Municipal Employees' Retirement System of Michigan (MERS)

City of Springfield (1303)

Projections of Employer Contributions Needed to Attain a Target Higher Funded Percentage in 5 or 15 Years

(Based on the December 31, 2009 Annual Actuarial Valuation)

Background

The December 31, 2009 annual actuarial valuation of MERS participation has been completed for City of Springfield. For each employee division, Table 16 in the valuation report displays the required employer contribution to MERS for the fiscal year starting July 1, 2011. That employer contribution requirement is based on MERS' amortization policy, as described in the Appendix of the valuation report under the heading Amortization of Unfunded Actuarial Accrued Liability.

During the fiscal year beginning July 1, 2011, the MERS Finance Department will on a monthly basis invoice the employer the total contribution shown in Table 16 (a percentage of payroll for open divisions; a dollar amount for divisions with no new hires). However, the employer is always free to contribute more than the required amount, and MERS encourages employers to do so. Higher employer contributions now will result in lower employer contribution requirements in later years, more rapid funding of the unfunded actuarial accrued liability, and increased opportunity for positive investment returns. Higher contributions should cause the funded percentage to increase more rapidly toward 100% funding.

The 2009 annual valuation includes, in Chart 17.5 for each division, a 20-year projection of the employer contribution requirement and the funded percentage. The projections displayed in Chart 17.5 represent the baseline (status quo) projections – based on the current MERS amortization policy for each division, and assuming that the financial markets fully recover (see page 3).

For divisions that are projected to be less than 99% funded in 15 years, MERS asked the actuary to provide alternate projections to show the employer what additional contribution would be required to become 80% or 100% funded in either 5 or 15 years. These alternate employer contribution levels are the subject of this supplemental projection report.

In this supplemental report, we have computed the additional employer contributions needed to reach a higher target funded percentage. If the baseline projection in Chart 17.5 indicates the division will be 79% - 99% funded in 15 years, the target funded percentage is 100%. Otherwise (under 79% funded in 15 years), the target is 80% funding. Note that if the baseline projection in the annual valuation report indicates the division will already be 99% funded in 15 years, the division is not included in this supplemental report.

The table on the next page displays the additional required employer contribution needed to reach the target in either 5 years or 15 years. For open divisions (newly hired employees are included in the division), the additional employer contribution is expressed as a percentage of payroll. For divisions with no new hires, the additional employer contribution is displayed as an annual dollar amount.

This report may be provided only in its entirety by the municipality to other interested parties (MERS or the Actuary customarily provides the full report on request to related third parties such as the auditor for the municipality).

Please review the Comments on the Investment Markets on page 3.

City of Springfield (1303)

Division	Current Funded Percentage	Current Employer Contribution Requirement	Target Funded Percentage	Additional Employer* Contribution Needed to Reach Target Funded Percentage in	
				5 Years	15 Years
01 - AFSCME	80%	12.52% of Pay	100%	12.17% of Pay	2.16% of Pay
02 - PubSafety	88%	11.20% of Pay	100%	13.04% of Pay	2.18% of Pay
11 - Dept Hds	70%	26.39% of Pay	80%	13.34% of Pay	1.82% of Pay

** If additional employee contributions were to be made instead of employer contributions, the employee contributions would be somewhat higher (refer to Table 16 footnote in the annual valuation report).*

Note: For open divisions (newly hired employees are included in the division), the employer contribution is expressed as a percentage of payroll. For divisions with no new hires, the employer contribution is displayed as an annual dollar amount.

The target funded percentages are examples to demonstrate the additional employer contributions needed to accelerate your funding progress. MERS encourages employers to consider making additional contributions in order to improve the funded level of your municipality. However, MERS will continue to invoice you based on the baseline contribution amount (as displayed in Table 16 of the annual valuation report).

