



CITY OF MERIDEN POLICE EMPLOYEES' PENSION PLAN

ACTUARIAL VALUATION REPORT

JULY 1, 2016





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### Report Prepared By:

Timothy A. Ryor  
Senior Vice President & Consulting Actuary  
860.856.2102  
[TRyor@hhconsultants.com](mailto:TRyor@hhconsultants.com)

Robert P. Lessard  
Actuarial Specialist  
860.856.2106  
[RLessard@hhconsultants.com](mailto:RLessard@hhconsultants.com)



## Executive Summary

	July 1, 2016	July 1, 2014
<b>Number of members</b>		
Active employees	46	52
Terminated vested members	0	0
Vested in employee contributions only	1	1
Retired, disabled and beneficiaries	145	141
Total	192	194
<b>Covered employee payroll</b>	3,828,060	3,485,374
<b>Average plan salary</b>	83,219	67,026
<b>Actuarial present value of future benefits</b>	118,520,350	114,241,773
<b>Actuarial accrued liability</b>	114,136,646	108,764,265
<b>Plan assets</b>		
Market value of assets	56,514,004	62,599,903
Actuarial value of assets	67,860,695	67,165,749
<b>Unfunded accrued liability</b>	46,275,951	41,598,516
<b>Funded ratio</b>	59.5%	61.8%
<b>Actuarially determined employer contribution (ADEC)</b>		
Fiscal year ending	2018	2016
ADEC	4,769,583	4,441,422
Fiscal year ending	2019	2017
ADEC	4,769,583	4,464,984



## Valuation Results and Highlights

### Purpose of the Valuation

The purpose of the valuation is to develop the Actuarially Determined Employer Contribution (ADEC).

The ultimate cost of a pension plan is based primarily on the level of benefits promised by the plan. The pension fund's investment earnings serve to reduce the cost of plan benefits and expenses. Thus,

$$\text{Ultimate cost} = \text{Benefits Paid} + \text{Expenses Incurred} - \text{Investment Return} - \text{Employee Contributions}$$

The actuarial cost method distributes this ultimate cost over the working lifetime of current plan participants. By means of this budgeting process, costs are allocated to both past and future years, and a cost is assigned to the current year. The current year's allocated cost, or normal cost, is the building block upon which the actuarially determined employer contribution is developed. The July 1, 2016 valuation produces the contributions for the fiscal years ending 2018 and 2019.

### Information Available in the Valuation Report

The Executive Summary is intended to emphasize the notable results of the valuation from the perspective of the Plan Sponsor. Supporting technical detail is documented in Results of the Valuation, Supporting Exhibits and Description of Actuarial Methods and Assumptions. A concise summary of the principal provisions of the Plan is outlined in Summary of Plan Provisions.

### Changes Reflected in the Valuation

The proposed assumption changes in the Experience Study published on November 23, 2016 were adopted and reflected in this report. In addition, the investment rate of return assumption decreased from 8.00% to 7.75%.

### Cash Contribution for Fiscal Years Ending 2018 and 2019

The City cost is:	2018 Fiscal Year	2019 Fiscal Year
	\$4,769,583	\$4,769,583

### Liability Experience During Period Under Review

The plan experienced a net actuarial gain on liabilities of \$2,586,107 since the prior valuation.



### Asset Experience During Period Under Review

The plan's assets provided the following rates of return during the past two fiscal years:

	2015 Fiscal Year	2016 Fiscal Year
Market Value Basis	0.9%	-2.4%
Actuarial Value Basis	5.2%	3.7%

The Actuarial Value of assets, rather than the Market Value, is used to determine plan contributions. The Actuarial Value spreads the asset volatility by recognizing 20% of the difference each year, thereby smoothing out fluctuations that are inherent in the Market Value.



## Certification

This report presents the results of the July 1, 2016 Actuarial Valuation for City of Meriden Police Employees' Pension Plan (the Plan) for the purpose of estimating the funded status of the Plan and determining the Actuarially Determined Employer Contribution (ADEC) for the fiscal years ending June 30, 2018 and June 30, 2019. This report is intended to satisfy the requirements of Connecticut General Statute 7-450a. This report may not be appropriate for any other purpose.

The valuation has been performed in accordance with generally accepted actuarial principles and practices. It is intended to comply with all applicable Actuarial Standards of Practice.

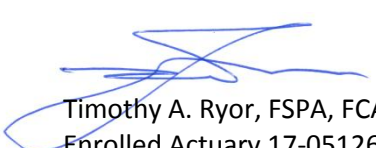
I certify that the actuarial assumptions and methods that were selected by me and represent my best estimate of anticipated actuarial experience under the Plan.

In preparing this valuation, I have relied on employee data provided by the Plan Sponsor, and on asset and contribution information provided by the Trustee. I have audited neither the employee data nor the financial information, although I have reviewed them for reasonableness.

