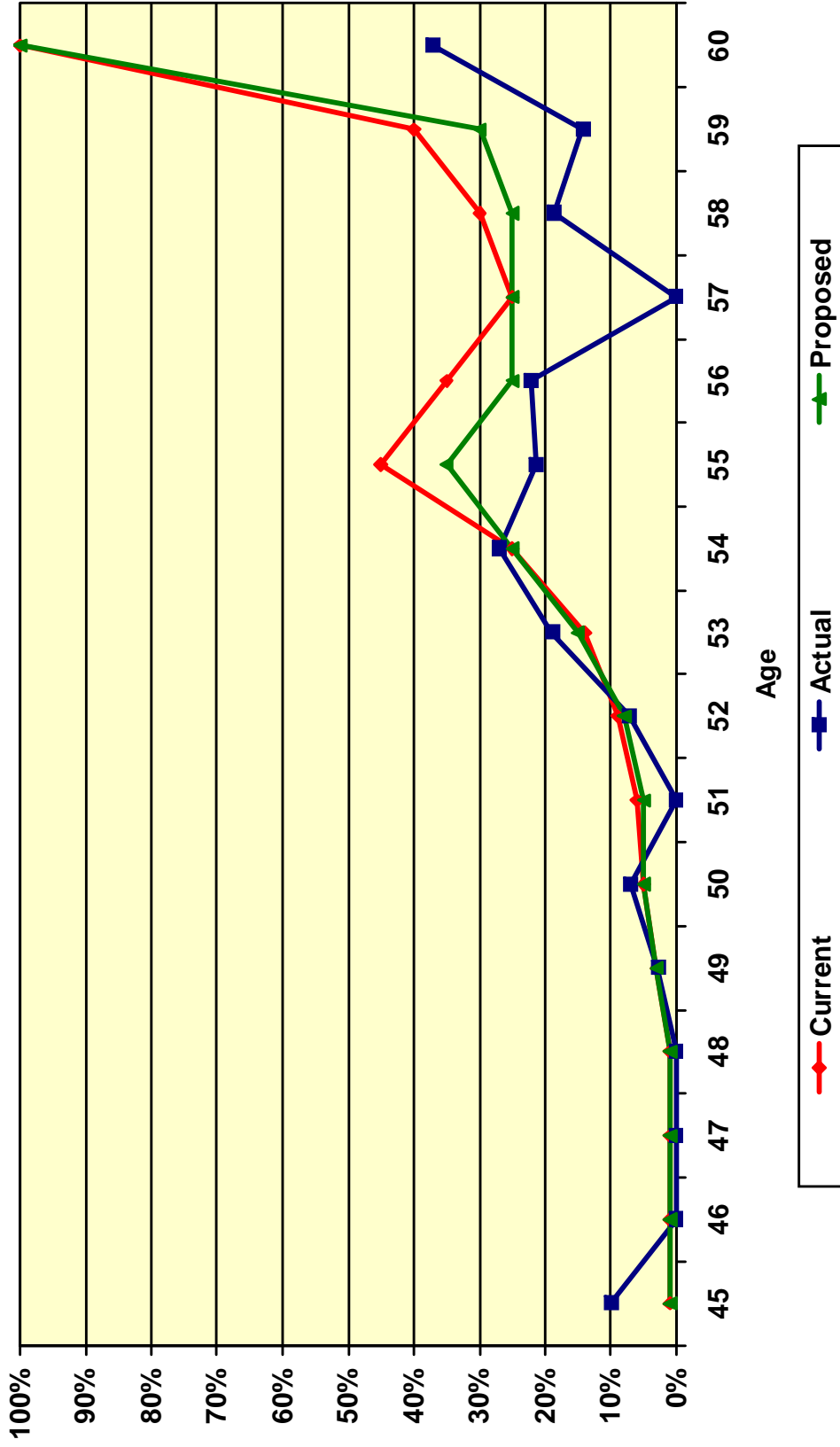
**Chart 1**  
**Retirement Rates - General Tier 1 Male Members**



**Chart 2**  
**Retirement Rates - General Tier 1 Female Members**



### Chart 3 Retirement Rates - Safety Tier 1 Members



**C. MORTALITY RATES - HEALTHY**

The “healthy” mortality rates project what proportion of members will die before retirement as well as the life expectancy of a member who retires from service (i.e., who did not retire on a disability pension). The tables currently being used for post-service retirement mortality rates are the RP-2000 Healthy Annuitant Mortality Table with adjustment for white collar workers (separate tables for males and females) for General members and all beneficiaries and the RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers (separate tables for males and females) set back two years for Safety members.

Pre-Retirement Mortality

The number of deaths among active members is not large enough to provide statistics credible enough to develop a unique table. Therefore, it is assumed that pre-retirement mortality assumptions for non-service connected deaths for General and Safety follow the same tables used for post-retirement mortality. In addition, based on experience from the last three years, we recommend that all pre-retirement deaths be assumed to be ordinary deaths.

Post-Retirement Mortality (Service Retirements)

Among service retired member and beneficiaries, the actual deaths compared to the expected deaths under the current and the proposed assumptions for the last three years are as follows:

Year Ending June 30	General Retirees- Healthy			Safety Retirees – Healthy		
	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths	Current Expected Deaths	Actual Deaths	Proposed Expected Deaths
2007	86	83	70	7	11	6
2008	93	96	75	7	7	6
2009	97	69	78	7	4	7
Total	276	248*	223	21	22	19
Actual / Expected	90%		111%	105%		116%

\* There were 67, 77 and 135 deaths reported for the years ending June 30, 2004, 2005 and 2006, respectively. This is discussed on the next page.

<b>All Beneficiaries</b>			
<b>Year Ending June 30</b>	<b>Current Expected Deaths</b>	<b>Actual Deaths</b>	<b>Proposed Expected Deaths</b>
2007	24	21	20
2008	25	22	20
2009	25	24	21
Total	74	67	61
Actual/Expected	91%		110%

For General members and all beneficiaries, the ratio of actual to expected deaths under the current assumption was 90% and 91%, respectively. We recommend changing to the RP-2000 Healthy Annuitant Mortality Table with adjustment for white collar workers (separate tables for males and females) set back two years. This will bring the actual to expected ratios for the most recent three year period to 111% and 110%, for General members and all beneficiaries.

As we pointed out in our last experience study report, we did not recommend any improvement in this assumption in that study because of the significantly higher number of deaths observed for the year ending June 30, 2006. If we calculate the average number of deaths for the periods July 1, 2003 to June 30, 2005 and July 1, 2006 to June 30, 2009 (i.e., excluding 2005/2006), that average is 78 per year. The average expected number of deaths under the proposed assumption is only about 74 per year, which provides some margin for future mortality improvement. Nonetheless, we will need to continue to monitor this assumption to determine if additional improvement is warranted in the next study.

For the Safety members, the ratio of actual expected deaths was 105%. We recommend changing to the RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers (separate table for males and females) set back three years. This will bring the actual to expected rates to 116% and will provide some margin for future mortality improvements. We will continue to monitor this assumption closely in future studies.

Chart 4 compares actual to expected deaths for General members and all beneficiaries under the current and the proposed assumptions for all members and beneficiaries over the last three years. Experience shows that there were fewer deaths than predicted by the current table.

Chart 5 has the same comparison for Safety members.

Chart 6 shows the life expectancies under the current and the proposed tables for General members and all beneficiaries.

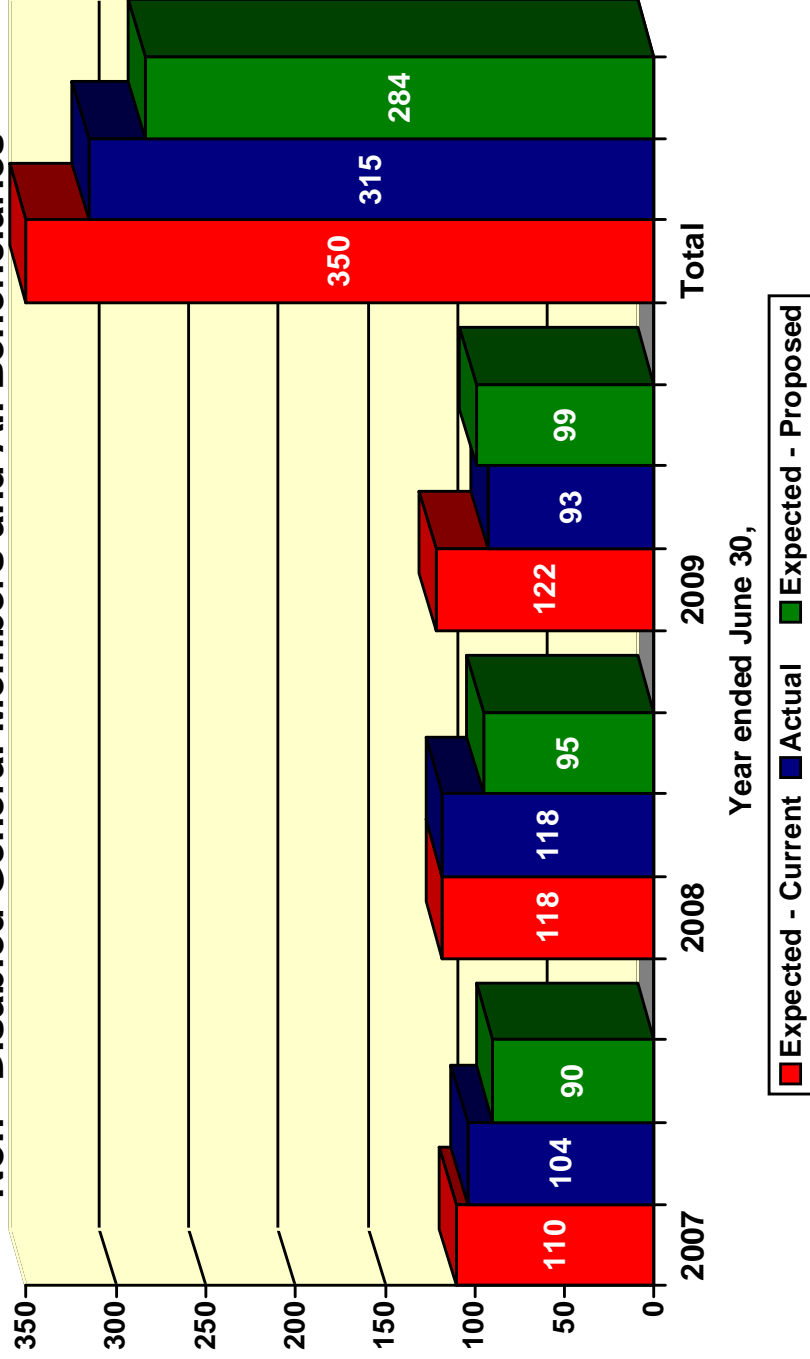
Chart 7 has the same information for Safety members.

Mortality Table for Member Contributions

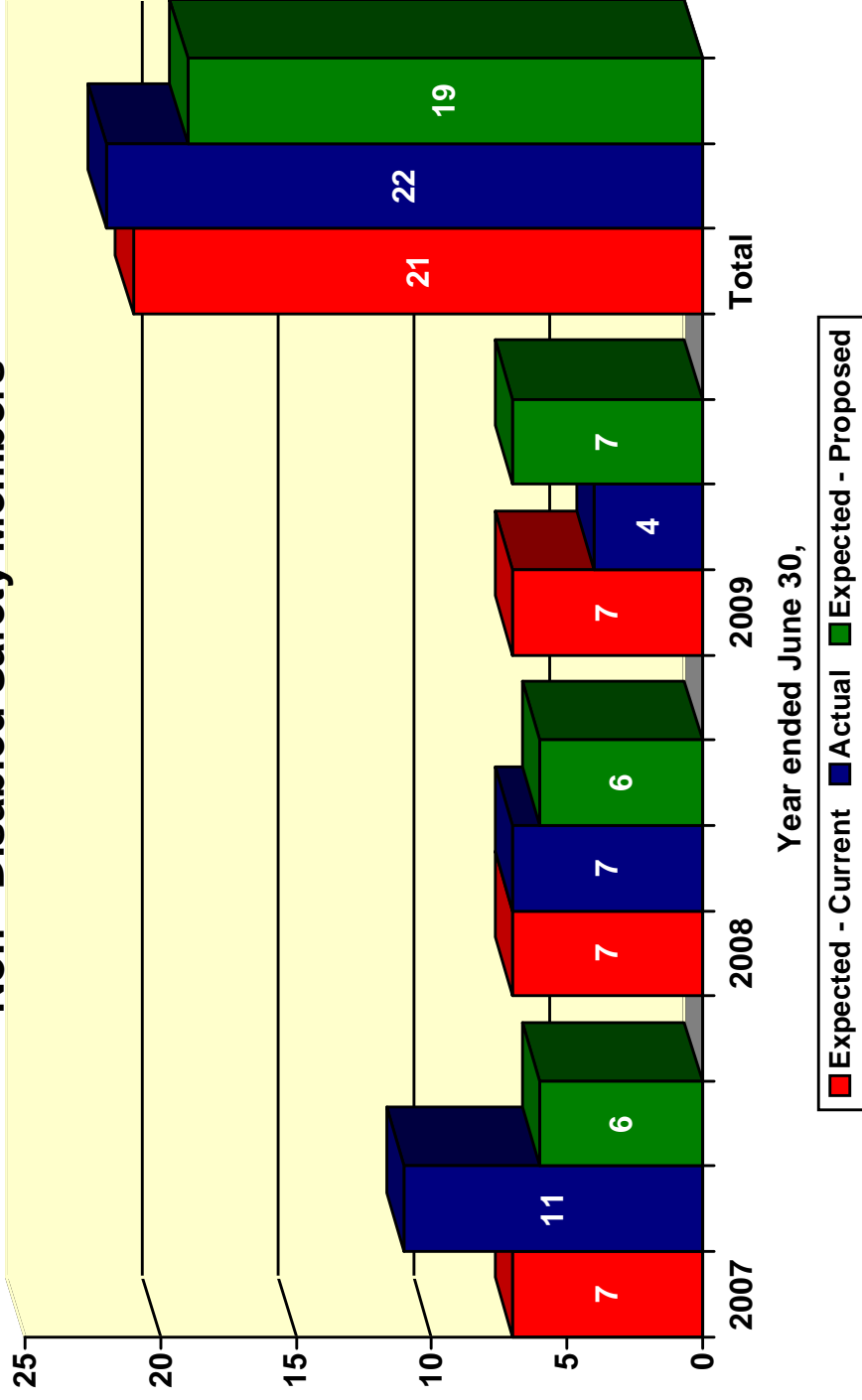
We recommend the mortality table used for determining contributions for General members be changed from the RP-2000 Healthy Annuitant Mortality Table with adjustment for white collar workers weighted 1/3 male and 2/3 female to the RP-2000 Healthy Annuitant Mortality Table with adjustment for white collar workers set back two years weighted 35% male and 65% female. This is based on the proposed mortality table for General members and the actual gender distribution for the current General members.

