

Municipal Employees' Retirement System of Michigan (MERS)

Lapeer County (4403)

Projections of Employer Contributions Needed to Attain a Target Higher Funded Percentage in 5 or 15 Years

(Based on the December 31, 2010 Annual Actuarial Valuation)

Background

The December 31, 2010 annual actuarial valuation of MERS participation has been completed for Lapeer County. For each employee division, Table 16 in the valuation report displays the required employer contribution to MERS for the fiscal year starting January 1, 2012. That employer contribution requirement is based on MERS' amortization policy, as described in the Appendix of the valuation report under the heading Amortization of Unfunded Actuarial Accrued Liability.

During the fiscal year beginning January 1, 2012, the MERS Finance Department will on a monthly basis invoice the employer the total contribution shown in Table 16 (a percentage of payroll for open divisions; a dollar amount for divisions with no new hires). However, the employer is always free to contribute more than the required amount, and MERS encourages employers to do so. Higher employer contributions now will result in lower employer contribution requirements in later years, more rapid funding of the unfunded actuarial accrued liability, and increased opportunity for positive investment returns. Higher contributions should cause the funded percentage to increase more rapidly toward 100% funding.

The 2010 annual valuation includes, in Chart 17.5 for each division, a 20-year projection of the employer contribution requirement and the funded percentage. The projections displayed in Chart 17.5 represent the baseline (status quo) projections – based on the current MERS amortization policy for each division, and assuming that the financial markets fully recover (see page 4).

For divisions that are projected to be less than 99% funded in 15 years, MERS asked the actuary to provide alternate projections to show the employer what additional contribution would be required to become 80% or 100% funded in either 5 or 15 years. These alternate employer contribution levels are the subject of this supplemental projection report.

In this supplemental report, we have computed the additional employer contributions needed to reach a higher target funded percentage. If the baseline projection in Chart 17.5 indicates the division will be 79% - 99% funded in 15 years, the target funded percentage is 100%. Otherwise (under 79% funded in 15 years), the target is 80% funding. Note that if the baseline projection in the annual valuation report indicates the division will already be 99% funded in 15 years, the division is not included in this supplemental report.

The table on the next page displays the additional required employer contribution needed to reach the target in either 5 years or 15 years. For open divisions (newly hired employees are included in the division), the additional employer contribution is expressed as a percentage of payroll. For divisions with no new hires, the additional employer contribution is displayed as an annual dollar amount.

This report may be provided only in its entirety by the municipality to other interested parties (MERS or the Actuary customarily provides the full report on request to related third parties such as the auditor for the municipality).

Please review the Comments on the Investment Markets on page 4.

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Division	Current Funded Percentage	Current Employer Contribution Requirement	Target Funded Percentage	Additional Employer* Contribution Needed to Reach Target Funded Percentage in	
				5 Years	15 Years
02 - POLC Sheriff	87%	12.17% of Pay	100%	11.37% of Pay	1.89% of Pay
04 - S.T.A.R.S.	90%	7.99% of Pay	100%	1.96% of Pay	0.20% of Pay
20 - COAM/POAM Di	82%	11.67% of Pay	100%	6.83% of Pay	1.03% of Pay
40 - MCF Non Union	81%	13.18% of Pay	100%	9.17% of Pay	1.46% of Pay
60 - CMH Non Union	96%	8.77% of Pay	100%	2.46% of Pay	0.24% of Pay

** If additional employee contributions were to be made instead of employer contributions, the employee contributions would be somewhat higher (refer to Table 16 footnote in the annual valuation report).*

Note: For open divisions (newly hired employees are included in the division), the employer contribution is expressed as a percentage of payroll. For divisions with no new hires, the employer contribution is displayed as an annual dollar amount.

The target funded percentages are examples to demonstrate the additional employer contributions needed to accelerate your funding progress. MERS encourages employers to consider making additional contributions in order to improve the funded level of your municipality. However, MERS will continue to invoice you based on the baseline contribution amount (as displayed in Table 16 of the annual valuation report).

The 20-year projections of employer contributions and funded percentages displayed on the following pages are based on the following assumptions:

- All demographic assumptions will be met during the projection period.
- The actuarial value of assets will earn the assumed 8% return each year during the projection period (**see comments on page 4**).
- There will be no benefit changes during the projection period.
- The employer contributions through January 1, 2012 are not affected, and are based on previous annual actuarial valuations.
- For open divisions (new hires are added to the division), the number of active members is assumed to remain constant. However, if an open division is linked to a division that will have no new hires (whose new hires enter the open division), the total number of active members in the linked divisions (combined) is assumed to remain constant. For closed divisions (no new hires), the number of active members is assumed to gradually decline to zero, based on the assumptions for retirement, disability, termination, and death.