The results in this valuation report are based on the Plan as summarized in the *Summary of Plan Provisions* section of this report and the actuarial assumptions and methods detailed in the *Description of Actuarial Methods and Assumptions* section of this report.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to factors such as, but not limited to, the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the Plan's funded status); and changes in plan provisions or applicable law. Due to the limited scope of this report, an analysis of the potential range of such future measurements has not been performed.

I have no relationship with the employer or the Plan that would impair, or appear to impair, my objectivity in performing the work presented in this report. I am a member of the American Academy of Actuaries and meet its Qualification Standards to render the actuarial opinion contained herein.



Timothy A. Ryor, FSPA, FCA, MAAA  
Enrolled Actuary 17-05126

June 27, 2017

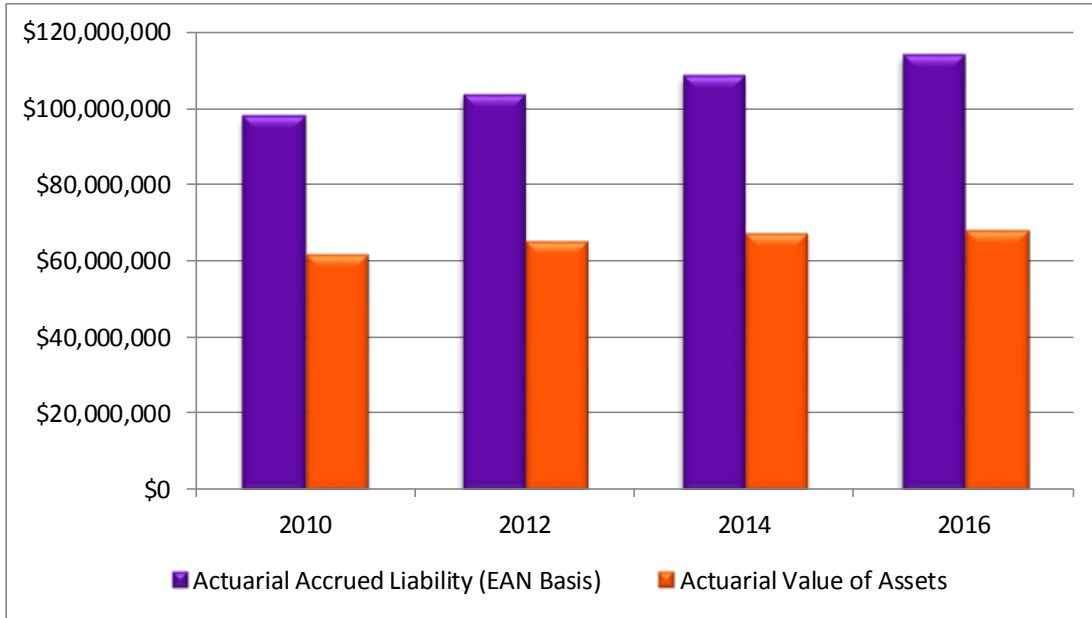


## Development of Unfunded Accrued Liability and Funded Ratio

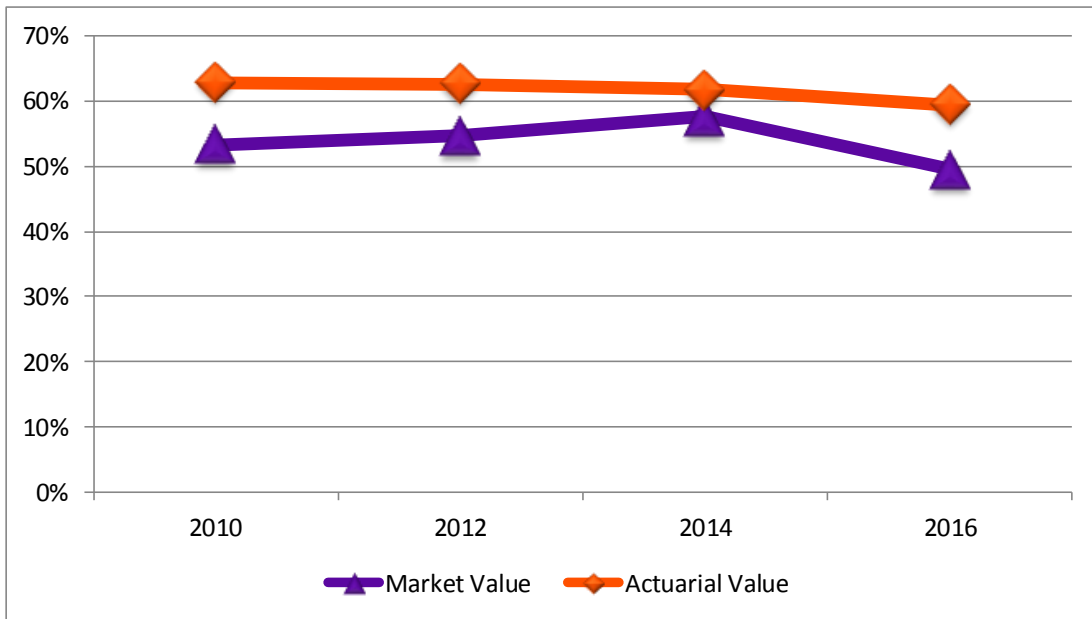
	July 1, 2016	July 1, 2014
Actuarial accrued liability for inactive members		
Retired, disabled and beneficiaries	\$89,575,826	\$86,406,570
Terminated vested members	0	0
Due refund of employee contributions only	34,263	34,263
Total	89,610,089	86,440,833
Actuarial accrued liability for active employees	24,526,557	22,323,432
Total actuarial accrued liability	114,136,646	108,764,265
Actuarial value of assets	67,860,695	67,165,749
Unfunded accrued liability	46,275,951	41,598,516
Funded ratio	59.5%	61.8%



