



San Benito Firemen's Relief and Retirement Fund

Actuarial Valuation Report
As of December 31, 2008

**Prepared by
Retirement Horizons Inc.
October 20, 2009**

October 20, 2009

Board of Trustees
San Benito Firemen's Relief and Retirement Fund
P. O. Box 1870
San Benito, Texas 78586

Re: 2008 ACTUARIAL VALUATION

Ladies and Gentlemen:

The Board of Trustees for the San Benito Firemen's Relief and Retirement Fund retained Retirement Horizons Inc. (RHI) to perform an actuarial valuation of the Fund as of December 31, 2008. This report summarizes the results of our study including an analysis of current funded status. This 2008 actuarial report also provides accounting and disclosure information in accordance with GASB 25 and 27. As determinations for other purposes may differ significantly, these results should be used solely for the purposes intended. This report is organized as follows:

- Section 1 – Valuation Highlights
- Section 2 – Executive Summary
- Section 3 – Actuarial Exhibits
- Section 4 – Valuation Basis

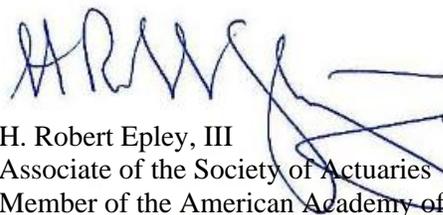
The 2008 actuarial valuation was based upon member census data, asset information and plan provisions provided by the Fund. We prepared the 2008 actuarial valuation in accordance with generally accepted actuarial principles and practices, and performed testing as needed to assure the accuracy of the underlying input and the results of the study. We certify the amounts presented in this report have been determined according to the actuarial assumptions and methods selected by the Board of Trustees as stated herein, with review and concurrence by RHI. These results could be material different in the future if actual plan experience differs from the underlying valuation basis.

The unfunded actuarial liability was \$2.005 million (45.8% funded status) as of December 31, 2008, compared to \$1.236 million (54.7% funded status) for the prior valuation as of December 31, 2005. The Texas Pension Review Board guidelines for actuarial soundness recommend fully amortizing this unfunded liability over a period of 25 to 30 years (maximum of 40 years). The expected amortization period for this unfunded liability is 18.7 years based on the 2008 actuarial valuation, compared to 28.5 years under the 2005 actuarial valuation. Therefore, the current contribution structure is sufficient to satisfy the PRB minimum funding guidelines.

The undersigned is available to respond to any questions regarding the information contained in this actuarial report or to provide further details or explanations as needed, respectfully submitted by Retirement Horizons.



David A. Sawyer
Fellow of the Society of Actuaries
Member of the American Academy of Actuaries



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1. Valuation Highlights

FUNDING VALUATION	December 31, 2005	December 31, 2008
Fair Value of Assets	\$1,460,330	\$1,696,067
Average Annual Return: prior year ended	7.7%	-26.0%
Average Annual Return: prior year ended - 1	6.9%	6.6%
Average Annual Return: prior year ended - 2	4.5%	10.9%
Actuarial Value of Assets	\$1,494,053	\$1,696,067
Average Annual Return: prior year ended	1.9%	-24.8%
Average Annual Return: prior year ended - 1	6.9%	7.6%
Average Annual Return: prior year ended - 2	6.0%	5.5%
Present Value of Projected Benefits	\$4,305,148	\$5,136,681
% funded	34.7%	33.0%
Actuarial Accrued Liability	\$2,730,073	\$3,701,218
% funded	54.7%	45.8%
Normal Cost	\$131,919	\$133,914
% of payroll	13.0%	12.0%
PRB Recommended Funding	\$188,850	\$231,870
% of payroll	18.6%	20.8%
City Contributions as a % of payroll	9.25%	12.00%
Firefighter Contributions as a % of payroll	9.50%	12.00%
Unfunded Actuarial Liability	\$1,236,020	\$2,005,151
Expected Amortization Period	28.5	18.7

ASSUMPTIONS

Investment Return	6.50%	7.00%
Salary Scale	Graded by service	5.50%
Payroll Growth Assumption	4.00%	4.00%

GASB ACCOUNTING VALUATION

Total Annual Required Contribution (ARC)	\$188,850	\$231,870
Net Employer Annual Pension Cost (APC)	\$99,925	\$148,374
Net Pension Obligation (NPO)	\$0	\$0

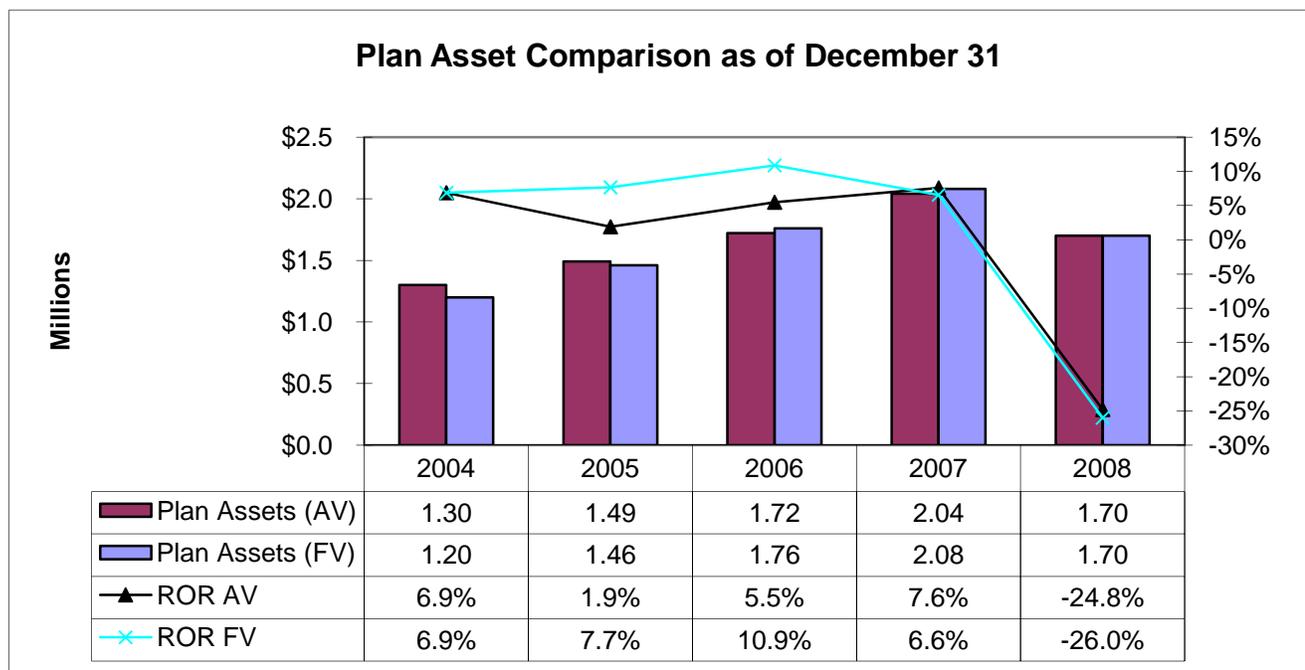
DEMOGRAPHICS

Active	27	24
Terminated with Deferred Benefits	1	0
Retirees and Beneficiaries in Pay	5	9
Total	33	33
Covered Payroll	\$1,017,288	\$1,113,096

2.1 Value of Plan Assets

The *fair value (FV)* of plan assets was \$1.696 million as of December 31, 2008, compared to \$1.460 million for the prior valuation at December 31, 2005. The net increase of \$0.236 million over the 3-year period is attributable to a ***positive net cash flow*** into the Fund of \$0.509 million (contributions of \$0.753 million less total disbursements of \$0.244 million) less an ***investment loss*** of \$0.273 million (net of expenses). Please see Exhibit 3.1 for more details on the development of the fair value of plan assets.

The net rate of return on the fair value of assets was +10.9% for plan year 2006, +6.6% for plan year 2007 and -26.0% for plan year 2008, producing an average annual rate of return of -4.4% over the 3-year period. As summarized in the graph below, the annual rate of return on a fair market value basis exceeded the 7.0% long-term interest rate assumption in only 2 of the last 5 years, and the significant asset loss during plan year 2008 reduced the average annual rate of return to 0.14% over the 5-year period.