Please refer to the discussions of Projections of Employer Contributions and Funded Percentage, Closed and Open Divisions, and Linked Divisions near the end of your annual actuarial valuation report.

The projected contribution amounts should not be used for short term budgeting purposes because the assumptions are designed to be a long term expectation of future events. These projections illustrate the long term pattern of employer contributions under varying payment periods (or patterns). A projection of contribution rates for budgeting purposes would require additional short-term actuarial analysis, which is beyond the scope of this report.

If your municipality is interested in increasing the employer contribution as discussed in this report, please contact the Finance Department at MERS (800-767-2308; billingteam@mersofmich.com). Please contact your Regional Manager in the MERS Office of Marketing and Employer Services for a formal

review of this projection report.

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Comments on the Investment Markets

The dramatic price declines across the world financial markets in 2008 led to increased volatility unlike any experienced in decades. The following two years, 2009 and 2010, have been more stable and MERS' portfolio recovered with investment returns of over 17% and 14%, respectively. While economic worries continue to haunt investors world-wide, equity markets have rebounded, particularly in the United States. MERS maintains the 8% annual return assumption on investments in the belief that over the long term this is achievable.

The actuarial value of assets (funding value), used to determine both your funded status and your required employer contribution, is based on a 10-year smoothed value of assets. Only a portion (three-tenths, for 2008, 2009, and 2010) of the 2008 investment market losses were recognized in your December 31, 2010 actuarial valuation report and in this projection report. This reduces the volatility of the valuation results, which affects your required employer contribution and your actuarial funded percentage.

As of December 31, 2010 the actuarial value of assets is 116% of market value (down from 125% in 2009). This means that meeting the actuarial assumption in the next few years will require average annual market returns that exceed the 8% investment return assumption.

If the December 31, 2010 valuation results were based on market value on that date instead of 10-year smoothed funding value: i) the funded percent of your entire municipality would be 79% (instead of 92%); and ii) your total employer contribution requirement for the fiscal year starting January 1, 2012 would be \$2,970,180 (instead of \$2,369,844). If the investment markets do not fully make-up for the 2008 losses, employer contribution requirements may rise. MERS' investment strategy employs diversification using various asset categories (stocks, bonds, and to a smaller extent real estate and private equity) to capture as much of the upside return as possible while managing acceptable risk. If contribution increases do become necessary, MERS would work to impose them incrementally.

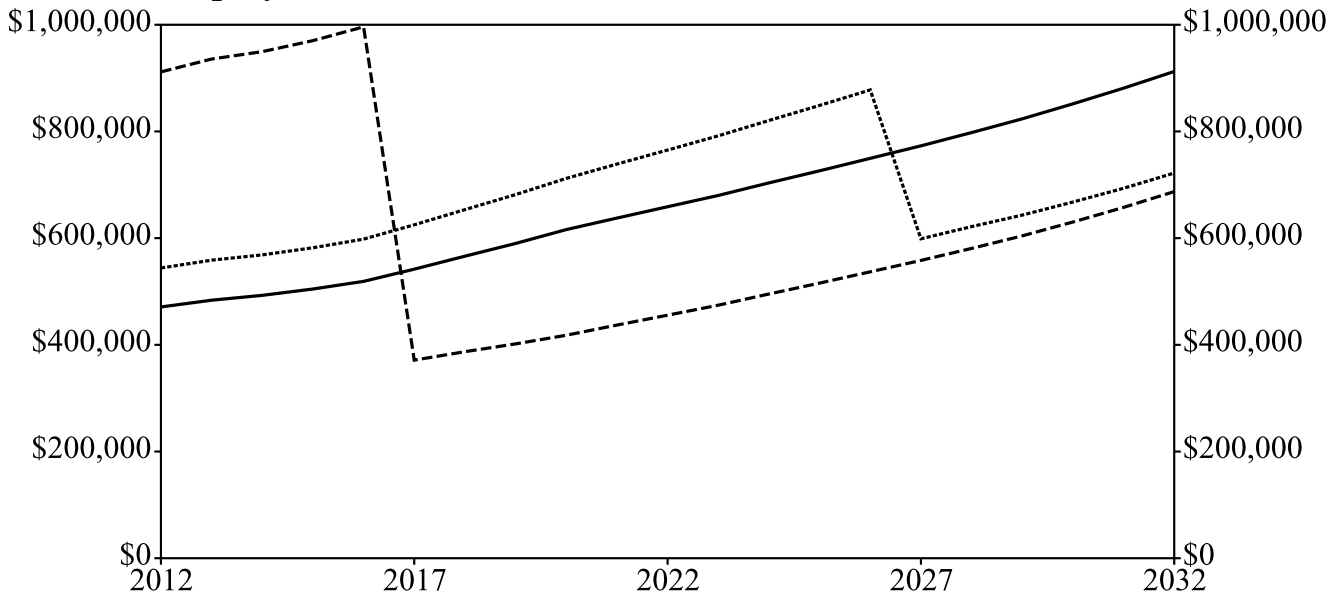
Remember that only three-tenths of the 2008 market losses are reflected in this projection report and your December 31, 2010 valuation results. As was true for past market downturns, MERS expects the markets to continue to rebound. By the time the 2008 market losses would be fully recognized (over the following 7 years), future market gains are expected to partly or fully offset 2008 market losses. This smoothing method is a powerful tool for reducing the volatility of your required employer contributions. However, if the financial markets do not rebound, the result would be gradual increases in your employer contribution requirement over the next 7 years (as described above). These increases would be in addition to the projected contributions in this report. Contributing more than the required contribution now will lower the required employer contribution in later years, and position you to earn investment gains as the financial markets rebound.