For Safety members, we recommend the mortality table be changed from the RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers set back two years weighted 5/6 male and 1/6 female to the RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers set back three years weighted 80% male and 20% female. This is based on the proposed mortality table for Safety members and the actual gender distribution for the current Safety members.

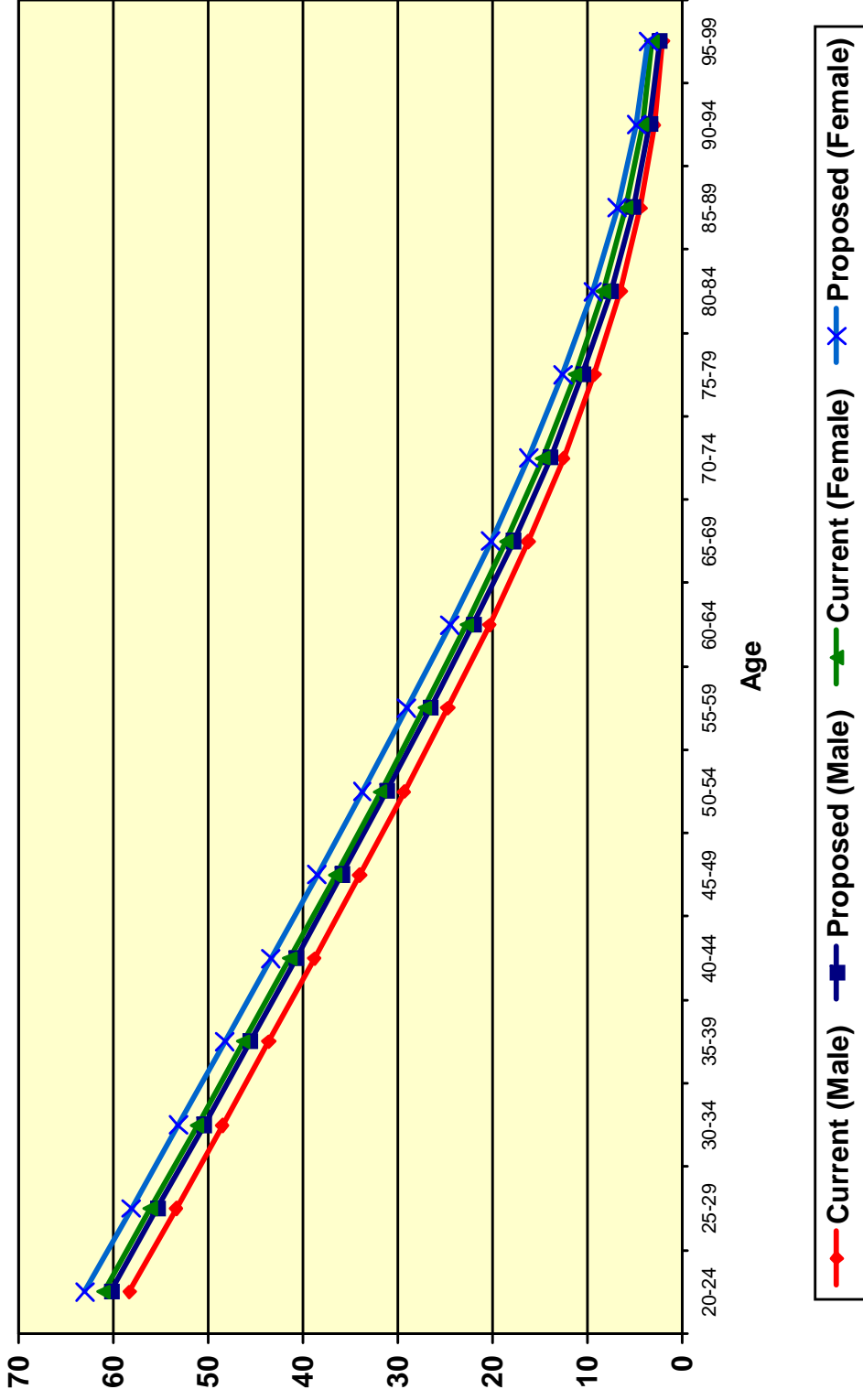
**Chart 4**  
**Post - Retirement Deaths**  
**Non - Disabled General Members and All Beneficiaries**



**Chart 5**  
**Post - Retirement Deaths**  
**Non - Disabled Safety Members**



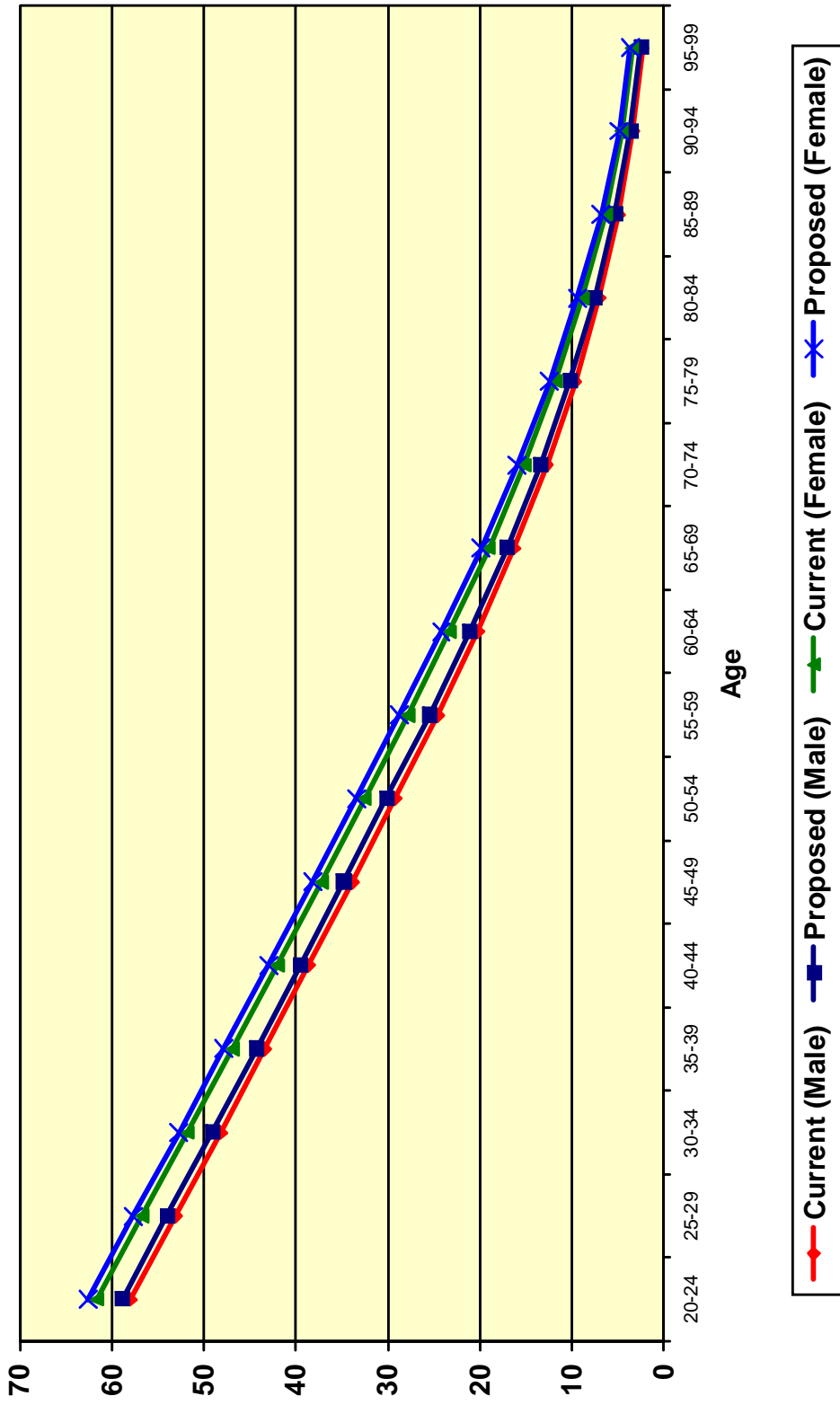
**Chart 6**  
**Life Expectancies**  
**Non - Disabled General Members and All Beneficiaries**



# Chart 7

## Life Expectancies

### Non - Disabled Safety Members



**D. MORTALITY RATES - DISABLED**

Since death rates for disabled members can differ from those of healthy members, a different mortality assumption is often used. The table currently being used is the RP-2000 Disabled Annuitant Mortality Table (separate tables for males and females) set back one year for General members and two years for Safety members.

The number of actual deaths compared to the number expected under the current and the proposed assumptions for the last three years has been as follows:

Year Ending June 30	General – Disability			Safety – Disability		
	Expected Deaths	Actual Deaths	Proposed Expected Deaths	Expected Deaths	Actual Deaths	Proposed Expected Deaths
2007	7.79	5	5.25	3.47	1	0.65
2008	8.75	6	6.22	3.68	1	0.73
2009	9.24	8	6.86	3.90	0	0.81
Total	25.78	19	18.33	11.05	2	2.19
Actual / Expected	74%		104%	18%		91%

Based on the actual experience from the current and the last triennial experience study periods, we recommend changing the mortality table for General disabled members to the RP-2000 Healthy Annuitant Mortality Table with adjustment for white collar workers (separate tables for males and females) set forward four years. We will continue to monitor this assumption closely in future studies.

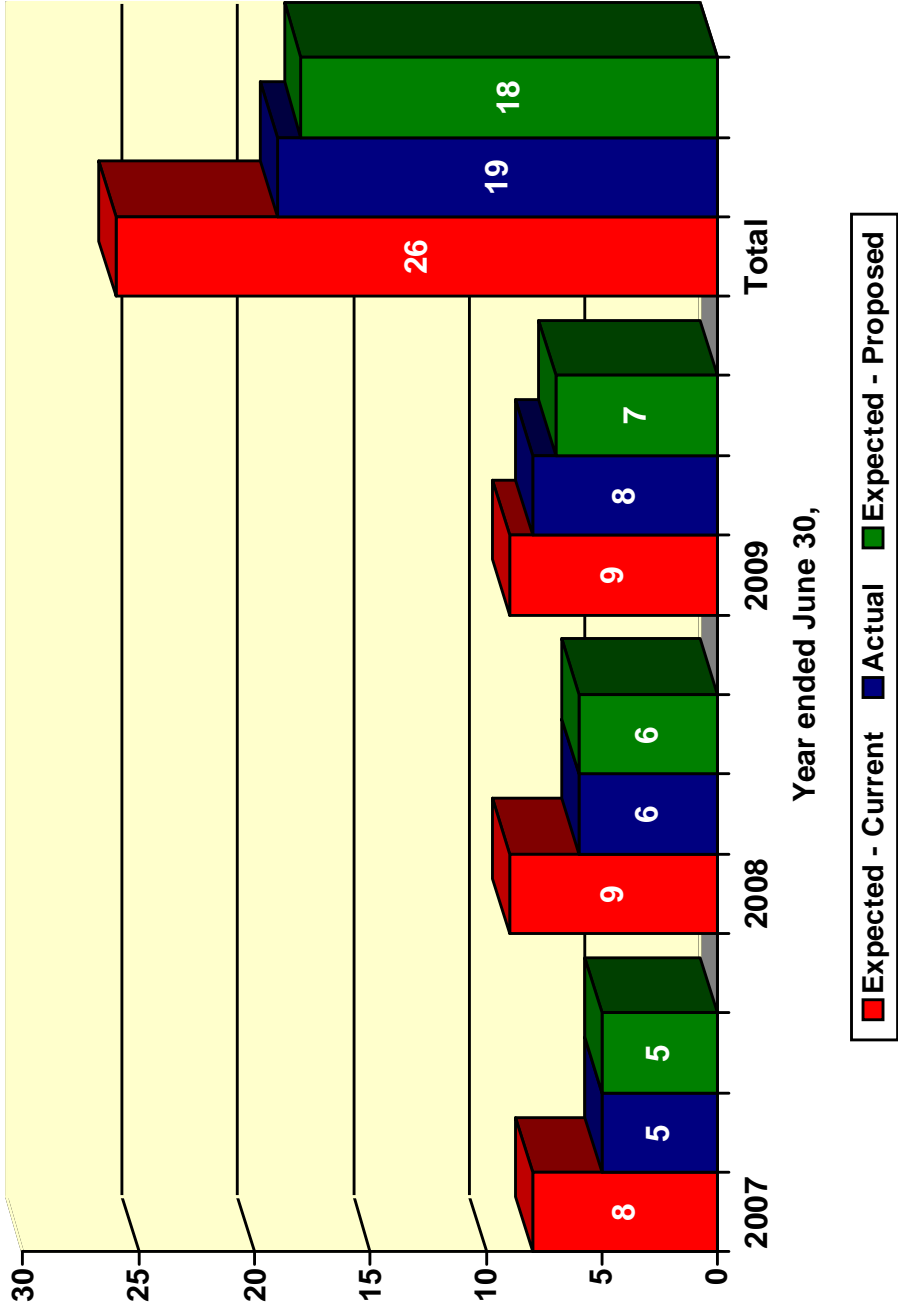
Based on the actual experience from the current and the last triennial experience study periods, we recommend changing the mortality table for Safety disabled members to the RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers (separate tables for males and females) set back three years. These are the same tables that are recommended for healthy Safety members. We have found that it is not uncommon for 1937 Act plans to utilize similar mortality assumptions for both disabled and non-disabled Safety retirees. We will continue to monitor this assumption to determine if mortality improvement is warranted in the next study.

Chart 8 compares actual to expected deaths under both the current and the proposed assumptions for disabled General members over the last three years.

