The Report of the
Twentieth Annual Actuarial Valuation
of the Retiree Health Benefits

Provided by

St. Clair County Employees Retirement System
December 31, 2004

Submitted To
The Retirement Board

St. Clair County Employees Retirement System
Port Huron, Michigan

GABRIEL, ROEDER, SMITH & COMPANY

CONTENTS

September 27, 2005

The Retirement Board
St. Clair County Employees
Retirement System
Port Huron, Michigan

Dear Board Members:

Submitted in this report are the results of the Twentieth Annual Actuarial Valuation of the assets, benefit values and contribution requirements associated with the retiree health benefits provided by the St. Clair County Employees Retirement System. The results of the valuation of the basic retirement benefits provided by the Retirement System are the subject of a separate report.

The date of the valuation was December 31, 2004.

An Executive Summary is included as Section A.

Valuation results and comments are contained in Section B.

Cash Flow Projections are displayed in Section C.

Sensitivity Tests are presented in Section D.

The valuation was based upon information, furnished by your Secretary, concerning Retirement System benefits, financial transactions, and individual members, terminated members, retirees and beneficiaries. Data was checked for internal consistency but was not otherwise audited. This information is summarized in Section E.

Valuation methods and assumptions are summarized in Section F.

The valuation was performed by or under the supervision of a Member of the American Academy of Actuaries with substantial experience valuing public employee retirement plans. The valuation uses generally accepted actuarial principles and is in accordance with the standards of practice prescribed by the Actuarial Standards Board. To the best of our knowledge, this report is complete and accurate and the methods and assumptions employed produce results which are reasonable.

Respectfully submitted,

Cathy Nagy

Cathy Nagy, FSA, MAAA

W. James Koss, ASA, MAAA

Jim Pranschke

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CN/WJK/JP:dm

Section A

Executive Summary

RETIREE HEALTH BENEFITS

1. Required Contributions - Fiscal Year Beginning January 1, 2006.

The computed contribution is 17.84% of payroll. Based on the reported 2004 payroll this amounts to $7,066,380.

For detail please see page B-2.

2. Contribution Rate Comparison

The following table shows a comparison of the computed contribution rate from last year to this year.

December 2003	December 2004
19.24%	17.84%

3. Reasons for Change

There are 3 general reasons why contribution rates change from one valuation to the next. The first is a change in the benefits or eligibility conditions of the plan. The second is a change in the valuation assumptions or methods used to predict future occurrences. The third is the difference during the year between the plan's actual experience and what the assumptions predicted.

There were no changes in plan provisions.

The health inflation assumption was lowered in the near term in order to better reflect anticipated future experience.

The Road Commission switched from a fully insured plan to a self insured plan. As a result, based on our analysis of the claims experience, the per person healthcare costs for the Road Commission are lower than last year.

In addition, during the 2004 plan year, the retiree health plan received lower contributions than the recommended amount. When the plan receives less than the recommended amount in contributions during a given year, it increases the need for the future contributions, resulting in a higher future contribution rate.

4. Year 2004 Experience Gain (Loss)

One way the plan's experience influences costs is the effect it has on the unfunded accrued liability. This is referred to as the experience gain or loss for the year. There was a gain from all causes of $10,596,614 during 2004. This represents 8.5% of the 2003 accrued liabilities. The gain (loss) development is shown on page B-5.

The year 2004 experience for the retiree health plan was the result of losses from investment earnings and gains from lower than assumed rates of health inflation.

Gain (loss) on investment income	$ (2,406,585)
Remaining gains (losses)	13,003,199
Total gain (loss)	$10,596,614

5. Effect of County Contributions

A computed contribution rate will remain level from year to year if experience matches the assumptions and if the plan receives contributions in accordance with the computed contribution rate from the prior valuation. This year the plan received less in contributions than developed in the 2002 valuation.

12/2002 computed contribution rate	28.96%
actual 2004 payroll	$39,609,752
implied contributions	11,470,984
actual contributions	3,793,162
shortfall	7,677,822

6. 2004 Funding Position

Funding for retiree health benefits began 19 years ago. This year, valuation assets represent 29.5% of accrued liabilities; last year the ratio was 27.7%.

7. Context

Contributing on the basis of valuation results allows the County to level out somewhat the cost of retiree health benefits. ***However, due to the volatility of health care inflation, the results of the retiree health valuation are likely to fluctuate more from year to year than the results of the basic benefits valuation. The Sensitivity Tests in Section D demonstrate how these costs may vary depending upon future experience***.

8. Conclusions

As long as contributions are made at the recommended level, experience matches the assumptions and there are no changes in benefits, the contribution rate should remain close to the percent of payroll shown in this report. The key assumption is the future rate of increase in per capita health expenditures. If the rate of increase does not moderate from recent levels, it will place all health benefit plans in jeopardy, whether funded or unfunded.

9. Recommendation

We have discussed with the Board the regulatory issues involved in funding retiree health benefits in a qualified pension plan. We believe these issues to be very important and of current concern. The Internal Revenue Code limits the dollar amounts that can be contributed to a 401(h) account on behalf of retiree health benefits. Gabriel, Roeder, Smith & Company has not been retained to do an analysis if the 401(h) rules are met. It is our understanding that the Board is currently working with legal counsel to address this issue.

10. GASB Statements 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans. Statement No. 43 sets the accounting standards applicable to plans providing "other post employment benefits" (OPEB), including retiree health care. GASB also issued Statement No. 45, setting the accounting standards applicable to the employers sponsoring OPEB plans.

Government entities will have to comply with the new GASB standards according to the following schedule:

Total Annual Revenue in Fiscal Year Ending June 15, 1999	Effective for Fiscal Years Beginning After: OPEB Sponsor	OPEB Plan
$100 MM or more	12/15/2006	12/15/2005
$10 MM - $100 MM	12/15/2007	12/15/2006
Less than $10 MM	12/15/2008	12/15/2007

Please note that Statements No. 43 and 45 are accounting standards, not funding requirements. However, to the extent that St. Clair County contributes less than the Annual Required Contribution (ARC) as required by the GASB standard, an accrued liability will be shown on the County's financial statement. In addition, if the County contributes less than the ARC, a lower interest rate will be used in the calculations, significantly increasing the reported liability and ARC.

11. Medicare Part D

The impact of the Federal legislation creating a prescription drug benefit under Medicare has not been reflected in this report. The impact will depend on the plan sponsor's method of coordinating their program with the Medicare program.

Section B

Valuation Results
Comments

FINANCIAL OBJECTIVE

The financial objective of the Retiree Health Care Plan is to establish and receive contributions, expressed as a percentage of active member payroll, which will permit the accumulation of assets to pay for these retirement benefit promises.

Your annual retiree health benefit valuations determine how well the objective is being met.

CONTRIBUTION RATES

The Retirement System health benefits are supported by contributions from the County and by the investment income earned on System health assets. The County provides an actuarially determined contribution needed to meet the financial objective.

County contributions cover both (i) normal cost, and (ii) the financing of the unfunded accrued liability over a period of future years. The normal cost is the portion of System costs allocated to the current year by the valuation method described in Section F. The unfunded accrued liability is the portion of System costs not covered by present System assets and future normal costs.

The contribution requirements for retiree health benefits for the fiscal year beginning January 1, 2006 are presented on page B-2. We have developed and shown in a separate report the costs of basic retirement benefits.

CONTRIBUTIONS TO PROVIDE RETIREE HEALTH BENEFITS
DECEMBER 31, 2004 VALUATION

Contributions for	% of Active Payroll	
Normal cost of benefits:		
Age & service	5.80%	
Disability	0.19%	
Death before retirement	0.16%	
Total		6.15%
Unfunded accrued liability		11.69%
COMPUTED EMPLOYER RATE		17.84%

Unfunded actuarial accrued liabilities were financed as a level percent of member payroll over a closed period of 24 years.

The procedure for determining dollar contribution amounts is shown on page B-3.

Page B-4 displays the unfunded accrued liabilities that are amortized by the contribution rate shown above.

CONVERTING CONTRIBUTION RATES TO DOLLAR AMOUNTS

For any period of time, the percent-of-payroll contribution rate needs to be converted to dollar amounts. We recommend one of the following procedures.