The Fund has historically used an “asset smoothing” method to produce a more stable measure of funded status. However, to provide a more current measurement of funded status, the Board approved changing to use the Fair Value as the Actuarial Value of Assets (AV). Due to the recent asset losses, this change reduced the AV by 9% (approximately \$0.17 million) as of December 31, 2008 and increased the amortization period by 2 years. As the prior smoothing method applied a 10% corridor around the FV, the method change did not have a larger effect.

As developed in Exhibit 3.2, the AV was \$1.696 million as of December 31, 2008, compared to \$1.494 for the prior valuation as of December 31, 2005. The average annual rate of return on AV was +5.5% for 2006, +7.6% for 2007 and -24.8% for 2008.

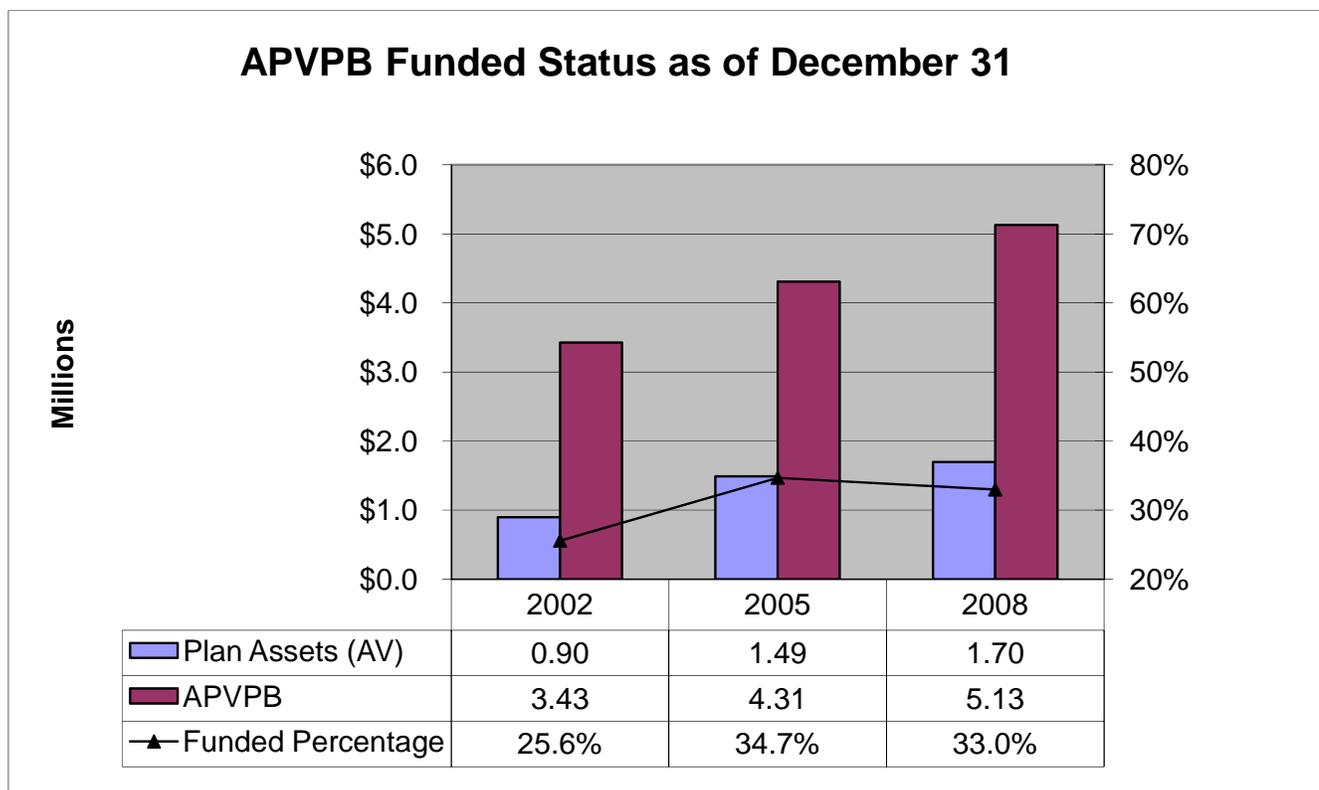
2.2 Actuarial Present Value of Projected Benefits

The true cost of a pension plan is the accumulation of benefit payments less investment income (net of expenses), over the lifetime of the program. In the actuarial valuation process, we use a mathematical model to project the future stream of plan benefits. The model incorporates current plan provisions and member census data, using the actuarial assumptions to predict future events.

Discounting the stream of expected future benefit payments for the time value of money produces the *actuarial present value of projected benefits (APVPB)*. This represents the hypothetical amount of plan assets necessary to fully fund/endow all future plan costs for the current population – assuming future plan experience follows the actuarial assumptions. This measure of pension liability includes benefits that have not yet been earned for current employees, based on expected future pay increases as well as projected service, a portion of which will be funded by future contributions.

The total APVPB was \$5.137 million as of December 31, 2008, compared to \$4.305 million for the prior valuation as of December 31, 2005. The net increase of \$0.832 million is mainly attributable to the normal operation of the plan and the amendment improving benefits. Please see Exhibit 3.3 for more details on the development of the APVPB.

Comparing the value of plan assets to the APVPB provides one measure of long-term funding policy progress. The funded status on this basis was 33.0% as of December 31, 2008, compared to 34.7% for the prior valuation as of December 31, 2005. The decline in APVPB funded status is attributable to the plan amendment as discussed above and asset losses during 2008.

