

May 9, 2019

The Retirement Board  
City of Albion  
Public Safety Officers Retirement System  
Albion, Michigan

Dear Board Members:

*The purpose of the annual actuarial valuation of the City of Albion Public Safety Officers Retirement System as of December 31, 2018 is to:*

- Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members of the Retirement System,
- Compare accrued assets with accrued liabilities to assess the funded condition of the Retirement System, and
- Compute the City's recommended contribution rate for the Fiscal Year beginning January 1, 2020.

This valuation has been conducted in accordance with generally accepted actuarial principles and practices. Data concerning active members, retirees, beneficiaries and assets was provided by the City. This data has been reviewed for reasonableness, but no attempt has been made to audit such information. The valuation was based on the provisions of the Retirement System as amended through December 31, 2018. The actuarial assumptions used in this valuation are reasonably related to the past experience of the System and represent reasonable expectations of future experience under the System. This valuation has been prepared under the supervision of a Member of the American Academy of Actuaries who meets the qualification standards of the American Academy of Actuaries to render the actuarial opinions contained herein.

Respectfully submitted,



Denise M. Jones  
Senior Consultant



Sandra W. Rodwan  
Member, American Academy of Actuaries

***City of Albion***  
***Public Safety Officers Retirement System***

*Actuarial Valuation as of December 31, 2018*

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***Section One:***  
***Valuation Summary***



### **Purpose of Valuation**

The purpose of the annual actuarial valuation of the City of Albion Public Safety Officers Retirement System as of December 31, 2018 is to:

- ❖ Compute the liabilities associated with benefits likely to be paid on behalf of current retired and active members of the Retirement System,
- ❖ Compare accrued assets with accrued liabilities to assess the funded condition of the Retirement System, and
- ❖ Compute the City's recommended contribution rate for the Fiscal Year beginning January 1, 2020.

### **Liabilities and Funded Condition of Retirement System**

Accrued liabilities of the Retirement System as of December 31, 2018 were computed to be \$13,643,466. The funding value of accrued assets was \$22,418,021. The ratio of the funding value of accrued assets to accrued liabilities was 164.3%.

### **Funding Value of Assets**

A smoothed market value of assets was used for the December 31, 2018 valuation. This method, which spreads the difference between actual and expected investment return over five years, is the same as the method used for last year's valuation.

### **Computed City Contribution Rate**

The City's normal cost contribution rate was computed to be 26.97% of member payroll. Amortizing the excess of accrued assets over actuarial accrued liabilities over 15 years, the same period as used last year (as adopted by the Board), produces a temporary funding credit which is more than sufficient to completely offset the City's normal cost. If this funding credit is utilized, no contribution is required of the City.

### **Retirement System Experience**

The overall experience of the Retirement System during the year ended December 31, 2018 was less favorable than assumed based on long-term assumptions. The nominal rate of return on the smoothed value of assets was 3.5%.

**Benefit Provision Change**

There were no benefit changes used for this valuation.

**Assumption and Method Changes**

There were no assumption or method changes used for this valuation.

**Participant Data**

	<u>12/31/2018</u>	<u>12/31/2017</u>
Active Members	18	18
Active Member Payroll	\$1,135,381	\$1,092,550
Retirees and Beneficiaries	35*	36*
Annual Pensions	\$753,160	\$757,145
Inactive Vested Members	4	4
	\$134,055	\$134,055

\*Includes 3 alternate payees receiving \$43,970 pursuant to DRO's.

**Financial Data**

	<u>12/31/2018</u>	<u>12/31/2017</u>
Smoothed Valuation Assets	\$22,418,021	\$22,423,396
Market Value of Assets	20,377,021	22,536,247

**Conclusion**

The accrued actuarial condition of the Retirement System continues to be excellent.



***Section Two:***

***Actuarial Calculations –  
Funding***



**Computed Contribution Rates for The Year Beginning January 1, 2020**

The contribution rates shown below are expressed as percents of active member payroll.

The normal cost can be viewed as the long-term on-going cost of the Retirement System.

Accrued assets exceeded actuarial accrued liabilities as of December 31, 2018. Amortizing the excess as a level percent of payroll over an open 15 year period (15 years was also used last year) produces a temporary funding credit which is more than sufficient to completely offset the City’s normal cost.