The 20-year projections of employer contributions and funded percentages displayed on the following pages are based on the following assumptions:

- All demographic assumptions will be met during the projection period.
- The actuarial value of assets will earn the assumed 8% return each year during the projection period **(see comments on page 3).**
- There will be no benefit changes during the projection period.
- The employer contributions through July 1, 2011 are not affected, and are based on previous annual actuarial valuations.
- For open divisions (new hires are added to the division), the number of active members is assumed to remain constant. However, if an open division is linked to a division that will have no new hires (whose new hires enter the open division), the total number of active members in the linked divisions (combined) is assumed to remain constant. For closed divisions (no new hires), the number of active members is assumed to gradually decline to zero, based on the assumptions for retirement, disability, termination, and death.

Please refer to the discussion of Projections of Employer Contributions and Funded Percentage near the end of your annual actuarial valuation report.

The projected contribution amounts should not be used for short term budgeting purposes because the assumptions are designed to be a long term expectation of future events. These projections illustrate the long term pattern of employer contributions under varying payment periods (or patterns). A projection of contribution rates for budgeting purposes would require additional short-term actuarial analysis, which is beyond the scope of this report.

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If your municipality is interested in increasing the employer contribution as discussed in this report, please contact Marlaine Taylor at MERS (800-767-6377 ext. 253; MTaylor@mersofmich.com). Please contact your Regional Manager in the MERS Office of Marketing and Employer Services for a formal review of this projection report.

City of Springfield (1303)

Comments on the Investment Markets

The dramatic price declines across the world financial markets in 2008 led to volatility unlike any experienced in decades. 2009 was more stable (and MERS earned a healthy 17+% investment return) but the volatility continues. The crisis has been focused on the financial sector. While the U.S. government and business leaders are doing all they can to address the issues, it may be difficult in the short term to meet the investment assumption of 8% annual return.

The actuarial value of assets (funding value), used to determine both your funded status and your required employer contribution, is based on a 10-year smoothed value of assets. Only a portion (two-tenths, for 2008 and 2009) of the 2008 investment market losses were recognized in your December 31, 2009 actuarial valuation report and in this projection report. This reduces the volatility of the valuation results, which affects your required employer contribution and your actuarial funded percentage.

As of December 31, 2009 the actuarial value of assets is 125% of market value (down from 139% in 2008). This means that meeting the actuarial assumption in the next few years will require average annual market returns that substantially exceed the 8% investment return assumption.

If the December 31, 2009 valuation results were based on market value on that date instead of 10-year smoothed funding value: i) the funded percent of your entire municipality would be 68% (instead of 85%); and ii) your total employer contribution requirement for the fiscal year starting July 1, 2011 would be $270,564 (instead of $186,060). If the investment markets do not fully make up for the 2008 losses, employer contribution requirements can be expected to rise. MERS continues to do everything it can to make sure that if this proves to be the case, the increases are incremental as opposed to steep.