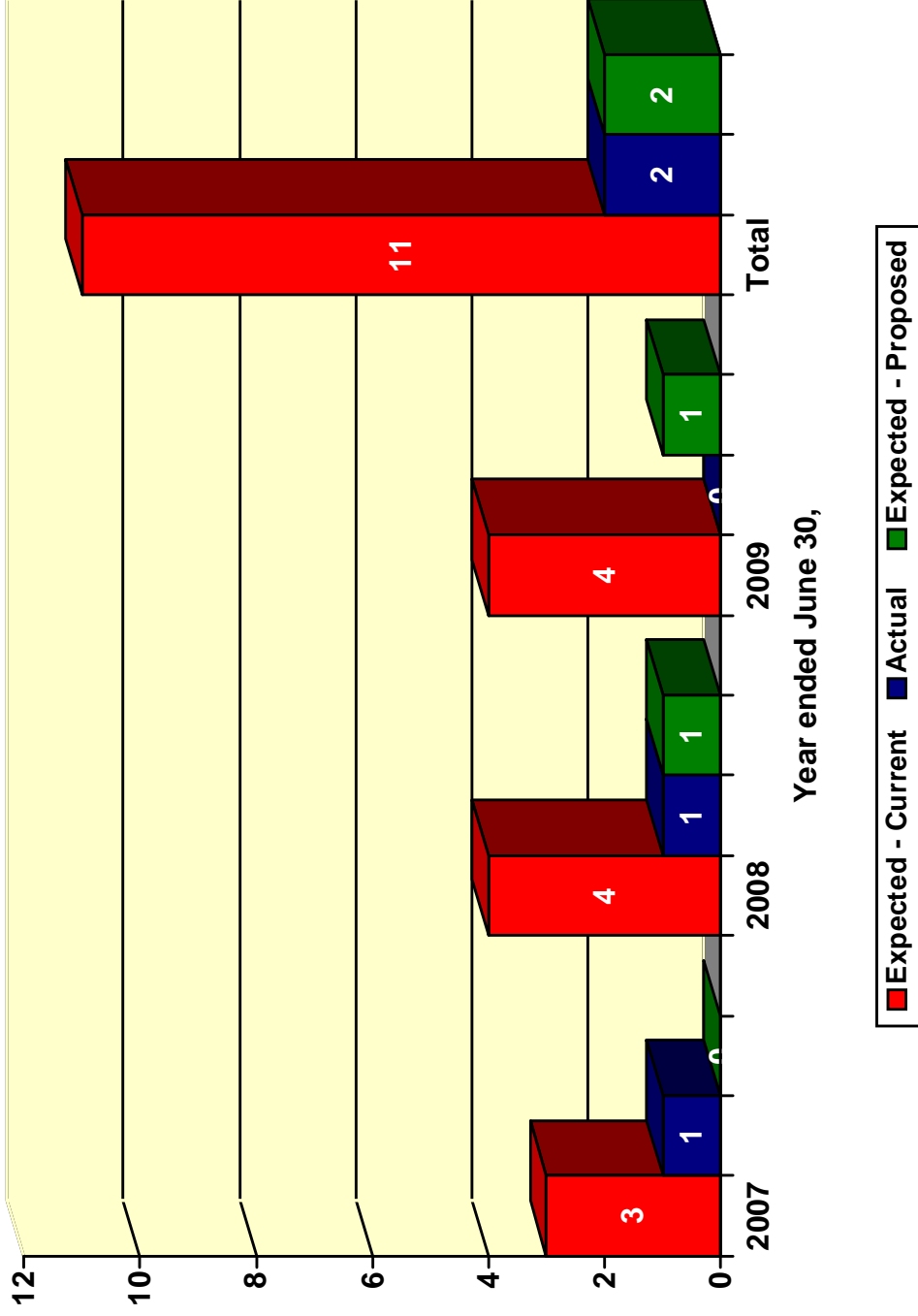
Chart 9 compares actual to expected deaths under both the current and the proposed assumptions for disabled Safety members over the last three years.

Chart 10 and 11 show the life expectancies under both the current and the proposed tables for General and Safety, respectively.

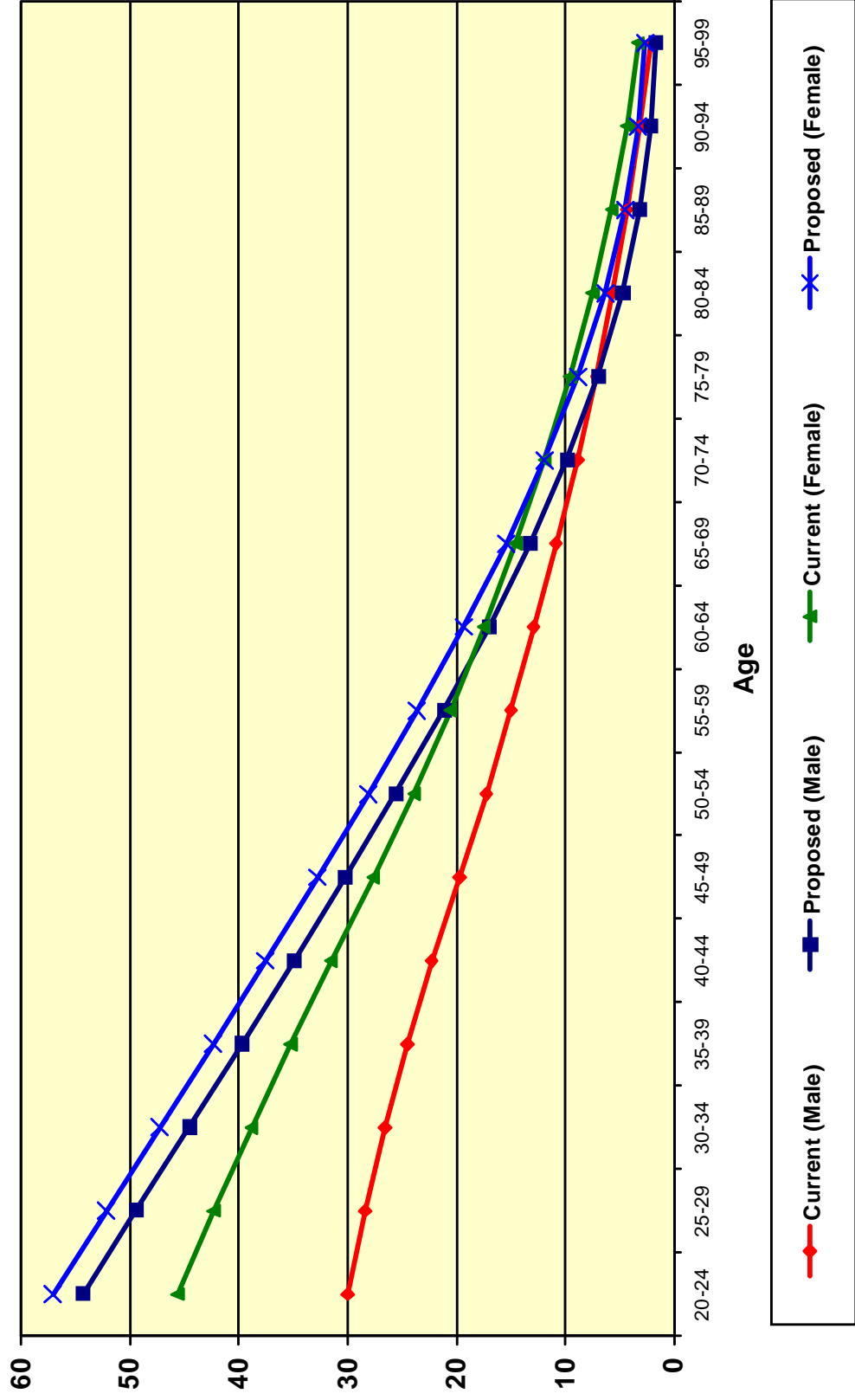
**Chart 8**  
**Post - Retirement Deaths**  
**Disabled General Members**



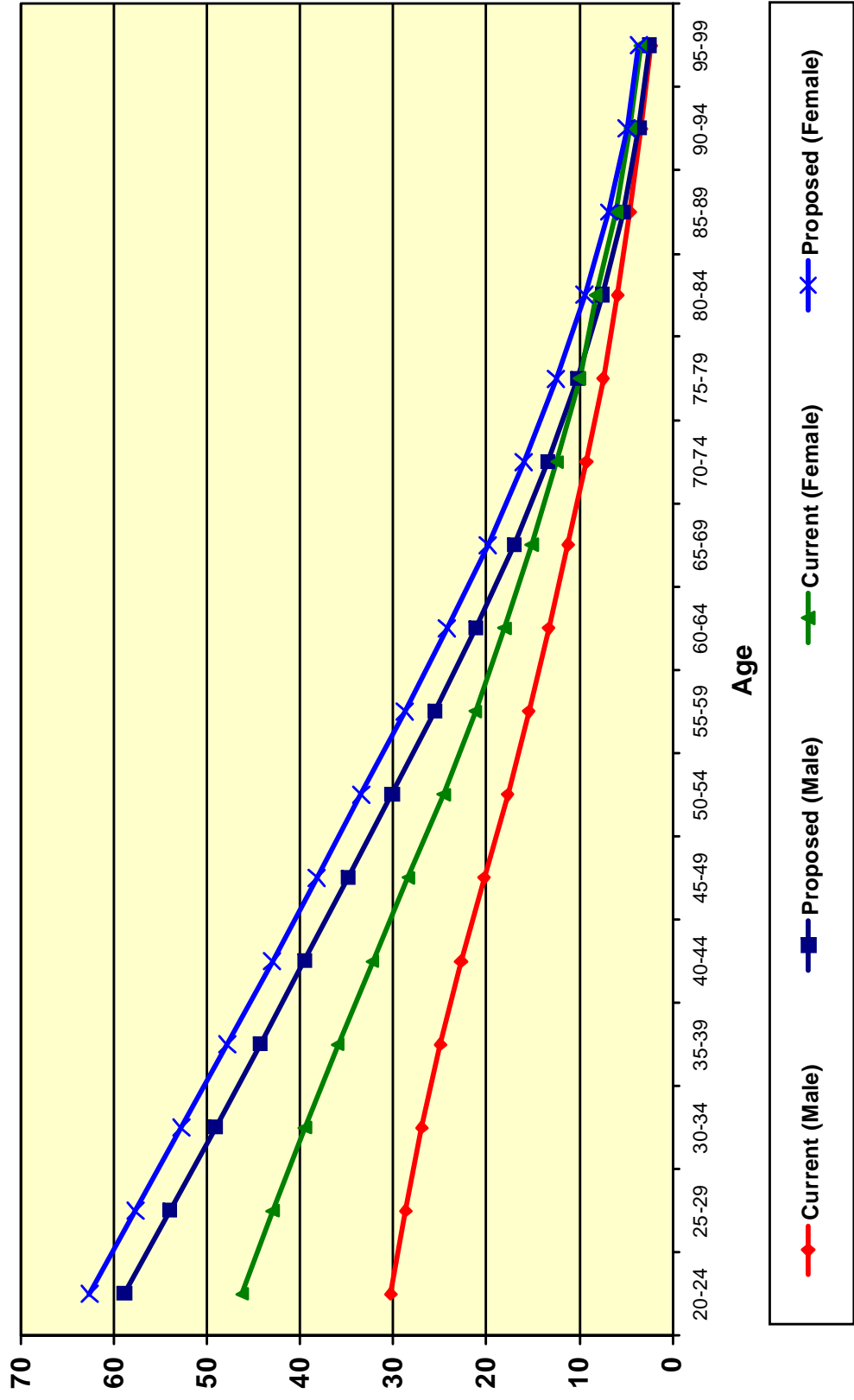
**Chart 9**  
**Post - Retirement Deaths**  
**Disabled Safety Members**



# Chart 10 Life Expectancies (Disabled General Members)



**Chart 11**  
**Life Expectancies (Disabled Safety Members)**



**E. TERMINATION RATES**

Termination rates include all terminations for reasons other than death, disability, or retirement. Under the current assumptions there is an overall assumed incidence of total termination combined with a separate assumption for the percent of members who would elect a refund of contributions versus a deferred retirement benefit. The termination experience (total) over the last three years for General and Safety members separated between those members with under five years of service and those with five or more years of service is as follows:

**Rates of Termination (General Male)**  
(Fewer than Five Years of Service)

<b>Years of Service</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
0	10.00%	23.96%	17.00%
1	7.00	3.09	6.00
2	7.00	3.10	6.00
3	6.00	1.44	6.00
4	6.00	16.59	6.00

**Rates of Termination (General Female)**  
(Fewer than Five Years of Service)

<b>Years of Service</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
0	11.00%	22.60%	17.00%
1	9.00	2.31	6.00
2	7.00	2.50	6.00
3	6.00	2.54	6.00
4	6.00	19.10	6.00

**Rates of Termination (Safety)**  
(Fewer than Five Years of Service)

<b>Years of Service</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
0	9.00%	32.18%	17.00%
1	6.00	1.22	4.00
2	5.00	0.63	4.00
3	4.00	1.46	4.00
4	4.00	5.16	4.00

**Rates of Termination (General Male)**

(Five or More Years of Service)

<b>Age</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
20 – 24	5.00%	0.00%	6.00%
25 – 29	5.00	7.61	6.00
30 – 34	5.00	3.36	5.00
35 – 39	4.50	4.62	4.50
40 – 44	4.50	4.22	4.25
45 – 49	4.00	2.42	4.00
50 – 54	3.00	7.53	3.50
55 – 59	2.00	7.50	3.00
60 – 64	2.00	8.77	3.00
65 – 69	0.00	13.89	1.00

**Rates of Termination (General Female)**

(Five or More Years of Service)

<b>Age</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
20 – 24	7.00%	0.00%	7.50%
25 – 29	7.00	8.33	7.50
30 – 34	7.00	6.66	7.00
35 – 39	5.50	4.42	5.00
40 – 44	4.50	3.62	4.50
45 – 49	4.00	3.16	4.00
50 – 54	3.00	6.65	3.50
55 – 59	2.00	5.37	3.00
60 – 64	2.00	8.29	3.00
65 – 69	0.00	7.14	1.00

**Rates of Termination (Safety)**  
(Five or More Years of Service)

Age	Current Rate	Observed Rate	Proposed Rate
20 – 24	4.00%	0.00%	4.00%
25 – 29	4.00	4.65	4.00
30 – 34	3.50	1.86	3.50
35 – 39	3.00	1.94	3.00
40 – 44	2.50	2.23	2.50
45 – 49	1.00	1.90	1.00
50 – 54	1.00	21.05	1.00
55 – 59	0.00	5.56	1.00
60 – 64	0.00	18.18	0.00

Chart 12 compares actual to expected total terminations over the past three years for both the current and the proposed assumptions for General Male and Female members and Safety members.

Chart 13 shows the current along with the proposed termination rates for General Male members with less than five years of service.

Chart 14 shows the same information as Chart 13, but for General Female members.

