

REPORT ON AN ACTUARIAL VALUATION
OF THE
GEORGIA MILITARY
PENSION FUND
PREPARED AS OF JUNE 30, 2003



Mellon

Human Resources & Investor Solutions

June 17, 2004

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

Attention: Mr. Jim Larche, Interim 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, 2003. The report indicates that an annual employer contribution of \$890,651 for the fiscal year ending June 30, 2005 is required to support the benefits of the Fund. In addition, this contribution will be payable for the fiscal year ending June 30, 2006 due to a Board decision that changes the contribution period to which the valuation applies to the fiscal year which begins 24 months after the valuation date. The June 30, 2004 valuation will determine the contribution for the fiscal year ending June 30, 2007. 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.

In our opinion the valuation is complete and accurate, and the methodology and assumptions used are reasonable as a basis for the valuation. Since the previous valuation, the assumed interest rate has been increased from 7.00% to 7.25%.

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.

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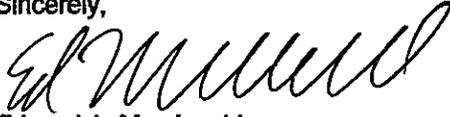
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This is to certify that the independent consulting actuary is a member of the American Academy of Actuaries and has experience in performing valuations for public retirement systems, that the valuation was prepared in accordance with principles of 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

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**REPORT ON AN ACTUARIAL VALUATION OF THE
GEORGIA MILITARY PENSION FUND
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SECTION I - SUMMARY OF PRINCIPAL RESULTS

1. This report, prepared as of June 30, 2003, presents the results of an actuarial valuation of the Fund. For convenience of reference, the principal results of the valuation and a comparison with the preceding year's results are summarized below.

**TABLE I
SUMMARY OF PRINCIPAL RESULTS**

Valuation Date	June 30, 2003	June 30, 2002
Number of active members included in valuation	9,986	9,695
Retired members		
Number	17	0
Annual pensions	\$ 18,120	\$ 0
Former members entitled to deferred vested pensions		
Number	203	33
Annual deferred pensions	\$ 189,660	\$ 28,980
Assets		
Actuarial value	\$ 609,000	\$ 0
Market value	626,000	0
Unfunded accrued liability	\$ 10,488,937	\$ 8,321,965
Amortization period	40 years	40 years
Fiscal Year Ending	June 30, 2005*	June 30, 2004
Employer contribution rate per active member		
Normal	\$ 8.11	\$ 4.40
Accrued liability	81.08	64.39
Total	89.19	68.79
Annual required employer contributions (ARC)		
Normal	\$ 80,986	\$ 42,658
Accrued liability	809,665	624,261
Total	\$ 890,651	\$ 666,919

*The ARC will also be payable for the fiscal year ending June 30, 2006, due to a Board decision that changes the contribution period to which the valuation applies to the fiscal year which begins 24 months after the valuation date.

2. The major benefit and contribution provisions of the Fund as reflected in the valuation are summarized in Schedule F.

3. Since the previous valuation, the assumed interest rate has been increased from 7.00% to 7.25%. Schedule D 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 E contains a brief description of the actuarial cost method.
5. 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

1. Data regarding the membership of the Fund for use as a basis for the valuation were furnished by the Defense Department. The valuation included 9,986 active members as of June 30, 2003.
2. The following table shows the number of retired members and deferred vested members as of June 30, 2003 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, 2003**

	NUMBER	ALLOWANCES
Retired Members, currently payable	17	\$ 18,120
Former Members, deferred allowances	203	\$ 189,660

Tables 1 and 2 of Schedule G 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 and Table 4 shows a distribution of the number of retired members by age.

SECTION III - ASSETS OF THE FUND

1. As of June 30, 2003 the total market value of assets amounted to \$626,000 as reported by the independent auditor of the Fund. The actuarial value of assets used for the current valuation was \$609,000. Schedule B shows the development of the actuarial value of assets as of June 30, 2003.
2. Schedule C shows the receipts and disbursements of the Fund for the year preceding the valuation date and a reconciliation of the Fund balances at market value.