### Actuarial Accrued Liability vs. Actuarial Value of Assets



### Funded Ratio





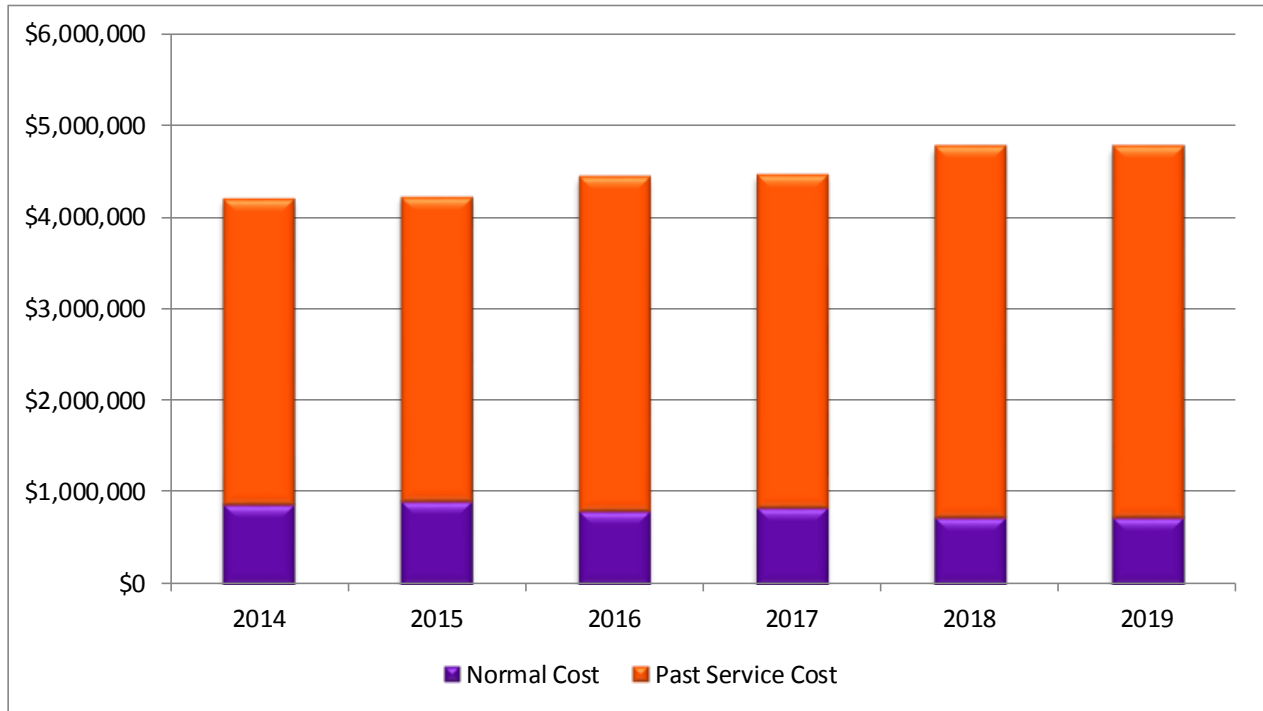


## Determination of Normal Cost and Actuarially Determined Employer Contribution

	July 1, 2016		July 1, 2014	
	Cost	Percent of payroll	Cost	Percent of payroll
Gross normal cost	\$891,166	22.8%	\$959,988	23.3%
Estimated employee contributions	(215,345)	-5.5%	(226,762)	-5.5%
Estimated administrative expenses	32,500	0.8%	30,000	0.7%
City's normal cost	708,321	18.1%	763,226	18.5%
Amortization of unfunded accrued liability	3,886,534	99.3%	3,485,374	84.5%
Contribution before adjustment as of the valuation date	4,594,855	117.4%	4,248,600	103.0%
Estimated valuation year payroll	3,915,359		4,122,939	
Fiscal year ending	2018		2016	
Adjustment for interest and inflation	174,728		192,822	
Actuarially determined employer contribution	4,769,583		4,441,422	
Fiscal year ending	2019		2017	
Adjustment for interest and inflation	0		23,562	
Actuarially determined employer contribution	4,769,583		4,464,984	