Chart 15 shows the same information as Chart 13, but for Safety members.

Chart 16 shows the current along with the proposed termination rates for General Male members with five or more years of service.

Chart 17 shows the same information as Chart 16, but for General Female members.

Chart 18 shows the same information as Chart 16, but for Safety members

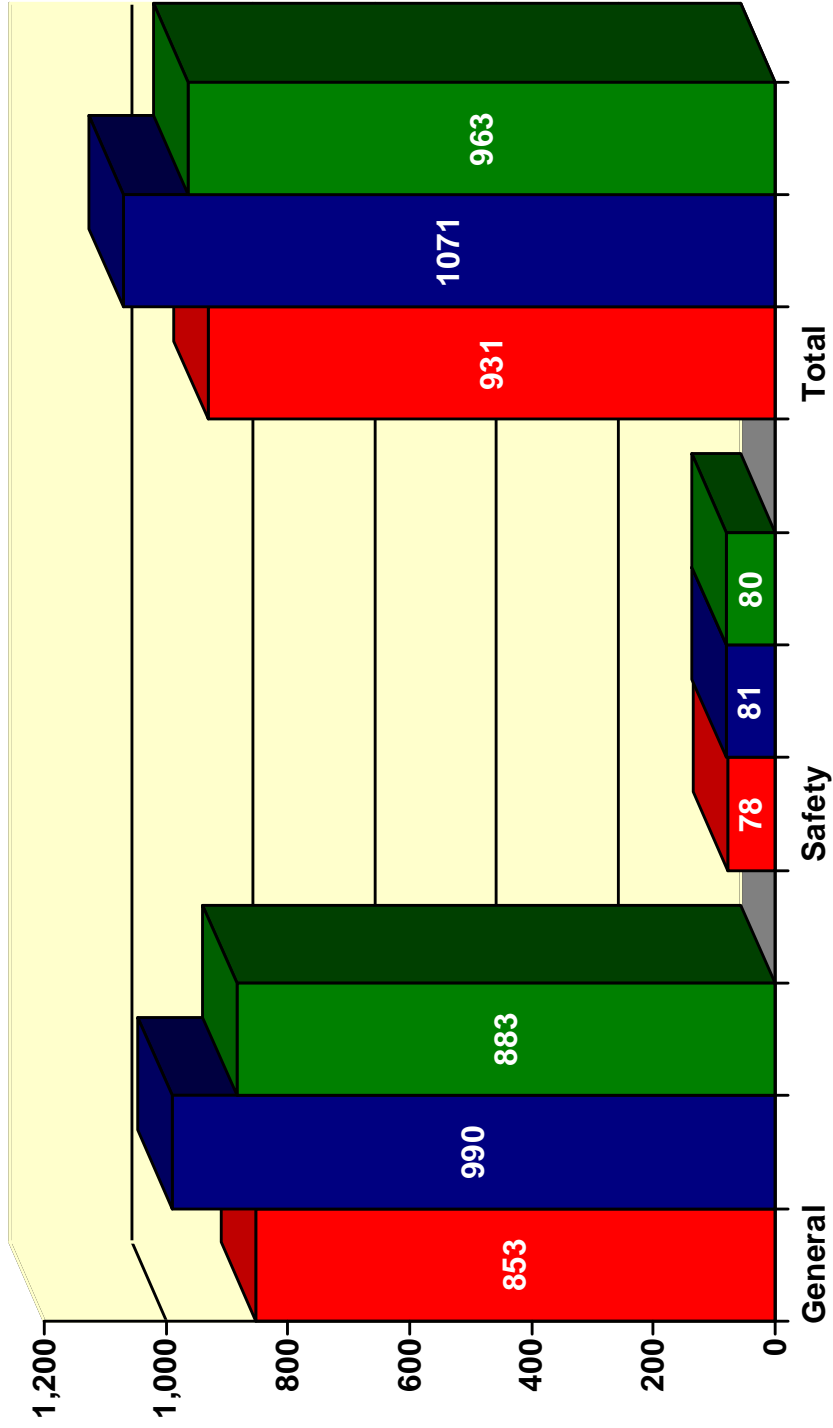
Based upon the recent experience, the terminations rates for General and Safety members have been increased in most cases. In addition, among the terminations, we recommend the following assumptions for the percent of members electing a refund and the percent of members electing to leave their contributions on deposit so that they would be eligible to receive a deferred retirement benefit.

**Proportion of Total Termination Assumed to Receive Refunds and Deferred Vested Benefit (%)**

Years of Service	Refunds			Deferred Vested Benefits		
	Current Rate	Observed Rate	Proposed Rate	Current Rate	Observed Rate	Proposed Rate
0-4	85.00%	91.02%	90.00%	15.00%	8.98%	10.00%
5-9	30.00	27.57	30.00	70.00	72.43	70.00
10-14	30.00	24.00	30.00	70.00	76.00	70.00
15-19	30.00	28.26	30.00	71.00	71.74	70.00
20 or more	30.00	38.46	30.00	70.00	61.54	70.00

We will continue to assume that all termination rates are zero at any age where members are eligible and assumed to retire. That means that, at these ages, the members will either retire (and commence receiving a benefit) or continue working.

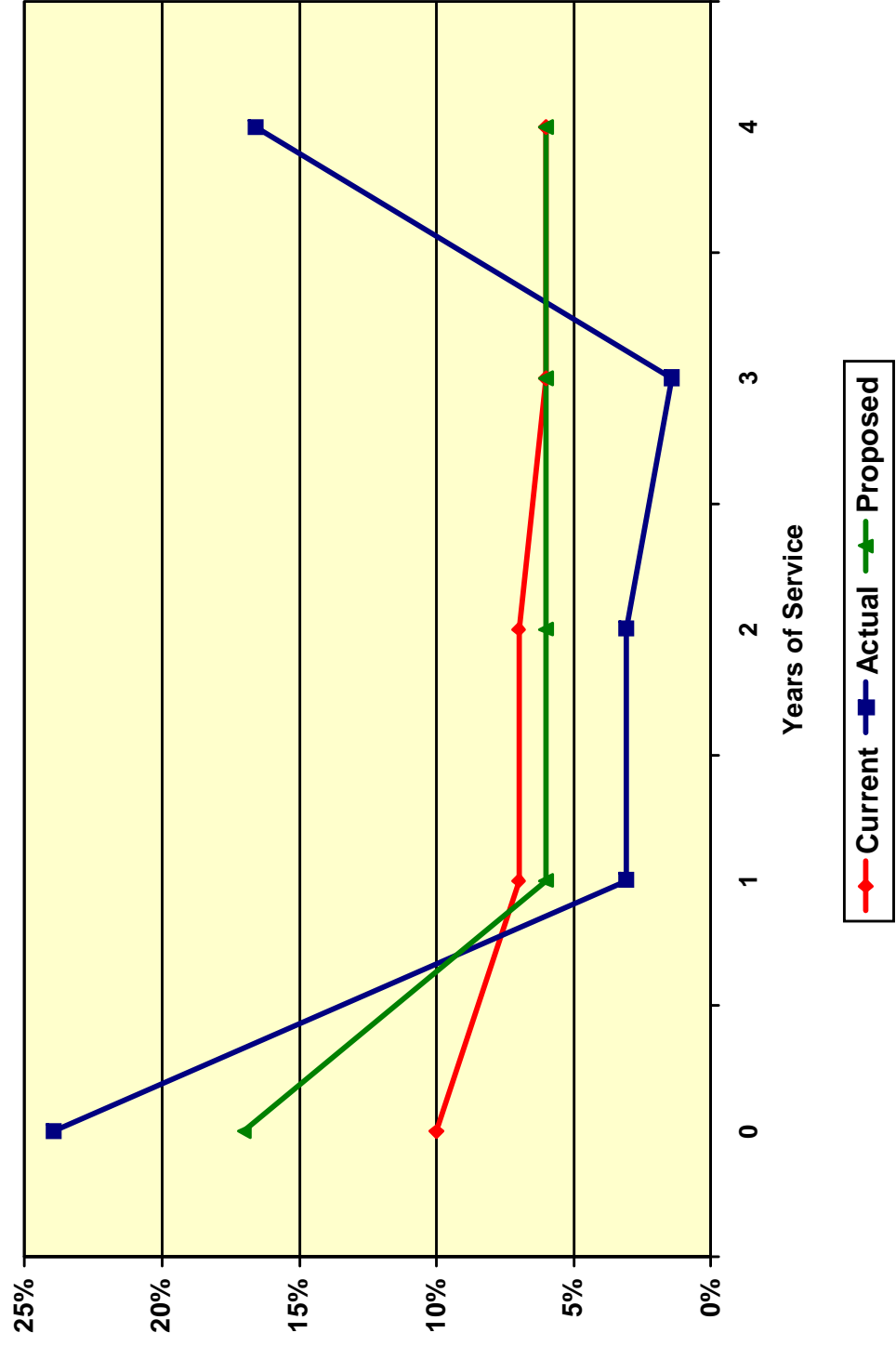
**Chart 12**  
**Actual Number of Terminations Compared to Expected**