SECTION IV - COMMENTS ON VALUATION

1. 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, 2003. The valuation was prepared in accordance with the actuarial assumptions set forth in Schedule D and the actuarial cost method which is described in Schedule E.
2. The valuation balance sheet shows that the Fund has total prospective liabilities of \$11,499,560 of which \$1,316,921 is for the prospective benefits payable on account of present retired members and members entitled to deferred vested benefits, and \$10,182,639 is for the prospective benefits payable on account of present active members. Against these liabilities, the Fund has total present assets of \$609,000 as of June 30, 2003. The difference of \$10,890,560 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 \$8.11 per active member are required under the entry age method.
4. Prospective employer normal contributions at the rate of \$8.11 have a present value of \$401,623. When this amount is subtracted from \$10,890,560, which is the present value of total future employer contributions, there remains \$10,488,937 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 \$809,665, or \$81.08 per active member.

SECTION V - CONTRIBUTIONS PAYABLE BY THE STATE

The following table summarizes the employer contributions which were determined by the June 30, 2003 valuation and are recommended for use.

TABLE III

**ANNUAL REQUIRED EMPLOYER CONTRIBUTION RATES (ARC)
FOR THE FISCAL YEAR ENDING JUNE 30, 2005***

CONTRIBUTION	PER ACTIVE MEMBER	ANNUAL AMOUNT
Normal	\$ 8.11	\$ 80,986
Accrued Liability	<u>81.08</u>	<u>809,665</u>
Total	\$ 89.19	\$ 890,651

*The ARC will also be payable for the fiscal year ending June 30, 2006, due to a Board decision that changes the contribution period to which the valuation applies to the fiscal year which begins 24 months after the valuation date.

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, 2003**

GROUP	NUMBER
Retirees and beneficiaries currently receiving benefits	17
Terminated employees entitled to benefits but not yet receiving benefits	203
Active plan members	<u>9,986</u>
Total	10,206

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

SCHEDULE OF FUNDING PROGRESS

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
6/30/02	\$ 0	\$ 8,321,965	\$ 8,321,965	0.00%	N/A	N/A
6/30/03	609,000	11,097,937	10,488,937	5.49%	N/A	N/A

3. The following shows the schedule of employer contributions.

<u>Year Ending</u>	<u>Annual Required Contribution</u>	<u>Percent Contributed</u>
6/30/03	\$591,000	100%

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

Valuation date	6/30/03
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*	7.25%
Projected salary increases	N/A
Cost-of-living adjustments	None
*Includes inflation at	3.75%

TREND INFORMATION

<u>Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (NPO)</u>
June 30, 2003	\$591,000	100%	\$0

SCHEDULE A
VALUATION BALANCE SHEET

ACTUARIAL LIABILITIES		
(1)	Present value of prospective benefits payable on account of present retired members	\$ 182,718
(2)	Present value of prospective benefits payable on account of former members entitled to deferred benefits	1,134,203
(3)	Present value of prospective benefits payable on account of present active members	<u>10,182,639</u>
(4)	Total actuarial liabilities	\$ 11,499,560
PRESENT AND PROSPECTIVE ASSETS		
(5)	Actuarial Value of assets	\$ 609,000
(6)	Present value of future employer contributions = (4) - (5)	\$ 10,890,560
(7)	Employer normal contribution rate	\$ 8.11
(8)	Present value of future membership service	49,522
(9)	Present value of future normal contributions (7) x (8)	401,623
(10)	Present value of unfunded accrued liability contributions = (6) - (9)	<u>10,488,937</u>
(11)	Total present and Prospective Assets	\$ 11,499,560