(1) Contribute dollar amounts for a period which are equal to the computed percent-of-payroll contribution requirement multiplied by the covered active member payroll for the period. Since pay data used is submitted for the retirement system valuation, the contribution percentages developed refer to payroll as defined for Retirement System benefits.

(2) Contribute $7,066,380. This amount is based on the submitted payroll information without adjustment for expected pay increases after year 2004. It would be appropriate to adjust this dollar amount for changes in the payroll after December 31, 2004.

TIMING OF CONTRIBUTION PAYMENTS

The contributions in this report anticipate regular payments throughout the year. Examples would be at each payroll date or in 12 monthly installments. If the employer contribution pattern is significantly different, an adjustment to the costs may be appropriate. For example, a lump sum contribution at the beginning of the year is available for investment throughout the year and, therefore, ought to be somewhat smaller than 12 monthly payments. Similarly, a lump sum contribution at the end of the year will not generate any investment income that year and so must be greater than 12 monthly payments.

DETERMINATION OF UNFUNDED ACCRUED LIABILITY
RETIREE HEALTH BENEFITS
DECEMBER 31, 2004 VALUATION

A.	Accrued Liability		
	1. For retirees and beneficiaries		$ 55,663,190
	2. For vested terminated members		13,940,777
	3. For present active members		
	a. Value of expected future benefit payments	$77,535,972	
	b. Value of future normal costs	26,637,892	
	c. Active member liability: (a) - (b)		50,898,080
	4. Total		120,502,047
B.	Valuation Assets		35,576,190
C.	Unfunded Accrued Liability: (A.4) - (B)		84,925,857

DEVELOPMENT OF 2004 EXPERIENCE GAIN (LOSS)
RETIREE HEALTH BENEFITS

Actual experience will never (except by coincidence) exactly match assumed experience. It is hoped that gains and losses will cancel each other over a period of years, but sizable year to year fluctuations are common. Detail on the derivation of the experience gain (loss) is shown below.

		2003	2004
(1)	UAAL* at start of year	$73,266,414	$89,945,736
(2)	Normal cost from last year	2,260,039	2,665,736
(3)	Actual employer contributions	4,873,845	3,793,162
(4)	Net interest accrual on (1), (2) and (3)	5,398,145	6,704,161
(5)	Expected UAAL before changes: (1) + (2) - (3) + (4)	76,050,753	95,522,471
(6)	Changes from amendments	0	0
(7)	Change from revised assumptions/methods	0	0
(8)	Expected UAAL after changes: (5) + (6) + (7)	76,050,753	95,522,471
(9)	Actual UAAL at end of year	89,945,736	84,925,857
(10)	Gain (Loss) (8) - (9)	(13,894,983)	10,596,614
(11)	Gain (Loss) as percent of actuarial accrued liabilities at start of year	(13.13)%	8.51 %
(12)	Total Gain (Loss)	(13,894,983)	10,596,614

* *Unfunded actuarial accrued liabilities.*

DEVELOPMENT OF VALUATION INVESTMENT GAIN (LOSS)
YEAR ENDED DECEMBER 31, 2004

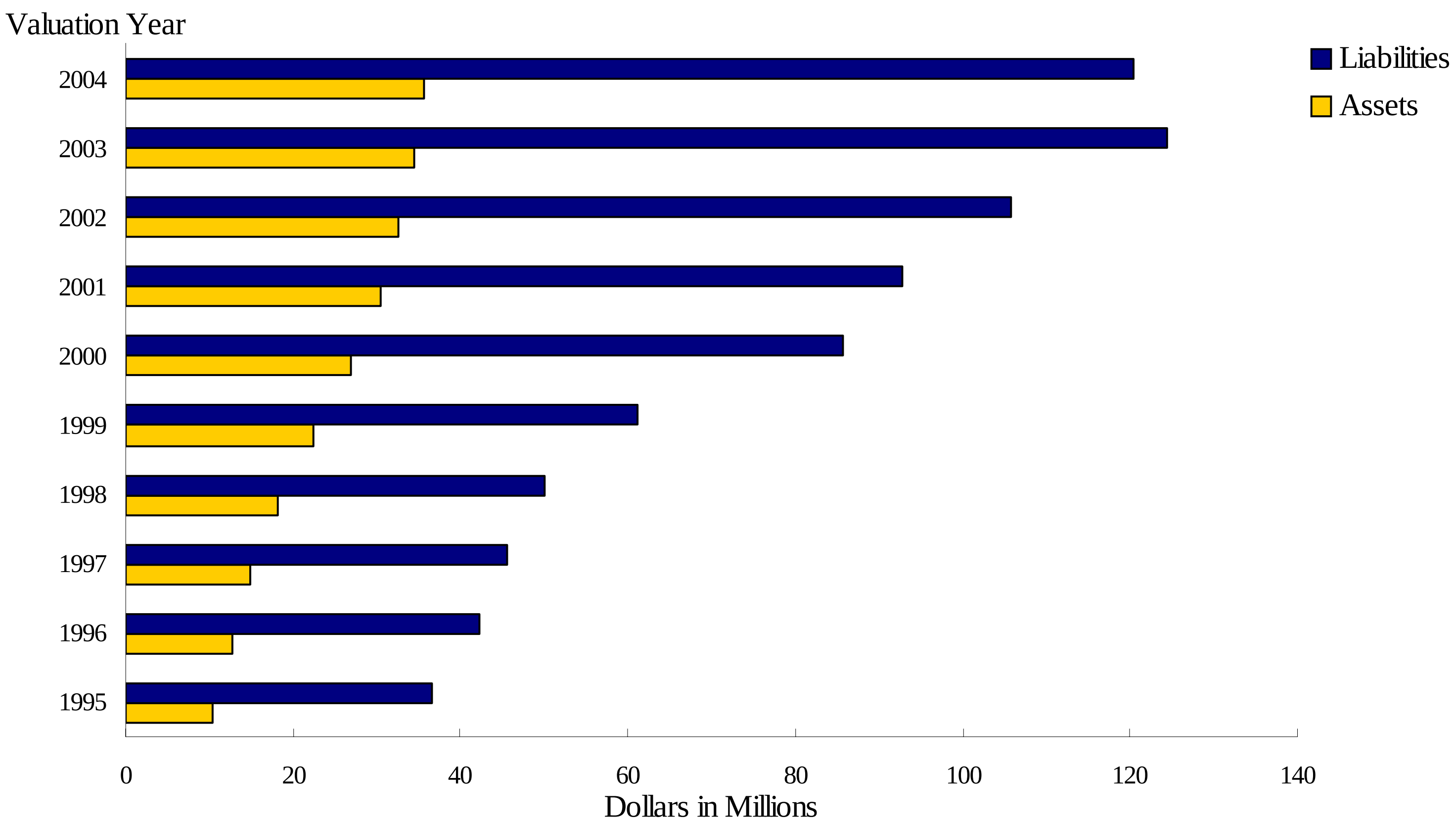
The 2004 valuation assumed an average 7.5% return on valuation assets. Net investment return in excess of 7.5% represents a gain. If net investment return falls short of 7.5%, the difference between an income of 7.5% and the net return represents a loss.

(1)	Net interest and dividends during 2004	$ 4,190,049
(2)	2004 market value adjustment (see page E-4)	(3,083,789)
(3)	Total 2004 valuation investment income: (1) + (2)	1,106,260
(4)	Average Valuation Assets	179,990,235
(5)	Expected investment income: (.075) x (4)	13,499,268
(6)	Gain (Loss): (3) - (5)	(12,393,008)
(7)	Portion of System assets for retiree health	0.194189
(8)	Gain (loss) attributable to retiree health assets: (6) x (7)	(2,406,585)
(9)	Valuation rate of return for 2004: (3) / (4)	0.61%

Please note that this analysis uses asset values and investment income as defined for the actuarial valuation. It is not, therefore, appropriate as a measure of manager performance.

During 2004 the approximate market value rate of return was 5.81%.

Assets & Accrued Liabilities
Retiree Health Benefits



1995 assets equaled 28.6% of accrued liabilities.
2004 assets equaled 29.5% of accrued liabilities.