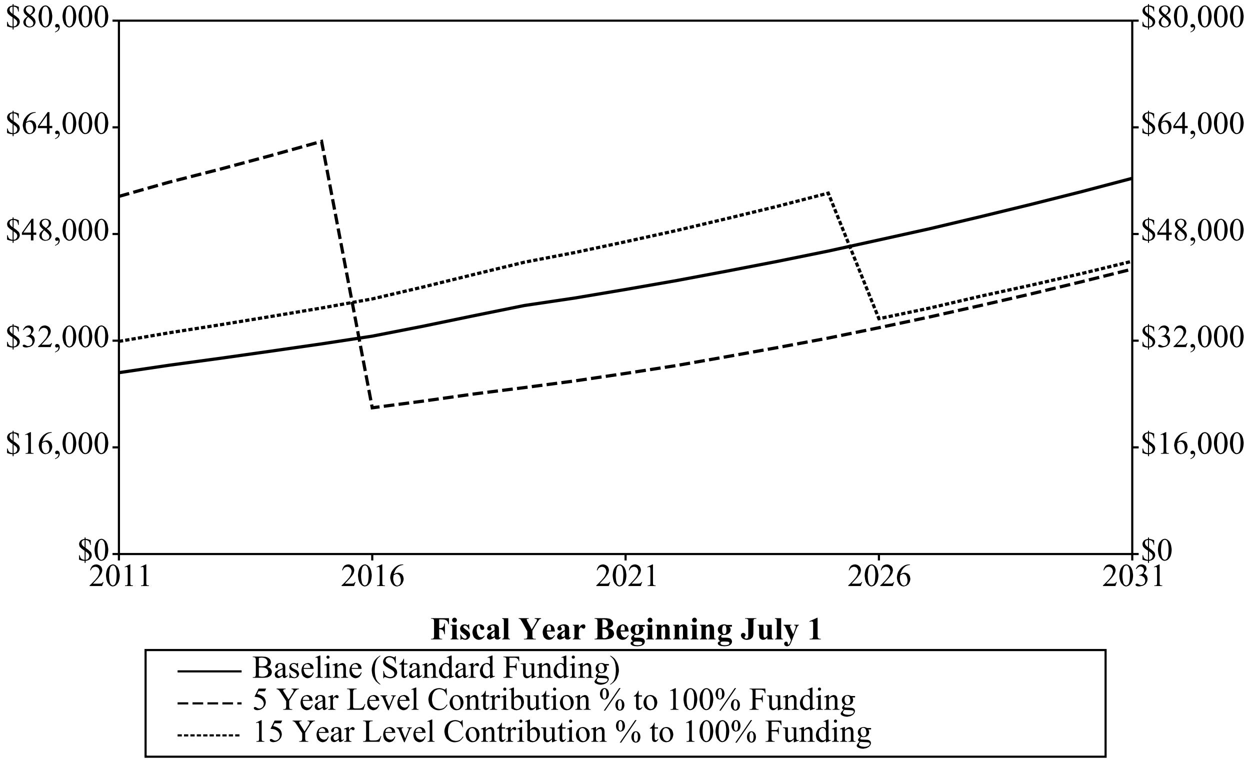
Remember that only two-tenths of the 2008 market losses are reflected in this projection report and your December 31, 2009 valuation results. As was true for past market downturns, MERS expects the markets to continue to rebound. By the time the 2008 market losses would be fully recognized (over the following 8 years), future market gains are expected to partly or fully offset 2008 market losses. This smoothing method is a powerful tool for reducing the volatility of your required employer contributions. However, if the financial markets do not rebound, the result would be gradual increases in your employer contribution requirement over the next 8 years (as described above). These increases would be in addition to the projected contributions in this report. Contributing more than the required contribution now will lower the required employer contribution in later years, and position you to earn investment gains as the financial markets rebound.

Comment on Actuarial Calculations - The projections of your future employer contributions in this report are based on the current actuarial assumptions used in the December 31, 2009 actuarial valuation. As always, your required employer contribution rate changes every year, in response to demographic changes, financial experience, benefit provision changes, etc, within your specific plan. The results of future actuarial valuations will differ from the projections, sometimes materially.