**Contribution Recommendation:**

	<u><b>Percents of Payroll</b></u>
Normal Cost	
Regular Retirement	18.30%
Pre-retirement Death	0.66
Disability	6.33
Withdrawal	<u>3.69</u>
Total Normal Cost	28.97%
Unfunded Actuarial Accrued Liability	0.00
Member Portion - Total	4.00
Allocated to Post-Retirement Health Benefits	<u>2.00</u>
Net available for Pensions	2.00
<b>City’s Computed Normal Cost</b>	<b>26.97</b>
Temporary Funding Credit	(26.97)
<b>City’s Net Contribution Rate</b>	<b>0.00%</b>

**Unfunded Actuarial Accrued Liability**

	<u><b>December 31, 2018</b></u>	<u><b>December 31, 2017</b></u>
Actuarial accrued liability	\$13,643,466	\$13,151,603
Assets allocated to funding	<u>22,418,021</u>	<u>22,423,396</u>
Unfunded actuarial accrued liability	(\$8,744,555)	(\$8,608,984)

**Recommended City Contributions**

<u><b>Valuation Date December 31</b></u>	<u><b>Actual Dollar Contributions</b></u>	<u><b>Percent of Valuation Payroll</b></u>
1985	\$113,509	15.91%
1990	0	0.00
1995	0	0.00
2000	0	0.00
2001	0	0.00
2002	0	0.00
2003	0	0.00
2004	0	0.00
2005	0	0.00
2006	0	0.00
2007	0	0.00
2008	0	0.00
2009	0	0.00
2010	0	0.00
2011	0	0.00
2012	0	0.00
2013	0	0.00
2014	0	0.00
2015	0	0.00
2016	0	0.00
2017	0	0.00
<b>2018</b>	<b>0</b>	<b>0.00</b>

**Note:** Results prior to 1999 are based on reports provided by previous actuarial firm.

**History of Assets and Accrued Liabilities**

<b>Valuation Date</b>	<b>Valuation Assets</b>	<b>Actuarial Accrued Liabilities</b>	<b>Funded Ratio</b>	<b>Unfunded Actuarial Accrued Liabilities</b>
12/31/97	\$10,302,185	\$7,087,157	145.4%	\$ (3,215,028)
12/31/98	11,329,193	7,896,073	143.5	(3,433,120)
12/31/99	12,300,632	7,539,999	163.1	(4,760,633)
12/31/00	13,170,038	7,824,880	168.3	(5,345,158)
12/31/01	13,794,507	8,114,733	170.0	(5,679,774)
12/31/02	13,944,641	8,287,080	168.3	(5,657,561)
12/31/03	13,967,120	8,805,582	158.6	(5,161,538)
12/31/04(b)	14,189,742	9,058,567	156.6	(5,131,175)
12/31/04(a)	14,189,742	9,217,404	154.0	(4,972,338)
12/31/05	14,306,560	10,146,419	141.0	(4,160,141)
12/31/06	14,891,706	10,173,543	146.4	(4,718,163)
12/31/07(b)	15,969,390	10,450,731	152.8	(5,518,659)
12/31/07(a)	15,969,390	11,081,000	144.1	(4,888,390)
12/31/08	16,109,321	11,275,568	142.9	(4,833,753)
12/31/09(b)	16,439,590	11,354,020	144.8	(5,085,570)
12/31/09(a)	16,439,590	11,470,010	143.3	(4,969,580)
12/31/2010	16,800,492	11,720,126	143.4	(5,080,366)
12/31/2011	16,720,968	12,287,885	136.1	(4,433,083)
12/31/2012	16,865,839	12,776,752	132.0	(4,089,087)
12/31/2013	18,198,275	12,295,864	148.0	(5,902,411)
12/31/2014	19,489,861	12,838,775	151.8	(6,651,086)
12/31/2015	20,362,828	12,880,538	158.1	(7,482,290)
12/31/2016	21,462,216	12,853,232	167.0	(8,608,984)
12/31/2017	22,423,396	13,151,603	170.5	(9,271,793)
<b>12/31/2018</b>	<b>22,418,021</b>	<b>13,643,466</b>	<b>164.3</b>	<b>(8,744,555)</b>

- (a) After assumption and/or benefit provision changes.  
(b) Before assumption and/or benefit provision changes.