COMPUTED EMPLOYER CONTRIBUTIONS
RETIREE HEALTH BENEFITS
COMPARATIVE STATEMENT

Valuation Date	Covered Active Members No.	Valuation Payroll Total	Valuation Payroll Average	% Incr.	Covered Retirees & Beneficiaries	Contributions as Percent of Covered Payroll
12/31/1988#	748	$18,843,733	$25,192	2.3	298	5.11 %
12/31/1989	758	20,024,381	26,417	4.9	305	6.24
12/31/1990@	765	21,049,322	27,515	4.2	312	9.92
12/31/1991@#	763	21,859,213	28,649	4.1	317	15.12
12/31/1992	723*	22,118,037	30,592	6.8	325	15.03
12/31/1993	732	23,711,156	32,392	5.9	335	12.17
12/31/1994	747	24,769,097	33,158	2.4	347	10.97
12/31/1995#	766	25,861,302	33,761	1.8	361	10.61
12/31/1996#	783	27,934,157	35,676	5.7	375	11.77
12/31/1997	791	28,402,628	35,907	0.6	376	12.59
12/31/1998	798	29,161,115	36,543	1.8	394	13.41
12/31/1999	827	31,051,406	37,547	2.7	406	16.14
12/31/2000@	825	32,044,333	38,842	3.4	410	24.39
12/31/2001	833	32,744,255	39,309	1.2	426	26.49
12/31/2002	883	35,716,619	40,449	2.9	435	28.96
12/31/2003**	914	38,047,803	41,628	3.0	455	19.24
12/31/2004	924	39,609,752	42,868	3.0	462	17.84

@ *Revised actuarial assumptions.*
# *Retirement System Amended.*
* *Medical Care Facility closed.*
** *Amortization period changed.*

Retiree Premium Rate Development

The retired employees of St. Clair County are provided medical and prescription drug benefits through the County's self insured program administered by BCBS. Age graded and sex distinct premiums are utilized by this valuation and developed for two classes of retirees (pre-65 and post-65). The initial premiums developed are appropriate for the unique age and sex distribution currently existing. Over the future years covered by this valuation, the age and sex distribution will most likely change. Therefore, our process "distributes" the average premium over all age/sex combinations and assigns a unique premium for each combination. This process more accurately reflects health care costs in the retired population over the projection period.

Trend factors were established by reviewing historical trends and evaluating their relationship with national and/or regional trends. The regional trend used for this purpose is the Blue Cross Blue Shield (BCBS) trend developed for their group business with over 100 employees per group, due to the prevalence of BCBS coverage in this region.

Initial premiums were developed using actual claims data for the St. Clair County's medical benefit program. The claims data provided was combined for the pre-65 and post-65 participants. Medicare starts at age 65 for most retirees and has a very significant impact on the claim experience. Since the split (pre-65 vs. post-65) was not available, the data was adjusted to reflect the impact of the Medicare program on expected claim costs. Since the prescription drug claims and the medical claims exhibit significantly different trends and claim payment patterns, we analyzed these segments separately.

The first step in estimating incurred claims is to adjust the paid claims for the "incurred but not reported" claim liability. This liability is the amount of claims for services already rendered but not yet reported or paid for.

Retiree Premium Rate Development (Continued)

The next step is to determine the trend factors used to project the incurred claims from the experience period to the current use period. Medical trend is the term used for the increase in the "per retiree claim cost" over time. The experience period for this valuation is the calendar years 2002 through 2004. Since the valuation date of this report is 12/31/2004, the use period is the following twelve-month period, 1/1/2005 through 12/31/2005.

The final step for developing the premium for the self insured segment of the medical program is to add in the load for administration, network access fee, stop loss premiums, etc.

The following are the monthly one-person premiums used in this valuation at select ages:

Not Eligible for Medicare

Age	Male	Female
40	$ 177.33	$ 277.84
50	325.97	369.34
60	535.22	514.47
64	622.98	577.44

Assumed Eligible for Medicare

Age	Male	Female
65	$ 370.86	$ 341.52
75	474.92	421.48
85	529.57	464.94

RETIREE HEALTH BENEFITS
COMMENTS

Comment A: Beginning with the December 31, 2003 actuarial valuation we are no longer using the Blue Cross Blue Shield illustrative premiums to value the liabilities of this plan. Actuarial standards of practice require, for valuation dates on or after January 1, 2003, the use of actual claims information for the groups valued, if the plan is self-insured. It is our understanding that all groups within St. Clair County have self-insured retiree health benefits. The results in this report have been prepared based on claims analysis as described previously. In addition, we re-evaluated the health inflation assumption and we are recommending a change to better reflect possible future experience.

Comment B: Providing health care benefits to retired employees involves significant additional risks when compared to providing pensions to retired employees. The additional risks include the rate at which current medical costs will increase, or decrease in the future, changes in utilization and changes in Medicare. As a result contributions for a retiree health plan are more volatile. This volatility is shown in Section D of this report.

Comment C: If the contribution rate and unfunded liabilities in this report seem large, this is due to the nature of the benefits promised and the economic forces affecting the cost of providing these benefits. It is also due to the fact that funding for these benefits is still relatively low. To illustrate this, the chart below compares the computed employer contribution requirement to a situation in which the plan would have present assets equal to 50% or 100% of its present accrued liabilities.

Contribution Requirements

Cost	Present Assets	Assets Fund 50% of Liabilities	Liabilities Fully Funded
Normal Cost	6.15%	6.15%	6.15%
Accrued liability	$120,502,047	$120,502,047	$120,502,047
Assets	35,576,190	60,251,024	120,502,047
Unfunded liability	84,925,857	60,251,023	0
Amortization payment	11.69%	8.29%	0.00%
Required contribution	17.84%	14.44%	6.15%

COMMENTS (CONTINUED)

Comment D: This valuation allows the County to level out the cost of retiree health benefits somewhat. Even though the contribution rate may not remain as level as pension contribution rates, this program of pre-funding will help the County avoid much of the increasing cost that results from a pay-as-you-go approach. This valuation also helps in understanding the very substantial value of retiree health benefits.

Comment E: In order for a contribution requirement to remain level from one valuation to the next, experience must be similar to the valuation assumptions, and the plan must receive contributions at the rate computed in the valuation. If the plan receives contributions at a lower level, (i) funding will be slowed down and (ii) the need for future contributions will increase. Moreover, the valuations anticipate that contributions, as they are received, will be available for investment. While budgetary constraints may argue for a reduced level of current funding, it should be understood that the "cost" of reducing contributions is not only an increased need for County contributions in the future to make up for the contributions that the plan is not receiving currently, but also an increased need for County contributions in the future to make up for the investment return the plan would have realized on these missed contributions.

Section C

Cash Flow Projections

BACKGROUND

Until a retirement program reaches a mature state, the number of members receiving benefits will continue to increase, with commensurate increases in the amount of benefit disbursements. When the retirement benefits being paid are health benefits, health costs can be expected to increase as the result of medical care inflation, changes in utilization and Medicare cost shifting. When both of these reasons for increased disbursements apply, as they do for the St. Clair County Retiree Health Program, it is reasonable to expect that the amount of the System's annual health disbursements will increase for years to come.

We have projected the System's health disbursements over the next 20 years. The projections are based upon the same assumptions as were used for the valuation of System costs. The schedule on the next page displays the anticipated disbursements.