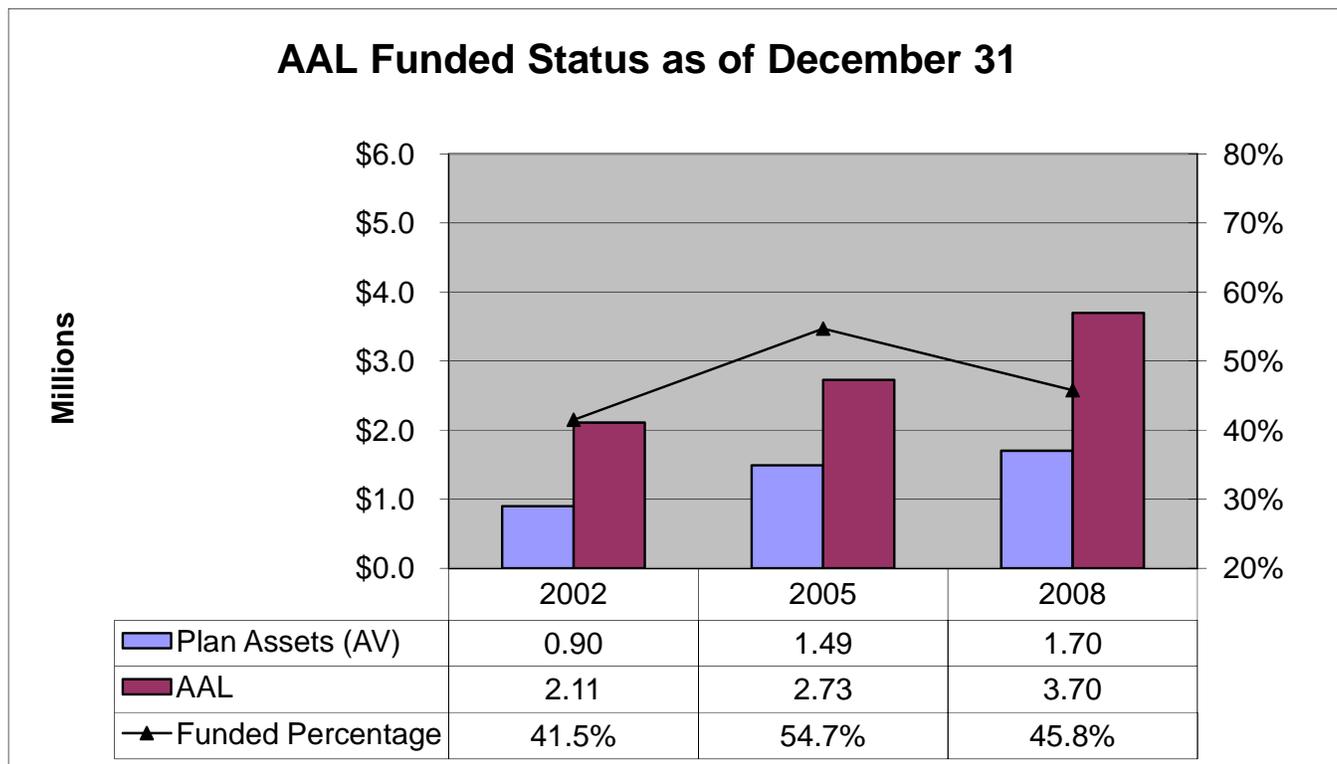


2.3 Actuarial Accrued Liability

As a practical matter, few plan sponsors can afford to fully fund benefits before they have been earned. Generally accepted actuarial principals apply a mathematical formula known as an actuarial cost method to allocate the APVPB over periods of employee service. The portion of cost attributable to periods of employee service rendered prior to the valuation date is the *actuarial accrued liability (AAL)*, and the allocation to the current year is referred to as *normal cost (NC)*.

Comparing AAL to plan assets provides a more appropriate measure of progress in the long-term funding policy. The *unfunded actuarial accrued liability (UAAL)* was \$2.005 million (45.8% funded status) as of December 31, 2008, compared to \$1.236 million (54.7% funded status) as of December 31, 2005.

The net UAAL increase of \$0.769 million is primarily attributable to the plan amendment as well as losses due to unfavorable plan asset performance during 2008. Please see Exhibit 3.4 for more details on the development of the UAAL. As illustrated in the historical comparison below, the UAAL funded status has dropped similar to the decline in APVPB funded status discussed earlier.



2.4 Funding Policy Analysis

The AAL represents the expected value of plan assets that would have accumulated as of the valuation date, assuming contributions equal to the normal cost amount were made for all years of a member's prior service credited under the plan. This measurement also assumes that historical plan experience has been consistent with the current actuarial valuation basis – assumptions and methods, plan provisions as well as member demographics. For a mature retirement system with Fund assets less than the AAL, an *unfunded actuarial accrued liability (UAAL)* can result due to a number of factors:

- ***Plan Amendment:*** Increases in future benefits, especially if prior service credit is recognized under the improved plan, without a corresponding increase in funding policy.
- ***Actuarial Losses:*** Unfavorable plan experience compared to the long-term actuarial assumptions, for example Fund investment performance less than the expected rate of return.
- ***Workforce Reduction:*** A significant and permanent reduction in the active workforce can generate actuarial losses due to accelerated early retirements, and also result in a smaller population of active members going forward to support a larger retiree population.

Under generally accepted actuarial practice, a sound funding policy should provide monies sufficient to cover the current year normal cost and amortize the UAAL over a reasonable period. Guidelines issued by the Texas Pension Review Board (PRB) call for amortization of the UAAL over a period of 25-30 years, not to exceed 40 years. As developed in Exhibit 3.5, the PRB preferred contribution policy based on the 2008 actuarial valuation is \$0.232 million or 20.83% of eligible payroll.

December 31, 2008	Amount	Percent of Payroll
Normal Cost	\$133,914	12.03%
Amortization of UAAL (Level % of Pay)	\$97,956	8.80%
Total PRB Preferred Funding	\$231,870	20.83%

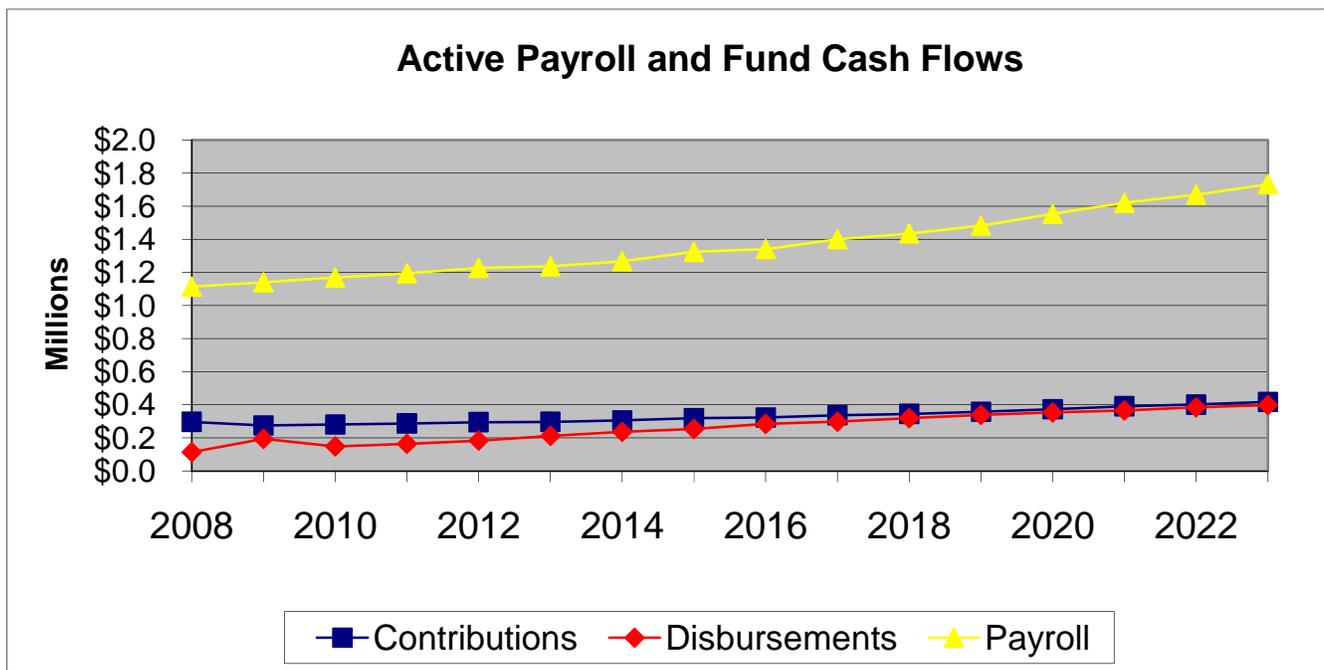
During the fiscal year ending December 31, 2008, firefighters and the City contributed 12.0% of pay. Based on results of the 2008 actuarial valuation and provided future experience is consistent with the underlying methods and assumptions, the existing contribution structure is expected to amortize the unfunded liability over 18.7 years under the level percentage of pay method with 4.00% annual growth in total payroll (Exhibit 3.6). Therefore, the current contribution structure ***is sufficient*** to satisfy the PRB minimum funding policy guidelines.

2.5 Open Group Forecast Valuation

The measurements of liabilities and costs summarized in the funding policy analysis are based only on the current group of plan members as of the measurement date, what is generally referred to as a closed group valuation. Based on the results from the 2008 valuation, we can project pension plan liabilities and costs using an open group forecast assuming a stable number of active employees.

As members of the current workforce exit according to assumed rates of termination, disability, retirement and death, we assume they are replaced by entry-level Firefighters with an average age of 26.6 and average salary of \$28,506 (current dollars).