Results shown throughout this report, for years prior to 1999, were prepared by the previous actuarial firm.

**Aggregate Gain/Loss**

	<b><u>Year Ended December 31, 2018</u></b>
(1) UAAL <sup>a</sup> at start of year	\$(9,271,793)
(2) Normal cost	337,260
(3) Interest accrual	(547,493)
(4) Contributions	39,089
(5) Expected UAAL before changes	(9,521,115)
(6) Change from amendments	None
(7) Change from assumption revision	None
(8) Expected UAAL after changes	(9,521,115)
(9) Actual UAAL	(8,774,555)
(10) Gain(Loss)	(746,560)
(11) Percent of AAL <sup>b</sup>	(5.8%)

<sup>a</sup> Unfunded Actuarial Accrued Liability

<sup>b</sup> Actuarial Accrued Liability at beginning of year.

**Actuarial Balance Sheet December 31, 2018**

**Actuarial Assets**

Accrued Assets

Assets from system’s financial statements (market value)	\$20,377,021	
Funding value adjustment	2,041,000	
Total funding value of accrued assets		\$22,418,021

Actuarial present value of expected future contributions

For normal costs	3,805,384	
For unfunded actuarial accrued liabilities	(8,774,555)	
		(4,969,171)

Total Actuarial Present Value of Present and Expected Future Resources		\$17,448,850
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**Actuarial Present Values (Liability)**

To retirees and beneficiaries	\$8,093,249
To vested terminated members	1,388,157
To active members	
Allocated to service rendered prior to valuation date	4,162,060
Allocated to service rendered after valuation date	3,805,384
Total Actuarial Present Value of Expected Future Benefit Payments.	17,448,850
Reserves	None
Total Actuarial Present Value of Expected Future Benefit Payments and Reserves	\$17,448,850

## Comments and Conclusion

**Comment 1:** The overall experience of the Retirement System during the year ended December 31, 2018 was less favorable than assumed based on long-term assumptions. The nominal rate of return on the smoothed value of assets was 3.5%.

**Comment 2:** As of December 31, 2018, accrued valuation assets, \$22,418,021, exceeded actuarial accrued liabilities, \$13,643,466. The excess, \$8,774,555 was amortized over 15 years and produced a funding credit which is more than sufficient to completely offset the City's computed normal cost which otherwise would be payable. It is important to note that at such time as the funding credit is insufficient to fully cover the normal cost, an employer contribution would be necessary.

**Comment 3:** Of the 4% of pay total member contribution rate, 2% of pay is now being allocated for retiree health benefits. For purposes of this valuation, the member contribution rate for pensions was assumed to be 2%.

**Conclusion:** The accrued condition of the Retirement System continues to be excellent.

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***Section Three:***

***Retirement System  
Benefit Provisions***



## **Benefit Provision Summary**

### ***Regular Retirement***

*Eligibility:*

25 or more years of service or age 60 regardless of service.

*Annual Benefit:*

Straight life pension equals 2.65% of average final compensation (AFC) times all years of service. AFC is computed on the highest consecutive 36 months of the last 60 months.

### ***Deferred Retirement***

*Eligibility:*

10 or more years of service.

*Annual Benefit:*

Computed as service retirement but based upon service, AFC and benefit provisions in effect at termination. Benefit begins at date retirement would have occurred had member remained in employment.

### ***Duty Disability Retirement***

*Eligibility:*

Payable upon the total and permanent disability of a member in the line of duty.

*Annual Benefit:*

To age 55: 50% of AFC.

At age 55: Same as Service Retirement Pension with service credit from date of disability to age 55.

### ***Non-Duty Disability***

*Eligibility:*

Payable upon the total and permanent disability of a member with 5 or more years of service

*Annual Benefit:*

To Age 55: 1.5% of AFC times years of service.

At Age 55: Same as Service Retirement Pension.

***Duty Death in Service Survivor's Pension***

*Eligibility:*

Payable upon the expiration of a worker's compensation to the survivors of a member who died in the line of duty.