### Actuarially Determined Employer Contribution





## Determination of Actuarial Gain/Loss

The Actuarial Gain/Loss is the difference between the expected unfunded accrued liability and the actual unfunded accrued liability, without regard to any changes in actuarial methods, actuarial assumptions or plan provisions. This can also be referred to an Experience Gain/Loss, since it reflects the difference between what was expected and what was actually experienced.

Actuarial Gain / Loss	
<b>Expected unfunded accrued liability July 1, 2016</b>	
Expected unfunded accrued liability July 1, 2015	
Unfunded accrued liability July 1, 2014	\$41,598,516
Gross normal cost July 1, 2014	989,988
City and employee contributions for 2014-2015	(4,559,244)
Interest at 8.00% to July 1, 2015	3,233,388
Expected unfunded accrued liability July 1, 2015	41,262,648
Expected unfunded accrued liability July 1, 2016	
Expected unfunded accrued liability July 1, 2015	41,262,648
Expected gross normal cost July 1, 2015	1,018,788
City and employee contributions for 2015-2016	(4,774,019)
Interest at 8.00% to July 1, 2016	3,197,058
Expected unfunded accrued liability July 1, 2016	40,704,475
<b>Actuarial (gain) / loss July 1, 2016</b>	<b>2,115,978</b>
<b>Actual unfunded accrued liability July 1, 2016, prior to plan provision, assumption and method changes</b>	42,820,453
<b>Sources of (gain) / loss</b>	
Assets	4,702,085
Liabilities	(2,586,107)
Total (gain) / loss	2,115,978
<b>Assumption and method changes since prior valuation</b>	<b>5,516,711</b>
<b>Actual unfunded accrued liability July 1, 2016, after plan provision, assumption and method changes</b>	<b>46,275,951</b>



## Development of Asset Values

Summary of Fund Activity		
	July 1, 2014 - June 30, 2015	July 1, 2015 - June 30, 2016
<b>1. Beginning market value of assets</b>		
Trust assets	\$62,599,903	\$60,552,754
<b>2. Contributions</b>		
City contributions during year	4,227,288	4,441,422
Employee contributions during year	331,956	332,597
Total for plan year	4,559,244	4,774,019
<b>3. Disbursements</b>		
Benefit payments during year	7,144,344	7,370,307
Administrative expenses during year	29,710	30,815
Other disbursements	7,771	2,050
Total for plan year	7,181,825	7,403,172
<b>4. Net investment return</b>		
Interest and dividends	1,108,480	833,744
Net appreciation (depreciation)	(180,318)	(1,914,533)
Investment-related expenses	(352,730)	(328,808)
Total for plan year	575,432	(1,409,597)
<b>5. Ending market value of assets</b>		
Trust assets: (1) + (2) - (3) + (4)	60,552,754	56,514,004
<b>6. Approximate rate of return</b>	0.9%	-2.4%



### Determination of the Actuarial Value of Assets

1. Actuarial value of assets July 1, 2014	\$ 67,165,749
2. City contributions during 2014-2015	4,227,288
3. Employee contributions during 2014-2015	331,956
4. Benefit payments, administrative expenses and other disbursements during 2014-2015	(7,181,825)
5. Expected return during 2014-2015	<u>5,335,083</u>
6. Expected actuarial value of assets July 1, 2015	69,878,251
7. Market value of assets July 1, 2015	60,552,754
8. Appreciation (depreciation) recognized: 20% x [(7) - (6)]	(1,865,099)
9. Actuarial value of assets July 1, 2015: (6) + (8)	68,013,152
10. City contributions during 2015-2016	4,441,422
11. Employee contributions during 2015-2016	332,597
12. Benefit payments, administrative expenses and other disbursements during 2015-2016	(7,403,172)
13. Expected return during 2015-2016	<u>5,313,369</u>
14. Expected actuarial value of assets July 1, 2016	70,697,368
15. Market value of assets July 1, 2016	56,514,004
16. Appreciation (depreciation) recognized: 20% x [(15) - (14)]	(2,836,673)
17. Preliminary actuarial value of assets July 1, 2016: (14) + (16)	67,860,695
18. Preliminary actuarial value of assets as a percentage of market value of assets	120.1%
19. Actuarial value of assets July 1, 2016	67,860,695
2014-2015 return on actuarial value of assets	5.2%
2015-2016 return on actuarial value of assets	3.7%