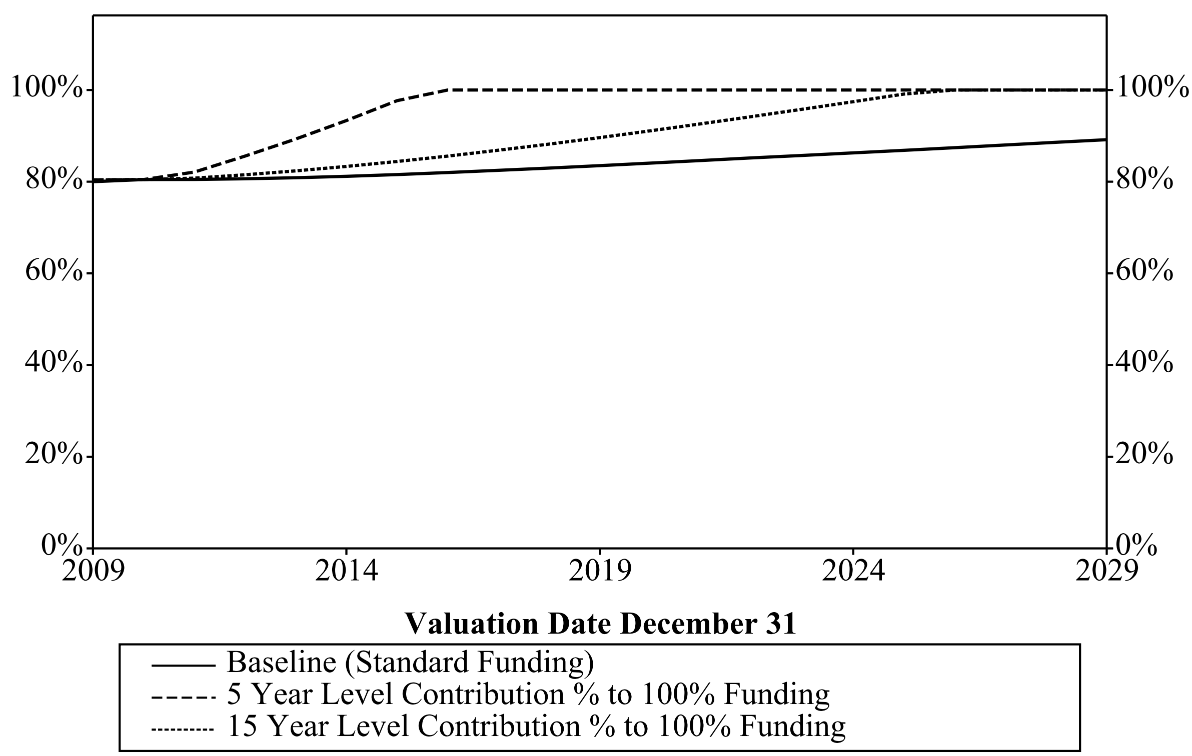
City of Springfield (1303)

Division 01 - AFSCME

Employer Contributions Under Various Contribution Patterns



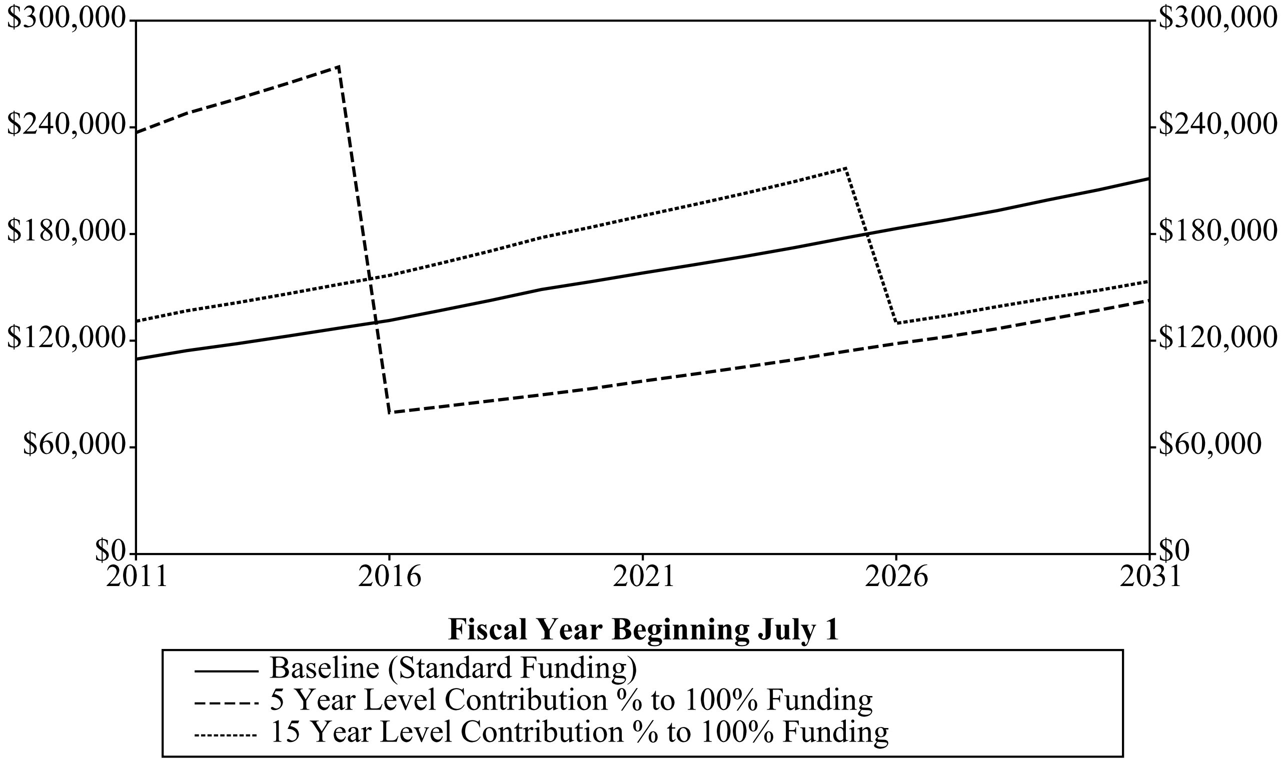
Funded Percentage Under Various Contribution Patterns