*Annual Benefit:*

Same amount that was paid by worker's compensation.

***Non-Duty Death in Service Survivor's Pension***

*Eligibility:*

Payable to a surviving spouse, if any, upon the death of a member with 20 or more years of service.

*Annual Benefit:*

Accrued straight life pension actuarially reduced in accordance with an Option I election.

***Member Contributions***

4.0% of pay. Half of the contributions are set aside for retiree health care expenses.

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*Section Four:*

***Actuarial Assumptions  
And Methods***



**Actuarial Assumptions**

**Economic Assumptions**

- (i) **Interest Rate** 6.0% (net of expenses)
- (ii) **Salary Increases**
  - Across-the-Board 4.0%
  - Merit and Longevity Age-related rates

**Sample Annual Rates of Salary Increase**

<b>Age</b>	<b>Across-the-Board</b>	<b>Merit and Longevity</b>	<b>Total</b>
20	4.0%	4.0%	8.0%
25	4.0	3.2	7.2
30	4.0	2.8	6.8
35	4.0	2.5	6.5
40	4.0	2.2	6.2
45	4.0	1.7	5.7
50	4.0	1.2	5.2
55	4.0	0.7	4.7
60	4.0	0.2	4.2

**Demographic Assumptions**

**(i) Mortality**

RP 2000 Combined Healthy

Sample Ages	Value of \$1 Monthly for Life		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$ 165.17	\$ 170.52	30.8	33.6
55	153.63	160.27	26.2	29.0
60	139.72	147.74	21.8	24.4
65	123.81	133.28	17.6	20.2
70	106.53	113.95	13.9	16.3
75	88.25	93.14	10.6	12.8
80	69.99	75.30	7.8	9.7

**(ii) Disability**

Sample Ages	Percent Becoming Disabled Within Next Year
20	0.11 %
25	0.18
30	0.37
35	0.61
40	0.85
45	1.09
50	1.33
55	1.58
60	1.83

**(iii) Termination of Employment**

Service related rates for first 5 years of employment. Age related rates after first 5 years of employment

<b>Sample Ages</b>	<b>Years of Service</b>	<b>Percent Terminating</b>
All	0	20.00%
	1	14.00
	2	11.00
	3	9.00
	4	7.00
25	5 & Over	6.00
30		5.50
35		4.40
40		1.85
45		1.25
50		1.25
55		1.25
60		1.25

**(iv) Retirement Rates**

Age-related rates

**Active Members Retiring within Year  
Following Attainment of Indicated Retirement Age**

<b>Retirement Ages</b>	<b>Percent Retiring</b>
45	35%
46	35
47	35
48	35
49	35
50	35
51	25
52	20
53	15
54	15
55	15
56	15
57	15
58	25
59	30
60	100

A member was assumed to be eligible for retirement with 25 years of credited service, or attainment of age 60 regardless of service.

**(v) Member Contribution Interest**

The interest rate currently credited on member contributions was assumed to be 2%.

### **Actuarial Method Used for the Valuation**

**Normal Cost.** Normal cost and the allocation of actuarial present values between service rendered before and after the valuation date were determined using an individual entry-age actuarial cost method having the following characteristics:

- ❖ The annual normal costs for each individual active member, payable from date of hire to date of retirement, are sufficient to accumulate the value of the member's benefit at the time of retirement;
- ❖ Each annual normal cost is a constant percentage of the member's year-by-year projected covered pay.

**Financing of Unfunded Actuarial Accrued Liability.** As of December 31, 2018 accrued assets exceeded actuarial accrued liability. There was no unfunded actuarial accrued liability. Amortizing the excess of accrued assets over accrued liabilities as a level percent of payroll over 15 years, the same period as last year, produces a temporary funding credit which is more than sufficient to fully offset the computed employer normal cost.

Active member payroll was assumed to increase 4.0% a year for the purpose of determining the level percent of payroll temporary funding credit.



***Section Five:***  
***Valuation Data***



**Asset Summary**

As of December 31, 2018, the market value of assets was reported to be \$20,377,021. The funding value of assets (smoothed market value) was computed to be \$22,418,021.

