

City of Evanston Police and Fire Pension Funds

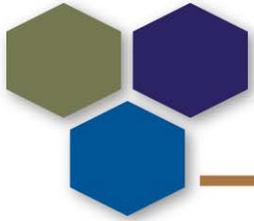
Valuation Results as of
March 1, 2007, and Assumption Review

February 23, 2008

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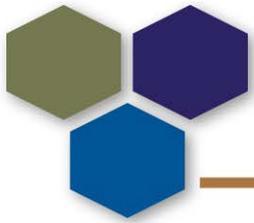
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Actuarial Valuation - Background

- ◆ Actuarial Valuation Depends on
 - ▶ Actuarial assumptions and methods
 - Used to develop actuarial liabilities and funding requirements
 - Recommended by actuary
 - ▶ Plan benefits
 - Defined by statute

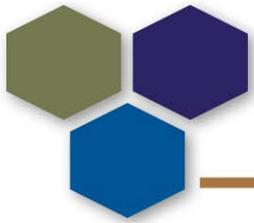


Key Actuarial Valuation Results

◆ Actuarial Assumption and Methods

▶ Key assumption is investment return

- Based on portfolio's expected return over the next 30 to 40 years
- Influenced by investment mix, risk return characteristics of each asset class, and liquidity requirements
- Current statutory limit on equity allocation is 45%
- Current asset mix for both plans is approximately-
 - 43% equity, 47% fixed, and 10% cash

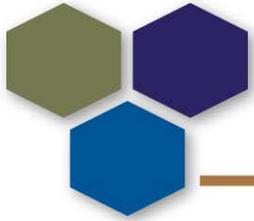


Key Actuarial Valuation Results

◆ Actuarial Assumption and Methods

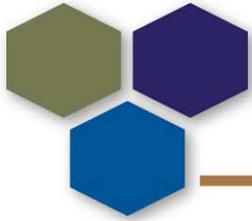
▶ Key assumption is investment return (cont.)

- Forward looking model based on capital market expectation
 - 25th to 75th percentile return
- Less emphasis on history
- Real return consistent with underlying inflation assumptions
- 7.25% recommended



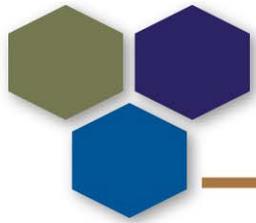
Key Actuarial Valuation Results

- ◆ Other key changes in assumptions and methods since prior valuation
 - ▶ Mortality changed from UP 84 to GAM 83
 - Consistent with expectation that retirees live longer
 - ▶ Other demographic changes such as retirement rates
 - Members assumed to retire two year earlier when compared to prior valuation
 - ▶ Cost method changed from projected unit credit to entry age normal
 - Stabilizes level percent of pay contribution
 - ▶ GRS valuation based on plan provisions as of March 1, 2007
 - Not clear if prior actuary had valued all ancillary benefits



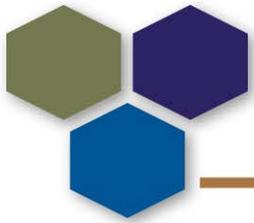
Key Actuarial Valuation Results – Increase in Unfunded Actuarial Liability (\$ in Thousands)

	Police Fund	Fire Fund
Expected UAL at 3/1/2007	\$54,675	\$44,471
Ongoing experience (gain) loss	2,880	(252)
Change in Actuary	1,535	2,229
Interest (7.5% to 7.25%)	4,059	3,164
Mortality (UP84 to GAM83)	6,154	4,768
Cost method (PUC to EAN)	4,557	2,188
Other demo. assumptions	3,716	6,052
Actual UAL at 3/1/2007	\$77,576	\$62,620



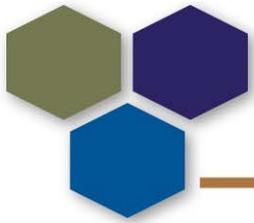
Key Actuarial Valuation Results – Police Pension Fund (\$ in thousands)

	3/1/2006 Prior Actuary	3/1/2007 GRS
Actuarial Liability	\$112,449	\$139,371
Assets	\$58,401	\$61,795
Unfunded Liability	\$54,048	\$77,576
Funded Ratio	51.9%	44.3%
Contribution	\$4,637	\$6,660
Contribution % of Pay	41.4%	57.8%



Key Actuarial Valuation Results – Fire Pension Fund (\$ in thousands)

	3/1/2006 Prior Actuary	3/1/2007 GRS
Actuarial Liability	\$84,413	\$106,362
Assets	\$40,653	\$43,742
Unfunded Liability	\$43,760	\$62,620
Funded Ratio	48.2%	41.1%
Contribution	\$4,174	\$5,487
Contribution % of Pay	51.2%	65.3%



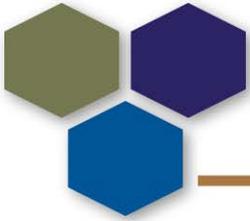
Summary

◆ Assumptions

- ▶ Reasonable individually and in the aggregate
- ▶ Based on future expectation
- ▶ Should be updated every five to seven years

◆ Plan experience

- ▶ Gain/loss analysis used to monitor validity of demographic assumptions
- ▶ Compare expected versus economic experience
- ▶ Margins in assumption help dampen impact of experience losses
- ▶ Prior actuary had very little margin in assumptions
 - Plan experienced losses and funded ratio deteriorated



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