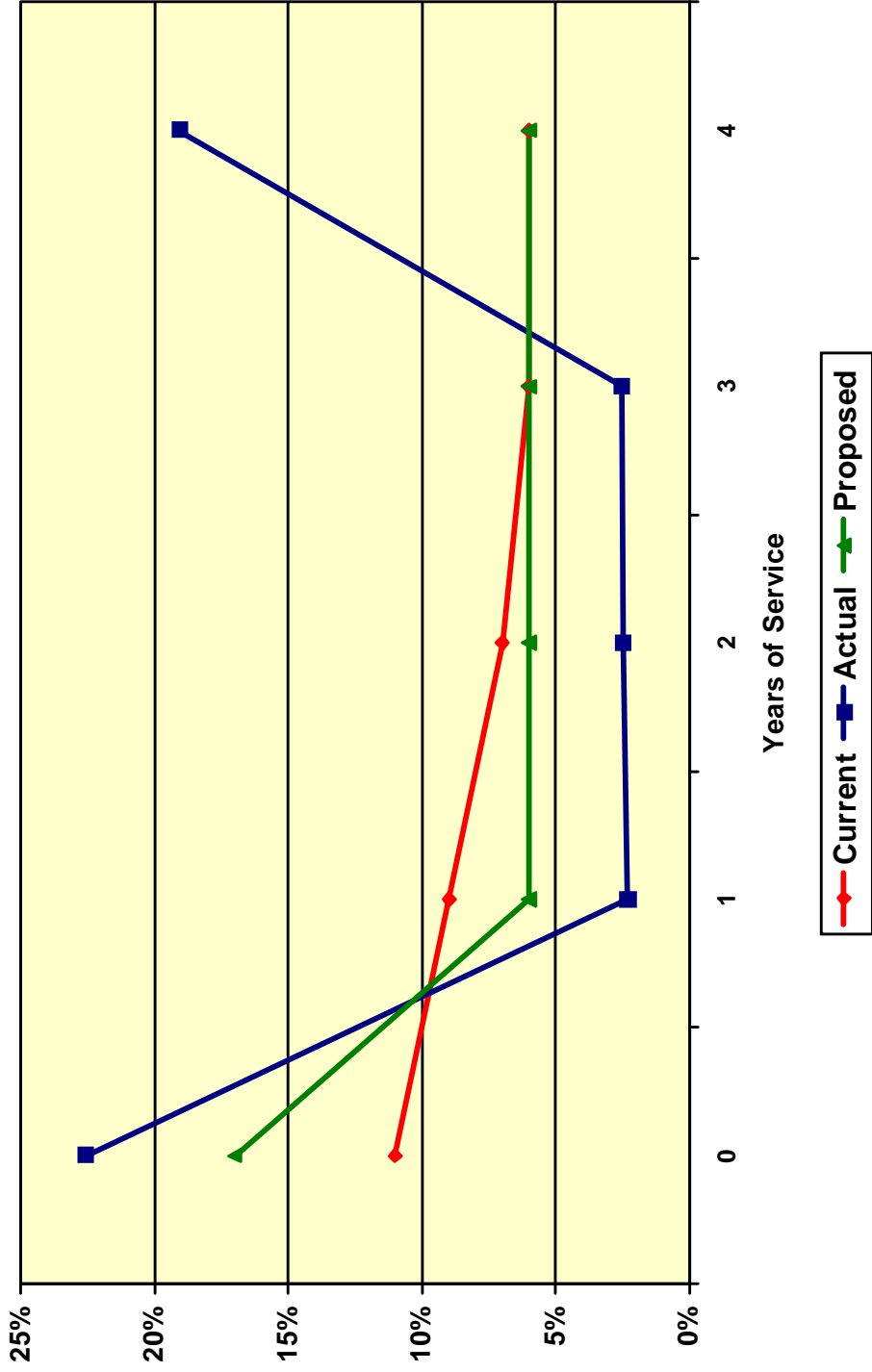
July 1, 2006 - June 30, 2009



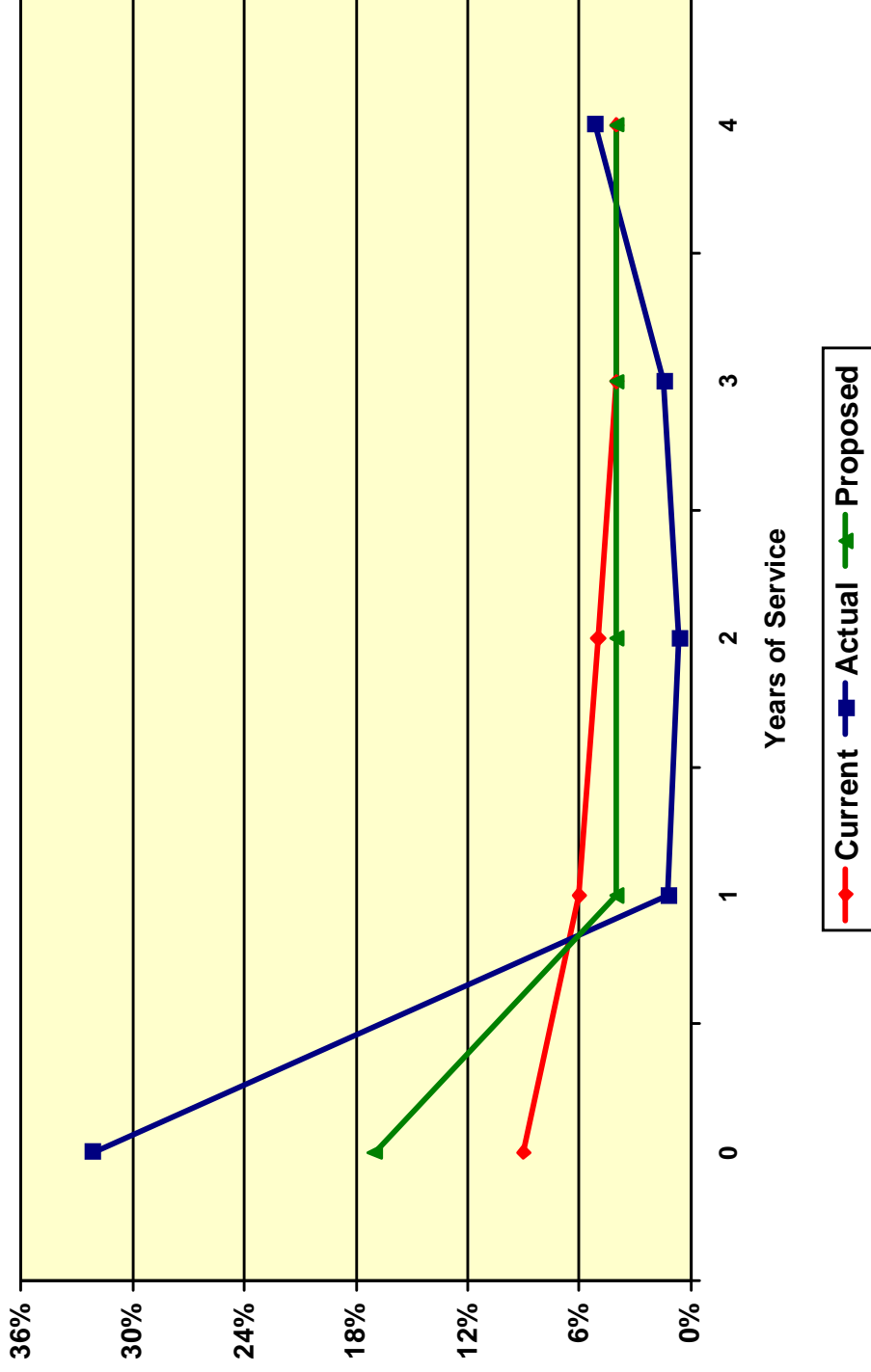
**Chart 13**  
**Termination Rates - General Male Members**  
**(Less than Five Years of Service)**



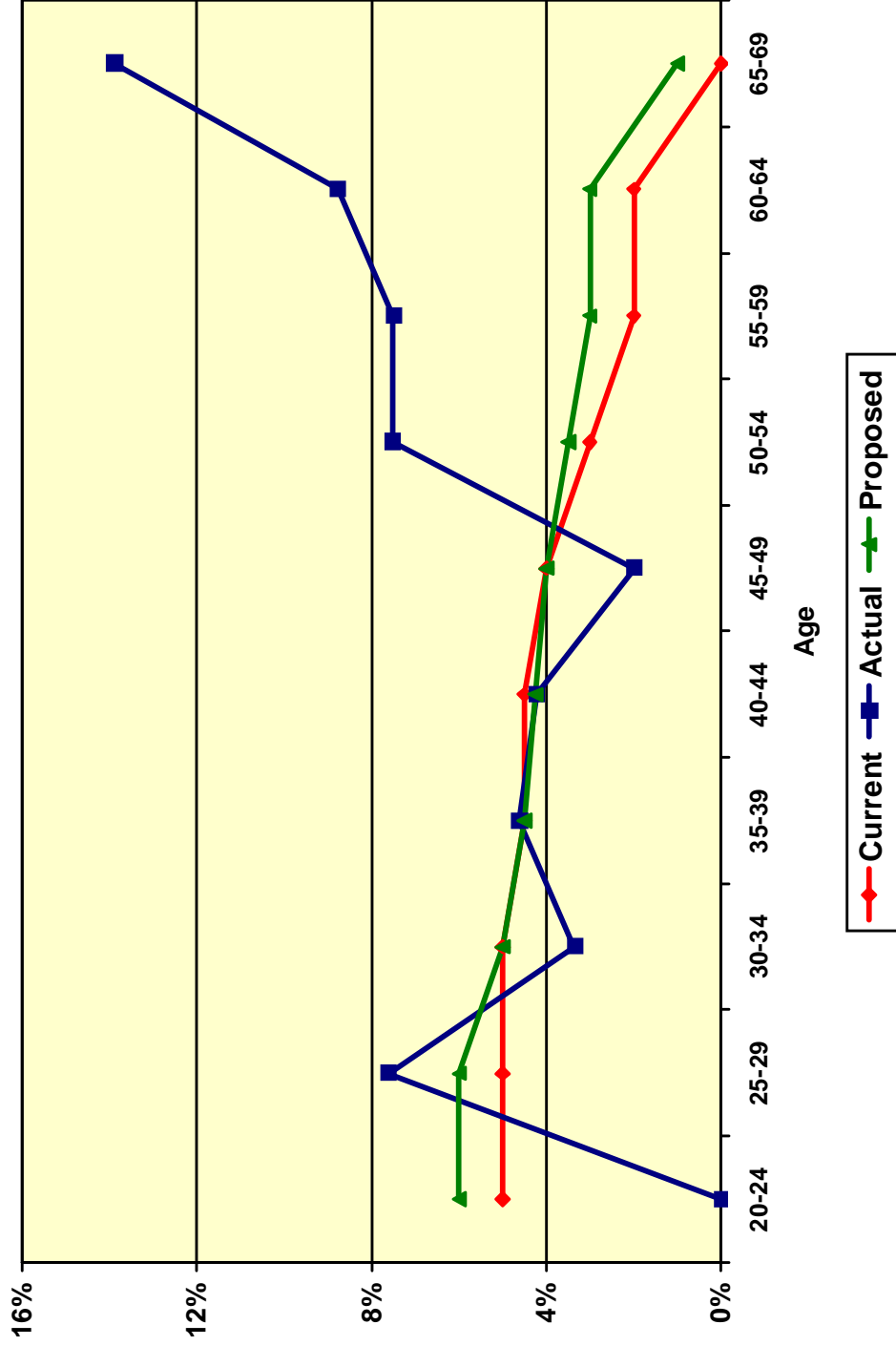
**Chart 14**  
**Termination Rates - General Female Members**  
**(Less Than Five Years of Service)**



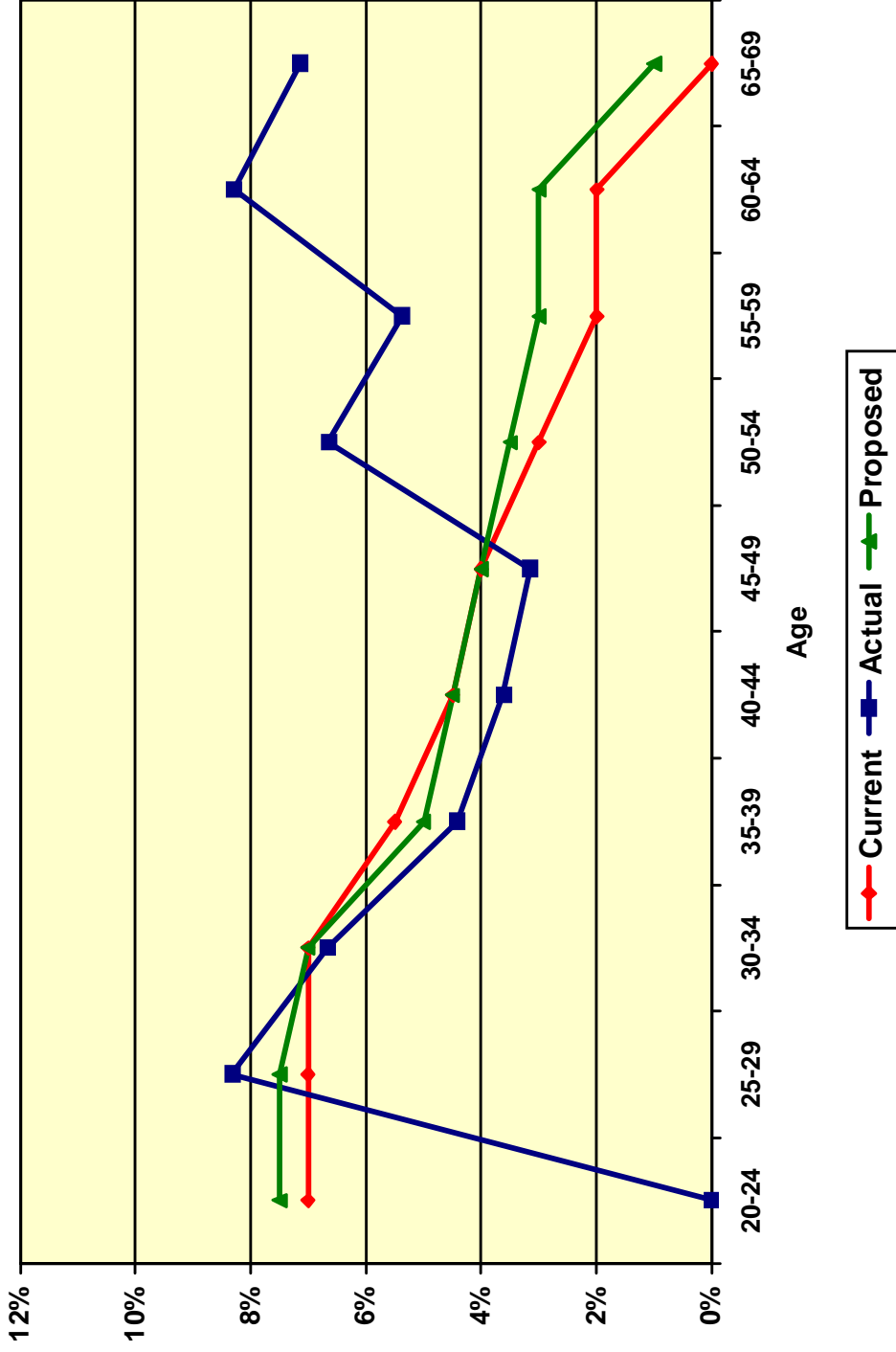
**Chart 15**  
**Termination Rates - Safety Members**  
**(Less Than Five Years of Service)**



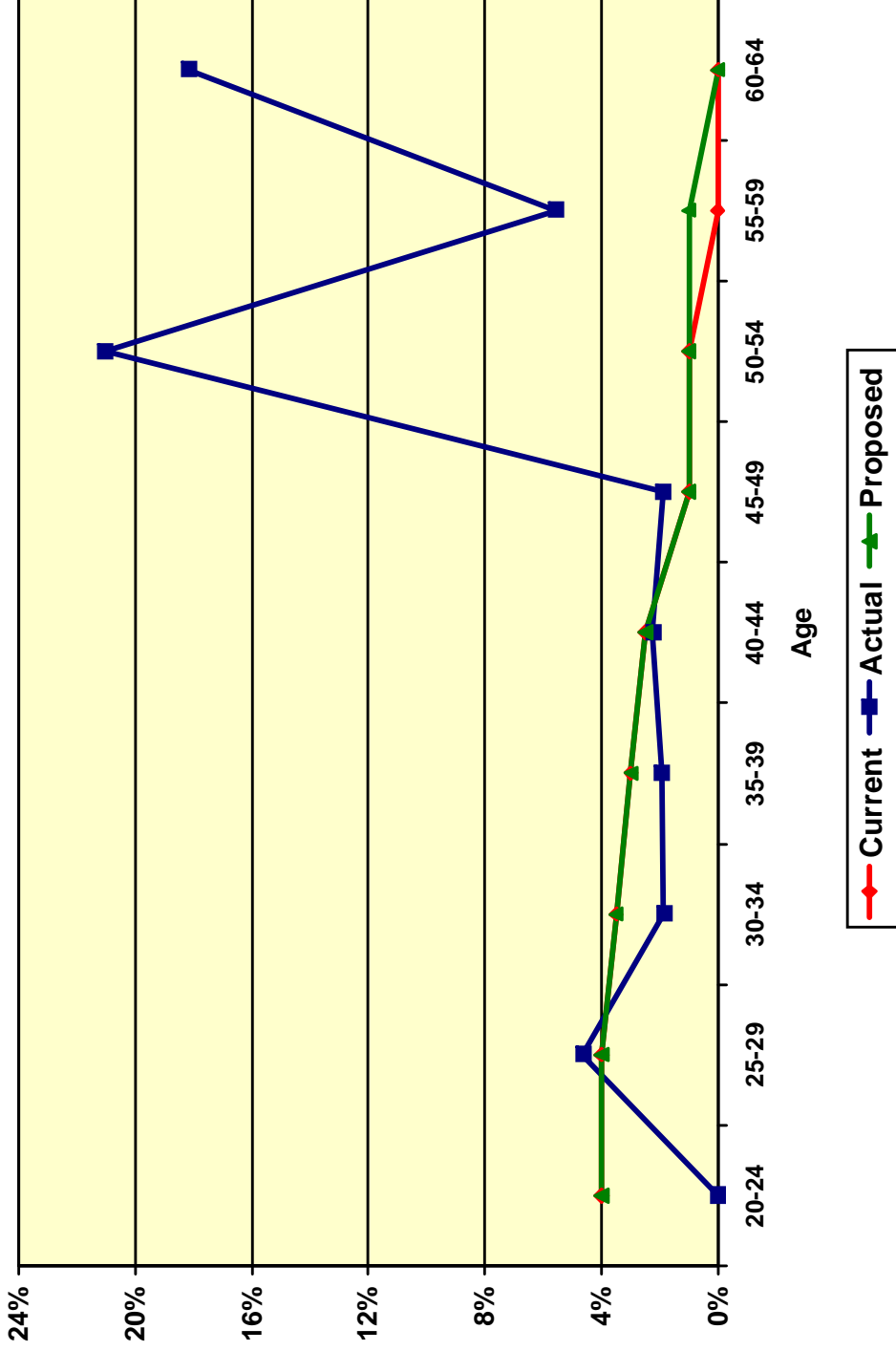
**Chart 16**  
**Termination Rates - General Male Members**  
**(Five or More Years of Service)**



**Chart 17**  
**Termination Rates - General Female Members**  
**(Five or More Years of Service)**



**Chart 18**  
**Termination Rates - Safety Members**  
**(Five or More Years of Service)**



**F. DISABILITY INCIDENCE RATES**

When a member becomes disabled, he or she may be entitled to a minimum 50% of pay pension (duty disability), or a pension that depends upon the member’s years of service (ordinary disability). The following summarizes the actual incidence of combined duty and ordinary disabilities over the past three years compared to the current and the proposed assumptions for combined duty and ordinary disability incidence:

**Rates of Disability Incidence (General Male)**

<b>Age</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
20 – 24	0.01%	0.00%	0.01%
25 – 29	0.02	0.00	0.01
30 – 34	0.02	0.00	0.02
35 – 39	0.03	0.00	0.03
40 – 44	0.07	0.00	0.07
45 – 49	0.25	0.41	0.25
50 – 54	0.35	0.09	0.30
55 – 59	0.50	0.00	0.40
60 – 64	1.20	0.99	1.00
65 – 69	0.00	1.23	0.00

**Rates of Disability Incidence (General Female)**

<b>Age</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
20 – 24	0.01%	0.00%	0.01%
25 – 29	0.02	0.00	0.02
30 – 34	0.02	0.00	0.02
35 – 39	0.08	0.00	0.08
40 – 44	0.12	0.00	0.12
45 – 49	0.15	0.26	0.18
50 – 54	0.20	0.15	0.20
55 – 59	0.30	0.24	0.30
60 – 64	0.50	0.28	0.50
65 – 69	0.00	0.68	0.00

**Rates of Disability Incidence (Safety)**

<b>Age</b>	<b>Current Rate</b>	<b>Observed Rate</b>	<b>Proposed Rate</b>
20 – 24	0.06%	0.00%	0.05%
25 – 29	0.13	0.00	0.15
30 – 34	0.25	0.39	0.30
35 – 39	0.45	0.52	0.50
40 – 44	0.70	0.39	0.60
45 – 49	0.90	0.25	0.70
50 – 54	1.40	0.68	1.10
55 – 59	3.00	2.42	3.00
60 – 64	0.00	4.00	0.00

Chart 19 compares the actual number of ordinary and duty disabilities over the past three years to that expected under both the current and the proposed assumptions. The current disability rates were slightly adjusted to reflect the past three years experience.