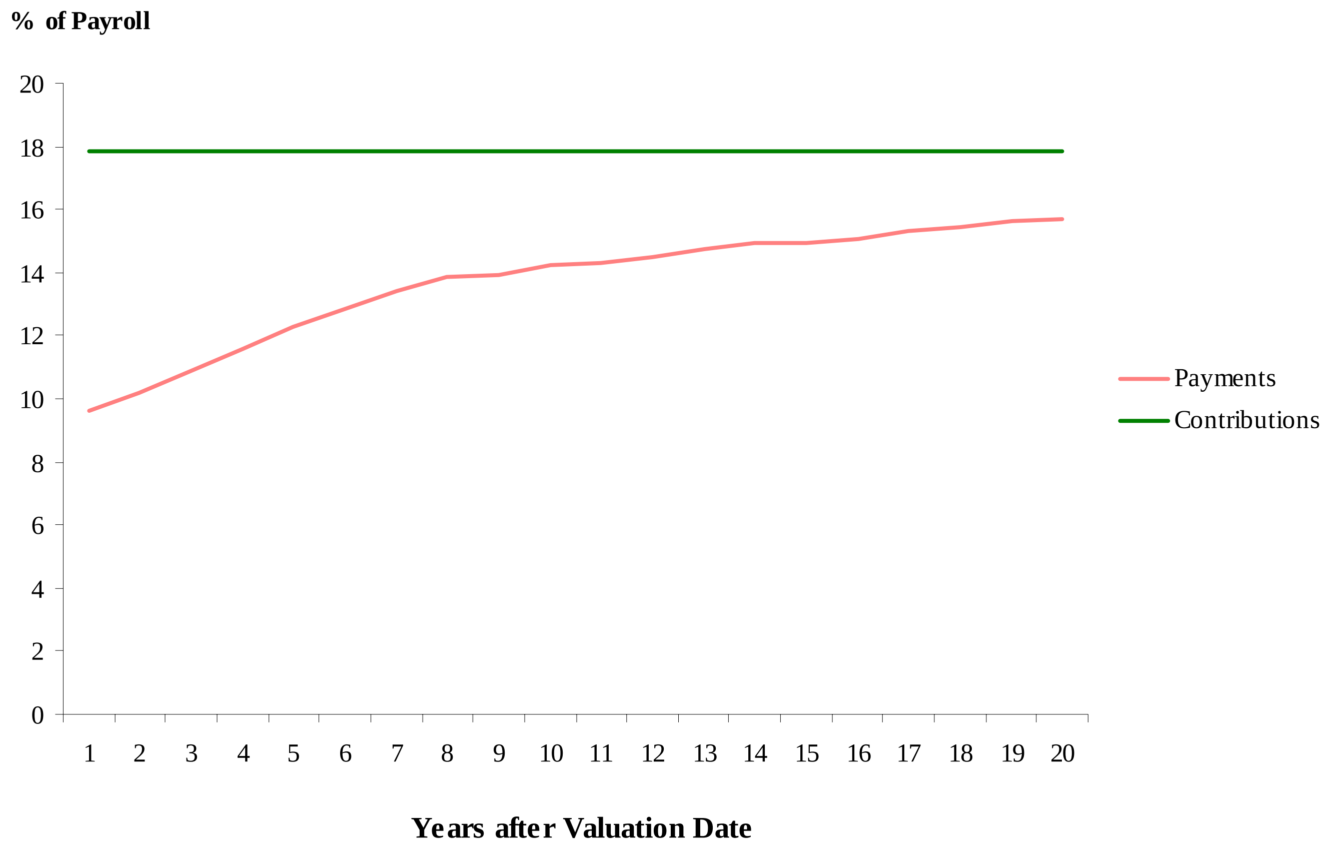
Please note that these projections anticipate that the System will receive contribution income equal to the computed cost requirements.

20 YEAR PROJECTION OF BENEFIT DISBURSEMENTS

Year	Retiree Health Payments on Behalf of Present				Benefit Disbursements
	Retirees	Employees	Inactives	Total	As a % of Payroll
2005	$3,606,300	$ 141,600	$ 52,000	$ 3,799,900	9.59%
2006	3,850,300	309,100	92,000	4,251,400	10.22%
2007	4,071,200	516,900	178,400	4,766,500	10.91%
2008	4,261,600	776,000	278,000	5,315,600	11.59%
2009	4,448,200	1,086,200	385,800	5,920,200	12.30%
2010	4,610,100	1,421,200	464,700	6,496,000	12.85%
2011	4,771,000	1,819,400	532,200	7,122,600	13.42%
2012	4,837,700	2,240,200	637,300	7,715,200	13.84%
2013	4,845,900	2,641,000	667,000	8,153,900	13.93%
2014	4,858,200	3,088,900	787,200	8,734,300	14.21%
2015	4,850,500	3,569,900	816,700	9,237,100	14.32%
2016	4,841,800	4,037,900	935,500	9,815,200	14.49%
2017	4,812,000	4,530,500	1,141,100	10,483,600	14.74%
2018	4,778,700	5,077,100	1,282,300	11,138,100	14.91%
2019	4,746,200	5,611,400	1,377,900	11,735,500	14.96%
2020	4,720,000	6,220,100	1,468,500	12,408,600	15.07%
2021	4,686,200	6,909,900	1,629,600	13,225,700	15.30%
2022	4,634,700	7,641,600	1,719,000	13,995,300	15.42%
2023	4,568,400	8,471,900	1,876,100	14,916,400	15.65%
2024	4,490,300	9,308,000	1,936,600	15,734,900	15.72%

This is a closed group projection assuming no new entrants into the plan over the projection period. Benefit payments are projected based on the per person health care costs developed as a result of our claims analysis, and will be different from the actual benefits paid from the plan.

RETIREE HEALTH BENEFITS
PROJECTED PAYMENTS AND CONTRIBUTIONS (PERCENTS OF PAYROLL)



Section D

Sensitivity Tests

BACKGROUND

Actuarial valuations deal with the cost of benefits to be paid in the future. The payments considered will range from one month in the future to decades from the valuation date (for a young, newly hired employee who may retire many years from now and live many years after that). In order to establish a present day cost for these future benefit obligations, the actuary bases the valuation on a number of assumptions about future occurrences. The occurrences that must be considered include employee turnover, pay increases, disablements, retirements, deaths and investment income on plan assets.

When the benefits being valued are health benefits, a key factor is the future cost of the goods and services being promised. This is projected using the current cost of the health benefits and assumed rates of future health cost increases. The final cost of providing retiree health benefits will depend upon how the charges for medical services actually increase in the future.

In order to demonstrate how the computed cost of these benefits can vary depending upon future health care inflation, we have performed additional valuations based upon alternative health care inflation assumptions. The schedule on page D-2 compares (i) the computed cost of the retiree health benefits using the valuation assumptions to (ii) results of alternate valuations. One of the alternate valuations is based upon a more optimistic health cost increase assumption than was used for the valuation. The other valuation is based upon a pessimistic health cost increase assumption.

The schedule on page D-3 illustrates health cost increase assumptions used in each of the valuations.

RETIREE HEALTH BENEFITS
SENSITIVITY TESTS - MEDICAL INFLATION

	Future Medical Inflation		
Computed Cost	**Valuation Assumption**	**Optimistic Assumption**	**Pessimistic Assumption**
Normal cost	6.15%	5.25%	6.94%
Accrued liability	$120,502,047	$104,958,148	$133,873,689
Valuation assets	35,576,190	35,576,190	35,576,190
Unfunded liability	84,925,857	69,381,958	98,297,499
Amortization payment*	11.69%	9.55%	13.53%
Contribution rate	17.84%	14.80%	20.47%

* *Unfunded actuarial accrued liabilities were financed as a level percent of member payroll over a period of 24 years.*

%'s refer to costs as a percentage of covered member payroll.

