

**REPORT ON AN ACTUARIAL VALUATION
OF THE
GEORGIA MILITARY
PENSION FUND
PREPARED AS OF JUNE 30, 2002**



200 Galleria Parkway, N.W., Suite 1900
Atlanta, Georgia 30339-5945

June 10, 2003

Board of Trustees
Georgia Military Pension Fund
Two Northside 75, Suite 300
Atlanta, GA 30318

Attention: Ms. Cecelia Corbin Hunter, Executive Director

Members of the Board:

Section 47-24-22 of the law governing the operation of the Georgia Military Pension Fund provides that the actuary shall make periodic valuations of the contingent assets and liabilities of the Retirement Fund on the basis of regular interest and the tables last adopted by the Board of Trustees. We have submitted the report giving the results of the actuarial valuation of the Fund prepared as of June 30, 2002. The report indicates that an annual employer contribution of \$666,919 for the fiscal year ending June 30, 2004 is required to support the benefits of the Fund. In preparing the valuation, the actuary relied on data provided by the Defense Department. While not verifying data at the source, the actuary performed tests for consistency and reasonableness. Our firm, as actuary, is responsible for all of the actuarial trend data in the financial section of the annual report and the supporting schedules in the actuarial section of the annual report.

This is the first valuation of this Fund. In our opinion the valuation is complete and accurate, and the methodology and assumptions used are reasonable as a basis for the valuation.

The Fund is funded on an actuarial reserve basis. The actuarial assumptions recommended by the actuary and adopted by the Board are in the aggregate reasonably related to the experience under the Fund and to reasonable expectations of anticipated experience under the Fund. The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Governmental Accounting Standards Board (GASB) Statement Nos. 25 and 27. The funding objective of the plan is that contribution rates over time will remain level as a dollar per active member. The valuation method used is the entry age normal cost method. The normal contribution rate to cover current cost has been determined as a level dollar per active member. Gains and losses are reflected in the unfunded accrued liability which is being amortized as a level dollar amount within a 40-year period.

The Pension Fund is being funded in conformity with the minimum funding standard set forth in Code Section 47-20-10 of the Public Retirement Systems Standards Law. In our opinion, the Fund is operating on an actuarially sound basis. Assuming that contributions to the Fund are made by the employer from year to year in the future at the rates recommended on the basis of the successive actuarial valuations, the continued sufficiency of the retirement Fund to provide the benefits called for under the Fund may be safely anticipated.

This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience is performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of practice prescribed by the Actuarial Standards Board, and that the actuarial calculations were performed by qualified actuaries in accordance with accepted actuarial procedures, based on the current provisions of the retirement Fund and on actuarial assumptions that are internally consistent and reasonably based on the anticipated experience of the Fund.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Macdonald', written in a cursive style.

Edward A. Macdonald
Principal, Consulting Actuary

EAM:sr

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**REPORT ON AN ACTUARIAL VALUATION OF THE
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SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. This report, prepared as of June 30, 2002, presents the results of an actuarial valuation of the Fund. For convenience of reference, the principal results of the valuation are summarized below.

TABLE I

SUMMARY OF PRINCIPAL RESULTS

Valuation Date	June 30, 2002
Number of active members included in valuation	9,695
Retired members	
Number	0
Annual pensions	\$ 0
Former members entitled to deferred vested pensions	
Number	33
Annual deferred pensions	\$ 28,980
Assets	
Actuarial value	\$ 0
Market value	0
Unfunded accrued liability	\$ 8,321,965
Amortization period	40 years
Fiscal Year Ending	June 30, 2004
Employer contribution rate per active member	
Normal	\$ 4.40
Accrued liability	64.39
Total	<u>68.79</u>
Annual required employer contributions (ARC)	
Normal	\$ 42,658
Accrued liability	624,261
Total	<u>\$ 666,919</u>

2. The major benefit and contribution provisions of the Fund as reflected in the valuation are summarized in Schedule D.
3. Schedule B of this report outlines the full set of actuarial assumptions and methods used.
4. The entry age actuarial cost method was used to prepare the valuation. Schedule C contains a brief description of the actuarial cost method.

- Comments on the valuation results are given in Section IV and the contributions payable by the State are given in Section V.

SECTION II - MEMBERSHIP DATA

- Data regarding the membership of the Fund for use as a basis for the valuation were furnished by the Defense Department. The valuation included 9,695 active members as of June 30, 2002.
- The following table shows the number of retired members and deferred vested members as of June 30, 2002 together with the amount of their annual retirement allowances payable under the Fund.