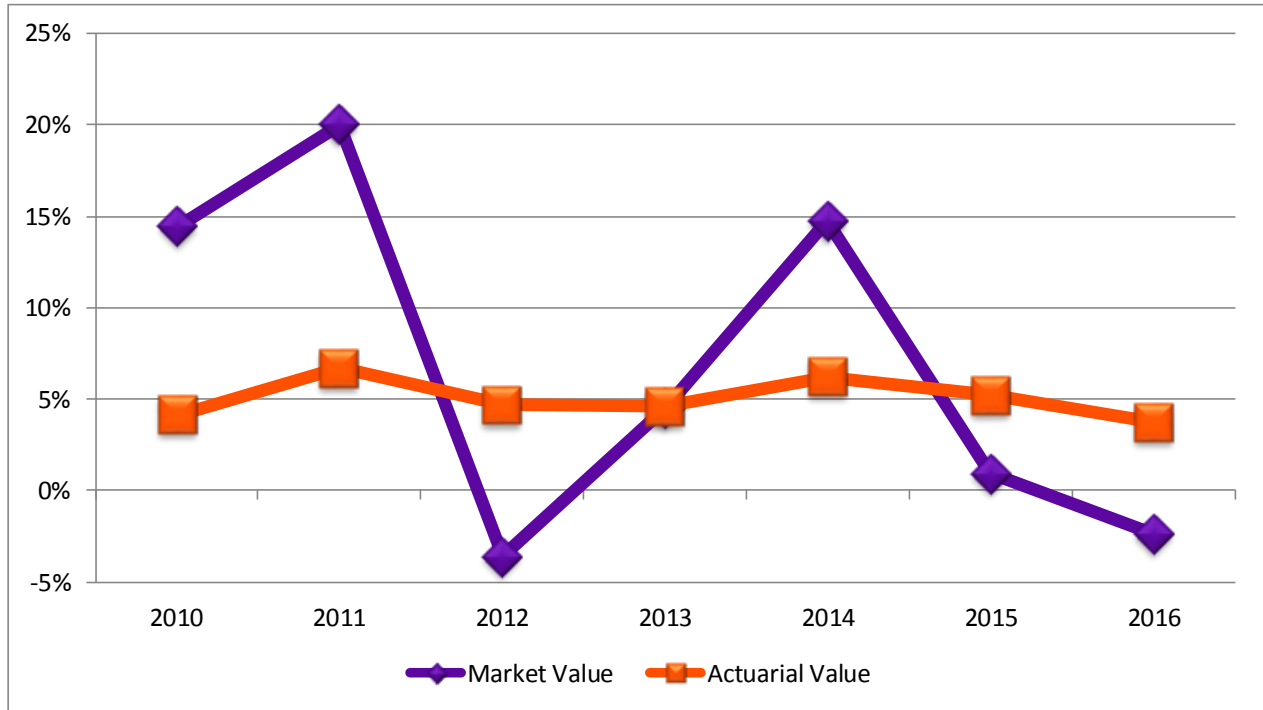


<b>Rate of Return on Market Value of Assets</b>				
<b>Period Ending</b>	<b>Average Annual Effective Rate of Return</b>			
<b>June 30</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
2007	15.6%	N/A	N/A	N/A
2008	6.7%	N/A	N/A	N/A
2009	-19.7%	-0.3%	N/A	N/A
2010	14.4%	-0.7%	N/A	N/A
2011	20.0%	3.3%	6.3%	N/A
2012	-3.6%	9.8%	2.5%	N/A
2013	4.5%	6.5%	2.1%	N/A
2014	14.7%	4.9%	9.7%	N/A
2015	0.9%	6.5%	6.9%	N/A
2016	-2.4%	4.2%	2.6%	4.5%

<b>Rate of Return on Actuarial Value of Assets</b>				
<b>Period Ending</b>	<b>Average Annual Effective Rate of Return</b>			
<b>June 30</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
2007	8.3%	N/A	N/A	N/A
2008	7.9%	N/A	N/A	N/A
2009	2.3%	6.1%	N/A	N/A
2010	4.1%	4.7%	N/A	N/A
2011	6.7%	4.4%	5.8%	N/A
2012	4.7%	5.2%	5.1%	N/A
2013	4.6%	5.3%	4.5%	N/A
2014	6.2%	5.2%	5.3%	N/A
2015	5.2%	5.3%	5.5%	N/A
2016	3.7%	5.0%	4.9%	5.4%



### Actual Rate of Return on Assets





## Target Allocation and Expected Rate of Return July 1, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return*	Weighting
Equity - Domestic	45.00%	5.75%	2.59%
Equity - International	12.00%	6.00%	0.72%
Fixed Income	18.00%	2.50%	0.45%
Real Estate	3.00%	4.25%	0.13%
Hedge Funds	4.00%	4.90%	0.20%
Managed Futures	10.00%	4.50%	0.45%
Private Equity	6.00%	10.70%	0.64%
Commodities	0.00%	2.30%	0.00%
Cash	2.00%	0.50%	0.01%
	100.00%		5.19%
Long-Term Inflation Expectation			2.75%
Long-Term Expected Nominal Return			7.94%

*\*Long-Term Returns are provided by Stifel Nicolaus. The returns are geometric means.*

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return are developed. Best estimates of the real rates of return for each major asset class are included in the pension plan's target asset allocation.