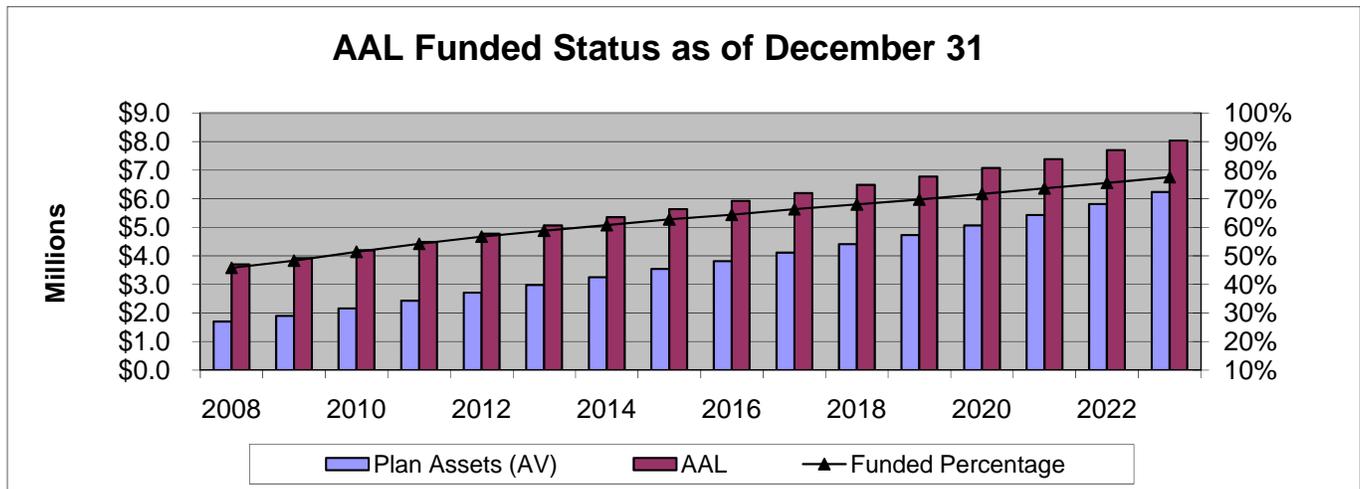
As illustrated below, total annual payroll is expected to increase from \$1.113 million to \$1.734 million over the next 15 years, with total annual contributions increasing from \$0.297 million to \$0.416 million. Annual benefit payments from the Fund are also expected to increase from \$0.113 million to \$0.398 million over the same period, resulting in the annual net cash flow changing from a surplus of \$0.184 million to \$0.018 million (more than 0.3% of assets) over the next 15 years.



It is important to note this projection indicates total payroll is expected to grow at about 3.0% per annum over the next 15 years, assuming a stable number of active members. By comparison, the annual rate of payroll growth averaged 2.2% over the last 6 years. We should monitor the growth rate in total payroll closely in the future to ensure the long range actuarial assumption remains reasonable, given your long-term payroll growth assumption of 4.00% used to calculate the UAAL expected amortization period.

2.5 Open Group Forecast Valuation (continued)

Based on the 2008 valuation, we have prepared a 15-year deterministic projection comparing the actuarial accrued liability (AAL) to the actuarial value of assets (AV). This projection assumes plan experience is consistent with the long-term valuation basis, including an average annual rate of return on the Fund of 7.00%. AV is projected to grow more rapidly than AAL, resulting in an expected increase in funded status from 45.8% to 77.5% over the next 15 years:



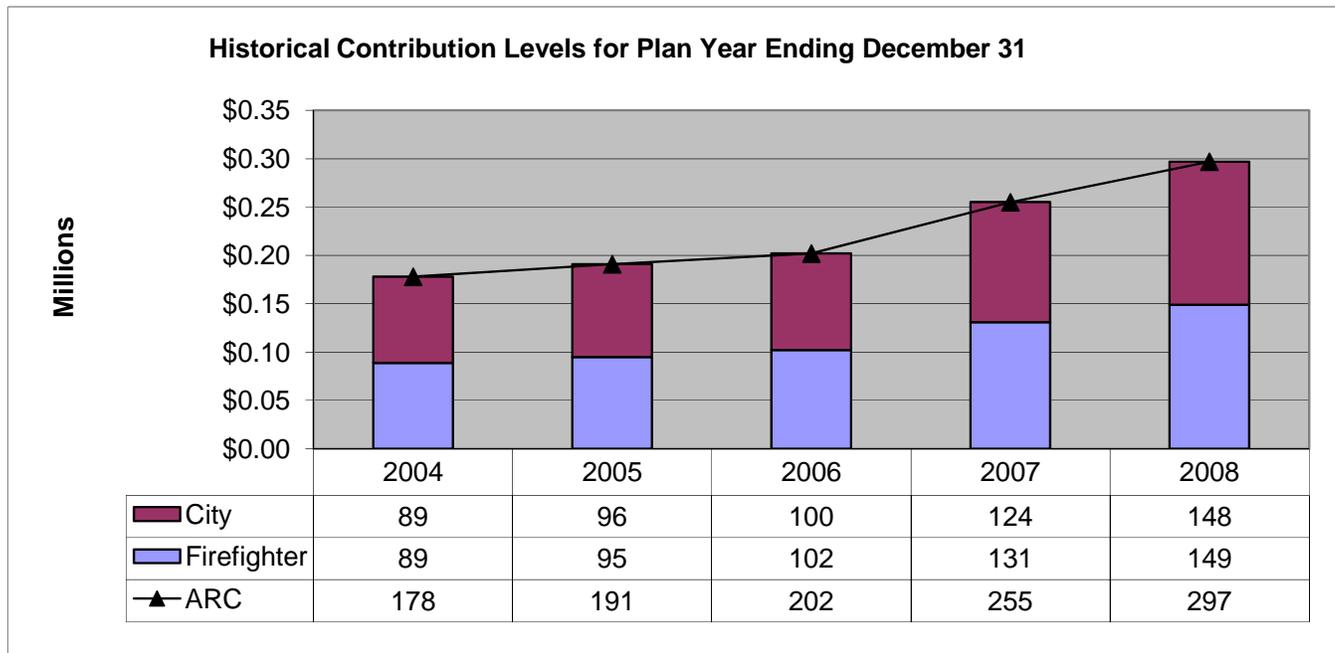
As senior firefighters are replaced by new lower paid firefighters in this deterministic projection (stable workforce), the payroll growth and corresponding contributions are projected to grow at 3.0% per year. However, we have assumed a 4.0% annual payroll growth rate in the UAAL amortization calculation. In order to achieve the UAAL expected amortization period of 18.7 years, the difference in payroll growth (4.0% – 3.0%) must eventually be made up by higher than expected merit increases or growth in the number of firefighters.

2.6 GASB 25 Accounting Information

To ensure consistent financial reporting and actuarially sound long-term funding policy by the retirement system, GASB 25 requires calculation and disclosure of the *annual required contribution (ARC)*. This minimum funding guideline is calculated as the sum of two components:

- Normal Cost: The portion of APVPB assigned to the current year by the actuarial cost method.
- Amortization Cost: Repayment of the UAAL determined as a level-dollar or level-percent of pay amortization over a maximum period of 40 years (reduced to 30 years after June 15, 2006).

For plans receiving actual contributions less than the ARC amount, an additional amortization of the funding excess or deficiency must be included in the ARC calculation for the following year UAAL. As shown below, total contributions have been sufficient to cover the ARC:



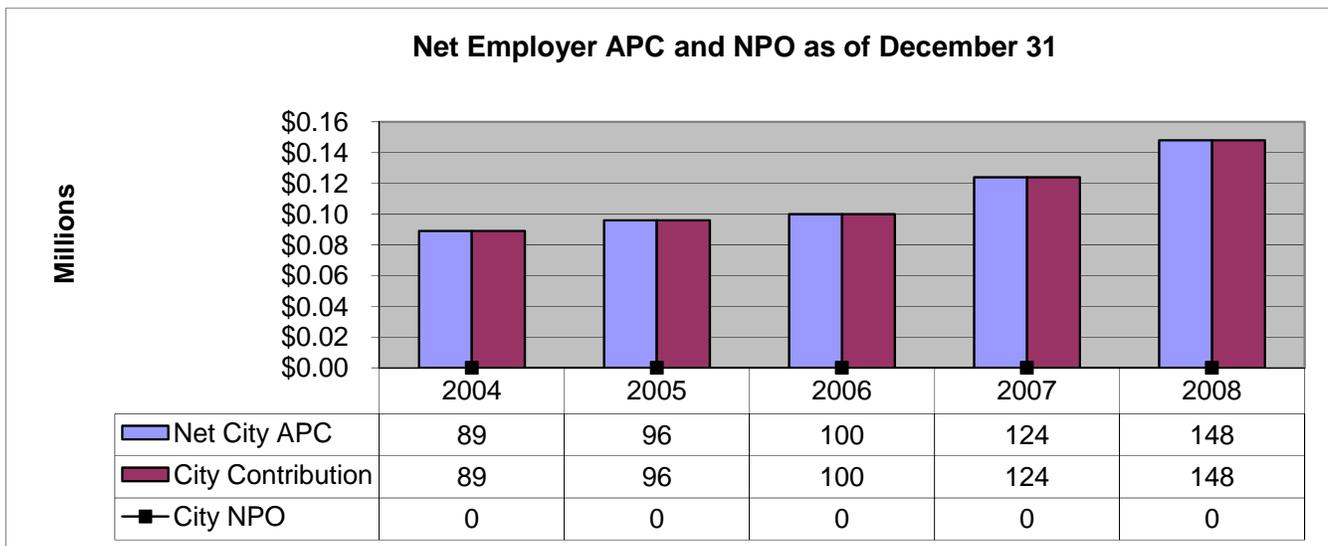
2.7 GASB 27 Accounting Information

In addition to the financial reporting and disclosure required for the retirement plan under GASB 25, the governmental entity sponsoring the retirement program has additional financial reporting and disclosure requirements under GASB 27. This standard generally requires employers to recognize annual pension cost (APC) equal to the GASB 25 annual required contribution (ARC), net of employee contributions.

If actual employer funding is less than the APC, the employer must recognize a liability on its balance sheet referred to as the *net pension obligation (NPO)*. This employer balance sheet liability is calculated as the sum of three components:

- Cumulative difference between net employer annual pension cost and actual contributions.
- Interest on the net pension obligation at the rate assumed for the actuarial valuation.
- Adjustment for amortization of any funding shortfall already included in the GASB 25 ARC.

As illustrated earlier, the contributions for the Firemen’s Relief & Retirement Fund were sufficient to cover the full ARC under GASB 25. Below is a comparison of annual pension cost to actual employer funding under GASB 27. As the City contributions were sufficient to cover the APC, no NPO should be recorded on the City’s balance sheet as of December 31, 2008.

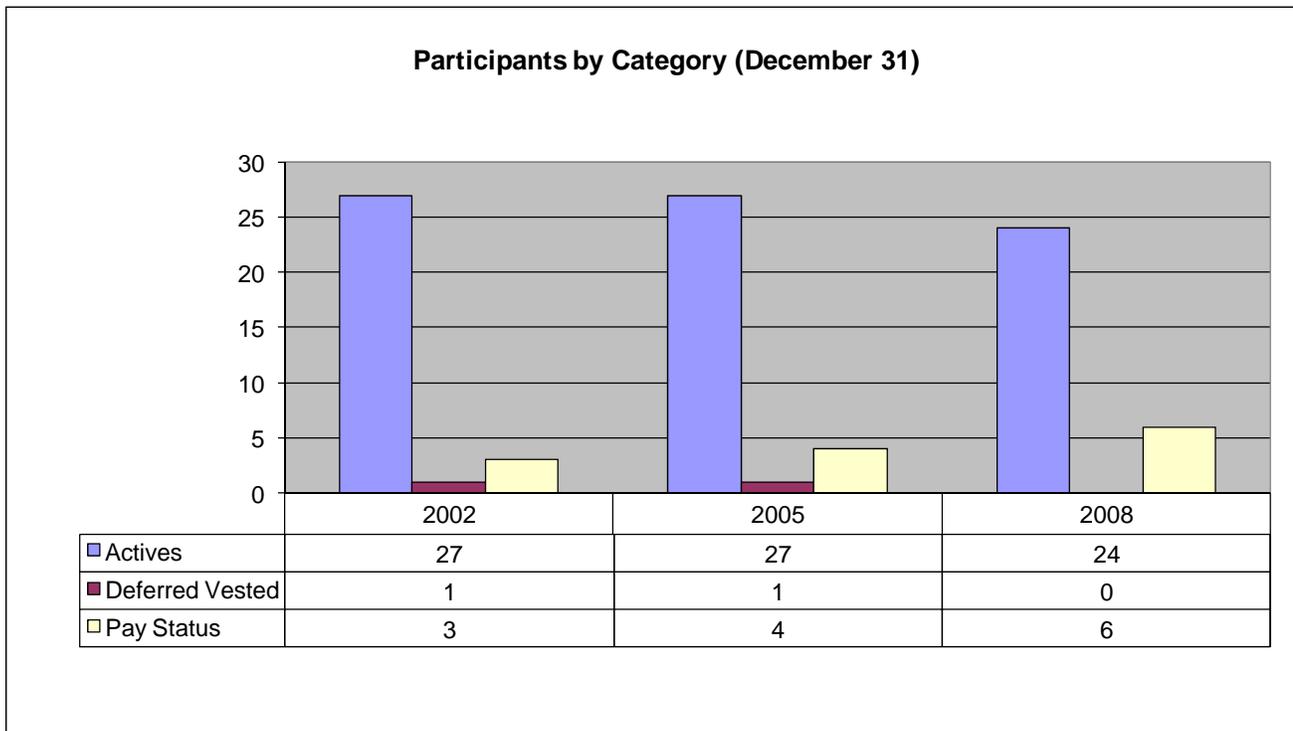


2.8 Membership Demographics

The number of active members decreased from 27 to 24 since the last valuation. Total eligible payroll increased from \$1.017 million to \$1.113 million (about 3.1% annual) while average pay increased from \$37,677 to \$46,379 (about 7.2% annual). Average age of the group increased from 36.1 years to 38.3 years and average service increased from 11.4 years to 13.5 years.

The number of retired and disabled members in pay status increased from 3 to 5, with average annual benefits increasing from \$15,204 to \$15,371 (about 1.1%). The number of beneficiaries in pay status is the same as last valuation, with average annual benefits unchanged.

Please see Exhibit 4.1 for a summary of member census data used in the current valuation, along with a comparison to the prior valuation. Exhibit 4.2 provides a reconciliation of data by member group and exhibit 4.3 provides an age/service distribution of active members.



2.9 Actuarial Assumptions and Methods

Sponsoring a defined benefit pension plan is a long-term commitment, with the ultimate cost dependent on a number of financial and demographic variables. The actuarial valuation process uses a mathematical model and applies actuarial assumptions to predict these future events. Periodic updates of the actuarial valuation process are necessary to ensure the funding policy is financially sound. Please see Exhibit 4.4 for a summary of the actuarial assumptions and methods used in the 2008 valuation.

Under generally accepted actuarial principles, each individual assumption should represent a best estimate of expected long-term experience, and should also be reasonable and realistic in the aggregate. GASB 25 and GASB 27 accounting standards confirm that actuarial assumptions should be based on the actual plan experience (to the extent credible), emphasizing expected long-term future trends rather than giving undue weight to recent past experience.

Interest Rate

The interest rate is the most powerful assumption in the actuarial valuation process, used to project the average rate of return expected on assets and also used to discount future benefit payments in the actuarial present value calculations. To illustrate the sensitivity, a one-percentage-point decrease in the interest rate assumption will generally increase plan liabilities and cost 10% to 20% based on plan demographics.

The Fund uses a long-term interest rate assumption of 7.0% (net of expenses). Actual rates of return have fluctuated significantly over the last 5 years, with an average annual return of 0.14% over years 2004-2008. We strongly encourage the Board to discuss the interest rate assumption with its investment advisors, to ensure the assumption remains consistent with future long-term risk/return expectations for the Fund.

Salary Scale

The salary scale used to project expected future pay increase for active members is also an important assumption used in actuarial valuation model, having about 50% to 75% of the impact that would result from a change in the interest rate assumption of similar magnitude. The Fund currently uses a salary scale assumption of 5.5% per annum, but actual pay increases have averaged 8.8% in the last six years.

Amortization Method and Payroll Growth Rate

The Fund has historically amortized its unfunded liability using the level percentage of pay method, with an assumed payroll growth rate of 4.00% per annum. For a stable active population, we would expect this assumption to be 0.5% to 2.0% below the salary scale assumption. Therefore, the 4.0% payroll growth assumption is consistent with a 5.5% long-term salary scale assumption, but given the actual payroll growth rate has averaged 2.2% over the last six years, we recommend monitoring this assumption.