SCHEDULE B**DEVELOPMENT OF JUNE 30, 2003 ACTUARIAL VALUE OF ASSETS**

(1)	Actuarial Value of Assets on June 30, 2002	\$	0
(2)	2002/2003 Net Cash Flow		
	a. Contributions		591,000
	b. Disbursements		<u>6,000</u>
	c. Net Cash Flow		
	(2)a - (2)b		585,000
(3)	Expected Investment Return [(1) x .07] + [(2)c x .035]		20,000
(4)	Expected Actuarial Value of Assets on June 30, 2003 (1) + (2)c + (3)		605,000
(5)	Market Value of Assets on June 30, 2003		626,000
(6)	Excess of Market Value over Expected Actuarial Value (5) - (4)		21,000
(7)	20% Adjustment towards Market .20 x (6)		4,000
(8)	Actuarial Value of Assets on June 30, 2003 (4) + (7)	\$	609,000

SCHEDULE C**SUMMARY OF RECEIPTS AND DISBURSEMENTS
(MARKET VALUE)**

	Year Ending
	<u>June 30, 2003</u>
<u>Receipts for the Year</u>	
Contributions:	
Members	\$ 0
Employers	<u>591,000</u>
Total	\$ 591,000
Investment earnings	<u>41,000</u>
TOTAL	\$ 632,000
<u>Disbursements for the Year</u>	
Retirement allowances	\$ 6,000
Refunds to members	<u> 0</u>
TOTAL	\$ 6,000
<u>Excess of Receipts over Disbursements</u>	\$ 626,000
<u>Reconciliation of Asset Balances - Market Value</u>	
Asset Balance as of the Beginning of Year	\$ 0
Excess of Receipts over Disbursements	<u>626,000</u>
Asset Balance as of the End of Year	<u>\$ 626,000</u>

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

INTEREST RATE: 7.25% 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 7 years of service	7 or more years of service	Age 60 with 20 years of service*	
25	25%	10%		.07%
30	25	10		.07
35	25	10		.09
40	25	10		.18
45	25	10		.29
50	25	5		.40
55	25	5		.60
60	25	5	100%	.85

*15 years of service must be with Georgia National Guard.

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

ASSETS: Actuarial value, as developed in Schedule B. The actuarial value of assets recognizes 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 each year is 20% of the difference between market value and expected actuarial value.

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

SCHEDULE E**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 7.25%), 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 F

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 G**TABLE 1****THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY AGE
AS OF JUNE 30, 2003**

Age	Number
17	24
18	170
19	265
20	292
21	280
22	278
23	325
24	285
25	281
26	308
27	242
28	233
29	276
30	287
31	290
32	341
33	375
34	418
35	369
36	347
37	387
38	380
39	392
40	344
41	337
42	320
43	278
44	256
45	192
46	211
47	177
48	135
49	92
50	115
51	92
52	102
53	89
54	95
55	84
56	71
57	68
58	43
59	32
60	6
61	2
Total	9,986

TABLE 2
THE NUMBER OF ACTIVE MEMBERS
DISTRIBUTED BY YEARS OF CREDITED SERVICE
AS OF JUNE 30, 2003

Years Of Service	Number
0	590
1	564
2	471
3	428
4	373
5	386
6	432
7	423
8	444
9	401
10	356
11	325
12	317
13	360
14	366
15	305
16	337
17	303
18	360
19	350
20	310
21	317
22	259
23	215
24	197
25	126
26	118
27	84
28	68
29	57
30	44
31	69
32	64
33	50
34	56
35	26
36	15
37	11
38	6
39	2
40	1
Total	9,986

TABLE 3

THE NUMBER OF FORMER MEMBERS ENTITLED
TO DEFERRED VESTED PENSIONS DISTRIBUTED
BY AGE AS OF JUNE 30, 2003

Age	Number
38	1
39	2
40	8
41	6
42	12
43	12
44	5
45	11
46	5
47	8
48	9
49	6
50	8
51	10
52	11
53	5
54	10
55	14
56	13
57	12
58	10
59	6
60	14
61	4
64	1
Total	203

TABLE 4

THE NUMBER OF RETIRED MEMBERS
DISTRIBUTED BY AGE
AS OF JUNE 30, 2003

Age	Number
60	8
61	9
Total	17