The information above is based on geometric means and does not reflect additional returns through investment selection, asset allocation and rebalancing. An expected rate of return of 7.75% was used.





## Amortization of Unfunded Liability

Schedule of Amortization Bases					
	Date established	Original amount	Amortization installment	Years remaining	Present value of remaining installments as of July 1, 2016
2016 base	July 1, 2016	46,275,951	3,886,534	26	46,275,951



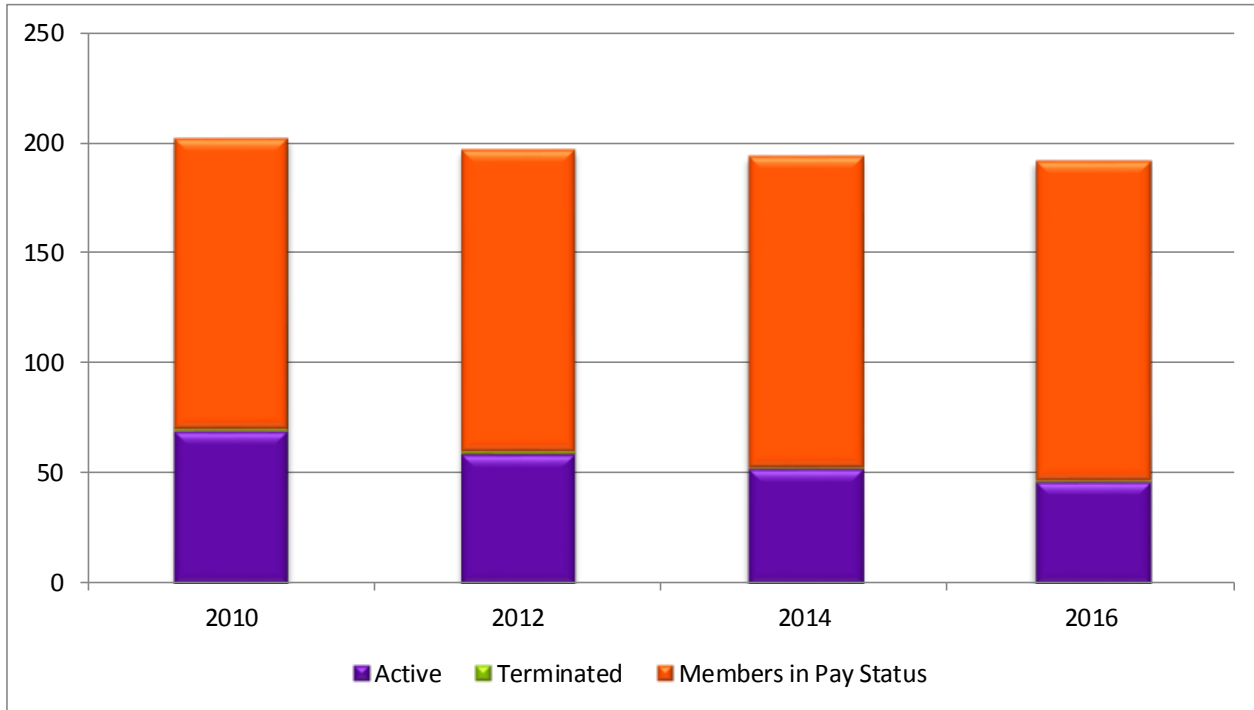
## Member Data

The data reported by the Plan Sponsor for this valuation includes 46 active employees who met the Plan's minimum age and service requirements as of July 1, 2016.