2.10 Plan Provisions

Recent Amendment

The plan was amended based on the prior valuation and subsequent special studies, with the following plan changes recognized in the 2008 actuarial valuation:

- Increase the base percentage for the first 20 years of service from 38.0% to 40.0%.
- Increase the longevity benefit from \$55 per month to \$60 per month for service in excess of 20 years.

We are not aware of any other changes to the plan provisions since the prior valuation. We have assumed the current contribution rates – 12.0% firefighters and 12.0% City – will remain constant in the future. Please see Exhibit 4.5 for a summary of provisions included in the current year valuation.

3.1 Fair Value of Plan Assets

	Asset Values as of December 31			
	2005	2006	2007	2008
A. Fair Value of Plan Assets				
1. Fixed Income	\$428,194	\$467,762	\$567,184	\$492,326
2. Equities	\$958,073	\$1,178,580	\$1,402,375	\$1,089,314
3. Cash Equivalents	\$57,329	\$104,455	\$93,596	\$103,148
4. Alternatives	\$16,734	\$13,713	\$12,249	\$11,279
5. Total Fair Value	\$1,460,330	\$1,764,510	\$2,075,404	\$1,696,067
B. Change in Fair Value	Change	Change	Change	Change
1. Contributions				
a. Firefighters	\$102,212	\$130,646	\$148,375	\$148,375
b. City	\$99,925	\$123,898	\$148,374	\$148,374
c. Total	\$202,137	\$254,544	\$296,749	\$296,749
2. Disbursements				
a. Monthly Payments	(\$47,964)	(\$50,224)	(\$50,224)	(\$50,224)
b. Refund of Contributions	(\$16,543)	(\$16,389)	(\$63,091)	(\$63,091)
c. Total	(\$64,507)	(\$66,613)	(\$113,315)	(\$113,315)
3. Investment Return				
a. Interest and Dividends	\$40,410	\$72,525	\$251,096	\$251,096
b. Realized and Unrealized Gain/(Loss)	\$151,374	\$87,995	(\$789,027)	(\$789,027)
c. Plan Expenses	(\$25,234)	(\$37,557)	(\$24,840)	(\$24,840)
d. Total Return	\$166,550	\$122,963	(\$562,771)	(\$562,771)
4. Net Change	\$304,180	\$310,894	(\$379,337)	(\$379,337)
5. Average Rate of Return				
a. Average Asset Value	\$1,529,145	\$1,858,476	\$2,167,121	\$2,167,121
b. Income Net of Expenses	\$166,550	\$122,963	(\$562,771)	(\$562,771)
c. Annual Rate of Return	10.9%	6.6%	-26.0%	-26.0%
6. Investment Gain/(Loss)	\$67,156	\$2,162	(\$703,634)	(\$703,634)

3.2 Actuarial Value of Plan Assets

	Asset Values as of December 31			
	2005	2006	2007	2008
A. Actuarial Value of Plan Assets				
1. Fair Value	\$1,460,330	\$1,764,510	\$2,075,404	\$1,696,067
2. Gain Loss Deferral				
a. Deferral Year -1	\$6,167	\$47,608	(\$5,704)	(\$571,575)
b. Deferral Year -2	(\$1,188)	\$4,625	\$35,706	(\$4,278)
c. Deferral Year -3	(\$8,618)	(\$792)	\$3,083	\$23,804
d. Deferral Year -4	(\$30,084)	(\$4,309)	(\$396)	\$1,542
e. Total Deferral	(\$33,723)	\$47,132	\$32,689	(\$550,507)
3. Preliminary Actuarial Value	\$1,494,053	\$1,717,378	\$2,042,715	\$2,246,574
4. 90% FV (Minimum)	\$1,314,297	\$1,588,059	\$1,867,864	\$1,526,460
5. 110% FV (Maximum)	\$1,606,363	\$1,940,961	\$2,282,944	\$1,865,674
6. Limited Actuarial Value	\$1,494,053	\$1,717,378	\$2,042,715	\$1,865,674
7. Method Change	\$0	\$0	\$0	(\$169,607)
6. Final Actuarial Value	\$1,494,053	\$1,717,378	\$2,042,715	\$1,696,067
B. Change in Actuarial Value				
	<u>Change</u>	<u>Change</u>	<u>Change</u>	
1. Contributions				
a. Firefighters	\$102,212	\$130,646	\$148,375	
b. City	\$99,925	\$123,898	\$148,374	
c. Total	\$202,137	\$254,544	\$296,749	
2. Disbursements				
a. Monthly Payments	(\$47,964)	(\$50,224)	(\$50,224)	
b. Refund of Contributions	(\$16,543)	(\$16,389)	(\$63,091)	
c. Total	(\$64,507)	(\$66,613)	(\$113,315)	
3. Net Investment Return	\$85,695	\$137,406	(\$530,082)	
4. Net Change	\$223,325	\$325,337	(\$346,648)	
5. Average Rate of Return				
a. Average Asset Value	\$1,562,868	\$1,811,344	\$2,134,432	
b. Income Net of Expenses	\$85,695	\$137,406	(\$530,082)	
c. Annual Rate of Return	5.5%	7.6%	-24.8%	
6. Investment Gain/(Loss)	(\$15,892)	\$19,668	(\$668,820)	

3.3 Actuarial Present Value of Projected Benefits

	<u>December 31, 2005</u>	<u>December 31, 2008</u>
A. Discount Rate	6.50%	7.00%
B. Present Value of Projected Benefits		
1. Active	\$3,656,540	\$4,142,302
2. Contribution Refund Payable	\$0	\$0
3. Terminated Vested	\$57,362	\$0
4. Retired	\$544,022	\$951,848
5. Disabled	\$36,058	\$33,195
6. Beneficiary	\$11,166	\$9,336
7. Total	<u>\$4,305,148</u>	<u>\$5,136,681</u>
C. Change in Present Value of Projected Benefits		<u>Change</u>
1. Benefits Accumulated		\$0
2. Benefits Paid		(\$244,435)
3. Decrease in Discount Period		\$869,839
4. Plan Experience		\$359,467
5. Actuarial Assumptions		(\$385,036)
6. Actuarial Methods		\$0
7. Plan Amendments		\$231,698
8. Net Change		<u><u>\$831,533</u></u>
D. Actuarial Value of Assets	<u>\$1,494,053</u>	<u>\$1,696,067</u>
E. Funded Status	34.7%	33.0%
F. Present Value of Future Payroll	\$12,163,369	\$12,215,700
G. Present Value of Future Contributions		
1. Firefighter	\$1,155,520	\$1,465,884
2. City	\$1,125,112	\$1,465,884
3. Total	<u>\$2,280,632</u>	<u>\$2,931,768</u>

3.4 Actuarial Accrued Liability and Normal Cost

	<u>December 31, 2005</u>	<u>December 31, 2008</u>
A. Discount Rate	6.50%	7.00%
B. Actuarial Accrued Liability (EAN)		
1. Active	\$2,081,465	\$2,706,839
2. Contribution Refund Payable	\$0	\$0
3. Terminated Vested	\$57,362	\$0
4. Retired	\$544,022	\$951,848
5. Disabled	\$36,058	\$33,195
6. Beneficiary	\$11,166	\$9,336
7. Total	<u>\$2,730,073</u>	<u>\$3,701,218</u>
C. Actuarial Value of Assets	<u>\$1,494,053</u>	<u>\$1,696,067</u>
D. Unfunded Actuarial Liability	<u><u>\$1,236,020</u></u>	<u><u>\$2,005,151</u></u>
E. Change in Unfunded Actuarial Accrued Liability		<u>Change</u>
1. Contributions		(\$753,430)
2. Benefits Accumulated		\$422,039
3. Decrease in Discount Period		\$222,573
4. Plan Asset Experience		\$665,044
5. Plan Liability Experience		\$85,735
6. Actuarial Assumptions		(\$34,118)
7. Actuarial Methods		\$0
8. Plan Amendments		\$161,288
9. Net Change		<u><u>\$769,131</u></u>
F. Funded Status	54.7%	45.8%
G. Present Value of Future Normal Cost	\$1,575,075	\$1,435,463
H. Normal Cost (EAN)	\$131,919	\$133,914
I. Covered Payroll	\$1,017,288	\$1,113,096
J. Normal Cost % of Payroll	12.97%	12.03%