Comment on Actuarial Calculations - The projections of your future employer contributions in this report are based on the current actuarial assumptions used in the December 31, 2010 actuarial valuation. As always, your required employer contribution rate changes every year, in response to demographic changes, financial experience, benefit provision changes, etc, within your specific plan. The results of future actuarial valuations will differ from the projections, sometimes materially.

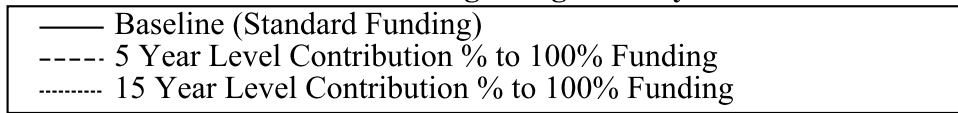
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Division 02 - POLC Sheriff

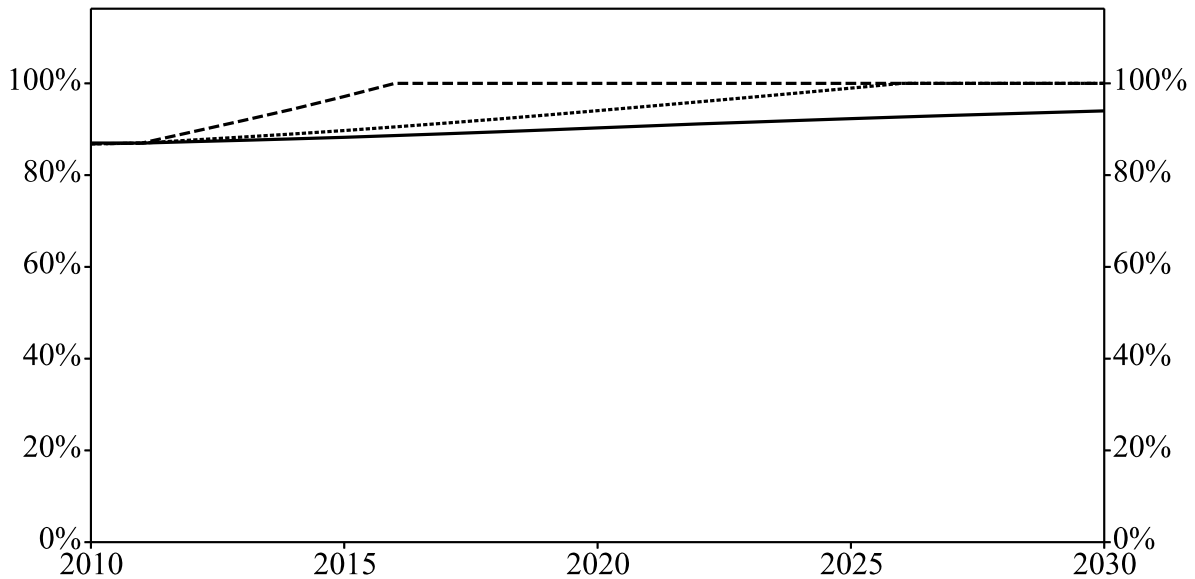
Employer Contributions Under Various Contribution Patterns