RETIREE HEALTH BENEFITS
SENSITIVITY TESTS - HEALTH COST INCREASE ASSUMPTION

	Assumed Rate of Medical Inflation		
Year	Valuation	Optimistic	Pessimistic
2005	10.00 %	8.00 %	13.00 %
2006	9.50	7.00	12.00
2007	9.00	6.00	11.00
2008	8.50	5.00	10.00
2009	8.00	5.00	9.00
2010	7.00	5.00	8.00
2011	6.00	5.00	7.00
2012	5.00	5.00	6.00
2013	5.00	5.00	5.00
2014	5.00	5.00	5.00

Section E

Summary of Benefit Provisions
Valuation Data

BRIEF SUMMARY OF RETIREE HEALTH ELIGIBILITY
DECEMBER 31, 2004

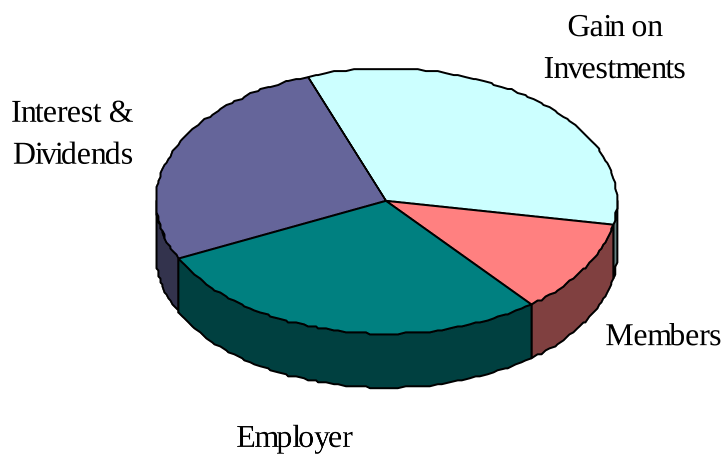
Covered Person	Group	Eligibility Conditions
Retired Member	Modified plan member	Age 55 (age 50 for Sheriff Dept.) with 25 years of service or age 60 with 20 years of service. After 25 years when age plus service equals 80.
	Original plan member	Age 55 (age 50 for Sheriff Dept.) with 25 years of service or age 60 with 8 years of service. After 25 years when age plus service equals 80.
Spouse of retiree	Any	Retiree alive and covered, or spouse receiving continuation of deceased retiree's pension.
Spouse of deceased employee	Any	Spouse receives a survivor pension.

All new hires are expected to be covered by the modified plan. Members are not currently required to contribute to the health care plan.

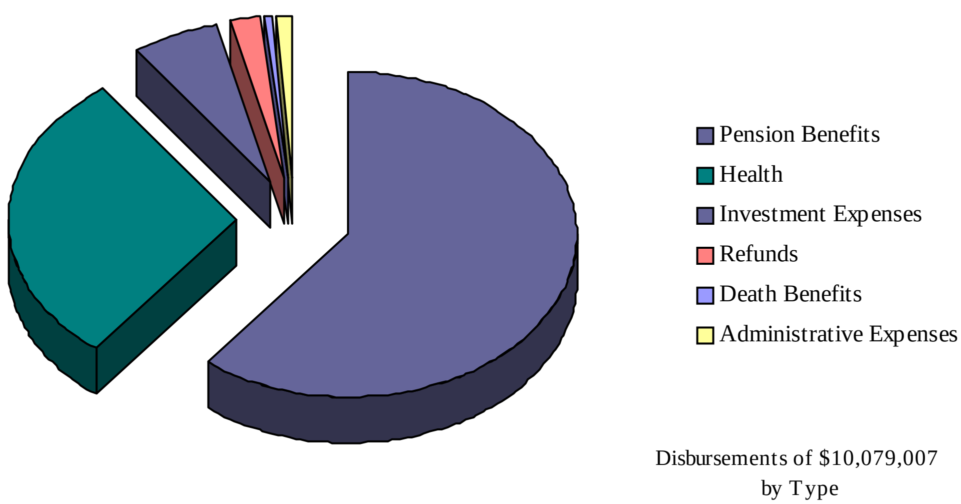
Members of the Sheriff's Department, who retire prior to age 50, pay the cost of coverage until attainment of age 50.

Members who retire as a result of a disability, terminated vested members and survivors of members who die while actively employed receive health care coverage.

INCOME AND DISBURSEMENTS
During Year Ended December 31, 2004
(Total System – Market Value)



Source of $18,093,520 in Income



Disbursements by Type

REPORTED FINANCIAL INFORMATION AT MARKET VALUE
YEAR ENDED DECEMBER 31, 2004
TOTAL SYSTEM ASSETS

Revenues and Disbursements

Revenues:	
a. Member contributions	$ 2,051,964
b. Employer contributions	5,201,593
c. Interest and dividends	4,797,125
d. Gain on investments	6,042,838
e. Total	$18,093,520
Disbursements:	
a. Refunds of member contributions	$ 236,134
b. Pensions paid	6,093,198
c. Death benefits paid	66,500
d. Health benefits	2,974,636
e. Investment expenses	607,076
f. Administrative expenses	101,463
	$10,079,007
Reserve Increase:	
Total revenues minus total disbursements	$ 8,014,513

Assets

a. Cash and equivalents*	$ 7,758,542
b. Stocks	76,311,055
c. Corporate Bonds	68,199,649
d. U.S. government securities	33,101,264
Total	$185,370,510

* *Adjusted for accruals and receivables, net of payables.*

DEVELOPMENT OF VALUATION ASSETS
TOTAL SYSTEM ASSETS

(a) Valuation assets January 1, 2004			$181,099,422
(b) 2004 contribution income			7,253,557
(c) 2004 net interest and dividend income			4,190,049
(d) 2004 benefit payments and refunds			9,370,468
(e) 2004 System expenses			101,463
(f) Preliminary valuation assets: (a)+(b)+(c)-(d)-(e)			183,071,097
(g) Market value adjustment			
2000	(4,766,480) / 5	=	(953,296)
2001	(14,230,384) / 5	=	(2,846,077)
2002	(24,369,794) / 5	=	(4,873,959)
2003	21,904,875 / 5	=	4,380,975
2004	6,042,838 / 5	=	1,208,568
			(3,083,789)
(h) Total: (f) + (g)			$179,987,308
i) Retiree health assets (401(h) account)			35,576,190
ii) Pension assets			144,411,118

Reconciliation of Asset Values

Year Ended December 31	Market Change	Already Recognized	Outstanding Balance	Over Next
2000	(4,766,480)	(4,766,480)	$ 0	0 yrs.
2001	(14,230,384)	(11,384,308)	(2,846,076)	1
2002	(24,369,794)	(14,621,877)	(9,747,917)	2
2003	21,904,875	8,761,950	13,142,925	3
2004	6,042,838	1,208,568	4,834,270	4
			5,383,202	
		Plus Total Valuation Assets	179,987,308	
		Total Assets at Market	$185,370,510	

COMPARATIVE STATEMENT OF INVESTMENT EXPERIENCE
ALL SYSTEM ASSETS
VALUATION BASIS
(DOLLARS IN THOUSANDS)

	Assumed Net Investment Income		Net Dividends and Interest		Recognized Gains(Losses)		Net Investment Income		Experience
Year	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**	**Gain(Loss)**
1995	$ 6,743	7.50 %	$ 4,375	4.87 %	$ 4,434	4.93 %	$ 8,809	9.80 %	$ 2,065
1996	7,503	7.50 %	4,913	4.91 %	4,260	4.26 %	9,173	9.17 %	1,670
1997	8,275	7.50 %	5,584	5.06 %	5,629	5.10 %	11,213	10.16 %	2,938
1998	9,230	7.50 %	5,627	4.57 %	9,964	8.10 %	15,591	12.67 %	6,361
1999	10,402	7.50 %	7,361	5.31 %	12,944	9.33 %	20,305	14.64 %	9,903
2000	11,905	7.50 %	6,396	4.03 %	8,290	5.22 %	14,686	9.25 %	2,781
2001	12,940	7.50 %	5,690	3.30 %	3,930	2.28 %	9,620	5.58 %	(3,320)
2002	13,556	7.50 %	5,103	2.82 %	(3,597)	(1.97)%	1,506	0.83 %	(12,050)
2003	13,523	7.50 %	4,674	2.59 %	(2,714)	(1.49)%	1,960	1.09 %	(11,563)
2004	13,499	7.50 %	4,190	2.31 %	(3,084)	(1.70)%	1,106	0.61 %	(12,393)

RETIREE HEALTH BENEFITS
RETIREES AND BENEFICIARIES - DECEMBER 31, 2004
TABULATED BY ATTAINED AGE
GENERAL COUNTY, SHERIFF'S DEPT. & ROAD COMMISSION

Attained Ages	No. of Retirees*	Number Covered Per Retiree
35-39	1	5
40-44	2	2
45-49	1	0
50-54	17	32
55-59	45	81
60-64	74	121
65-69	59	90
70-74	64	104
75-79	75	100
80	8	10
81	14	18
82	11	14
83	11	12
84	10	14
85	5	7
86	9	12
87	3	4
88	8	7
89	2	2
90 and Over	16	17
Totals	**435**	**652**