3.5 Recommended Funding Policy

	<u>December 31, 2005</u>	<u>December 31, 2008</u>
A. PRB Minimum Funding Policy ¹		
1. Normal Cost	\$131,919	\$133,914
2. 40-year Amortization Payment: ²	\$47,307	\$82,750
3. Total Minimum Funding	<u>\$179,226</u>	<u>\$216,664</u>
4. Percentage of Payroll	17.62%	19.46%
B. PRB Preferred Funding Policy		
1. Normal Cost	\$131,919	\$133,914
2. 30-year Amortization Payment: ²	\$56,931	\$97,956
3. Total Preferred Funding	<u>\$188,850</u>	<u>\$231,870</u>
4. Percentage of Payroll	18.56%	20.83%
C. Actuary's Recommended Funding Policy		
1. Normal Cost	\$131,919	\$133,914
2. 20-year Amortization Payment: ²	\$76,724	\$129,605
3. Total Preferred Funding	<u>\$208,643</u>	<u>\$263,519</u>
4. Percentage of Payroll	20.51%	23.67%

Notes

(1) Recommended minimum funding policy under Texas Pension Review Board guidelines based on amortization of Unfunded Actuarial Liability not to exceed 40 years. Preferred funding policy based on maximum amortization period of 25 - 30 years.

(2) Amortization calculated under the level percent of pay method, with fresh start each valuation date.

3.6 Expected Amortization Period

	<u>December 31, 2005</u>	<u>December 31, 2008</u>
A. Discount Rate	6.50%	7.00%
B. Present Value Future Compensation (PVFComp)	\$12,163,369	\$12,215,700
C. Present Value Future Contributions (PVFContrb) % of Compensation	\$2,280,632 18.75%	\$2,931,768 24.00%
D. Present Value Projected Benefits (PVFB)	\$4,305,148	\$5,136,681
E. Actuarial Accrued Liability (AAL)	<u>\$2,730,073</u>	<u>\$3,701,218</u>
F. Present Value of Future Normal Costs (PVFNC) % of PVFComp	\$1,575,075 12.95%	\$1,435,463 11.75%
G. PVFContrb available to payoff UAL % of PVFComp	\$705,557 5.80%	\$1,496,305 12.25%
H. Valuation Compensation	\$1,017,288	\$1,113,096
I. Current Contribution Available to pay off UAL	\$59,013	\$136,343
J. Expected Amortization Period	28.5	18.7
K. Expected Amortization Period Sensitivity		
1. Annual Payroll Growth 3.00%	34.9	21.0
2. Annual Payroll Growth 5.00%	24.7	17.1
3. AVA using a smoothing method	N/A	16.7

3.7 GASB 25 Accounting Information

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
12/31/2002	\$876,630	\$2,039,208	\$1,162,578	43.0%	\$976,528	119.1%
12/31/2005	\$1,494,053	\$2,730,073	\$1,236,020	54.7%	\$1,017,288	121.5%
12/31/2008	\$1,696,067	\$3,701,218	\$2,005,151	45.8%	\$1,113,096	180.1%

Notes

(1) The Actuarial Value of Assets is based on the fair market value as of 12/31/2008 (a smoothing method was used for all prior years).

(2) The Actuarial Accrued Liability is based upon the aggregate entry age normal actuarial cost method with the unfunded actuarial accrued liability being amortized as a level percentage of pay.

(3) The economic assumptions used for the 12/31/2008 actuarial valuation include:

Investment return	7.00%
Projected salary increases	5.50%
Projected rate of amortization increase	4.00%
Remaining amortization period	18.7 years

3.8 GASB 27 Accounting Information

A. Fund Membership as of Valuation Date	December 31, 2008
1. Retired members and their beneficiaries	5
2. Vested terminated members	0
3. Disabled members	1
4. Active members	
a. Vested	11
b. Nonvested	13
c. Subtotal	24
5. Total Fund Membership	30

B. Annual Employer Contribution Requirement

Fiscal Year Ending	Annual Pension Cost (APC)*	Employer Contribution	Percentage of APC Contributed
December 31, 2004	\$89,096	\$89,096	100.0%
December 31, 2005	\$95,608	\$95,608	100.0%
December 31, 2006	\$99,925	\$99,925	100.0%
December 31, 2007	\$123,898	\$123,898	100.0%
December 31, 2008	\$148,374	\$148,374	100.0%

C. Reconciliation of Net Pension Obligation (NPO)

	2006	2007	2008
1. Balance at Beginning of Year	\$0	\$0	\$0
2. Changes During Year			
a. Annual Pension Cost	\$99,925	\$123,898	\$148,374
b. Interest on NPO	\$0	\$0	\$0
c. Amortization Adjustment on ARC	\$0	\$0	\$0
d. Employer Contribution	(\$99,925)	(\$123,898)	(\$148,374)
3. Balance at End of Year	\$0	\$0	\$0

* Total GASB 25 Annual Required Contribution (ARC) less employee contributions.

4.1 Demographic Summary

	<u>December 31, 2005</u>	<u>December 31, 2008</u>
A. Active Members		
1. Number	27	24
2. Covered payroll	\$1,017,288	\$1,113,096
3. Average pay	\$37,677	\$46,379
4. Average age	36.1	38.3
5. Average service	11.4	13.5
B. Terminated Vested Members		
1. Number	1	0
2. Total benefits	\$4,612	\$0
3. Average Annual benefits	N/A	N/A
4. Average Age	54.0	N/A
C. Retired and Disabled Members		
1. Number	3	5
2. Total benefits	\$45,611	\$76,854
3. Average Annual benefits	\$15,204	\$15,371
4. Average Age	54.7	57.7
D. Beneficiaries		
1. Number	1	1
2. Total benefits	\$1,200	\$1,200
3. Average Annual benefits	\$1,200	\$1,200
4. Average Age	11.0	14.0

4.2 Data Reconciliation

	<u>Active</u>	<u>Deferred Inactive</u>	<u>Disabled</u>	<u>Retired</u>	<u>Total</u>
Included in December 31, 2005 Valuation	27	1	1	3	32
Change Due To:					
New hires and rehires	2	0	0	0	2
Termination (Vested)	0	0	0	0	0
Termination (Nonvested)	(4)	0	0	0	(4)
Retirement	(1)	(1)	0	2	0
Disability	0	0	0	0	0
Death without beneficiary	0	0	0	0	0
Death with beneficiary	0	0	0	0	0
Cashouts	0	0	0	0	0
Data corrections	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net change	<u>(3)</u>	<u>(1)</u>	<u>0</u>	<u>2</u>	<u>(2)</u>
Included in December 31, 2008 Valuation	<u>24</u>	<u>0</u>	<u>1</u>	<u>5</u>	<u>30</u>

4.3 Active Members by Age and Service

Attained Age	Years of Service as of December 31, 2008							Total
	0-4	5-9	10-14	15-19	20-24	25-29	30 & up	
Under 25	0	0	0	0	0	0	0	0
25-29	2	3	0	0	0	0	0	5
30-34	2	4	0	0	0	0	0	6
35-39	0	2	1	1	0	0	0	4
40-44	0	0	1	1	0	0	0	2
45-49	0	0	0	0	0	2	0	2
50-51	0	0	0	0	1	1	0	2
52-54	0	0	0	0	0	1	2	3
55-59	0	0	0	0	0	0	0	0
60 & up	0	0	0	0	0	0	0	0
Total	4	9	2	2	1	4	2	24

Not Vested	Vested	Retirement Eligible
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4.4 Assumptions and Methods

Economic Assumptions

Interest Rates:

- Investment Return 7.00% per annum.
- Salary Increases 5.50% per annum.
- Total Payroll Growth 4.00% per annum.