Chart 20 shows actual disablement rates, compared to the assumed and the proposed rates for General Male members.

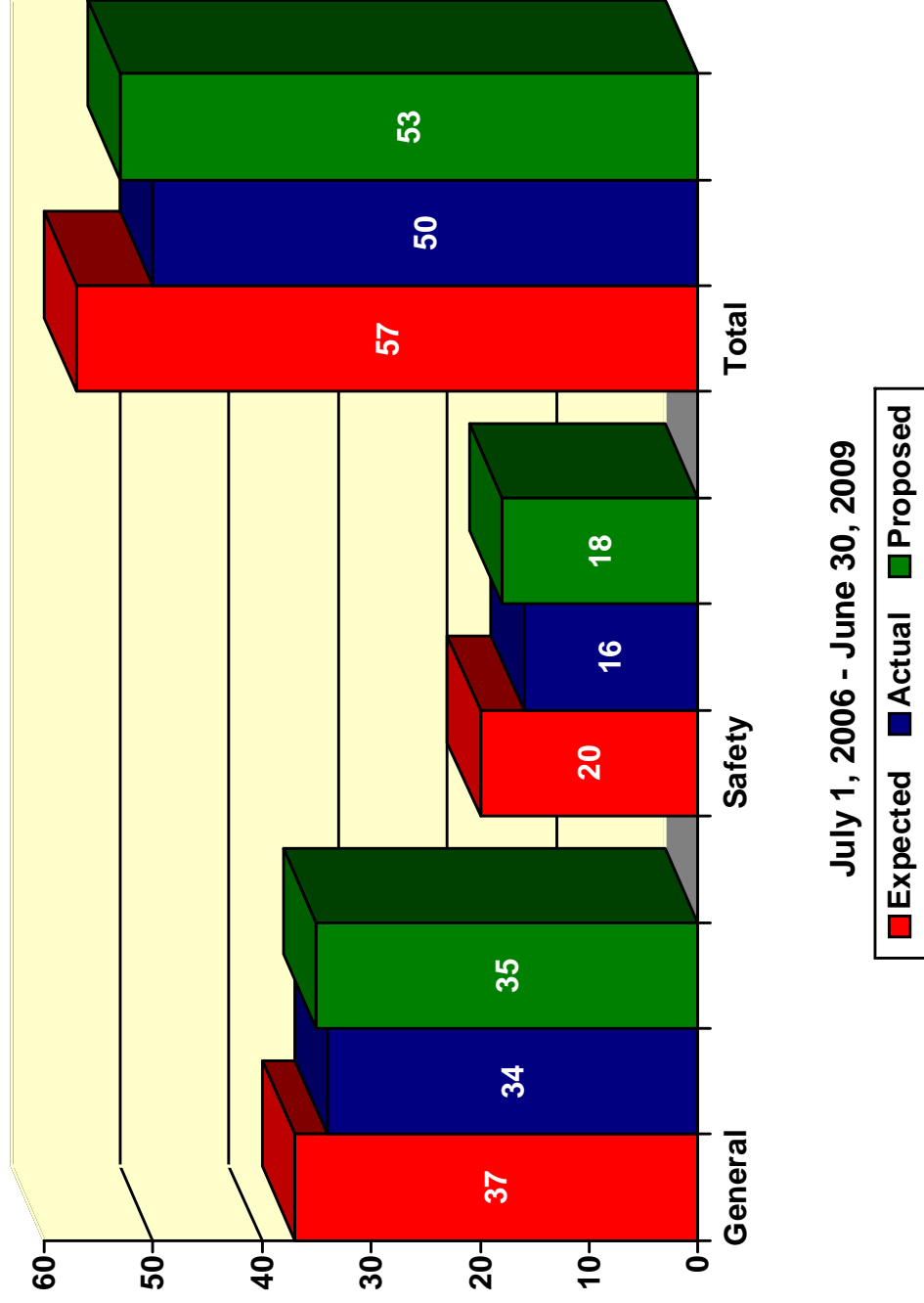
Chart 21 graphs the same information as Chart 20, but for General Female members.

Since 32% of disabled General members received a duty disability, we recommend that the current 33% assumption used to anticipate duty disability retirement be maintained. The remaining 67% of General disabled members will be assumed to receive an ordinary disability.

Chart 22 graphs the same information as Chart 20, but for Safety members.

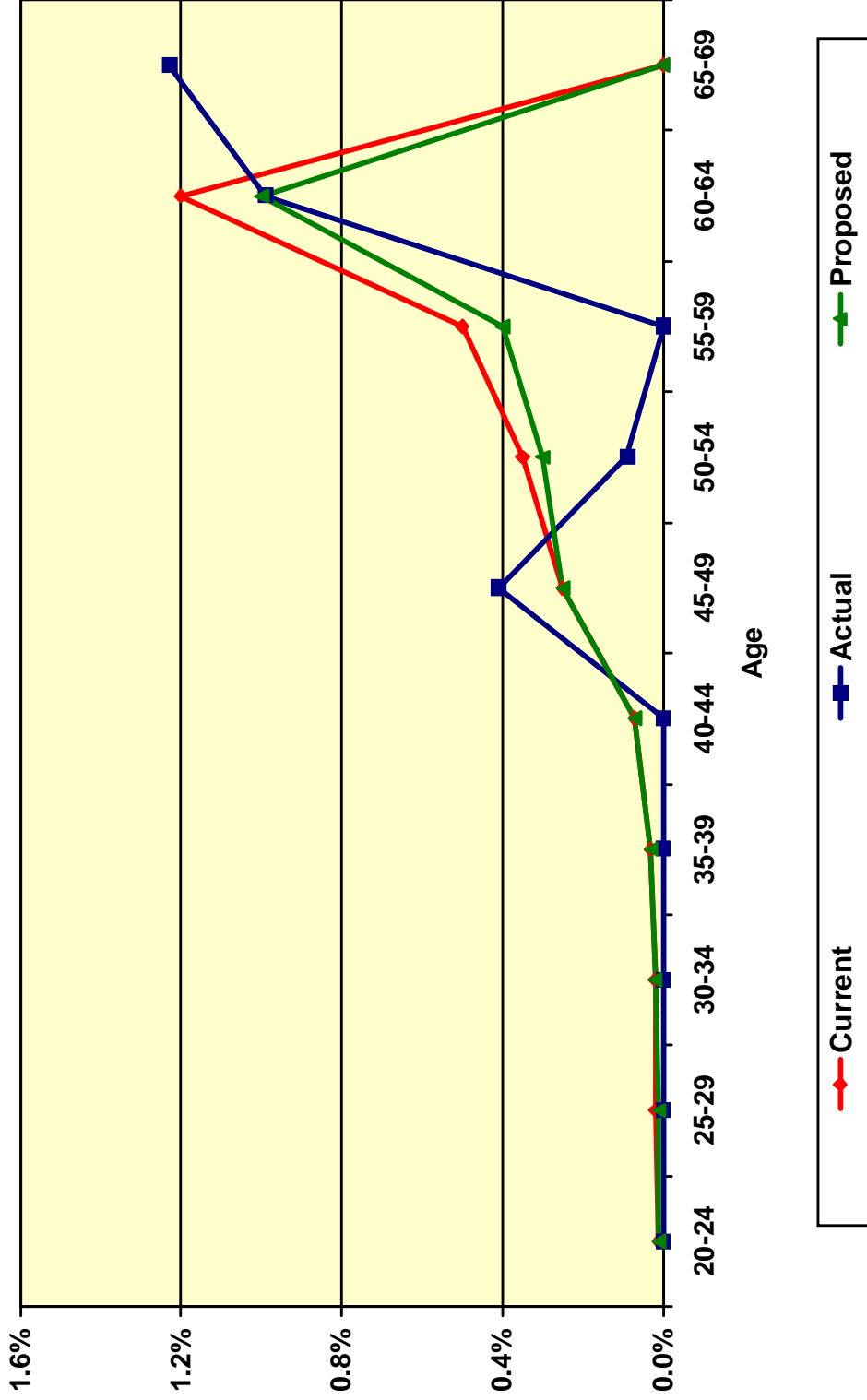
Since 100% of disabled Safety members received a duty disability, we recommend that the current 100% assumption used to anticipate duty disability retirement be maintained. No Safety disabled members will be assumed to receive an ordinary disability.