Average number covered per retiree: 1.5

* *Actual number of retirees, including those that do not have retiree health care coverage.*

RETIREE HEALTH BENEFITS
RETIREES AND BENEFICIARIES - DECEMBER 31, 2004
TABULATED BY ATTAINED AGE
MENTAL HEALTH AUTHORITY

Attained Ages	No. of Retirees*	Number Covered Per Retiree
50-54	1	2
55-59	2	1
60-64	15	22
65-69	3	3
70-74	4	7
75-79	2	1
Totals	**27**	**36**

Average number covered per retiree: 1.3

* *Actual number of retirees, including those that do not have retiree health care coverage.*

RETIREE HEALTH BENEFITS
RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS
COMPARATIVE STATEMENT

Year Ended December 31	Added to Rolls@	Removed from Rolls	Rolls End of Year	Present Value of Health Benefits
1987	26	12	286	$ 3,444,302
1988	21	9	298	4,907,357
1989	17	10	305	6,316,089
1990	17	10	312	9,630,842
1991	18	13	317	11,724,732
1992	18	10	325	12,872,407
1993	20	10	335	11,984,980
1994	24	12	347	11,361,828
1995	33	19	361	12,523,024
1996	15	1	375	14,524,383
1997	30	29	376	16,413,460
1998	30	12	394	19,258,663
1999	28	16	406	25,109,990
2000	22	18	410	33,481,392
2001	34	18	426	38,921,495
2002	33	24	435	45,665,396
2003	36	16	455	55,715,393
2004	37	30	462	55,663,190

@ *Includes survivors of deceased retirees.*

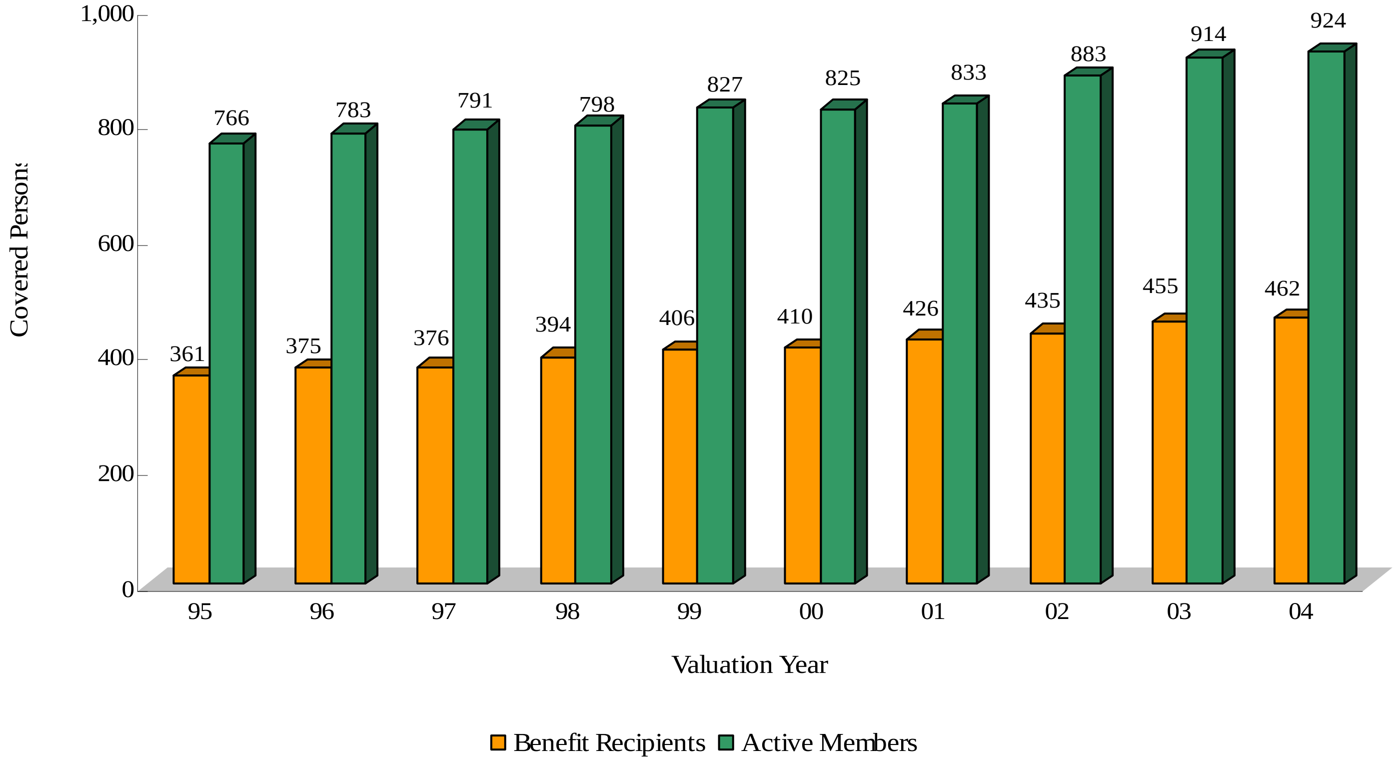
INACTIVE MEMBER DATA

There were 66 General County and 28 Mental Health Authority inactive members as of December 31, 2004. An inactive member is a person who has left County employment with entitlement to a benefit after attainment of his voluntary retirement age.

Inactive Members December 31, 2004
Tabulated by Attained Age

Attained Ages	General County, Sheriff's Dept. & Road Commission No.	Mental Health No.
33	1	
34	1	
36	1	
37		1
38	1	1
39	1	
40	1	
41		2
42	2	3
43	2	1
44	3	2
45	2	
46	5	1
47	2	1
48	7	
49	5	1
50	1	
51	3	3
52	1	1
53	1	3
54	3	2
55	3	1
56	6	2
57	3	3
58	5	
59	4	
63	1	
66	1	
Total	**66**	**28**

ACTIVE MEMBERS & BENEFIT RECIPIENTS



ACTIVE MEMBERS
COMPARATIVE SCHEDULE

Valuation Date December 31	Active Members	Valuation Payroll		Average Age	Average Service	Average Pay	Average % Inc.
1988	748	$18,843,733		41.6	8.8	$25,192	2.3 %
1989	758	20,024,381		41.8	9.2	26,417	4.9
1990	765	21,049,322		42.4	9.6	27,515	4.2
1991	763	21,859,213		43	10.1	28,649	4.1
1992	723	22,118,037		43.5	10.8	30,592	6.8
1993	732	23,711,156		43.5	11.3	32,392	5.9
1994	747	24,769,097		43.6	11.4	33,158	2.4
1995	766	25,861,302		43.6	11.2	33,761	1.8
1996	783	27,934,157	*	43.6	11.5	35,676	5.7
1997	791	28,402,628		43.7	11.5	35,907	0.6
1998	798	29,161,115		43.9	11.4	36,543	1.8
1999	827	31,051,406		44.1	11.2	37,547	2.7
2000	825	32,044,333		44.3	11.5	38,842	3.4
2001	833	32,744,255		44.6	11.4	39,309	1.2
2002	883	35,716,619		44.6	11.0	40,449	2.9
2003	914	38,047,803		44.5	10.7	41,628	2.9
2004	924	39,609,752		44.6	10.8	42,868	3.0

* *Reduced for effect of retroactive pay during 1996.*

ACTIVE MEMBERS ADDED TO AND REMOVED FROM ROLLS

Year Ended December 31	Number Added During Year	Terminations During Year: Normal Retirement	Disability Retirement	Died-in Service	Vested Term.	Other	Active Members End of Year
1990	55	9	1	2	9	27	765
1991	39	13	1	1	3	23	763
1992	40	11	1		10	58	723
1993	51	14	1	2	9	16	732
1994	59	15	1		9	19	747
1995	72	21	3	1	5	23	766
1996	62	13		1	12	19	783
1997	62	23	1	2	5	23	791
1998	77	20	1	1	15	33	798
1999	91	18		2	12	30	827
2000	52	11	1		11	31	825
2001	78	21	1		11	37	833
2002	94	16		2	10	16	883
2003	96	25			12	28	914
2004	71	21	1		6	33	924