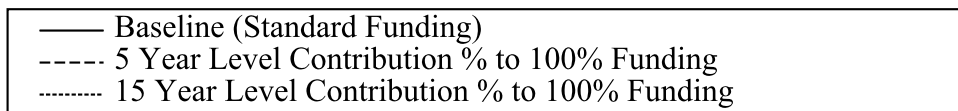
Fiscal Year Beginning January 1



Funded Percentage Under Various Contribution Patterns



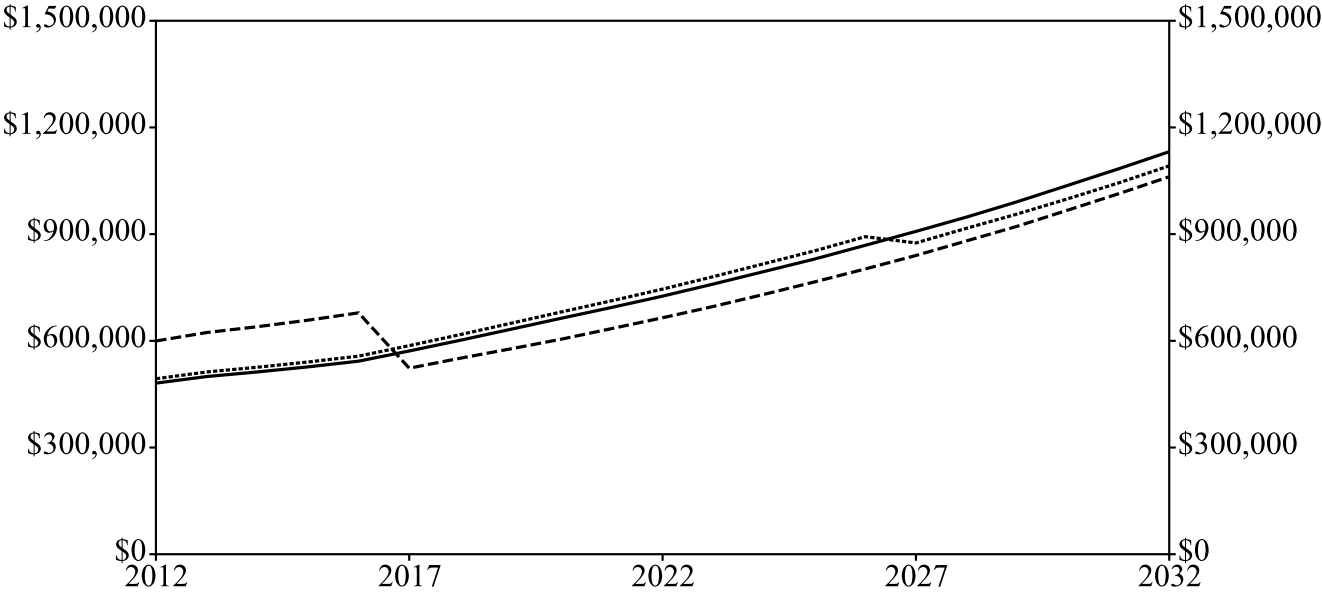
Valuation Date December 31



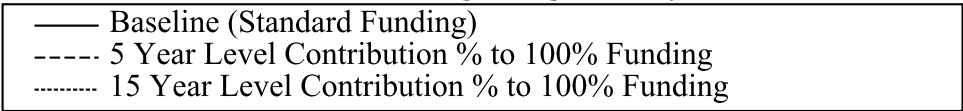
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Division 04 - S.T.A.R.S.

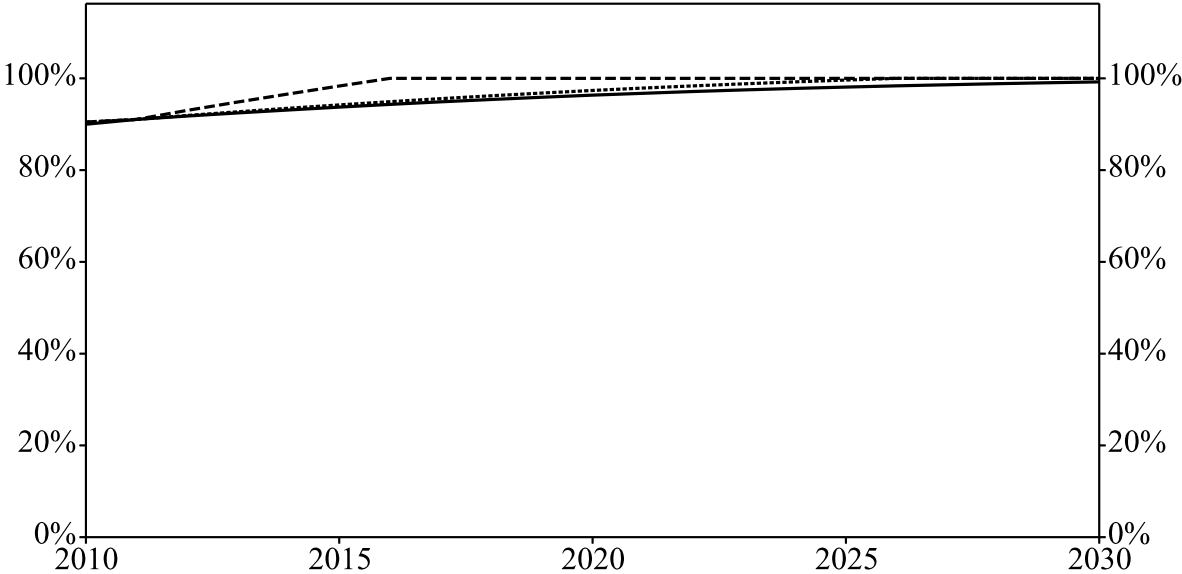
Employer Contributions Under Various Contribution Patterns