**Chart 19**  
**Actual Number of Disabilities Compared to Expected**

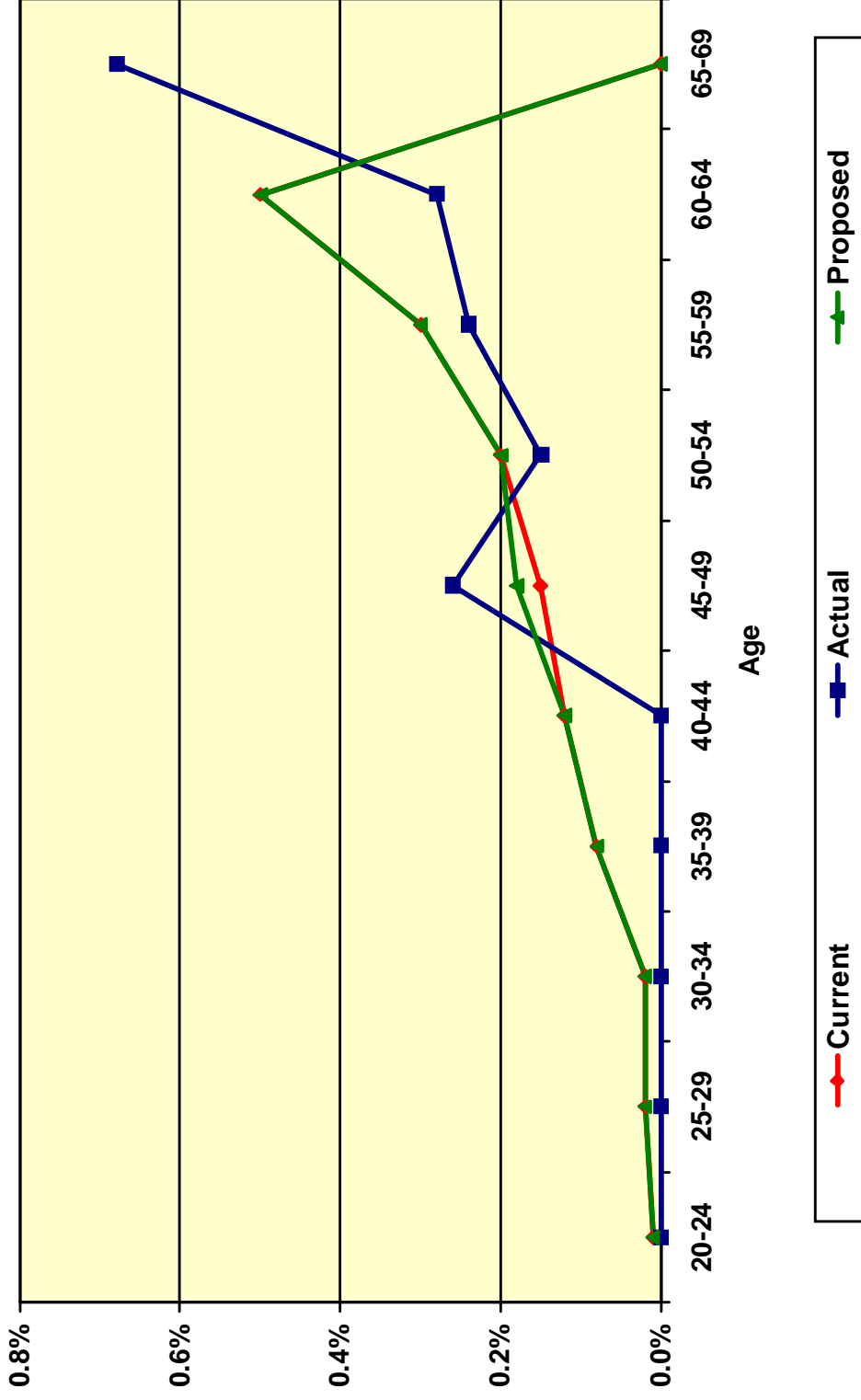


July 1, 2006 - June 30, 2009

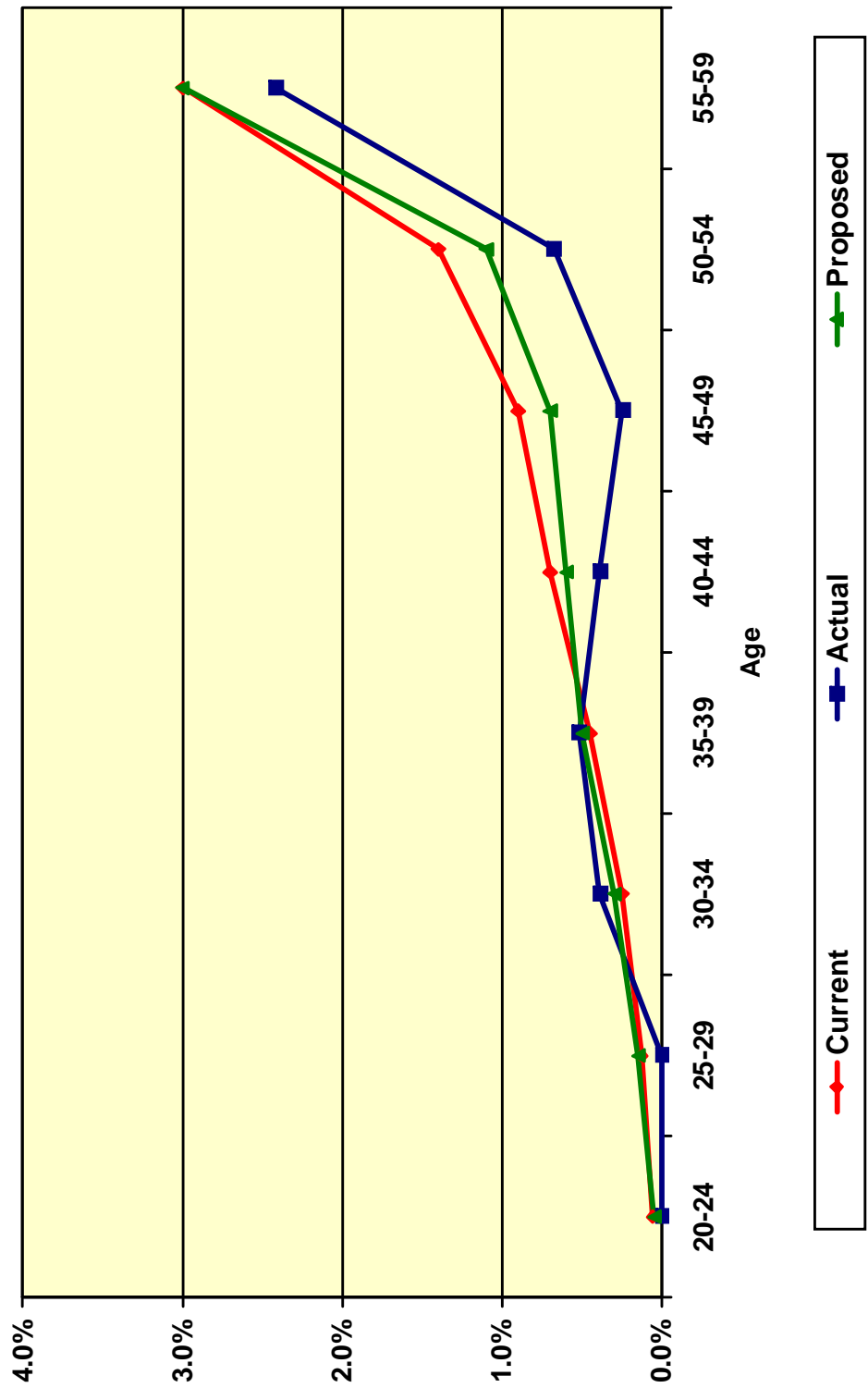
**Chart 20**  
**Disablement Rates for General Male Members**



**Chart 21**  
**Disablement Rates for General Female Members**



**Chart 22**  
**Disablement Rates for Safety Members**



## **G. MERIT AND PROMOTIONAL SALARY INCREASES**

The Association's retirement benefits are determined in large part by a member's compensation just prior to retirement. For that reason it is important to anticipate salary increases that employees will receive over their careers. These salary increases are made up of three components:

- Inflationary increases;
- Real "across the board" increases; and
- Merit and promotional increases.

The inflationary increases are assumed to follow the general inflation assumption discussed in our separate economic assumption report, where we recommended a 3.50% inflation assumption. We also discussed in that report our recommended assumption of 0.50% "across the board" pay increases. Therefore, the total inflation and real "across the board" increase of 4.00% is used as the assumed annual rate of payroll growth at which payments to the UAAL are assumed to increase.

The merit and promotional increases are determined by measuring the actual increases received by members over the experience period, net of the actual average inflationary and real "across the board" pay increases. Increases are measured separately for General and Safety members. This is accomplished by:

- Measuring each member's actual salary increase over each year of the experience period;
- Categorizing these increases into service groups;
- Removing the wage inflation component from these increases (equal to the increase in the members' average salary during the year);
- Averaging these annual increases over the three year experience period; and
- Modifying current assumptions to reflect some portion of these measured increases reflective of their "credibility."

We are recommending increases in the merit and promotional assumptions for both General and Safety members. The new assumptions raise the merit and promotional increase for members with eight or more years of service from an average of about 0.90% and 1.25% per year to an average of about 1.00% and 1.50% per year for General and Safety, respectively.

The following table shows the average increases over the three-year experience period (July 1, 2006 through June 30, 2009) before removing the actual inflationary and real wage increase component:

<b>Average Increase (%)</b>		
<b>Years of Service</b>	<b>General Members</b>	<b>Safety Members</b>
0	16.01	17.31
1	13.23	20.12
2	11.43	18.88
3	10.08	15.42
4	8.99	13.22
5	9.36	12.64
6	8.12	12.62
7	7.01	11.61
8 or more	6.20	10.65

The increase in average salary for all ages over this three-year period was about 4.80% for General members and 7.77% for Safety members. The following table shows the average merit and promotional increases for the three-year period, after removing the increases in average salary in each service category:

<b>Average Merit and Promotional Increase (%)</b>		
<b>Years of Service</b>	<b>General Members</b>	<b>Safety Members</b>
0	11.15	9.62
1	8.44	12.24
2	6.69	11.29
3	5.40	7.40
4	4.20	5.19
5	4.19	5.01
6	3.03	4.67
7	2.17	3.85
8 or more	1.44	2.72

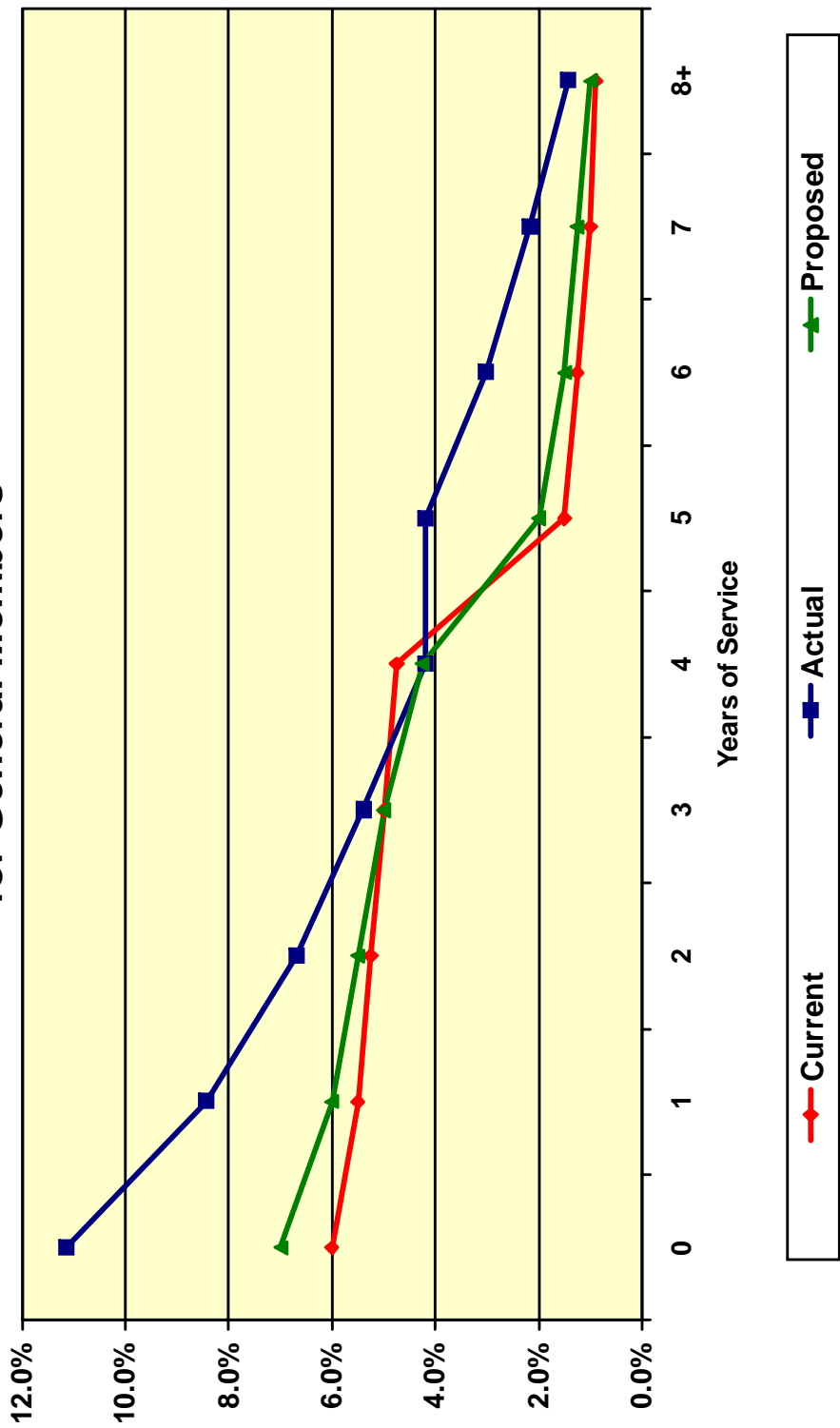
The following table shows the current and the proposed merit and promotional assumptions based on this recent experience:

**Current vs. Proposed Merit and Promotional Salary Increase (%)**

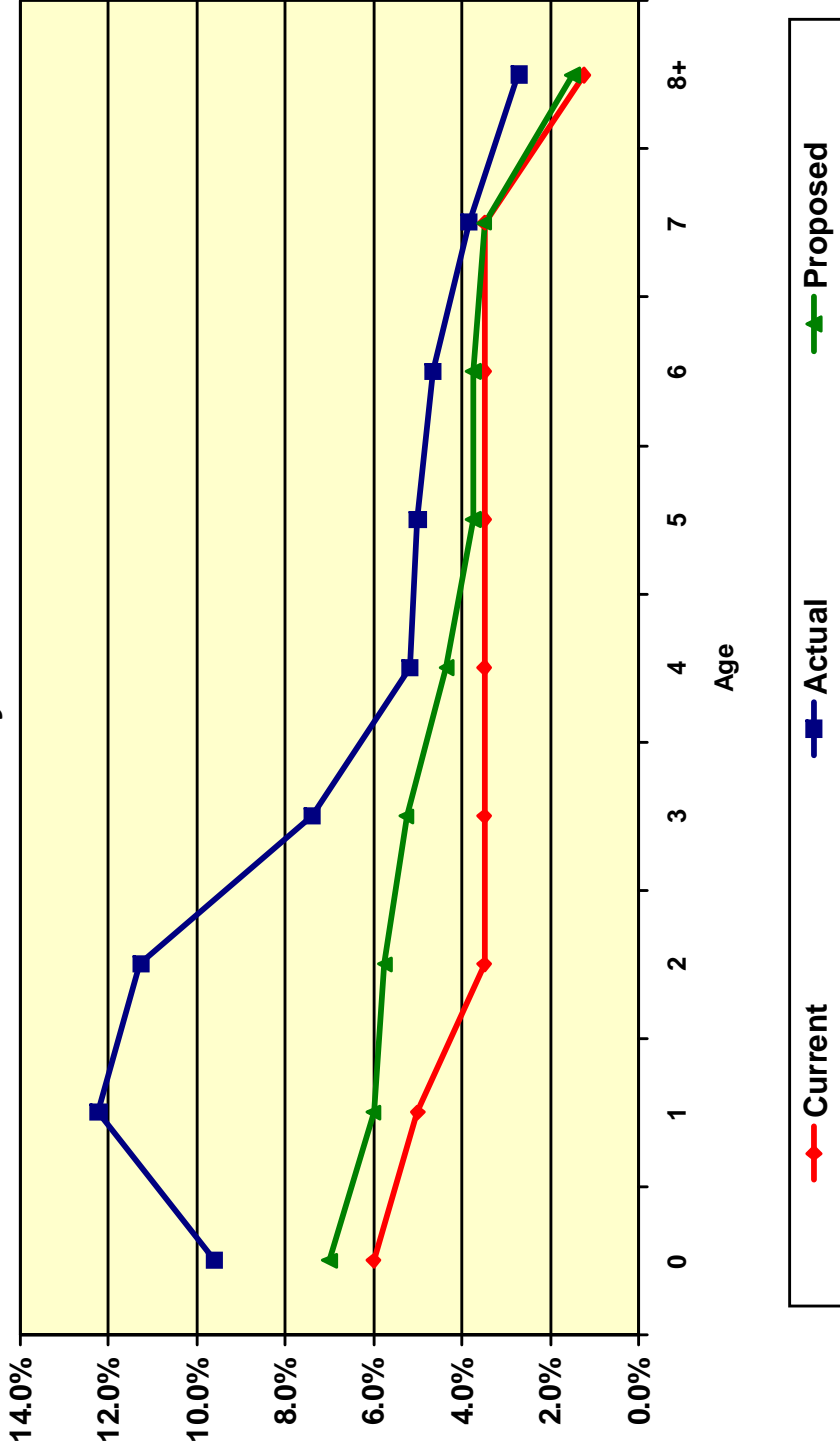
<b>Years of Service</b>	<b>General Members</b>		<b>Safety Members</b>	
	<b>Current</b>	<b>Proposed</b>	<b>Current</b>	<b>Proposed</b>
0	6.00	7.00	6.00	7.00
1	5.50	6.00	5.00	6.00
2	5.25	5.50	3.50	5.75
3	5.00	5.00	3.50	5.25
4	4.75	4.25	3.50	4.35
5	1.50	2.00	3.50	3.75
6	1.25	1.50	3.50	3.75
7	1.00	1.25	3.50	3.50
8 or more	0.90	1.00	1.25	1.50

Charts 23 and 24 provide a graphical comparison of the current, the actual and the proposed merit and promotional increases.