GENERAL ACTIVE MEMBERS AS OF DECEMBER 31, 2004
BY ATTAINED AGE AND YEARS OF SERVICE

	Years of Service to Valuation Date							Totals	
Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	12							12	$ 377,763
25-29	34	3						37	1,282,578
30-34	23	15	1					39	1,677,419
35-39	26	23	8	2				59	2,270,956
40-44	29	11	7	14	9	1		71	2,832,399
45-49	29	18	9	13	10	9	1	89	3,596,956
50-54	23	18	19	11	8	14	4	97	3,915,773
55-59	16	14	9	9	15	7	11	81	3,469,000
60	1		2	3		1	2	9	412,618
61		4	1			1	2	8	329,748
62		1	2	1			1	5	148,950
63	1		1	1	1			4	168,008
64	1	1	1	1				4	100,589
65				2				2	50,867
68			1					1	45,724
70							1	1	35,814
79							1	1	51,288
Totals	**195**	**108**	**61**	**57**	**43**	**33**	**23**	**520**	**$20,766,450**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	45.6 years
Service:	10.8 years
Annual Pay:	$39,935

MENTAL HEALTH ACTIVE MEMBERS AS OF DECEMBER 31, 2004
BY ATTAINED AGE AND YEARS OF SERVICE

	Years of Service to Valuation Date							Totals	
Attained Age	0-4	5-9	10-14	15-19	20-24	25-29	30 Plus	No.	Valuation Payroll
20-24	4							4	$ 128,996
25-29	16							16	611,643
30-34	17	9	3					29	1,170,354
35-39	15	8	3					26	1,171,798
40-44	9	13	4	5	1			32	1,380,898
45-49	10	10	2	4	9			35	1,571,700
50-54	6	6	3	3	4	3		25	1,126,587
55-59	4	5	4	2	4	3	2	24	1,073,335
60				1	1	1		3	119,205
61	1		1					2	92,899
62		1	1					2	92,271
63	1	1						2	71,548
67							1	1	40,298
Totals	**83**	**53**	**21**	**15**	**19**	**7**	**3**	**201**	**$8,651,532**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	43.3 years
Service:	8.7 years
Annual Pay:	$43,042

SHERIFF'S ACTIVE MEMBERS AS OF DECEMBER 31, 2004
BY ATTAINED AGE AND YEARS OF SERVICE

	Years of Service to Valuation Date							Totals	
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**	**Valuation Payroll**
20-24	1							1	$ 31,963
25-29	6	4						10	460,718
30-34	7	6	1					14	663,014
35-39	3	5	2	4				14	794,387
40-44		6	5	3	1			15	839,757
45-49				4	3	3		10	598,702
50-54			2	1		3	2	8	497,022
55-59				1	3	3	2	9	551,880
61		1						1	41,869
62							1	1	61,689
Totals	**17**	**22**	**10**	**13**	**7**	**9**	**5**	**83**	**$4,541,001**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	41.2 years
Service:	13.6 years
Annual Pay:	$54,711

ROAD COMMISSION ACTIVE MEMBERS AS OF DECEMBER 31, 2004
BY ATTAINED AGE AND YEARS OF SERVICE

	Years of Service to Valuation Date							Totals	
Attained Age	**0-4**	**5-9**	**10-14**	**15-19**	**20-24**	**25-29**	**30 Plus**	**No.**	**Valuation Payroll**
20-24	2							2	$ 66,063
25-26	4	1						5	235,505
30-34	6	2	4					12	515,731
35-39	8	4	4	1	1			18	825,953
40-44	6	8	2	2				18	861,650
45-49	1	5	3	14	3			26	1,250,630
50-54		3	3	1	4	2		13	622,275
55-59	1	2		7	3	2	2	17	888,771
60				1	2		1	4	173,197
61				1			1	2	115,327
62				1			1	2	88,913
64	1							1	6,754
Totals	**29**	**25**	**16**	**28**	**13**	**4**	**5**	**120**	**$5,650,769**

While not used in the financial computations, the following group averages are computed and shown because of their general interest.

Age:	45.1 years
Service:	12.4 years
Annual Pay:	$47,090

Section F

Actuarial Cost Methods
Actuarial Assumptions
Glossary

VALUATION METHODS

The normal cost was computed as follows:

The series of contributions necessary to accumulate the present value at time of retirement of a member's health care benefits was computed so that each contribution in the series, from date of hire to retirement, was a constant percentage of the member's year by year projected covered compensation. This is referred to as the individual entry age actuarial cost method.

The accrued liability was computed and financed as follows:

Retirees and Beneficiaries: The discounted value of health benefits likely to be paid to eligible retirees and beneficiaries was computed using the investment return, health cost increase and mortality assumptions. This amount was financed by applicable accrued assets, to the extent available.

Active and Inactive Members. The discounted value of health benefits likely to be paid eligible active and inactive members was computed using the assumptions outlined on the following pages and was reduced by the value of normal costs to be paid for service after the valuation date.

Asset valuation method. The valuation assets at the beginning of the year are increased by contributions and regular investment income and reduced by benefit payments and administrative expenses. This preliminary value is then adjusted by 20% of the market value gains and losses for each of the previous five years. The smoothed value of assets cannot deviate from market value of assets by more than 20%.

Financing of Unfunded Actuarial Accrued Liabilities. Unfunded actuarial accrued liabilities were amortized by level (principal & interest combined) percent-of-payroll contributions over 24 years. Active member payroll was assumed to increase 5% a year for the purpose of determining the level percent contributions.

ECONOMIC AND RISK ASSUMPTIONS USED FOR THE VALUATION

The actuary calculates the contribution requirements and benefit values of the plan by applying economic and risk assumptions to the benefit provisions and people information furnished, using the valuation methods described on page F-1.

The principal areas of economic and risk assumptions are:

(i) long-term rates of investment income likely to be generated by the assets of the Retirement System

(ii) patterns of salary increases to be experienced by members

(iii) rate of mortality among members, retirees and beneficiaries

(iv) rates of withdrawal of active members

(v) rates of disability among members and their subsequent rates of recovery

(vi) probabilities of retirement at various ages after benefit eligibility.

In making a valuation the actuary must project the monetary effect of each assumption, for each distinct experience group, for the next year and for each year over the next half-century or longer.

Once actual experience has occurred and been observed it will not coincide exactly with assumed experience, regardless of the skill of the actuary and the completeness of the data. Each valuation provides a complete recalculation of system costs based upon assumptions regarding future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of small adjustments of the computed contribution rate.

From time to time it becomes necessary to adjust the package of assumptions to reflect basic experience trends -- but not random year to year fluctuations. We will recommend changes whenever we feel they are appropriate.

ACTUARIAL ASSUMPTIONS USED FOR THE VALUATION

Investment Return (net of investment expenses). 2.5% per year in excess of pay inflation. If pay inflation matches the assumption of 5.0%, this implies a 7.5% rate of return.

This assumption is used to equate the value of payments due at different points in time and was first used for the December 31, 1991 valuation. Approximate rates of investment return, for the purpose of comparisons with assumed rates, are shown below. Actual increases in average active member pay are also shown for comparative purposes.

	Year Ended December 31					5 Year
	2004	**2003**	**2002**	**2001**	**2000**	**Average***
Rate of Investment Return	0.6 %	1.1 %	0.8 %	5.6 %	9.3 %	3.4 %
Average Increase in Pay	4.9 %	4.7 %	5.6 %	2.7 %	4.5 %	4.5 %
Real Rate of Return	(4.3)%	(3.6)%	(4.8)%	2.9 %	4.8 %	(1.1)%

* *Compound rate of increase.*

The nominal rate of return was computed using the approximate formula i = I divided by 1/2 (A + B - I), where I is actual investment income net of expenses, A is the beginning of year asset value, and B is the end of year asset value.

These rates of return should not be used for measurement of an investment advisor's performance or for comparisons with other systems.

Pay Projections. These assumptions are used to project current pays to those upon which benefits will be based. The assumptions were first used for the December 31, 1991 valuation.