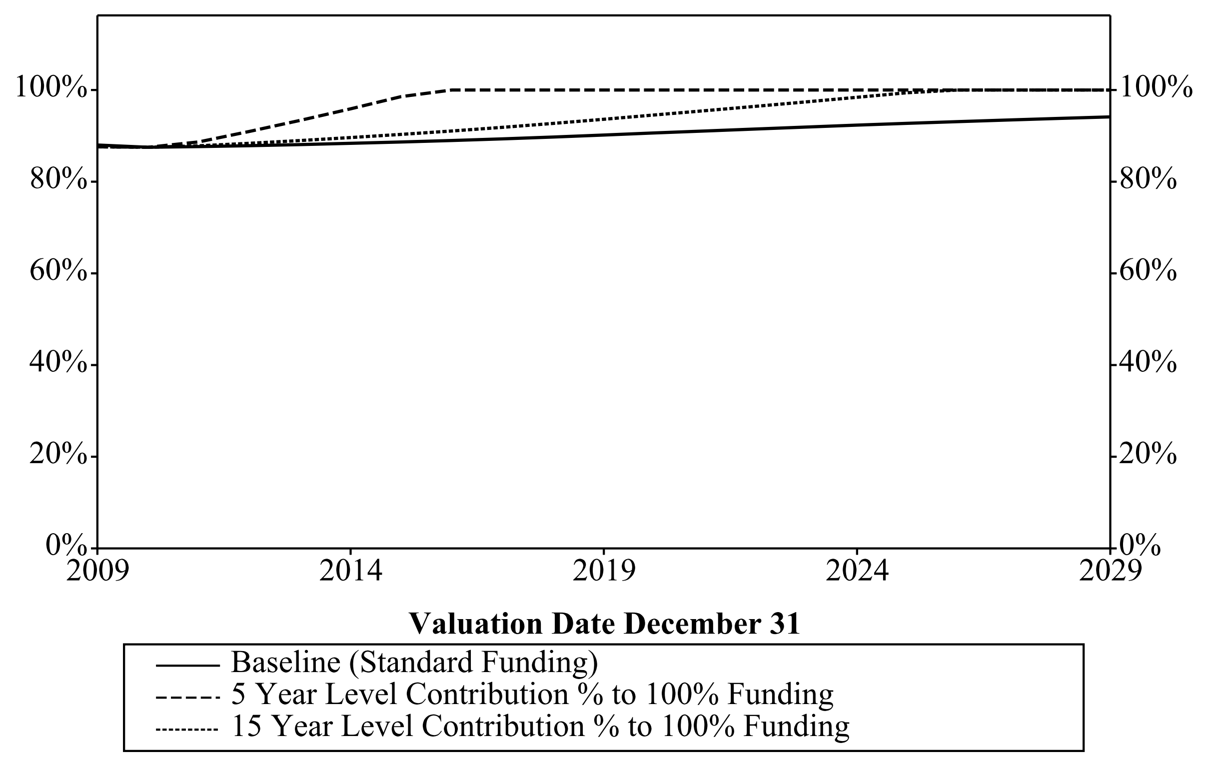
City of Springfield (1303)