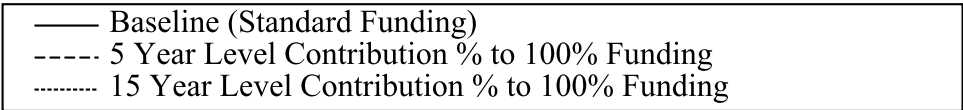
Fiscal Year Beginning January 1



Funded Percentage Under Various Contribution Patterns



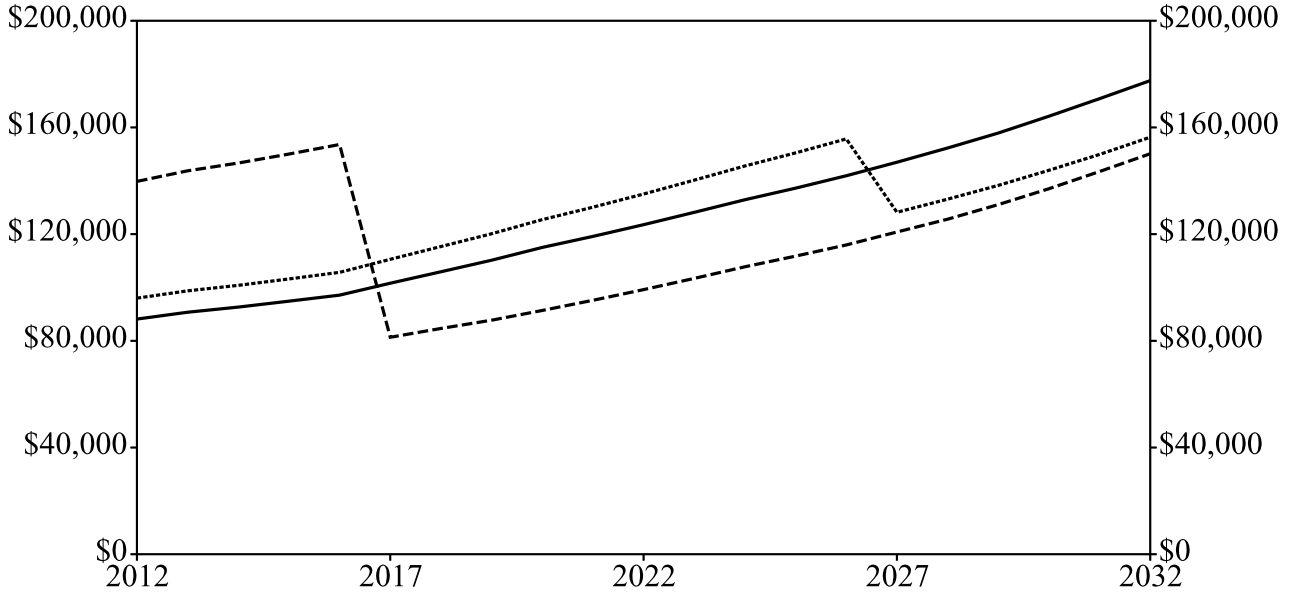
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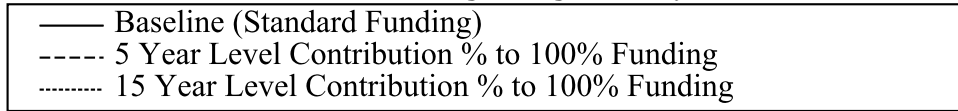
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Division 20 - COAM/POAM Disp