Demographic Assumptions

- Mortality

-Healthy 1994 Group Annuity Mortality Table

Sample rates per 100 firefighters:

<u>Age</u>	<u>Male</u>	<u>Female</u>
25	0.07	0.03
35	0.09	0.05
45	0.16	0.10
55	0.44	0.23
65	1.45	0.86
75	3.72	2.27

-Disabled 1983 Group Annuity Mortality Table
Projected 10 years

Sample rates per 100 firefighters:

<u>Age</u>	<u>Male</u>	<u>Female</u>
25	0.09	0.05
35	0.22	0.10
45	0.61	0.25
55	1.56	0.71
65	4.46	2.40
75	11.48	6.99

4.4 Assumptions and Methods (continued)

- Termination Custom table based on service of firefighter.

Sample rates per 100 firefighters:

<u>Service</u>	<u>Rate</u>
1	10.70
6	5.40
11	2.80
16	1.80

- Disability Active firefighters are assumed to incur disabilities based on experience firefighter rates that vary by age as shown below, assuming 50% of future disabilities are duty related and 50% non-duty related. Sample rates per 100 firefighters are shown below:

<u>Age</u>	<u>Rate</u>
25	0.06
30	0.08
35	0.10
40	0.23
45	0.39
50	0.70

- Retirement Custom table based on age of the firefighter, resulting in an average retirement age of 54.2:

<u>Age</u>	<u>Rate</u>
52-59	20%
60	100%

- Marital Status 65% of all active firefighters are assumed to be married at the time benefits commence. Males are assumed to be two years older than their spouses.

- Expenses None explicitly assumed. The investment return on the assets of the Fund is assumed to be net of all expenses payable from the Fund.

- Changes in Assumptions Increase investment return to 7.00% from 6.5% to reflect the long term expected rate of return based on asset allocation and net impact of administrative expenses. Change salary scale to 5.5% per year from the graduated scale based on recent plan experience.

4.4 Assumptions and Methods (continued)

Methods

Valuation Date	December 31, 2008
Asset Valuation Method	Actual Market Value
Entry Age Normal Actuarial Cost Method	<p>The <u>Entry Age Normal Actuarial Cost Method</u> The present value of the projected benefit (PVB) is determined as of the date the member entered the plan (or would have entered if the plan had always been in effect). The present value of future salary (PVFS) is also determined at entry age. The percentage of the PVFS represented by the PVB is the level percent of pay which, if contributed every year, would exactly fund the benefit if the valuation actuarial assumptions were realized. The actuarial accrued liability (AAL) is the theoretical value of assets which would result from the accumulation of these contributions from the plan entry until the valuation date.</p>
Changes in Methods	<p>The asset method was changed from a smoothed method to the fair market value. There have been no other changes in the actuarial methods from the prior valuation.</p>

4.5 Plan Provisions

Effective Date	The Plan was most recently amended November 1, 2007.
Eligibility	A firefighter shall become a participant when he first becomes employed with the San Benito Fire Department.
Service	A firefighter receives credit for the number of years and months of continuous employment with the Fire Department. The records of the Fire Department will determine service prior to 1990. After January 1, 1990, service will be credited for each month the firefighter holds a position in the Department and contributes to the plan.
Compensation	<p>Compensation includes all elements of pay except lump sum distributions for unused sick leave or vacation.</p> <p>Highest 60-Month Average Salary is the average of the firefighter's total pay for the highest 260 weekly pay periods with the department during which his total pay was the highest multiplied by 4.333.</p>
Contributions	<p>The City contributes 12.00% of compensation. Active firefighters contribute 12.00% of their compensation.</p> <p>The City may elect to contribute amounts that exceed those required amounts.</p>

4.5 Plan Provisions (continued)

Service Retirement

The retirement eligibility date is the attainment of age 52 and the completion of 20 years of service.

Each firefighter who retires on or after his retirement eligibility date receives a monthly retirement income equal to the sum of (a) and (b), where:

- (a) A base benefit of 40.00% of the Highest 60-Month Average Salary; plus
- (b) A longevity benefit equal to \$60 per month for each whole year of service in excess of 20 years. Partial credit will be given to a year based on the number of completed months of service.

Disability Retirement

An active firefighter is eligible for a disability benefit if he becomes disabled from any cause and is unable to perform the duties of a position offered to him in the fire department at an equal or higher pay level.

The disability allowance will commence after the expiration of all vacation and sick leave, and will continue as long as the participant remains disabled as defined above.

The monthly benefit for duty-related disability is determined in the same manner as Service Retirement as defined above. The monthly benefit for non-duty-related disability is determined as 5% of the duty-related disability benefit for each completed year and fractional year of service (maximum 100%).

The Board of Trustees shall have the ability to continue, to terminate, to reduce or to reinstate a firefighter's disability benefit based on prescribed conditions as defined in the plan document.

4.5 Plan Provisions (continued)

Termination Benefit

Upon a firefighter's termination, he is eligible for a deferred benefit if he has completed at least 10 years of service and agrees to leave his contributions in the Fund.

The monthly benefit is equal to his service retirement benefit determined as of the date of separation from service multiplied by the Vested Percentage based on his years and completed months of service at time of termination, as illustrated in the following schedule:

Years of Service	Vested Percentage
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20	100%

Full benefits may not commence prior to the end of the month of attainment of age 52.

Refund of Contributions

If a firefighter terminates with less than 10 years of service, he will receive an amount equal to the excess of his own contributions to the fund over the amount of benefits that he has previously received from the fund. A firefighter with 10 or more years of service may elect a refund of his own contributions, however he will forfeit his right to all future benefits he otherwise would have been entitled to receive.

4.5 Plan Provisions (continued)

Pre-Retirement Death Benefit

- Spouse
- Upon the death of an active firefighter, a benefit is payable to his beneficiaries commencing at the end of the month of death.
- The duty-related death benefit payable to the eligible surviving spouse of a firefighter who was not yet eligible for retirement is equal to 2/3 of the Service Retirement Benefit the firefighter would have been entitled to receive as of the date of death (using the maximum of service at date of death or 20 years). This benefit shall be paid as long as the surviving spouse is living and does not remarry. The not duty-related death benefit payable to the eligible surviving spouse of a firefighter is equal to 5% of the on-duty death benefit for each completed year and fractional year of service (maximum 100%).
- Child
- Each surviving unmarried child under age 18 shall receive a monthly benefit equal to 7.6% of the Highest 60-Month Average Salary of the firefighter as of the date of death. If there is no surviving spouse, an unmarried child will receive 15.2% of the Service Retirement Benefit the firefighter would have been entitled to receive. This death benefit shall be paid until age 18, or continue until age 25 as long as the child remains a full-time student. In addition, benefits are payable after age 17 for as long as a child remains totally disabled.

Post-Retirement Death Benefit

- Spouse
- Upon the death of a service retiree or disabled retiree, a benefit is payable to his beneficiaries commencing at the end of the month of death.
- The benefit payable to the eligible surviving spouse of a service retiree or disabled retiree is equal to 2/3 of the Service Retirement or Disability Retirement Benefit the firefighter was receiving as of the date of death. This benefit shall be paid until the spouse's death or remarriage.
- Child
- Same as Pre-Retirement Child Death Benefit.

4.5 Plan Provisions (continued)

Limitation on Death Benefits

The sum of all death benefits payable on behalf of a retired firefighter may not exceed the benefit he was receiving as of the date of his death. The sum of all death benefits payable on behalf of a non-retired firefighter may not exceed the retirement benefit that he would have been entitled to receive as of his date of death. In the event this limit is exceeded, each beneficiary's benefit is reduced pro-rata until the limit is met.

Partial Lump Sum Option (PSLO)

A firefighter eligible for normal service retirement who is at least age 55 with at least 23 years of service can elect the PSLO option. At retirement the firefighter will receive a reduced monthly benefit based on the service retirement benefit formula multiplied by a percentage factor based on the firefighter's age at retirement and the number of months included in the PLSO lump sum elected by the retiring firefighter. In addition, the firefighter will receive a lump sum amount based on the reduced monthly benefit multiplied by the number of applicable months elected.

Changes in plan provisions

The base percentage for the first 20 years of service was changed from 38% to 40%, the longevity benefit was changed from \$55 per month of service in excess of 20 to \$60 per month. There were no other changes in plan provisions since the prior year.