**Funding Value of Assets**

A.	Funding Value Beginning of Year	\$22,423,396
B.	Market Value End of Year	20,377,021
C.	Market Value Beginning of Year	22,536,247
D.	Non-Investment Net Cash Flow	(777,825)
E.	Investment Income	
	E1. Market Total B-C-D	(1,381,401)
	E2. Amount for Immediate Recognition (6%)	1,345,404
	E3. Amount for Phased-In-Recognition E1-E2	(2,726,805)
F.	Phased-In Recognition of Investment Income	
	F1. Current Year $0.20 \times E3$	(545,361)
	F2. First Prior Year	128,354
	F3. Second Prior Year	46,920
	F4. Third Prior Year	(338,457)
	F5. Fourth Prior Year	135,590
	F6. Total Phased-In amount	(572,954)
G.	Funding Value End of Year A+D+E2+F6	\$22,418,021
H.	Difference Between Market and Funding Value	(\$2,041,000)
I.	Nominal Rate of Return	3.5%

**Summary of Asset Information Submitted for the Valuation  
Statement of Assets**

As of December 31, 2018, the market value of Retirement System assets was reported to be \$20,377,021.

Revenues and Expenses for the Year Ended December 31, 2018:

a. Revenues	
(i) Member Contributions	\$39,089
(ii) Employer Contributions	0
(iii) Investment Income	<u>(1,101,458)</u>
(iv) Total Income	(1,062,369)
b. Expenses	
(i) Pensions	799,599
(ii) Refunds	3,942
(iii) Investment Expense	279,844
(iv) Non-Investment Expense	<u>13,473</u>
(v) Total Expenses	\$1,096,858

**Investment Allocation**

The reported asset allocation at market value was as follows:

a. Cash and Short Term	
(i) Cash (incl. Checking/Savings Accounts)	\$0
(ii) Accrued interest and dividends	66,684
(iii) Money Market Funds	527,746
b. Fixed Income	
(i) U.S. Government/Agency Bond	3,419,635
(ii) Corporate Bonds	5,809,220
(iii) International Bond Funds	659,859
c. Equities	
(i) Common Stock	9,765,099
(ii) Foreign Stock	0
d. Real Estate	138,592
e. Total Market Value of Assets as of December 31, 201	20,386,835
f. Minus: Accounts Payable	(9,814)
g. Net Market Value of Assets	20,377,021

## Participant Summary

### Retirees and Beneficiaries Included in the Valuation

There were 32 retirees included in the valuation with annual pensions totaling \$709,189. Also included were three alternate payees with benefits totaling \$43,970.

### Pensions Being Paid Historical Schedule

Valuation Date December 31	No.	Annual Pensions	Average Pension	Discounted Value of Pensions	
				Total	Average
1985	14	\$115,931	\$8,281	\$1,556,640	\$111,189
1995	20	250,731	12,537	3,062,162	153,108
1996	22	288,856	13,130	*	*
1997	21	283,121	13,482	3,551,339	169,111
1998	24	370,871	15,453	4,778,407	199,100
1999	24	368,976	15,374	4,262,085	177,587
2000	24	368,976	15,374	4,180,957	174,207
2001	26	438,113	16,850	4,875,689	187,527
2002	28	471,389	16,835	5,147,307	183,832
2003	27	463,158	17,154	5,125,246	189,824
2004	27	463,158	17,154	5,017,264	185,825
2005	27	509,608	18,874	5,585,159	206,858
2006	27	509,608	18,874	5,466,181	202,451
2007	27	509,608	18,874	5,734,334	212,383
2008	26	472,256	18,164	5,124,543	197,098
2009	26	472,256	18,164	5,002,586	192,407
2010	27	510,447	18,905	5,422,069	200,817
2011	27	505,855	18,735	5,261,587	194,874
2012	29	560,787	19,337	5,903,215	203,559
2013	29	558,711	19,266	5,734,673	197,747
2014	33	680,546	20,623	7,336,339	222,313
2015	32	684,727	21,398	7,566,766	236,461
2016	32	690,317	21,572	8,001,933	250,060
2017	33	713,175	21,611	8,216,466	249,984
<b>2018</b>	<b>32</b>	<b>709,190</b>	<b>22,162</b>	<b>8,093,249</b>	<b>252,914</b>