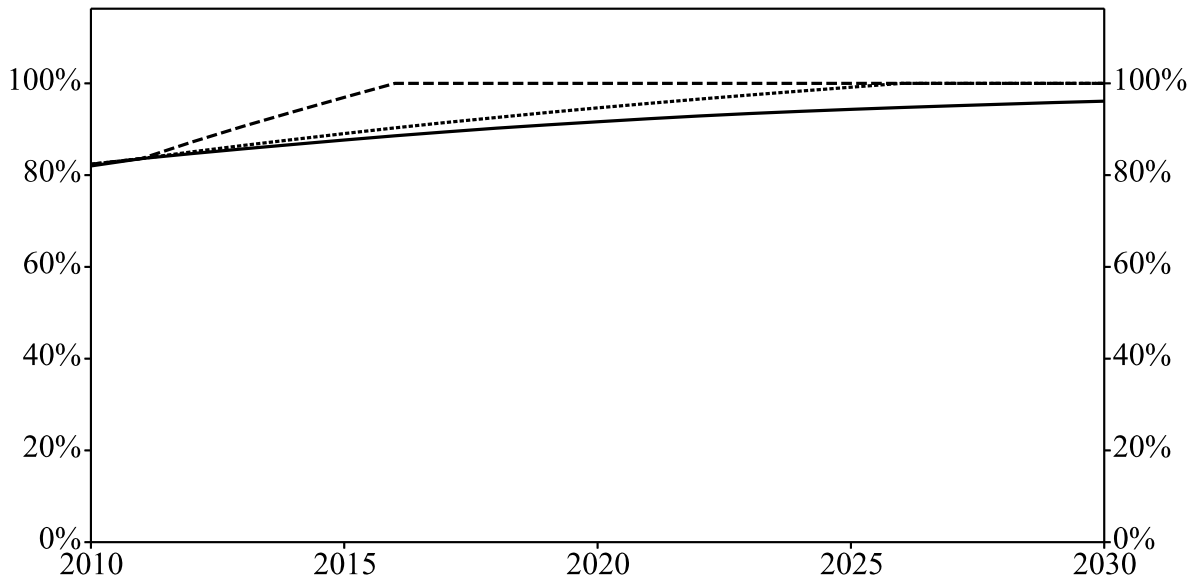
Employer Contributions Under Various Contribution Patterns