Member Data					
	Active	Terminated vested	Due refund of contributions	Members in pay status	Total
<b>Total members July 1, 2014</b>	52	0	1	141	194
Adjustments	0	0	0	0	0
Retirements	-5	0	N/A	+5	0
Disabilities	0	N/A	N/A	0	0
Terminations					
Vested	0	0	N/A	N/A	0
Lump sum payments	0	0	0	N/A	0
Due contributions only	0	N/A	0	N/A	0
Deaths					
With death benefit	-1	0	0	-4	-5
Without death benefit	0	0	0	-2	-2
Transfers	0	0	0	N/A	0
Rehires	0	0	0	N/A	0
New beneficiaries	N/A	N/A	N/A	+5	+5
New entrants	0	N/A	0	N/A	0
<b>Total members July 1, 2016</b>	46	0	1	145	192



### Member Counts by Status





<b>Member Data</b>			
	<b>Active</b>	<b>Due refund of contributions</b>	<b>Members in pay status</b>
<b>Average age</b>			
July 1, 2014	47.3	55.0	66.2
July 1, 2016	48.9	56.0	65.9
<b>Average service</b>			
July 1, 2014	19.7	N/A	N/A
July 1, 2016	21.2	N/A	N/A
<b>Covered employee payroll</b>			
July 1, 2014	\$3,485,374	N/A	N/A
July 1, 2016	3,828,060	N/A	N/A
<b>Total annual benefits</b>			
July 1, 2014	N/A	N/A	\$7,039,560
July 1, 2016	N/A	N/A	7,148,408



## Description of Actuarial Methods

### Asset Valuation Method

The Actuarial Value of assets used in the development of plan contributions phases in differences between the Market Value and Expected Actuarial Value by recognizing 20% of the difference each year.

### Actuarial Cost Method

- A. Changes in Actuarial Cost Method: None.
- B. Description of Current Actuarial Cost Method:

Basic cost method: Entry Age Normal (level percentage of salary)

Normal Cost: Under this method, the total normal cost is the sum of amounts necessary to fund each active member's normal retirement benefit if paid annually from entry age to assumed retirement age. Entry age is the age at which the employee would have been first eligible for the plan, if it had always been in effect. The normal cost for each participant is expected to remain a level percentage of the employee's salary. The normal cost for the plan is the difference between the total normal cost for the year and the anticipated member contributions for that year.

Past Service Liability: The present value of future benefits that relates to service before the valuation date is the total past service liability. The unfunded past service liability is the difference between the total past service liability and any assets (including accumulated member contributions). This amount is amortized over 26 years on a closed basis.

Experience Gains and Losses: All experience gains and losses (the financial effect of the difference between the actual experience during the prior period and the result expected by the actuarial assumptions for that prior period) appear directly in the past service liability and are amortized at the same rate the plan is amortizing the remaining unfunded past service liability.



## Description of Actuarial Assumptions

### Changes in Actuarial Assumptions as of July 1, 2016

The valuation reflects changes in the actuarial assumptions listed below. (The assumptions used before and after these changes are more fully described in the next section.)

- Mortality
- Retirement
- Investment rate of return
- Disability
- Salary Scale
- Inflation

The assumptions indicated were changed to represent the Enrolled Actuary's current best estimate of anticipated experience of the plan.

### Investment rate of return (net of investment-related and administrative expenses)

7.75%. (Prior: 8.00%)

### Salary Scale

Merit table shown below, plus an annual inflation assumption of 2.75% for all groups.

Police	
Completed Years of Service	Rate
0	8.00%
1	6.50
2	5.00
3	4.00
4	2.00
5	1.00
6	0.50
7	0.50
8	0.50
9	0.50
10	0.50
11	0.50
12	0.50
13	0.50
14+	0.25

Prior: It is assumed that salaries will increase by 3% per annum (compounded) plus a graded scale of 7% at age 20 down to 0% at age 50 and beyond.

The actuarial assumption in regards to salary scale shown above are based on the results of an actuarial experience study for the period July 1, 2008 through July 1, 2014.

### Inflation

2.75%. (Prior: 3.00%)

This assumption is based on long term historical inflation numbers. While near term averages have been lower, we do not believe this trend will continue indefinitely and expect that there will be a reversion to the long-term average.

The assumption was changed to better reflect expected experience.



### Cost of living increases

Retirement date prior to July 1, 2002: 3.75%

Retirement date on or after July 1, 2002:

25 or more years of service: 3.00%.

Less than 25 years of service: 2.00%.

### Mortality

Retirement: RP-2014 Adjusted to 2006 Blue Collar Mortality Table, projected to the valuation date with Scale MP-2016.

Disabilities: RP-2014 Adjusted to 2006 Disabled Mortality Table, projected to the valuation date with Scale MP-2016.

Survivors: RP-2014 Adjusted to 2006 Total Dataset Mortality Table, projected to the valuation date with Scale MP-2016.

Prior: Retirement: RP-2000 Mortality Table with separate male and female rates, with blue collar adjustment, separate tables for non-annuitants and annuitants, projected to the valuation date with Scale AA.

Disabilities: RP-2000 Mortality Table with separate male and female rates, with no collar adjustment, combined table for non-annuitants and annuitants.

### Mortality Improvement

All: Projected to date of decrement using Scale MP-2016 (generational mortality).

Prior: Retirement: Projected to date of decrement using Scale AA (generational mortality).

Disabilities: None.