	Annual Rate of Pay Increase for Sample Ages						
Sample		**Merit & Longevity**			**Total**		
Ages	**Base**	**General**	**Road**	**Sheriff**	**General**	**Road**	**Sheriff**
20	5.00%	3.70%	2.23%	3.00%	8.70%	7.23%	8.00%
25	5.00%	3.40%	2.20%	3.00%	8.40%	7.20%	8.00%
30	5.00%	2.50%	1.71%	2.60%	7.50%	6.71%	7.60%
35	5.00%	1.90%	1.80%	1.10%	6.90%	6.80%	6.10%
40	5.00%	1.60%	1.50%	0.20%	6.60%	6.50%	5.20%
45	5.00%	1.20%	1.01%	0.20%	6.20%	6.01%	5.20%
50	5.00%	1.00%	0.30%	0.20%	6.00%	5.30%	5.20%
55	5.00%	0.80%	0.50%	0.10%	5.80%	5.50%	5.10%
60	5.00%	0.50%	0.49%	0.00%	5.50%	5.49%	5.00%

If the number of active members remains constant, the total active member payroll is expected to increase 5.0% annually, the base portion of the individual pay increase assumptions. This increasing payroll was recognized in amortizing unfunded actuarial accrued liabilities.

Average changes actually experienced in pay have been as follows:

Year Ended December 31					5 Year
2004	**2003**	**2002**	**2001**	**2000**	**Average***
4.9 %	4.7 %	5.6 %	2.7 %	4.5 %	4.5 %

* *Compound rate of increase.*

Active Member Group Size: The number of active members was assumed to remain constant.

Mortality. The 1971 Group Annuity Mortality Table projected to 1984 with ages set back 2 years for both men and women. This table was first used for the December 31, 1991 valuation. Sample values follow:

Sample Attained Ages	Single Life Retirement Values: Present Value of $1 Monthly for Life@		Future Life Expectancy (years)	
	Men	**Women**	**Men**	**Women**
50	$239.19	$275.40	29.29	35.55
55	212.69	250.12	24.95	30.85
60	185.33	222.65	20.85	26.24
65	157.32	193.41	17.00	21.80
70	129.87	163.02	13.51	17.60
75	104.98	132.43	10.55	13.73
80	82.51	104.53	8.03	10.43

@ *These values include 5% annual increases, but do not include the effect of temporarily high health inflation.*

This assumption is used to measure the probabilities of members dying before retirement and the probabilities of each benefit payment being made after retirement.

Future disabled lives were valued using the above table set forward five years.

Rates of separation from active membership. The rates do not apply to members eligible to retire and do not include separation on account of death or disability. This assumption measures the probabilities of members remaining in employment.

Sample Ages	Years of Service	% of Active Members Separating within Next Year General	Road	Sheriff
ALL	0	12.00%	*	*
	1	10.00%	*	*
	2	8.00%	*	*
	3	7.00%	*	*
	4	6.00%	*	*
20	5 & Over	12.80%	6.00%	4.50%
25		8.50%	6.00%	4.50%
30		6.80%	5.50%	3.90%
35		5.30%	4.40%	2.30%
40		3.90%	1.85%	0.90%
45		3.10%	1.25%	0.50%
50		2.30%	1.25%	0.50%
55		0.00%	1.25%	0.50%
60		0.00%	1.25%	0.50%
65		0.00%	1.25%	0.50%

** Rates for 5 years of service and over apply.*

The rates were first used for the December 31, 1991 valuation.

Rates of Disability. These rates represent the probabilities of active members becoming disabled.

Sample Ages	Percent Becoming Disabled within Next Year
20	0.08%
25	0.08%
30	0.08%
35	0.08%
40	0.20%
45	0.26%
50	0.49%
55	0.89%
60	1.41%

These rates were first used for the December 31, 1985 valuation. For the Sheriff's Department, the disability assumption is split to reflect 75% as non-duty disability and 25% as duty disability.

Rates of Retirement. These rates are used to measure the probability of eligible members retiring during the next year.

Retirement Ages	Percent of Active Members Retiring within Next Year		
	General	**Road**	**Sheriff**
45			40%
46			40%
47			40%
48			40%
49			40%
50	2.5%*	25%*	40%
51	2.5%*	25%*	35%
52	2.5%*	25%*	20%
53	2.5%*	25%*	15%
54	2.5%*	25%*	15%
55	5%	25%	15%
56	5%	25%	15%
57	5%	25%	15%
58	5%	25%	15%
59	5%	25%	25%
60	10%	25%	100%
61	10%	10%	
62	30%	30%	
63	30%	20%	
64	30%	20%	
65	60%	70%	
66	50%	30%	
67	40%	40%	
68	40%	50%	
69	40%	90%	
70+	100%	100%	

* *Only if eligible for Rule of 80 retirement.*

A member of the General or Road Divisions was understood to be eligible for retirement after attaining age 55 with 25 or more years of service or age 60 with 8 years of service. A member of the Sheriff's Division was understood to be eligible for retirement upon completion of 25 years of service or at age 60 with 8 years of service. Members of groups with "Rule of 80" were understood to be eligible if the sum of their age plus years of service was greater than or equal to 80 and their years of service equaled 25 or more.

The assumed rate of increase for health care costs is the assumption used to predict the amount of benefit payments in future years. The assumed rates are shown in the table below:

Year	**Healthcare Trend**
2005	10.0%
2006	9.5%
2007	9.0%
2008	8.5%
2009	8.0%
2010	7.0%
2011	6.0%
2012 & after	5.0%

Marital status at retirement - 85% of men and 50% of women were assumed to be married at retirement.

Medicare coverage was assumed to be available for all covered members on attainment of age 65, or immediately if retired for disability.

Continuation percentage - 100% of men and 100% of women. This assumption is used to predict the number of cases in which the plan may cover a survivor of a deceased retiree.

Non-investment administration expenses - none.

GLOSSARY

Actuarial Accrued Liability. The difference between (i) the actuarial present value of future plan benefits, and (ii) the actuarial present value of future normal cost. Sometimes referred to as "accrued liability" or "past service liability."

Accrued Service. The service credited under the plan which was rendered before the date of the actuarial valuation.

Actuarial Assumptions. Estimates of future plan experience with respect to rates of mortality, disability, turnover, retirement, rate or rates of investment income and salary increases. Decrement assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

Actuarial Cost Method. A mathematical budgeting procedure for allocating the dollar amount of the "actuarial present value of future plan benefits" between the actuarial present value of future normal cost and the actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

Actuarial Equivalent. A single amount or series of amounts of equal value to another single amount or series of amounts, computed on the basis of the rate(s) of interest and mortality tables used by the plan.

Actuarial Present Value. The amount of funds presently required to provide a payment or series of payments in the future. It is determined by discounting the future payments at a predetermined rate of interest, taking into account the probability of payment.

Amortization. Paying off an interest-bearing liability by means of periodic payments of interest and principal, as opposed to paying it off with a lump sum payment.

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

Normal Cost. The annual cost assigned, under the actuarial funding method, to current and subsequent plan years. Sometimes referred to as "current service cost." Any payment toward the unfunded actuarial accrued liability is not part of the normal cost.

Plan Termination Liability. The actuarial present value of future plan benefits based on the assumption that there will be no further accruals for the future service and salary. The termination liability will generally be less than the liabilities computed on a "going concern" basis and is not normally determined in a routine actuarial valuation.

Reserve Account. An account used to indicate that funds have been set aside for a specific purpose and are not generally available for other uses.

Unfunded Actuarial Accrued Liability. The difference between the actuarial accrued liability and valuation assets. Sometimes referred to as "unfunded accrued liability."

Valuation Assets. The value of current plan assets recognized for valuation purposes. Generally based on book value plus a portion of unrealized appreciation or depreciation.

September 27, 2005

Mr. Shaun Groden
St. Clair County Employees
Retirement System
200 Grand River, Suite 203 – County Building
Port Huron, Michigan 48060

Dear Mr. Groden:

Please find enclosed 20 copies of the report of the Twentieth Annual Actuarial Valuation of the retiree health care benefits paid by the St. Clair County Employees Retirement System as of December 31, 2004. The basic retirement benefits are the subject of a separate report.

Sincerely yours,

Cathy Nagy

CN:dm
Enclosures