Division 02 - PubSafety

Employer Contributions Under Various Contribution Patterns



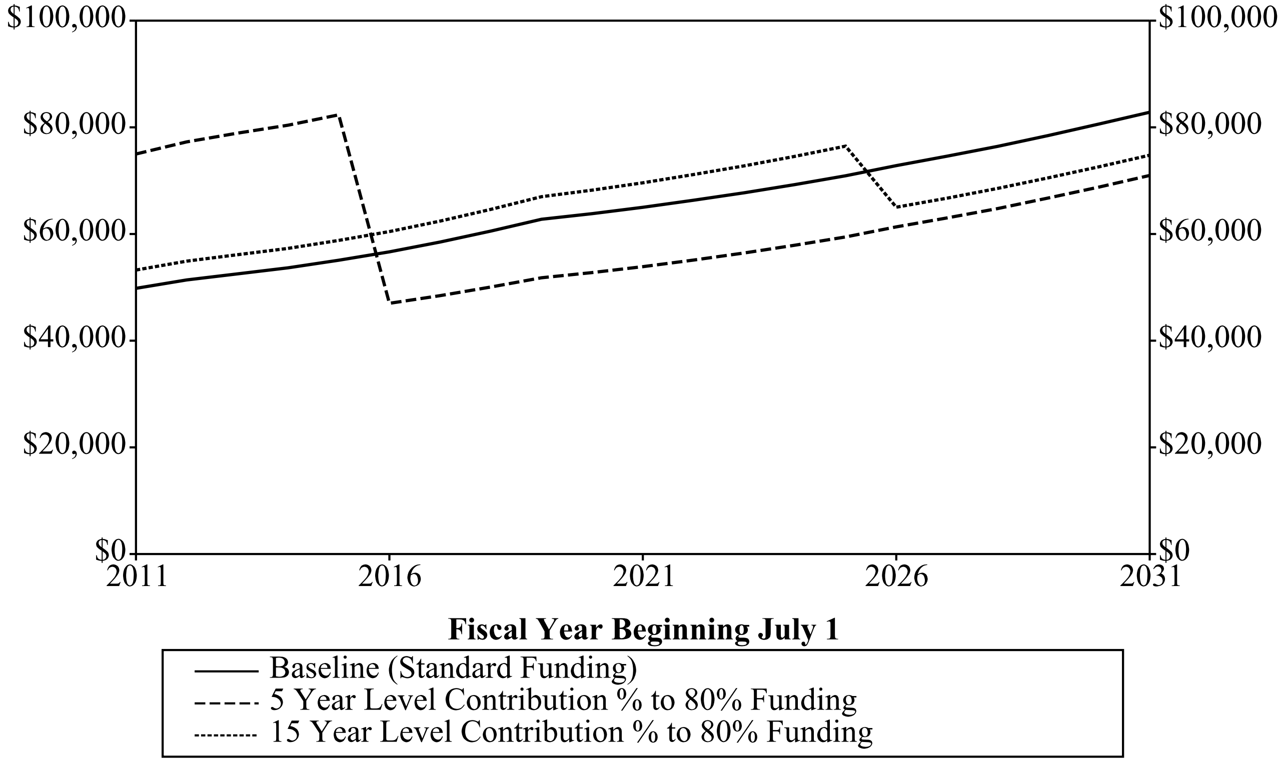
Funded Percentage Under Various Contribution Patterns



City of Springfield (1303)

Division 11 - Dept Hds

Employer Contributions Under Various Contribution Patterns



Funded Percentage Under Various Contribution Patterns