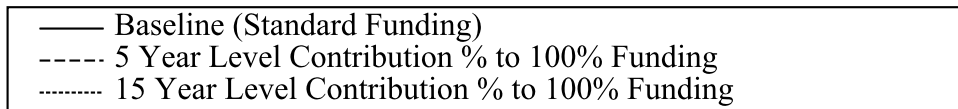
Fiscal Year Beginning January 1



Funded Percentage Under Various Contribution Patterns



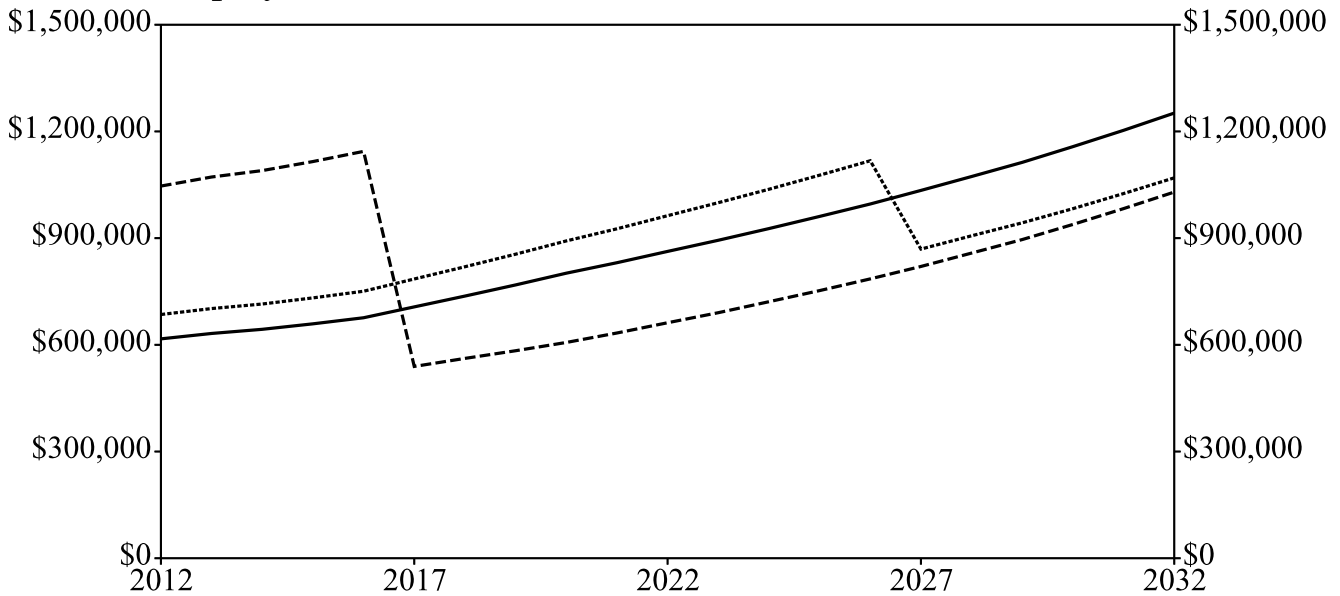
Valuation Date December 31



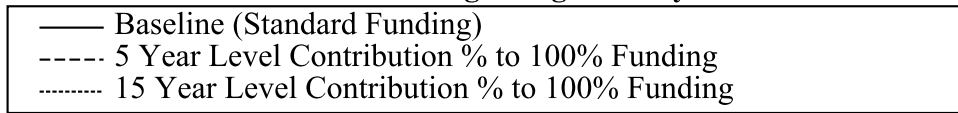
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Division 40 - MCF Non Union

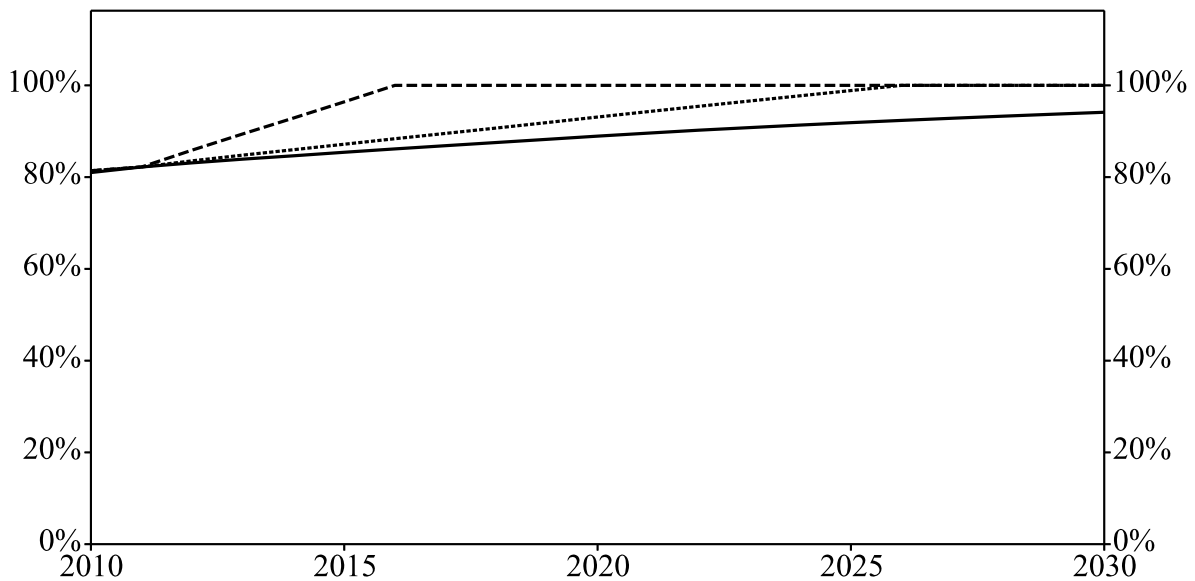
Employer Contributions Under Various Contribution Patterns