\*not available

## Retired Members and Survivors - December 31, 2018

Attained Age	Service		Disability		Survivors		Totals	
	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions	No.	Annual Pensions
50	1	\$47,639					1	\$47,639
56	1	33,433	1	10,609			2	44,042
57	4	151,134					4	151,134
62	1	44,261					1	44,261
63	1	47,222					1	47,222
64	1	33,088			1	16,054	2	49,142
66	1	21,216					1	21,216
67	1	17,796					1	17,796
70	1	11,596					1	11,596
71	2	19,879	2	50,250	2	11,115	6	81,244
74	1	27,008					1	27,008
75	1	26,936					1	26,936
76	2	23,350					2	23,350
79	1	23,031	1	5,887			2	28,918
80			1	10,746			1	10,746
81	1	30,385				-	1	30,385
84					1	19,861	1	19,861
86	1	14,530					1	14,530
88					1	6,888	1	6,888
98					1	5,276	1	5,276
<b>Totals</b>	<b>21</b>	<b>\$572,504</b>	<b>5</b>	<b>\$77,492</b>	<b>6</b>	<b>\$59,194</b>	<b>32</b>	<b>\$709,190</b>

**Total Active POAM Members - December 31, 2018  
Age and Service Distribution**

<b>Attained Age</b>	<b>Service</b>					<b>Totals</b>	
	<b>0-4</b>	<b>5-9</b>	<b>15-19</b>	<b>20-24</b>	<b>25-29</b>	<b>No.</b>	<b>Payroll</b>
20-24	1					1	\$47,122
25-29	3	1				4	236,357
30-34	3					3	169,537
35-39	1					1	51,505
40-44				1		1	54,577
40-44				1		1	65,661
<b>Totals</b>	<b>8</b>		<b>0</b>		<b>0</b>	<b>11</b>	<b>\$624,759</b>

**Group Averages**

Age: 32.1 years  
 Service: 6.1 years  
 Annual Pay: \$56,796

**Active POLC and Non-Bargaining Members - December 31, 2018  
Age and Service Distribution**

Attained Age					Totals	
	5-9	15-19	20-24	25-29	No.	Payroll
30-34	1				1	\$58,604
35-39	1				1	63,809
40-44			2		2	157,002
45-49		1	1		2	163,191
55-59				1	1	68,016
<b>Totals</b>	<b>2</b>	<b>1</b>	<b>3</b>	<b>1</b>	<b>7</b>	<b>\$510,622</b>

**Group Averages**

Age: 43.4 years  
Service: 17.2 years  
Annual Pay: \$72,946

**Active Members – Three-Year Summary**

	2018	2017	2016
Active Members	18	18	16
Valuation Payroll	\$1,135,381	1,092,550	\$889,505
Average Compensation	\$63,077	\$60,697	\$55,594
Average Age (yrs.)	36.9	36.2	38.8
Average Service (yrs.)	10.4	9.5	11.3

**Vested Inactive Members – December 31, 2018**

<b>Attained Age</b>	<b>No.</b>	<b>Deferred Annual Pension</b>
43	1	\$30,235
46	1	43,298
51	1	39,697
52	1	20,825
<b>Totals</b>	<b>4</b>	<b>\$134,055</b>

**City of Albion**  
**Public Safety Officers Retirement System**

**P.A. 28 of 1966 Health Insurance Compliance Test**

**as of December 31, 2018**

**Based on Funding Value of Assets**

A. Total Funding Value of Assets at End of Year	\$22,418,021
B. Total Funding Value of Assets at Beginning of Year	22,423,396
C. Non-Investment Cash Flow	(777,825)
D. Investment Income Net of Expenses (A-B-C)	772,450
E. Assumed Investment Income (.06 x [(A+B-D)/2])	1,322,069
F. 1. Employee Reserves at End of Year	482,342
2. Total Reserves at End of Year	20,377,021
G. Ratio of Employer Reserves to Total Fund Balance (F2 - F1)/F2	0.98
H. Amount available for health care (D-E) not less than \$0	-
I. Maximum allowable for health care (D x G x ½) not greater than H	-