**Chart 23**  
**Merit and Promotional Salary Increase Rates**  
**for General Members**



**Chart 24**  
**Merit and Promotional Salary Increase Rates**  
**for Safety Members**



## H. ANNUAL LEAVE CONVERSION

At retirement, members can convert their unused annual leave to increase the service credit used in the calculation of their retirement benefit. The actuarial valuation anticipates this additional benefit using an assumption to estimate the number of hours of annual leave that will be converted at retirement.

We collected information on the actual amount of annual leave balance for actives as of June 30, 2009. Consistent with the structure of the current assumption, the actual annual leave balance was expressed as a number of hours per year of service.

The tables below show the actual hours of accumulated annual leave available at retirement.

	<b>Current</b>	<b>Actual</b>	<b>Proposed</b>
New Annual Leave Plan (5Y)	40.00	34.28	40.00
Annual Leave Plan II (5Y)	25.00	35.85	35.00
Vacation/Sick Leave Plan (General: 5Q, 5S and 5W)	20.00	23.09	20.00
Vacation/Sick Leave Plan (Safety: 5Q, 5S and 5W)	45.00	42.01	45.00

We understand that members in the Annual Leave Plan IV (5P) and Annual Leave Plan V (5N) are allowed to transfer hours to their Time Off Bank (5O). Since the hours in the Time Off Bank are frozen, with the exception of some one-time adjustments, we will continue to assume no future addition to the Time Off Bank hours and a member will only convert his/her frozen Time Off hours to service credit.

**APPENDIX A**  
**CURRENT ACTUARIAL ASSUMPTIONS**

**Mortality Rates:**

**Healthy:**

For General Members and all Beneficiaries: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers.

For Safety Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for blue collar workers set back two years.

**Disabled:**

For General Members: RP-2000 Disabled Annuitant Mortality Table set back one year.

For Safety Members: RP-2000 Disabled Annuitant Mortality Table set back two year.

**Member Contribution Rates:**

For General Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers weighted 1/3 male and 2/3 female.

For Safety Members: RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers set back two years weighted 5/6 male and 1/6 female.

**Termination Rates Before Retirement:**

Age	Rate (%)			
	Mortality			
	General <sup>(1)</sup>		Safety <sup>(2)</sup>	
	Male	Female	Male	Female
25	0.04	0.02	0.04	0.02
30	0.04	0.03	0.04	0.02
35	0.06	0.05	0.09	0.04
40	0.90	0.06	0.13	0.07
45	0.13	0.10	0.16	0.12
50	0.20	0.16	0.21	0.17
55	0.33	0.26	0.33	0.24
60	0.56	0.47	0.64	0.38
65	1.11	0.87	1.23	0.80

(1) All pre-retirement deaths are assumed to be non-service connected.

(2) Rates shown are for non-service deaths. An additional 0.10% per year is used to predict service connected death for Safety members (male and female).

**Termination Rates Before Retirement (continued):**

<b>Age</b>	<b>Rate (%)</b>		
	<b>Disability</b>		
	<b>General<sup>(1)</sup></b>		<b>Safety<sup>(2)</sup></b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
20	0.01	0.01	0.01
25	0.01	0.01	0.10
30	0.02	0.02	0.20
35	0.02	0.06	0.37
40	0.05	0.10	0.60
45	0.18	0.14	0.82
50	0.31	0.18	1.20
55	0.44	0.26	2.36
60	0.92	0.42	1.20

*(1) One-third of General disabilities are assumed to be duty disabilities. The other two-thirds are assumed to be ordinary disabilities.*

*(2) 100% of Safety disabilities are assumed to be duty disabilities.*

**Termination Rates Before Retirement (continued):**

**Rate (%)**

**Total Termination (< 5 Years of Service)**

<b>Years of Service</b>	<b>General</b>		<b>Safety</b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
0	10.00	11.00	9.00
1	7.00	9.00	6.00
2	7.00	7.00	5.00
3	6.00	6.00	4.00
4	6.00	6.00	4.00

**Rate (%)**

**Total Termination (5+ Years of Service)**

<b>Age</b>	<b>General</b>		<b>Safety</b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
20	5.00	7.00	4.00
25	5.00	7.00	4.00
30	5.00	7.00	3.70
35	4.70	6.10	3.20
40	4.50	4.90	2.70
45	4.20	4.20	1.60
50	3.40	3.40	1.00
55	2.40	2.40	0.00
60	2.00	2.00	0.00

**Proportion of Total Termination Assumed to  
Receive Refunds and Deferred Vested Benefits (%)**

<b>Years of Service</b>	<b>Refunds</b>	<b>Deferred Vested Benefits</b>
0-4	85.00	15.00
5-9	30.00	70.00
10-14	30.00	70.00
15-19	30.00	70.00
20 or more	30.00	70.00

**Retirement Rates:**

Age	Rate (%)				
	General Tier 1 Male	General Tier 1 Female	General Tier 2 Male & Female	General Tier 3 Male & Female	Safety Tiers 1 and 2 Male & Female
45	0.00	0.00	0.00	0.00	1.00
46	0.00	0.00	0.00	0.00	1.00
47	0.00	0.00	0.00	0.00	1.00
48	0.00	0.00	0.00	0.00	1.00
49	0.00	0.00	0.00	0.00	3.00
50	4.00	4.00	3.00	3.00	5.00
51	4.00	4.00	3.00	3.00	6.00
52	4.00	4.00	3.60	3.60	9.00
53	4.00	4.00	3.60	3.60	14.00
54	4.00	4.00	4.20	4.20	25.00
55	7.00	10.00	8.40	8.40	45.00
56	11.00	12.00	10.00	10.00	35.00
57	16.00	12.00	10.00	10.00	25.00
58	20.00	15.00	10.00	10.00	30.00
59	25.00	16.00	10.00	15.00	40.00
60	30.00	22.00	15.00	19.20	100.00
61	30.00	25.00	15.00	19.20	100.00
62	34.00	40.00	25.00	34.20	100.00
63	34.00	25.00	24.00	23.70	100.00
64	34.00	22.00	24.00	23.70	100.00
65	43.00	30.00	35.00	43.30	100.00
66	48.00	35.00	34.00	33.30	100.00
67	53.00	40.00	34.00	33.30	100.00
68	60.00	45.00	35.00	40.00	100.00
69	70.00	50.00	35.00	46.70	100.00
70	100.00	100.00	100.00	100.00	100.00

**Retirement Age and Benefit for  
Deferred Vested Members:**

For current deferred vested members, we make the following retirement assumption:

General:	Age 58
Safety:	Age 55

We assume that 40% of future General and 55% of future Safety deferred vested members will continue to work for a reciprocal employer. For these members, we assume 4.90% and 5.25% compensation increases per annum for General and Safety members, respectively.

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**Future Benefit Accruals:**

1.0 year of service per year of employment.

**Unknown Data for Members:**

Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

**Percent Married:**

80% of male members; 55% of female members.

**Age of Spouse:**

Wives are 3 years younger than their husbands.

**Annual Leave Conversion:**

The following assumptions for service from unused annual leave balance at retirement are used:

*New Annual Leave Plan*

40 hours per year of service.

*Annual Leave Plan II*

25 hours per year of service.

*Vacation/Sick Leave Plans*

20 hours per year of service for General and 45 hours per year of service for Safety.

*Annual Leave IV Plan or  
the Old Annual Leave Plan*

Based on actual hours in a member's frozen time off bank.

**Net Investment Return:**

8.00%; net of administration and investment expenses.

**Employee Contribution  
Crediting Rate:**

3.00%, compounded semi-annually.

**Consumer Price Index:**

Increase of 3.75% per year, retiree COLA increases due to CPI, subject to a 3.00% maximum charge per year for all General and Safety.

**Salary Increases:**

**Annual Rate of Compensation Increase (%)**

Inflation: 3.75%; plus “across the board” salary increases of 0.25% per year; plus the following merit and promotional increases.

<b>Service</b>	<b>General</b>	<b>Safety</b>
0	6.00	6.00
1	5.50	5.00
2	5.25	3.50
3	5.00	3.50
4	4.75	3.50
5	1.50	3.50
6	1.25	3.50
7	1.00	3.50
8 or more	0.90	1.25

## APPENDIX B

### PROPOSED ACTUARIAL ASSUMPTIONS

**Mortality Rates:**

**Healthy:**

For General Members and all Beneficiaries: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers set back two years.

For Safety Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for blue collar workers set back three years.

**Disabled:**

For General Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers set forward four years.

For Safety Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white blue collar workers set back three years.

**Member Contribution Rates:**

For General Members: RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers set back two years weighted 35% male and 65% female set back two years.

For Safety Members: RP-2000 Healthy Annuitant Mortality Table with adjustment for blue collar workers set back three years weighted 80% male and 20% female.

**Termination Rates Before Retirement:**

Rate (%)				
Mortality				
Age	General <sup>(1)</sup>		Safety <sup>(1)</sup>	
	Male	Female	Male	Female
25	0.04	0.02	0.04	0.02
30	0.04	0.02	0.04	0.02
35	0.05	0.04	0.09	0.04
40	0.08	0.06	0.12	0.06
45	0.11	0.08	0.15	0.11
50	0.17	0.13	0.20	0.16
55	0.27	0.21	0.30	0.22
60	0.45	0.37	0.56	0.34
65	0.85	0.68	1.08	0.68

*(1) All pre-retirement deaths are assumed to be ordinary deaths.*

**Termination Rates Before Retirement (continued):**

<b>Age</b>	<b>Rate (%)</b>		
	<b>Disability</b>		
	<b>General<sup>(1)</sup></b>		<b>Safety<sup>(2)</sup></b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
20	0.01	0.01	0.01
25	0.01	0.02	0.11
30	0.02	0.02	0.24
35	0.03	0.06	0.42
40	0.05	0.10	0.56
45	0.18	0.16	0.66
50	0.28	0.19	0.94
55	0.36	0.26	2.24
60	0.76	0.42	1.20

<sup>(1)</sup> One-third of General disabilities are assumed to be duty disabilities. The other two-thirds are assumed to be ordinary disabilities.

<sup>(2)</sup> 100% of Safety disabilities are assumed to be duty disabilities.

**Termination Rates Before Retirement (continued):**

**Rate (%)**  
**Total Termination (< 5 Years of Service)**

<b>Years of Service</b>	<b>General</b>		<b>Safety</b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
0	17.00	17.00	17.00
1	6.00	6.00	4.00
2	6.00	6.00	4.00
3	6.00	6.00	4.00
4	6.00	6.00	4.00

**Rate (%)**  
**Total Termination (5+ Years of Service)**

<b>Age</b>	<b>General</b>		<b>Safety</b>
	<b>Male</b>	<b>Female</b>	<b>Male and Female</b>
20	6.00	7.50	4.00
25	6.00	7.50	4.00
30	5.40	7.20	3.70
35	4.70	5.80	3.20
40	4.35	4.70	2.70
45	4.10	4.20	1.60
50	3.70	3.70	1.00
55	3.20	3.20	1.00
60	3.00	3.00	0.00

**Proportion of Total Termination Assumed to  
Receive Refunds and Deferred Vested Benefits (%)**

<b>Years of Service</b>	<b>Refunds</b>	<b>Deferred Vested Benefits</b>
0-4	90.00	10.00
5-9	30.00	70.00
10-14	30.00	70.00
15-19	30.00	70.00
20 or more	30.00	70.00

**Retirement Rates:**

Age	Rate (%)				
	General Tier 1 Male	General Tier 1 Female	General Tier 2 Male & Female	General Tier 3 Male & Female	Safety Tiers 1 and 2 Male & Female
45	0.00	0.00	0.00	0.00	1.00
46	0.00	0.00	0.00	0.00	1.00
47	0.00	0.00	0.00	0.00	1.00
48	0.00	0.00	0.00	0.00	1.00
49	0.00	0.00	0.00	0.00	3.00
50	3.00	4.00	3.00	3.00	5.00
51	3.00	4.00	3.00	3.00	5.00
52	3.00	4.00	3.60	3.60	8.00
53	4.00	4.00	3.60	3.60	15.00
54	4.00	5.00	4.20	4.20	25.00
55	9.00	10.00	8.40	8.40	35.00
56	13.00	12.00	10.00	10.00	25.00
57	17.00	13.00	10.00	10.00	25.00
58	20.00	15.00	10.00	10.00	25.00
59	20.00	16.00	10.00	15.00	30.00
60	30.00	18.00	15.00	19.20	100.00
61	30.00	22.00	15.00	19.20	100.00
62	30.00	25.00	25.00	34.20	100.00
63	30.00	25.00	24.00	23.70	100.00
64	30.00	25.00	24.00	23.70	100.00
65	40.00	35.00	35.00	43.30	100.00
66	50.00	35.00	34.00	33.30	100.00
67	50.00	40.00	34.00	33.30	100.00
68	50.00	45.00	35.00	40.00	100.00
69	50.00	50.00	35.00	46.70	100.00
70	100.00	100.00	100.00	100.00	100.00

**Retirement Age and Benefit for  
Deferred Vested Members:**

For current deferred vested members, we make the following retirement assumption:

General: Age 58  
Safety: Age 55

We assume that 40% of future General and 60% of future Safety deferred vested members will continue to work for a reciprocal employer. For these members, we assume 5.00% and 5.50% compensation increases per annum for General and Safety members, respectively.

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**Future Benefit Accruals:**

1.0 year of service per year of employment.

**Unknown Data for Members:**

Same as those exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

**Percent Married:**

80% of male members; 55% of female members.

**Age of Spouse:**

Wives are 3 years younger than their husbands.

**Annual Leave Conversion:**

The following assumptions for service from unused annual leave balance at retirement are used:

*New Annual Leave Plan*

40 hours per year of service.

*Annual Leave Plan II*

35 hours per year of service.

*Vacation/Sick Leave Plans*

20 hours per year of service for General and 45 hours per year of service for Safety.

*Annual Leave IV Plan or  
the Old Annual Leave Plan*

Based on actual hours in a member's frozen time off bank.

**Net Investment Return:**

7.75%; net of administration and investment expenses.

**Employee Contribution  
Crediting Rate:**

3.00%, compounded semi-annually.

**Consumer Price Index:**

Increase of 3.50% per year, retiree COLA increases due to CPI subject to a 3.00% maximum charge per year for all General and Safety.

**Salary Increases:**

**Annual Rate of Compensation Increase (%)**

Inflation: 3.50%; plus “across the board” salary increases of 0.50% per year; plus the following merit and promotional increases.

<b>Service</b>	<b>General</b>	<b>Safety</b>
0	7.00	7.00
1	6.00	6.00
2	5.50	5.75
3	5.00	5.25
4	4.25	4.35
5	2.00	3.75
6	1.50	3.75
7	1.25	3.50
8 or more	1.00	1.50

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