We have selected this mortality assumption because it is based on the latest published pension mortality study released by the Society of Actuaries. The group composition of the Plan is consistent with the collar adjustment selected.

### Retirement age

Sample Rates:

Age	Completed Years of Service					
	10	15	20	25	30	33
40	0%	0%	0%	50%	10%	25%
45	0%	0%	0%	50%	10%	25%
50	0%	0%	0%	50%	10%	25%
55	0%	0%	0%	50%	5%	25%
60	0%	0%	5%	50%	25%	25%
65	100%	100%	100%	100%	100%	100%

Prior:

Sample Rates	
Completed Years of Service	Retirement
<0	0%
20	25%
21-24	10%
25-29	15%
30	50%
31-34	20%
35+	100%



### Termination prior to retirement

None.

### Disability

1985 Pension Disability Study Class 4 Unisex Table.

Prior:

Sample Rates	
Age	Rate
20	0.12%
25	0.17%
30	0.22%
35	0.29%
40	0.44%
45	0.72%
50	1.21%
55	2.02%
60	3.25%

*\*100% of disabilities with less than 10 years of service are considered service connected.*

The actuarial assumptions in regards to rates of decrement shown above are based on the results of an actuarial experience study for the period July 1, 2008 through July 1, 2014.

### Administrative expenses

We have included estimated administrative expenses in the development of the normal cost.

The estimate is based on actual expenses paid from the trust in the prior year.

### Payroll growth

0%.

### Percent of active employees married

75%.

### Spouse's age

Husbands are assumed to be 3 years older than wives.

### Portion of benefit due to Emolument

Active liabilities are loaded 6.7% to reflect the portion of future benefits based on 50% of emoluments.

The assumption changes increased liabilities by about 5.0%.





## Summary of Plan Provisions

*This summary outlines the major features of the Plan. It does not give full details or cover all aspects of the Plan. The actual terms and conditions of the Plan are stated in documents with the City.*

### **Plan identification**

Single-employer pension plan

### **Effective date**

Originally effective June 13, 1913.

Amended and restated as of July 1, 2006.

### **Eligibility for Participation**

Regular full-time police officers hired prior to March 18, 2003, covered under Local 1016 collective bargaining agreement.

### **Years of Service**

Completed whole years of employment during which employee has made required contributions.

### **Base Rate of Pay**

Salary or wages including elective deferrals under 401(k) or Sec. 125, limited by IRC 401(a)(17).

### **Emoluments**

Longevity payments, holiday pay, life insurance and health insurance minus cost share.

### **Accrued Benefit**

2% of Base Pay times Years of Service up to 20 Years,

plus

1.6% of Base Pay times Years of Service in excess of 20 Years and less than 30 Years,

plus

50% of current Emoluments.

### **Normal Retirement**

Age & Service Requirements:

Earlier of

- 20 Years of Service
- Age 65 and 10 Years of Service

Benefit: Accrued Benefit

### **Termination**

Prior to completion of 10 Years of Service: Return of employee contributions plus regular interest.

After completion of 10 Years of Service: Accrued Benefit, payable when Member would have completed 20 Years.



## **Disability**

Eligibility: None if service-related; otherwise completion of 10 Years of Service.

Benefit:

- Service-related: If disabled from employment as police officer, Accrued Benefit as if Officer had no less than 20 Years of Service.
- Service-related: If disabled from any gainful employment, Accrued Benefit as if Officer had no less than 25 Years of Service.
- Non-Service related: Accrued Benefit as if Officer had no less than 20 Years of Service.

## **Death Prior to Retirement**

Prior to completion of 20 Years of Service: Non-service related: Return of employee contributions plus regular interest.

Service-related: Surviving spouse receives 100% of Accrued Benefit as if Officer had 20 Years of Service. Upon attainment of date Officer would have attained 20 Years, spouse's benefit decreases to 50% of the pension amount. Payable until death or remarriage.

After completion of 20 Years of Service: Surviving spouse receives one-half of Accrued Benefit. Payable until death or remarriage.

## **Post-retirement Death Benefit**

Surviving spouse receives one-half of amount Member was receiving at time of death. Payable until death or remarriage.

## **Normal Form of Retirement Benefit**

Single life annuity.

## **Employee Contributions**

8% of Base Pay, split between Pension and OPEB at the City's discretion.

## **COLA**

Retirement prior to January 1, 2003: Based on increases in Base Pay for the rank held at retirement.

Retirement after January 1, 2003:

- Active members retiring with at least 25 Years of Service: 3% of Base Pay, excluding Emoluments
- Active members retiring with at least 20 but fewer than 25 Years of Service: 2% of Base Pay, excluding Emoluments
- Active members retiring on a Disability Pension: 2% of Base Pay, excluding Emoluments
- Active members retiring with less than 20 Years of Service: none.