TABLE II

**THE NUMBER AND ANNUAL ALLOWANCES OF RETIRED
AND DEFERRED VESTED MEMBERS AS OF JUNE 30, 2002**

	NUMBER	ALLOWANCES
Retired Members, currently payable	0	\$ 0
Former Members, deferred allowances	33	\$ 28,980

Tables 1 and 2 of Schedule E of this report show a distribution of the number of active members by age and years of service. Table 3 shows a distribution of the number of deferred vested members by age.

SECTION III - ASSETS OF THE FUND

Title 47, Chapter 24 of the Official Code of Georgia provides for the establishment of the Fund as of July 1, 2002. Since the current valuation is the first for the newly created Fund, the amount of assets as of June 30, 2002 is \$0. In subsequent valuations, actuarial value will be used for valuation purposes and will be determined using the method described in Schedule B.

SECTION IV - COMMENTS ON VALUATION

- Schedule A of this report contains the valuation balance sheet which shows the present and prospective assets and liabilities of the Fund as of June 30, 2002. The valuation was prepared in accordance with the actuarial assumptions set forth in Schedule B and the actuarial cost method which is described in Schedule C.

2. The valuation balance sheet shows that the Fund has total prospective liabilities of \$8,531,893 of which \$154,130 is for the prospective benefits payable on account of present retired members and members entitled to deferred vested benefits, and \$8,377,763 is for the prospective benefits payable on account of present active members. Against these liabilities, the Fund has total present assets of \$0 as of June 30, 2002. The difference of \$8,531,893 between the total liabilities and the total present assets represents the present value of future contributions payable by the employer.
3. The employer contributions to the Fund consist of normal contributions and accrued liability contributions. The valuation indicates that annual employer normal contributions at the rate of \$4.40 per active member are required under the entry age method.
4. Prospective employer normal contributions at the rate of \$4.40 have a present value of \$209,928. When this amount is subtracted from \$8,531,893, which is the present value of total future employer contributions, there remains \$8,321,965 as the unfunded accrued liability.
5. The accrued liability contribution is the level annual amount which will liquidate the unfunded actuarial liability over a 40-year period. The annual accrued liability contribution determined on this basis is \$624,261, or \$64.39 per active member.

SECTION V - CONTRIBUTIONS PAYABLE BY THE STATE

The following table summarizes the employer contributions which were determined by the June 30, 2002 valuation and are recommended for use.

TABLE III

**ANNUAL REQUIRED EMPLOYER CONTRIBUTION RATES (ARC)
FOR THE FISCAL YEAR ENDING JUNE 30, 2004**

CONTRIBUTION	PER ACTIVE MEMBER	ANNUAL AMOUNT
Normal	\$ 4.40	\$ 42,658
Accrued Liability	<u>64.39</u>	<u>624,261</u>
Total	\$ 68.79	\$ 666,919

SECTION VI - ACCOUNTING INFORMATION

1. Statements Nos. 25 and 27 of the Governmental Accounting Standards Board (GASB) set forth certain items of required supplementary information to be disclosed in the financial statements of the Fund and the employer. One such item is a distribution of the number of employees by type of membership, as follows:

**NUMBER OF ACTIVE AND RETIRED MEMBERS
AS OF JUNE 30, 2002**

GROUP	NUMBER
Retirees and beneficiaries currently receiving benefits	0
Terminated employees entitled to benefits but not yet receiving benefits	33
Active plan members	<u>9,695</u>
Total	9,728

2. Another such item is the schedule of funding progress as shown below.

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
6/30/02	\$0	\$8,321,965	\$8,321,965	0%	N/A	N/A

3. Additional information as of the latest actuarial valuation follows.

Valuation date	6/30/02
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	40 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of Return*	7.00%
Projected salary Increases	N/A
Cost-of-living adjustments	None
*Includes inflation at	3.50%

SCHEDULE A
VALUATION BALANCE SHEET

ACTUARIAL LIABILITIES		
(1)	Present value of prospective benefits payable on account of present retired members	\$ 0
(2)	Present value of prospective benefits payable on account of former members entitled to deferred benefits	154,130
(3)	Present value of prospective benefits payable on account of present active members	<u>8,377,763</u>
(4)	Total actuarial liabilities	\$ 8,531,893
PRESENT AND PROSPECTIVE ASSETS		
(5)	Actuarial Value of assets	\$ 0
(6)	Present value of future employer contributions = (4) – (5)	\$ 8,531,893
(7)	Employer normal contribution rate	\$ 4.40
(8)	Present value of future membership service	47,711
(9)	Present value of future normal contributions (7) x (8)	209,928
(10)	Present value of unfunded accrued liability contributions = (6) – (9)	<u>8,321,965</u>
(11)	Total present and Prospective Assets	\$ 8,531,893

SCHEDULE B**OUTLINE OF ACTUARIAL ASSUMPTIONS AND METHODS**

INTEREST RATE: 7.00% per annum, compounded annually.