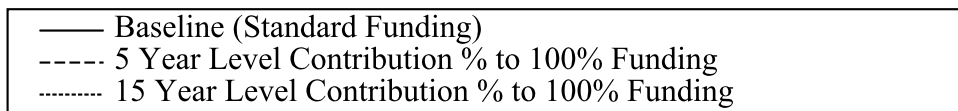
Fiscal Year Beginning January 1



Funded Percentage Under Various Contribution Patterns



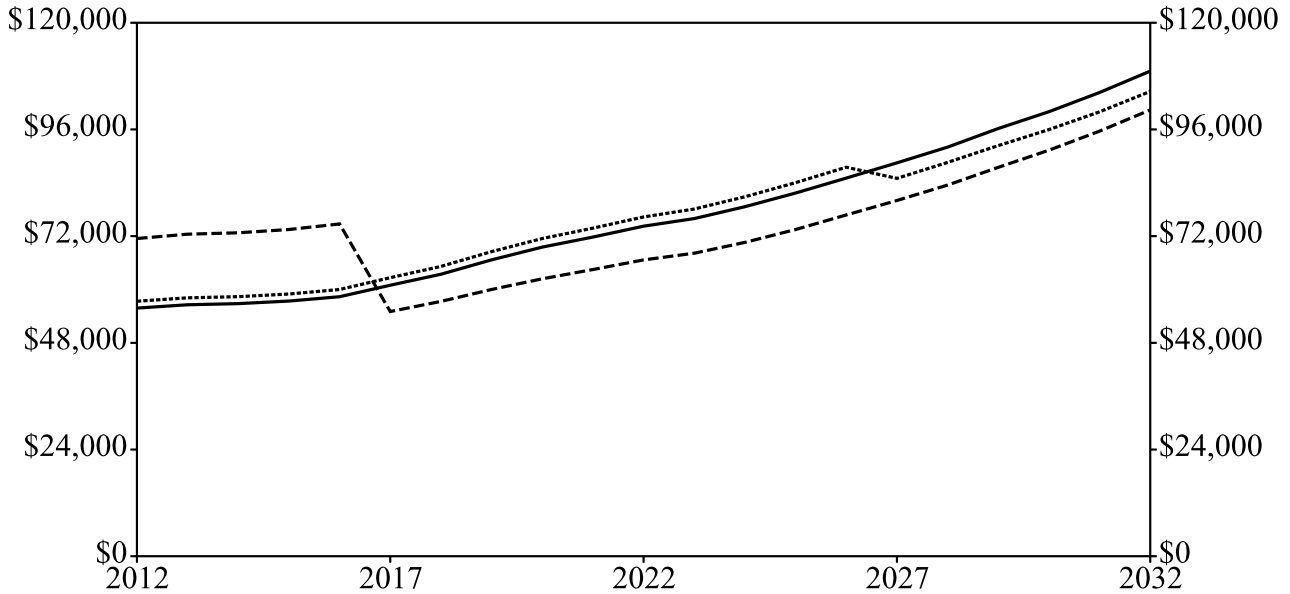
Valuation Date December 31



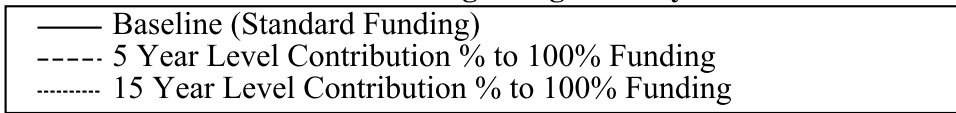
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Division 60 - CMH Non Union

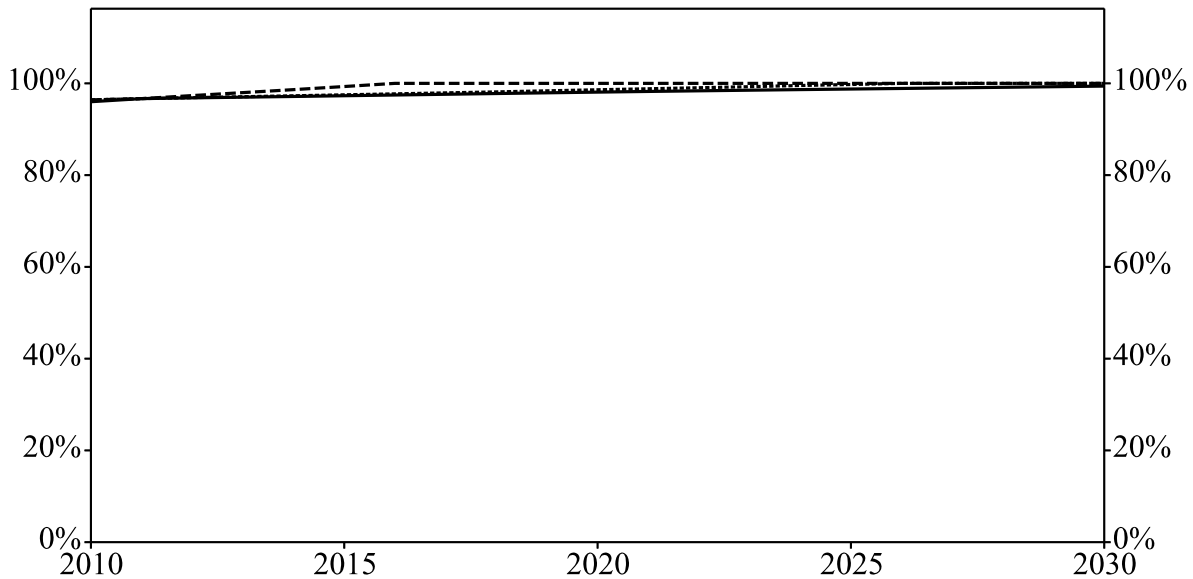
Employer Contributions Under Various Contribution Patterns



Fiscal Year Beginning January 1



Funded Percentage Under Various Contribution Patterns



Valuation Date December 31