SEPARATIONS FROM ACTIVE SERVICE: Representative values of the assumed annual rates of separation from active service are as follows:

Annual Rates of				
Age	Withdrawal		Retirement	Death
	Less than 20 years of service	Under age 60 with 20 years of service	Age 60 with 20 years of service	
25	25%			.07%
30	25			.07
35	25			.09
40	25	10%		.18
45	25	10		.29
50	25	5		.40
55	25	5		.60
60	25		100%	.85

DEATHS AFTER RETIREMENT: The 1983 Group Annuity Mortality Table for males and females.

ASSETS: The Fund has \$0 assets as of July 1, 2002. In subsequent valuations, the actuarial value of assets will recognize a portion of the difference between the market value of assets and the expected value of assets, based on the assumed valuation rate of return. The amount recognized in addition to the expected return each year is 20% of the difference between market value and expected actuarial value.

VALUATION METHOD: Entry age actuarial cost method. See Schedule C for a brief description of this method.

SCHEDULE C**ACTUARIAL COST METHOD**

1. The valuation is prepared on the projected benefit basis, under which the present value, at the interest rate assumed to be earned in the future (currently 7.0%), of each member's expected benefits at retirement or death is determined, based on age, service and sex. The calculations take into account the probability of a member's death or termination of employment prior to becoming eligible for a benefit, as well as the possibility of his terminating with a service, disability or survivor's benefit. The present value of the expected benefits payable on account of the active members is added to the present value of the expected future payments to retired members and beneficiaries to obtain the present value of all expected benefits payable from the Fund on account of the present group of members and beneficiaries.
2. The employer contributions required to support the benefits of the Fund are determined following a level funding approach, and consist of a normal contribution and an accrued liability contribution.
3. The normal contribution is determined using the entry age actuarial cost method. Under this method, a calculation is made to determine the level amount which, if applied for the average new member during the entire period of his anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on his behalf.
4. The unfunded accrued liability is determined by subtracting the present value of prospective employer normal contributions and member contributions, together with the current actuarial value of assets held, from the present value of expected benefits to be paid from the Fund.

SCHEDULE D
SUMMARY OF PROVISIONS

MEMBERSHIP

All persons who are members of the Georgia National Guard on July 1, 2002 are Members of the Fund.

BENEFITS

Retirement Allowance

Condition for Allowance

A member who has attained age 60 and has completed 20 or more years of creditable service, including at least 15 years, 10 of which immediately precede discharge, of Georgia National Guard duty, and who has received an honorable discharge, is entitled to a monthly allowance.

Amount of Allowance

The amount of the allowance is equal to \$50 per month for 20 years' creditable service with an additional \$5 per month for each additional year of creditable service, provided that the total allowance shall not exceed \$100 per month. The allowance is payable for the life of the member.

Deferred Retirement Allowance

Condition for Allowance

A member whose service is terminated after he has 20 years of creditable service, including at least 15 years, 10 of which immediately precede discharge, of Georgia National Guard duty, and who has received an honorable discharge, is eligible to receive a deferred retirement allowance commencing at age 60.

Amount of Allowance

The amount is the same as that for a service retirement.

CONTRIBUTIONS

The State makes annual contributions sufficient to meet the cost of the benefits under the Fund.

SCHEDULE E

TABLE 1

**THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY AGE
AS OF JUNE 30, 2002**

Age	Number
16	3
17	20
18	183
19	269
20	285
21	244
22	295
23	263
24	242
25	286
26	243
27	209
28	276
29	260
30	251
31	316
32	358
33	374
34	353
35	336
36	358
37	375
38	368
39	338
40	353
41	350
42	305
43	285
44	202
45	224
46	192
47	165
48	109
49	130
50	107
51	117
52	105
53	109
54	102
55	87
56	85
57	60
58	43
59	39
60	20
61	1
Total	9,695

TABLE 2

**THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY YEARS OF CREDITED SERVICE
AS OF JUNE 30, 2002**

Years Of Service	Number
0	769
1	550
2	377
3	344
4	381
5	362
6	322
7	334
8	401
9	350
10	323
11	288
12	373
13	353
14	317
15	331
16	327
17	364
18	367
19	328
20	375
21	307
22	255
23	234
24	146
25	145
26	106
27	80
28	77
29	58
30	73
31	79
32	56
33	62
34	38
35	13
36	13
37	8
38	3
39	2
40	2
41	2
Total	9,695

TABLE 3

THE NUMBER OF RETIRED MEMBERS
DISTRIBUTED BY AGE
AS OF JUNE 30, 2002

Age	Number
38	2
39	1
41	2
42	1
44	3
45	2
46	2
47	1
49	1
50	3
51	4
53	2
54	3
55	3
59	2
63	1
Total	33